Dear Board, Congressional Council, GR Committee, State GR Chairs and Executives:

The Big 6 tax reform framework is out. Following is a good summary from our outside consultants at Raffaniello & Associates. Also please be aware that the Secure Family Coalition will host a fly-in targeting key Members of Congress in early November. We will only bring in one constituent per targeted Member of Congress. The Secure Family fly-in will be followed by our PIC/PAC meeting in late November stressing the importance of getting tax reform right.

September 27, 2017

Attached for your information is the tax reform framework released today that is the result of the lengthy negotiations among the "Big 6" (Treasury Secretary Steven Mnuchin, National Economic Council Director Gary Cohn, House Speaker Paul Ryan (R-WI), House Ways and Means Committee Chairman Kevin Brady (R-TX), Senate Majority Leader Mitch McConnell (R-KY), and Senate Finance Committee Chairman Orrin Hatch (R-UT)). This document is the first update from negotiators since their July 27 release in which they spiked the border adjustable tax and said their "goal is a plan that reduces tax rates as much as possible, allows unprecedented capital expensing, places a priority on permanence, and creates a system that encourages American companies to bring back jobs and profits trapped overseas."

As anticipated, the document teases with a few additional details, but does not really give a clear picture of what eventual tax reform will look like. We believe the main purpose of this framework is to respond to demands from House Freedom Caucus members who have been asking for tax reform details before they would support a budget resolution in the House. Because Republicans will need budget reconciliation procedures (with only 51 votes required) to get tax reform through the Senate, passage of a budget resolution in the House and Senate is a crucial step. It remains to be seen whether today's framework will satisfy the incessant and ever-changing demands of the House Freedom Caucus.

The tax-writing Committees will now use today's framework as the base of their separate tax reform markups. Remarks over the last couple of weeks from Senator Hatch indicate he may view the document as merely advisory. Legislative text for the House and/or Senate tax reform proposals could be released as early as next month, but delays beyond that would hardly be surprising. There are only about 40 legislative days left this year, and November and early December will almost certainly be consumed with continuing negotiations over appropriations for fiscal year 2018. So, despite significant expressions of optimism today, we will not be surprised to still be talking about tax reform early next year.

Here's what today's document adds to our knowledge about some of the big picture issues and controversial revenue offsets:

Revenue-Neutral or Tax Cut?: The framework document does not answer this question. Senate Republicans have reportedly agreed on a budget that would cut taxes by $1.5 trillion over ten years under standard scoring but that will be argued cost significantly less under "dynamic scoring." Senate budget markup next week?

Permanent or Temporary?: The framework document does not answer this question, but Chairman Brady said Monday, "Our goal is permanency or as much of it as we can get in all the key provisions."

Tax Rates:

- Corporate Rate: The framework proposes a 20% corporate tax rate (down from the current 35%). The House Republican blueprint had proposed 20%, while President Trump has been suggesting 15%. Chairman Hatch on Monday predicted 22% - 23% in final package.

- Individual Tax Rate: The framework proposes three individual tax rates of 12%, 25%, and 35%. Those in the current lowest bracket (10%) are promised a better result under the framework because of the increased standard deduction, larger child tax credits, and other relief to be added in the committee process. The top proposed rate of 35% is a reduction from the current 39.6% top rate. However, the framework indicates that an additional top rate could apply to the highest-income taxpayers to keep their share of the overall tax burden from being reduced.

- Standard Deduction: The standard deduction would be roughly doubled to $12,000 for individuals and $24,000 for joint filers. The framework repeals the current personal exemptions for dependents.

- Itemized Deductions: The framework eliminates most individual itemized deductions, but "retains tax incentives for home mortgage interest and charitable contributions." Note: This is not a promise to leave unchanged the current mortgage and charitable deduction rules.

- Pass-Through Business Tax Rate: 25%, but the framework contemplates the committees will adopt measures to prevent the recharacterization of personal income into business income.

- Corporate and Individual Alternative Minimum Taxes: The framework repeals the individual AMT and "aims" to do so for corporations.

- Corporate Integration: The framework says the committees may consider methods to reduce the double taxation of corporate earnings, an apparent nod to Chairman Hatch's idea of allowing corporations to deduct a portion of the dividends they pay.

- Estate Tax: The framework repeals the estate and generation-skipping taxes, but apparently leaves in place the current gift tax.

Business Tax Provisions:

- Expensing of Business Assets: The framework proposes 100% expensing of business assets during at least the first five years – for assets acquired after today. We believe the framework proposal has been designed to increase revenues in the years beyond the 10-year budget period so as to comply with budget reconciliation procedural rules that prohibit out-year revenue losses.

- Business Interest Deduction: The net interest deduction for C corporations would be "partially limited." The committees will consider the appropriate treatment of interest paid by non-corporate taxpayers. Note: The House Republican blueprint had proposed generally disallowing the deduction for net business interest expense. More recently Chairman Brady said his proposal would grandfather current debt and exempt small businesses, real estate, and farmers. The interest expense proposal has nonetheless remained controversial, especially in the Senate where opposition by just three Republicans could block the bill (as just happened with the Graham-Cassidy health bill).

- Repatriation of Foreign Subsidiary Deferred Income. The framework would raise revenue by imposing tax on accumulated foreign earnings. There would be a higher rate on earnings held in cash or cash equivalents than on illiquid assets; however, the rates aren't specified.

- Territorial Tax System: The framework would move to an "American" model under which there would be a 100% exemption for dividends from foreign subsidiaries.

- Foreign Minimum Tax. To prevent companies from shifting profits to tax havens, the framework includes rules to protect the U.S. tax base by taxing at a reduced rate and on a global basis the foreign profits of U.S. multinational corporations.

Other Hot-Button Items:

- State and Local Tax Deduction: The framework repeals the deduction for state and local taxes.

- Retirement Plans: The framework proposes to retain tax benefits that encourage retirement security, but encourages the tax-writing committees to simplify them and improve their efficiency and effectiveness. Note: The framework says nothing about the idea of "Rothification,"an idea to shift retirement savings from deductible contributions to Roth savings options, but you should not assume that idea has been abandoned by tax writers.

Pat Raffaniello Tim Hanford

Diane R. Boyle
Senior Vice President - Government Relations