On June 24, 2016, the House Republicans released a Tax Reform Blueprint that is intended to act as a policy guide for future comprehensive tax reform. The "Blueprint" is 35 pages and includes some specifics but leaves much of the detail to be determined or "filled-in" later in drafting.

While many of the proposals in the Blueprint are similar to prior reform proposals such as the those made by then-Chairman Camp (R-MI), the Blueprint does take a very different tack on the treatment of business and individual interest, expensing/depreciation, and moves toward a cash-flow income tax system that would shift the income tax system closer to a consumption tax and be border adjustable.

Below are the broad parameters of the proposal:

Outline of House Republican Tax Reform Blueprint

Individual Taxes

- Three rate brackets of 12/25% and 33%
- A 25% rate for business income earned by individuals in a passthrough (the middle bracket)
- Repeal of the individual AMT
- Capital Gains, Dividend and Interest income is subject to a 50% exclusion, translating to an effective 6%/12.5% and 16.5% rate on that income, depending on the bracket of the individual
- Standard deduction and personal exemptions will be consolidated, the child credit will be combined with the dependent personal exemption and increased, and the marriage penalty will be eliminated. As a result, fewer taxpayers will itemize and it will be possible to file taxes on a "postcard" for 95% of individual taxpayers.
  Commentary - The mortgage deduction and charitable contribution deductions will remain if a taxpayer wishes to utilize those as an alternative, but the document suggests itemizers will go from 33% of tax filers to about 5%. This is similar to the Camp proposal, and often made the mortgage deduction and charitable deduction not worth taking compared to the larger standard deduction.
- Maintain the EITC while working to reduce fraud and abuse
- Simplify education tax benefits, with a savings benefit like 529 plans and a benefit targeting middle and lower income taxpayers like the American Opportunity Tax Credit
- Continue exclusions for health care and retirement savings, as well as mortgage interest and charitable deductions, but eliminate many if not all other deductions and exclusions (exactly which are not specified)
- Options to change mortgage deduction will be considered, no existing mortgages will be impacted
- Options will be developed to reform charitable giving incentives/deduction
- Options on combining and reforming retirement savings will be considered while continuing the current incentives for savings
- Assumes the repeal of all "Obamacare" taxes including the medical device and health insurance tax, the 3.8% net investment surtax and the 0.9% Medicare surtax.

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Business and Corporate Taxes

- Lower rate bracket for passthrough business income tax, set at 25%
- Sets rate of 20% on C corporations income
- Repeal the corporate AMT
- Full (100%) expensing of business investments including intangibles (but not land)
- Eliminate the deduction for net interest expense (though interest expense can be deducted against interest income)
- The Ways and Means Committee will develop special rules for financial sector like banks and insurance companies
- Unlimited NOL carryforward, with inflationary adjustment
- LIFO accounting method is preserved, and Committee will continue to evaluate how to make accounting methods more efficient
- Eliminate "special interest" deductions and credits, to lower the rate. The IRC Section 199 deduction offered as an example of a deduction that is not needed following reform given rate reduction.
- Retain the R&D tax credit

International

- Territorial tax regime of foreign earned income, 100% exclusion
- Deemed repatriation on previously deferred foreign E&P, using Camp construct with 8.75% rate on cash and 3.5% rate on non-cash (bricks and mortar)
- Border adjustability, i.e. rebate implicit tax on exports and burden applied to full value of imports
  Commentary – This provision is one of the more significant provisions in the Blueprint and has a very substantial net revenue impact. The Tax Foundation, a tax policy think tank, scores the border adjustable feature as raising as much revenue as limiting business interest deductions (about $1.1T). That is because the <u>full value</u> of purchases from foreign/nonresident entities would be subject to U.S. tax without any deduction for cost of purchase.
- Eliminate bulk of subpart F (passive income) rules except personal holding company rules

Taxpayer Administration and Transition

- Will improve and streamline taxpayer administration by the IRS
- The Ways and Means Committee will craft transition rules

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