TRUMP ADMINISTRATION'S TAX REFORM LIKELY

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Donald J. Trump defied the polls and much of the national media to win the US presidential election on November 8, 2016. President-elect Trump will be sworn in and will take office as the 45th president of the United States on January 20, 2017. The Republicans maintained majorities in the House of Representatives and the Senate and will control both Congress and the White House for the first time since the early 2000s, when President George W. Bush was in office. Speculation and media coverage regarding the action items to be addressed first by the Trump administration and the Republican-controlled Congress have been rampant. Comprehensive tax reform appears to be at the top of the list for the new administration, along with partial or (possibly) total re-peal of the Affordable Care Act (Obamacare), and legislation to rebuild US infrastructure.

Although the extent and specifics of any new tax reforms will likely differ from the tax proposals that the president-elect made during his campaign, the stage is set for significant reform. A summary of some tax policy proposals from the president-elect's campaign follows.

Personal Income Tax

Individual income rate brackets were to be reduced from seven to three: 12 percent, 25 percent, and a top 33 percent rate for single filers at $112,501 of taxable income and for joint filers at $225,001.

The standard deduction was to increase from $12,000 to $30,000 for joint filers and from $6,000 to $15,000 for single filers. However, itemized deductions were to be capped at $200,000 ($100,000 for single taxpayers) and personal exemptions eliminated.

The 3.8 percent net investment income tax was to be re-pealed in connection with the repeal of Obamacare. Repeal would be especially beneficial for high-income US citizens living in Canada—a 3.8 percent tax savings for these US tax filers who currently cannot use related foreign tax credits on their investment income.

Corporate Income Tax

The corporate rate was to be reduced from 35 to 15 percent, and many deductions were to be eliminated.

The corporate alternative minimum tax (AMT) was to be eliminated.

Corporate profits held offshore would be deemed repatriated at a one-time tax rate of 10 percent.

A 15 percent income tax was to apply on “passthrough” income received by business owners through entities such as S corporations, partnerships, and limited liability companies (LLCs)—a drop, for high-income earners, from a top rate of 39.6 to 15 percent on this type of business income.

US Estate Tax

The federal estate tax was to be repealed.

The unlimited step-up in basis was also to be eliminated and replaced with a carryover basis regime. Capital gains held until death were to be taxed: an exemption from the first $10 million for small businesses and family farms resulted in no capital gains tax up to that value. (It is unclear whether the proposed $10 million capital gains exemption applies only to estate gains of less than $10 million or also to estates below $10 million in value.)

The potential elimination of the US estate tax is a benefit not only to wealthy US-citizen families, but also to wealthy Canadian families who own US-situs property (such as US real property and US stocks) or who have children living in the United States.

When the Trump administration begins in January 2017, tax policy will certainly be a high priority, although the final legislation is uncertain. Significant changes to the US tax code may benefit both US citizens and Canadian-citizen residents who own US-situs assets.