

Memorandum

Trump Administration Releases Tax Reform Proposal

April 27, 2017

On April 26, 2017, Treasury Secretary Steven Mnuchin and National Economic Council Director Gary D. Cohn held a press conference to outline President Trump's tax reform proposal (the "Proposal"). The Proposal is merely a high level outline of the President's proposal to Congress regarding changes to the tax law. The details of the Proposal remain unclear, as does the revenue cost of the Proposal. Accordingly, the likelihood of passage of all or a part of the Proposal is uncertain.

Highlights

- Top individual rate decreased from 39.6% to 35%
- Eliminate itemized deductions (including the deductibility of state and local taxes) other than for charitable contributions and the home mortgage interest deduction
- Top rate on business income set at 15%, applicable to both corporations and income from pass-through entities
- Repeal of the 3.8% net investment income tax (a/k/a the Obamacare tax)
- Repeal of the alternative minimum tax
- Repeal of the estate tax
- Change from a worldwide to territorial system of corporate taxation
- Imposes a one-time tax on historic corporate earnings held offshore

Observations

- Expect mechanisms to be put in place to prevent individuals from using pass-through entities to impermissibly convert personal income (taxed at 35% under the Proposal) to business income (taxed at 15% under the Proposal)

- The Proposal does not include the border adjustment tax, which was a key revenue generating proposal included in the House Republican plan
- The Proposal does not change the availability of interest deductions for businesses, which is a departure from the House Republican plan
- The Proposal does not allow for a deduction of capital expenditures, which is a departure from the House Republican plan
- The change from a worldwide to territorial system of corporate taxation is a departure from President Trump's outline during the presidential campaign, but is a change that aligns the Proposal with the House Republican plan

We will continue to monitor developments related to tax reform. Please feel free to reach out to a member of our team to determine how President Trump's proposal, or other tax reform proposals, would affect tax planning or the implementation of a potential transaction.

NEW YORK CITY

John J. Creed
+1-212-455-3485
jcreed@stblaw.com

Marcy G. Geller
+1-212-455-3543
mgeller@stblaw.com

Jonathan Goldstein
+1-212-455-2048
jgoldstein@stblaw.com

John C. Hart
+1-212-455-2830
jhart@stblaw.com

Robert E. Holo
+1-212-455-2514
rholo@stblaw.com

Gary B. Mandel
+1-212-455-7963
gmandel@stblaw.com

Nancy L. Mehlman
+1-212-455-2328
nmehlman@stblaw.com

PALO ALTO

Katharine P. Moir
+1-650-251-5035
kmoir@stblaw.com

The contents of this publication are for informational purposes only. Neither this publication nor the lawyers who authored it are rendering legal or other professional advice or opinions on specific facts or matters, nor does the distribution of this publication to any person constitute the establishment of an attorney-client relationship. Simpson Thacher & Bartlett LLP assumes no liability in connection with the use of this publication. Please contact your relationship partner if we can be of assistance regarding these important developments. The names and office locations of all of our partners, as well as our recent memoranda, can be obtained from our website, www.simpsonthacher.com.



UNITED STATES

New York
425 Lexington Avenue
New York, NY 10017
+1-212-455-2000

Houston
600 Travis Street, Suite 5400
Houston, TX 77002
+1-713-821-5650

Los Angeles
1999 Avenue of the Stars
Los Angeles, CA 90067
+1-310-407-7500

Palo Alto
2475 Hanover Street
Palo Alto, CA 94304
+1-650-251-5000

Washington, D.C.
900 G Street, NW
Washington, D.C. 20001
+1-202-636-5500

EUROPE

London
CityPoint
One Ropemaker Street
London EC2Y 9HU
England
+44-(0)20-7275-6500

ASIA

Beijing
3901 China World Tower
1 Jian Guo Men Wai Avenue
Beijing 100004
China
+86-10-5965-2999

Hong Kong
ICBC Tower
3 Garden Road, Central
Hong Kong
+852-2514-7600

Seoul
25th Floor, West Tower
Mirae Asset Center 1
26 Eulji-ro 5-Gil, Jung-Gu
Seoul 100-210
Korea
+82-2-6030-3800

Tokyo
Ark Hills Sengokuyama Mori Tower
9-10, Roppongi 1-Chome
Minato-Ku, Tokyo 106-0032
Japan
+81-3-5562-6200

SOUTH AMERICA

São Paulo
Av. Presidente Juscelino
Kubitschek, 1455
São Paulo, SP 04543-011
Brazil
+55-11-3546-1000