



The Trump administration had another roller coaster ride of a week, culminating in widespread rumors of possible staff changes. The ongoing fight over the immigration executive order and the battle with judges overshadowed positive developments on Cabinet nominees, relations with Japan and China, and the news of the coming tax reform plan. This week, as many as five more Cabinet nominees are set to be approved. The new Treasury Secretary Steve Mnuchin is expected to announce the selection of three Wall Street veterans to his top team at Treasury. Also, Federal Reserve Board Chair Jane Yellen will be testifying to the Senate Banking and House Financial Services Committees this week giving her semi-annual report to Congress.

TRUMP TAX REFORM PLAN

President Trump plans to unveil his tax reform plan on February 28 in a nationally televised address to a joint session of Congress. The President's plan is expected to mirror the House Republican tax reform plan, which reduces the corporate tax rate to 20 percent and sets three individual tax rates at 12-25-33 percent. Other provisions of the plan would repeal the alternative minimum tax, estate taxes, and numerous other deductions and credits. The plan is expected to include a provision to encourage the repatriation of overseas earnings, full expensing of investments, and some limitation on the interest deduction for debt. The plan is also expected to include a proposal to tax carried interest as ordinary income.

It is still unclear whether the Trump plan will include the House Republican proposal for a border adjustment tax, which would raise \$1.2 trillion over ten years and help pay for the lower tax rates in the bill. The corporate community is split over the proposal and a number of Republicans have voiced their concerns. However, House Ways and Means Committee Chairman Kevin Brady told a group of House conservative lawmakers that "tax reform will not happen" if the border adjustment tax is not included in the bill.

TAXING PASSTHROUGHS

The Trump tax reform plan and the House Republican plan are both expected to provide significant relief to passthrough entities. Under current law, businesses that file taxes as passthroughs, such as sole proprietorships, partnerships, LLCs, and S corporations, are taxed at individual tax rates, which now have a top rate of 39.6 percent. The Trump plan is expected to propose taxing passthroughs at the same rate as corporations, most likely at 20 percent. The House plan proposes a separate 25 percent rate for passthroughs.

TAX REFORM AND FINANCIAL INDUSTRY

The financial industry is worried about the potential impact of the proposed border adjustment tax on financial institutions and financial transactions. The draft of the proposal is unclear as to the treatment of financial institutions, and precise legislative language is not yet available. House tax committee chairman Brady has told financial industry groups the committee was looking at financial services and insurance carefully, and suggested the financial sector could be treated differently than other industries. One tax policy expert said the new tax would be "a windfall for hedge funds," since the fees foreign investors in US funds pay would be exempt from the tax.

FEDERAL RESERVE SEATS

The upcoming resignation of Federal Reserve board member Daniel Tarullo will ease the way for the Trump administration to reduce the regulatory burden on the financial industry without going through Congress. Tarullo is known as an aggressive regulator and his resignation will give Trump three vacancies to fill on the 7-seat board. If Chair Yellen and vice-chair Fischer leave their seats next year when their terms are up, as expected, Trump will be able to appoint five of seven members of the Fed board in the next 15 months. In addition, Trump will be appointing his own people to the SEC, the CFTC, OCC, FDIC, and other agencies in the coming months. Most of these appointees can be expected to have a lighter touch in drafting and revising financial rules and regulations. Replacing Obama appointees with his own selections will help Trump fulfill his pledge to ease regulations on the financial sector.

SEC PAY RULES

Regulatory turnover is already having an impact at the SEC. Acting SEC Chairman Michael Piwowar, who replaced former Chair Mary Jo White, has moved to force the agency to reconsider the Dodd-Frank rule adopted last summer to require companies to calculate and release the pay ratio between their CEOs and their employees. This move to open the rule to more public comment could lead to changes or a delay in the final rule.

H-1B VISAS

The National Venture Capital Association and dozens of start-ups have sent a letter to President Trump protesting his immigration order and urging him not to take steps to rollback existing visa programs. The group told Trump they rely heavily on H-1B visas because of a significant shortfall of US technical, skilled IT professionals. Trump is expected to issue an executive order on visa programs in the coming weeks. His new Attorney General, former Senator Jeff Sessions, is expected to propose legislation to rework the H-1B visa program later this year.

-- Bruce Thompson

DISCLAIMER: Options Group is not claiming any positions or political preferences.