



The president finished his fourth week in office acting unlike any other previous president. Under attack on a number of fronts, he held a spur of the moment 77 minute press conference to level a full-bore attack on the media, then followed up with two political rallies outside Washington. Trump supporters loved it, but the national media was appalled, calling Trump's performance erratic, unhinged, and unglued. Trump is encountering a political resistance unlike any other previous presidents, led by Senate Democrats, the media, Obama alumni, the entrenched federal bureaucracy, and a well-organized anti-Trump resistance of political activists. With this resistance threatening his agenda, look for Trump to take his message directly to the American people with more rallies and speeches outside Washington.

REPUBLICAN AGENDA

When Republicans won control of the White House, the House, and the Senate, prospects were high that they could enact easily their agenda of major tax reform, Obamacare repeal, and regulatory reform. But there are growing concerns that the anti-Trump resistance and Trump missteps in the first four weeks in office could jeopardize quick enactment of the Republican agenda. Senate Democrats have contributed to the lack of progress by using parliamentary procedures to block his cabinet picks to an unprecedented degree. House Speaker Paul Ryan insists that the legislative agenda is on schedule and that everything will get done in 2017, producing the most productive legislative session "in our lifetime."

TAX REFORM PROSPECTS

Speculation is growing in Washington that the House Republican proposal for a border adjustment tax is losing support among Republicans and could soon be DOA. The proposed tax is a key component of the tax reform plan, raising much of the revenue needed---\$1.2 trillion over ten years---to pay for tax reform and lower individual and corporate tax rates. House Speaker Ryan met with Senate Republicans last week to promote the proposal. Ryan and other senior House tax writers are privately telling members that tax reform cannot get done without the revenue from the tax, and that there is no other realistic way to raise \$1.2 trillion to replace it.

Opposition to the tax is growing in the Senate, where Georgia Senator David Perdue, a former CEO of Dollar General and Reebok, has been lobbying against it. Senate Majority Whip John Cornyn says the tax is on "life support." He said Congress should look for other options, and suggested proceeding with tax reform the tradition way by limiting deductions, subsidies, and tax expenditures. House Republicans, who have been working on tax reform for the last five years, argue there is too much

opposition to repealing enough deductions and credits to reduce tax rates enough to spur economic growth.

TAX REFORM ALTERNATIVES

The \$1.2 trillion raised by the border adjustment tax provides the revenue needed to reduce individually and corporate tax rates, establish a special rate for passthroughs, and provide full expensing for capital investment, all without too drastic cutbacks in popular deductions and credits. House Republicans say that their experience over the past few years trying to pass tax reform shows that tax reform would be impossible to accomplish without the border adjustment tax. However, since tax reform is such a top priority for the White House and Congressional Republicans, the following are three alternative approaches they could turn to if the border adjustment tax is not adopted:

-One approach could be a scaled-back tax reform plan with smaller rate cuts, no special rate for passthroughs, and smaller write-offs for investments. The international reforms could include a higher tax rate on repatriated foreign earnings, and some form of minimum tax could be imposed on foreign earnings.

-Another approach could be along the lines of the plan proposed by former House Ways and Means Chairman Dave Camp a few years ago. The Camp plan had tighter limits on personal itemized deductions, including home mortgage deduction, charitable contributions, and retirement savings accounts. It also had limits on corporate R & D, advertising, and executive compensation deductions, and would have repealed provisions such as LIFO and like-kind exchanges.

-Other revenue rising options could be considered, including a number aimed at the financial services industry. Potential revenue raisers, all of which have been suggested in Washington, would limit retirement savings incentives, raise tax rates on capital gains and dividends, impose a tax on large financial institutions, and implement a financial transaction tax.

Despite the vocal opposition, the border adjustment tax is still under active consideration. Given the other alternatives, members could eventually decide that it could be the best way to finance a pro-growth tax reform plan. While the retailers and other opponents are getting a lot of attention opposing the tax, a growing list of business groups and conservative advocacy groups are gearing up to support the House Republican plan.

OBAMACARE REPEAL

House Republicans are now planning to introduce legislation when they return next week from the President's Day recess to repeal and replace the Affordable Care Act. The plan is expected to repeal the individual and corporate mandates, phase-out the Medicaid expansion, provide individual tax credits to purchase insurance, and expand health care savings accounts. The proposal is also expected to repeal all of the \$1.1 trillion in Obamacare tax increases, including the 3.8 percent net investment income tax.

-- Bruce Thompson

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