



President Trump's speech to a joint session of Congress was well-received in Washington, increasing his chances for moving his legislative agenda through Congress. But the positives from the speech were quickly overwhelmed by more Russia news and accusations, raising renewed questions about an undisciplined and unfocused White House. The administration hopes to regain the initiative this week with the release of a revised immigration travel order and the roll-out of an Obamacare repeal and replace bill.

TAX REFORM

President Trump endorsed an historic tax reform in his speech last week to a joint session of Congress, but stopped just short of endorsing the House Republican proposal for a border adjustment tax, which would raise \$1 trillion over ten years to help pay for lower tax rates and keep the tax reform bill revenue neutral. Senate Republicans are opposed to the proposed tax, and are said to be looking for alternative revenue raisers for the BAT. Senate Finance Committee Chairman Hatch believes the tax would be difficult to pass in the Senate, but House tax writers believe some form of the tax is needed both to pay for tax reform and to encourage US companies to stay in the US.

Treasury Secretary Mnuchin has been working closely with House and Senate tax writers to come up with a compromise solution that both sides could endorse. New Commerce Secretary Ross has suggested the possibility of something like a BAT to fill the "one trillion hole," possibly a more targeted, smaller tax on imports combined with new proposals targeting corporate loopholes. Mnuchin hopes to have a consensus plan ready in the next few weeks, which Congress can take up later this spring and complete by the end of August.

INTEREST DEDUCTION

While the border adjustment tax is getting most of the attention, it is not the only controversial issue in the tax reform debate. Another key feature of the House Republican tax reform plan would combine an immediate write-off of business investments with the elimination of the net interest deduction for debt. House tax writers argue this provision would equalize the tax treatment of equity and debt, and reduce the current law tax incentive for debt-financed investments. The House tax committee says it will develop special rules for financial services companies, such as banks, insurance, and leasing, but has said nothing about the potential impact of this provision on real estate and private equity firms.

H-1B VISAS

The Trump administration has announced that it will temporarily suspend premium processing for all H-1B visa petitions, effective April 3, 2017. The suspension could last up to six months, and is being

done to help the government reduce its backlog of long-pending petitions and reduce overall H-1B processing times, according to the announcement. There is speculation that the suspension will ultimately lead to the elimination of the lottery system for the visas and to a merit-based system.

DODD-FRANK REFORM

Proponents of financial regulatory reform were disappointed that Trump failed to mention Dodd-Frank reform in his speech to Congress, but are still optimistic for action this year. House Financial Services Committee Chairman Hensarling admits that tax reform and healthcare reform are the top priorities, but insists that financial reform is still a "this-year priority." Hensarling is planning to introduce his Dodd-Frank reform bill in the next few weeks and is hoping for congressional action on a bill this summer.

FSOC REPORT

The House Financial Services Committee has released a staff report on the Financial Stability Oversight Council's designation of nonbank financial companies as Systemically Important Financial Institutions (SIFIs) subject to enhanced regulation by the Federal Reserve. The report concludes that the FSOC nonbank designation process is "arbitrary and inconsistent." Both the House Financial Services Committee and the Trump administration are expected to take steps to curb the FSOC designation authority for enhanced supervision.

-- Bruce Thompson

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