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September 28, 2017 www.groom.com

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# "Big Six" Unveil Tax Reform Framework But Effect on Retirement Plans Unclear

On September 27, the Big Six – Treasury Secretary Steve Mnuchin, National Economic Council Director Gary Cohn, Speaker of the House Paul Ryan (R-WI), Ways and Means Chairman Kevin Brady (R-TX), Senate Majority Leader Mitch McConnell (R-KY), and Finance Committee Chairman Orin Hatch (R-UT) – released a framework for tax reform. The proposal is the result of months of closed-door negotiations and is intended to set the stage for the House and Senate committees to begin drafting legislation. The framework calls for the following:

- doubling the standard deduction to $12,000 for individuals and $24,000 for married couples filing jointly;
- creating three individual tax brackets of 12%, 25%, and 35% instead of the existing seven brackets (with a possible additional tax rate applying to the highest income taxpayers);
- increasing the Child Tax Credit and the income limits to qualify;
- eliminating most itemized deductions and other exemptions, deductions and credits, but retaining tax incentives for home mortgage interest and charitable contributions;
- repealing the Alternative Minimum Tax;
- repealing the estate tax and generation-skipping transfer taxes;
- limiting the tax rate for certain pass-through entities to 25% (with measures to prevent recharacterization of personal income into business income);
- reducing the corporate tax rate to 20%;
- allowing immediate expensing of new business capital investments made after September 27, 2017, for at least 5 years;
- partially limiting the net interest expense deduction for C corporations; and
- creating a territorial tax system coupled with base erosion measures.

The proposal is clearly just a starting place for discussions as it contains few details about key policy decisions, including those affecting health and retirement. The document says the tax benefits for retirement will be retained and encourages the tax writing committees to "simplify" benefits and improve the "efficiency and effectiveness" of the tax incentives. The document continues: "Tax reform will aim to maintain or raise retirement plan participation of workers and the resources available for retirement." What all this means is uncertain – and we continue to hear that "Rothification," which would require some or all of future elective plan contributions be made on a post-tax basis, is still on the table as a potential source of revenue to offset rate cuts. Full Rothification is estimated to raise approximately $750 billion over 10 years. However, that score is misleading primarily because it ignores foregone tax revenue from untaxed retirement plan distributions outside of the 10-year scoring window.

Finance Committee Chairman Hatch said that his committee would not be a "rubber stamp" for the Big Six proposal and would instead work through the issues on its own. On September 14, that Committee held a hearing on individual tax reform. The hearing was not intended to focus on retirement, but there was a considerable amount of discussion about the tax incentives for retirement savings. Five senators – Johnny Isakson (R-GA), Ben Cardin (D-MD), Sherrod Brown (D-OH), Tom Carper (D-DE), and Rob Portman (R-OH) – all voiced concerns with the idea of Rothification. Alex Brill, Research Fellow at the American Enterprise Institute, said that the existing incentives for savings are "critical for the long-term viability and economic growth of our country." Lily Batchelder, Professor of Law and Public Policy at New York University School of Law, called Rothification "a real sea change in retirement savings policy that should only be done after very careful analysis...and not just because it happens to serve this budget gimmick." In all, three out of four witnesses expressed concern with Rothification.

Other members in the House and Senate are also voicing concerns about Rothification. For example, five Democrats from the Senate Finance Committee – Sherrod Brown (OH), Ron Wyden (OR), Debbie Stabenow (MI), Ben Cardin (MD), and Bob Casey (PA) – recently sent a letter to the Administration and Republican Congressional leadership urging them to not use Rothification as a "pay-for" for rate reductions. Similarly, all of the Democratic members of the House Ways and Means Committee signed a letter to the Big Six opposing Rothification. And we understand that several Republicans in the Senate have raised similar objections behind closed doors.

Despite all the opposition, Rothification remains a very real possibility. Congress will likely have very few options to raise the revenue necessary to offset the cost of rate cuts, and Rothification may be one of the least controversial. Fortunately, the Save Our Savings Coalition (saveoursavings.org) – a coalition representing employers, the financial service industry, and retirees – continues to advocate to protect the private retirement system against misguided policy proposals.

It may be a month and likely longer before we know how tax reform will affect employee benefits. Republican leaders in the House and Senate do not intend to release legislation until after Congress passes a budget. Passing a budget is important because the budget would presumably contain reconciliation instructions allowing Republicans to pass tax reform on a simple majority vote in both chambers. We understand there is considerable disagreement in the Republican caucus about the budget specifics, so that process could take weeks if not months.