Gregory Schill, CFP®
3480 Torrance Blvd.
Suite 102
Torrance, CA 90503
310-536-7111
gschill@theadvisorygrp.com
www.theadvisorygrp.com

Tax and Health-Care Reform Back in the Spotlight

Republican efforts to repeal and replace the Affordable Care Act (ACA) failed in late March. In the immediate aftermath, it appeared that health-care reform efforts would be set aside in favor of advancing a tax reform agenda.[1] Then, in a one-two punch that surprised many, the White House called for a vote on a revised repeal-and-replace health-care plan and announced the broad outline of a new tax reform plan.[2] It would be a mistake to consider the two completely separate efforts, because in some ways they are actually closely connected.

White House announces new tax proposals in broad terms

The tax reform plan announced by the White House includes reducing the current seven tax brackets to just three: 10%, 25%, and 35%. It proposes doubling the standard deduction amount and eliminating both the alternative minimum tax (AMT) and the federal estate tax. The plan would preserve existing deductions for home mortgage interest and charitable donations, but would eliminate most other deductions, including the ability to deduct state and local taxes.[3] Essentially, this was a "stake in the sand" to establish a starting point for negotiations with Congress. Details must be determined, and changes are likely as discussions progress.

Tax provisions also a part of health-care reform

The ACA contains significant tax provisions, including the 3.8% net investment income tax and the 0.9% Medicare payroll surtax, which both target high-income individuals. The initial repeal-and-replacement effort would have eliminated or modified many ACA tax provisions — that's almost certain to be true for a revised plan as well. And any health-care reform package is likely to balance lost tax revenue with reductions or limits to subsidies and Medicaid outlays. If the ACA tax provisions are not addressed in a health-care reform package, they're likely to be included as part of the tax reform discussion, increasing the scope and complexity of the tax debate. In fact, the White House tax reform announcement specifically called for repeal of the 3.8% net investment income tax.[4]

Budget reconciliation

Further complicating the issue, Republican legislators — who lack 60 votes in the Senate to overcome a Democratic filibuster — plan to use a process called budget reconciliation to pass both health and tax reform legislation with a simple majority vote. Under budget reconciliation rules, any reform measure must not increase the federal deficit beyond a 10-year period. This restriction means that unless tax cuts are offset by revenue savings elsewhere (e.g., spending cuts or reduced deductions), they must expire after 10 years.

1) See for example Nick Timiraos and Richard Rubin, "GOP Shifts Focus to Next Target: Tax Code Revamp," *Wall Street Journal* , March 25, 2017

2) John T. Bennett, "White House: Final Health Care Deal Unlikely This Week," *Roll Call* , April 26, 2017, and Briefing by Steven Mnuchin, Secretary of Commerce, and Gary Cohn, Director of the National Economic Council, April 26, 2017, whitehouse.gov

3,4) Briefing by Steven Mnuchin, Secretary of Commerce, and Gary Cohn, Director of the National Economic Council, April 26, 2017, whitehouse.gov

The information being provided is not a substitute for professional advice. Please contact your professional advisors before acting on any of this information.

Securities and investment advisory services offered through FSC Securities Corporation, Member FINRA / SIPC , and a Registered Investment Advisor. Additional investment advisory services offered through The Advisory Group, a Registered Investment Advisor not affiliated with FSC Securities Corporation.

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable - we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.