



It's Been Over Three Decades

"The wisdom of man never yet contrived a system of taxation that would operate with perfect equality"

Andrew Jackson, US President 1829-1837
(and founder of the Democratic Party)

One of candidate Trump's campaign promises was a promise to do a complete overhaul of the US tax system. As President Trump, that campaign promise has turned into the #1 priority.

The last time there was a comprehensive overhaul of the US tax system was in 1986. Yep, thirty one years ago under President Reagan. While markets have been begging for fiscal reform for over a decade now, President Bush didn't have the political capital to get it done his last two years, and President Obama, well, he just had no interest in cutting taxes.

The Republicans control the White House, as well as both houses of Congress, so one would think it should be an achievable task. After all, what politician, Republican or Democrat, would like to go back to their constituents and say they voted against a cut in taxes?

Given President Trump's surprise success, I would believe many politicians (especially Democrats) already have their eye on the next mid-term elections in 2018.

While its often referred to in the media in general terms like simplifying the tax code, broadening the tax base and eliminating tax shelters, the Tax Reform Act of 1986 had many highlights:

- Was designed to be tax revenue neutral because Reagan stated he would veto any bill that wasn't
- Revenue neutrality achieved by offsetting tax credits for individuals by eliminating \$60 billion annually in tax loopholes and shifting \$24 billion of the tax burden from individuals TO corporations (something Regan chose not to speak about in public).
- Top tax revenue was lowered from 50% to 28% (down from 70% just six years earlier) and the bottom rate was raised from 11% to 15%
- It consolidated tax brackets from 15 levels of income to 4 (which has since crept up to seven again, and Trump is looking at bringing them back to 3 or 4)
- Standard deduction, personal exemptions were expanded, resulting in 6 million poorer Americans to come off the income tax roll
- Increased the Home Mortgage Interest Deduction (to help the housing market)
- Restricted Individual Retirement Accounts "IRAs" (similar to our RRSP) capping it at \$2000

The Trump administration's tax reform effort is being led by White House economic advisor Gary Cohn, who until a month ago was president of Goldman Sachs, and no doubt, a pretty intelligent fellow on taxes and finance. But he is no Washington insider, and that's where House leader Paul Ryan comes in, who may be one of the best authorities on the US budget. Ryan has stated several times that any fiscal tax reform won't reduce government revenue, and last week Treasury Secretary Steven Mnuchin stated on national TV that the wealthy will not receive any new tax cuts.

The whole thing might not get the votes it needs however, if a "border adjustment tax" (or "BAT") similar to the European style "VAT" is part of the package. The BAT would favor exporters (like Boeing or Caterpillar) but would hurt consumer driven companies (like Wal-Mart) and perhaps consumers themselves via higher prices.

Sweeping tax reform is a top priority of the new administration, and they have an informal goal of passing it before July. If they can combine a real solid change of fiscal policy via tax reform, combined with the repatriation of capital held overseas by US corporations, and at the same time reduce

harmful regulation and wasteful government spending, it could be the equivalent of a Royal Flush for the US economy.

At this point, if President Trump can get half of it done, I'll even take a "full house"

Stay tuned,

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