Treatment of motorcoach companies under tax reform options

The results of the 2016 elections significantly increase the likelihood of tax reform in the next Congress. Policymakers are already making plans to move tax reform legislation in 2017. The initial focus is on a Blue Print released by House Speaker Ryan and Ways and Means Committee Chairman Brady in June 2016. The Trump campaign embraced many of the features of the Blue Print. The following discussion highlights some of the features of the Blue Print, the differences with the Trump tax reform plan, and the implications to motorcoach companies.

Individual taxation. — The Blue Print would reduce individual marginal tax rates (top rate of 33%), repeal the alternative minimum tax, increase the standard deduction and eliminate many itemized deductions and tax credits. It would also simplify and consolidate the various current-law incentives for retirement savings and education. The Blue Print would provide a 50% exclusion for investment income—dividends, interest and capital gains.

The Trump tax plan would also reduce individual marginal tax rates, repeal the alternative minimum tax, increase the standard deduction and cap the use of itemized deductions. The top tax rate on dividends and capital gains would be 20%.

Both the Blue Print and the Trump plan would repeal the estate and generation-skipping taxes. The Trump plan would not allow the full step-up in the basis of assets.

Effect on motorcoach companies: Closely-held motor coach companies should enjoy the benefits of the lower tax rates and estate tax repeal, particularly when combined with the business tax rate changes (below).

It is unclear whether the tax-free treatment of commuter expenses survives tax reform.

Business taxation: The Blue Print would make several changes to the taxation of business income. In general the plan would move the current income based system toward a consumption-based system. Key features of the proposal are:

Tax rates. — The corporate tax rate would be reduced to 20%. The tax rate on flow-through income would be reduced to 25%.

The Trump plan would reduce corporate tax rate to 15%. The tax rate on re-invested pass-through income would also be 15%.

It is unclear how either the Blue Print or the Trump plan would mechanically achieve the pass-through rate reductions. Specifically, it is unclear whether the tax would apply at the entity level, or would require a special tax calculation at the
individual owner level. The mechanics of calculating and tracking re-invested earnings under the Trump plan are similarly unknown.

**Effect on motorcoach companies:** Both large and small motorcoach companies should enjoy the benefits of the lower tax rates. The mechanics of the lower rate on pass through income will need to be examined.

**Cost recovery, interest expense.** — The Blue Print provides immediate expensing for investments in tangible and intangible property, but not land.

As a trade-off for expensing, the Blue Print would disallow the deduction for net interest expense, presumably on new debt. Disallowed deductions could be carried forward to offset future interest income.

The Trump tax plan would allow an election to adopt the Blue Print proposal (expensing and interest denial) or maintain present law.

**Effect on motorcoach companies:** Many motorcoach companies already enjoy expensing under section 179, and bonus depreciation that phases down through 2019. For them, increased expensing may not be important, especially when coupled with the denial of deductions for interest expense. Larger motorcoach companies must evaluate the same trade-off. (But see the border adjustment discussion below.)

**Other deductions and credits.** — The Blue Print plan would eliminate other special deductions and most business credits, but would retain the research credit and the low-income housing credit.

The Blue Print would allow NOLs to be carried forward indefinitely and grossed up by an interest factor. Carrybacks would be disallowed. NOLs carried forward could only reduce 90% of taxable income from a year.

The Trump plan would disallow special business tax incentives, but is silent on the details.

**Effect on motorcoach companies:** Motor coach companies will have to balance the loss of special tax provisions with the rate reduction and other aspects of the tax reform plans.

**Border adjustments.** — Under the Blue Print, gross receipts from the sale of exported goods and services would not be subject to tax. Similarly, no deduction would be allowed for imported goods or services. Some commentators question whether this approach would survive a WTO challenge. Economists believe that because the U.S. is a net importer, the dollar will strengthen in response to the tax change.
President-elect Trump has called for tariffs on certain imports. The Blue Print is similar, and perhaps more coherent, than the Trump plan.

**Effect on motorcoach companies:** Most motorcoaches are built outside the United States. Denial of cost recovery for these purchases could be significant.

The treatment of cross-border trips will need to be clarified.

The industry will have to ascertain the effect of the predicted strengthening of the U.S. dollar on tourism.

**International tax system.** — The House Blue Print would adopt a territorial tax regime with a 100% dividends exemption. Current offshore earnings would be subject to an 8.75% tax on cash and a 3.5% on other re-invested earnings.

The Trump plan repeals deferral. Current offshore earnings would be subject to a 10% tax.

**Effect on motorcoach companies:** Beyond the scope of this document.

**Transition.** — The House Blue Print invites affected taxpayers to provide comments on ways to smoothly transition from the current system to the new system.

**Effect on motorcoach companies:** Motorcoach companies should suggest ways to maximize the value of existing tax attributes under the new system.