



The Trump transition will end this week on Friday, January 20, when Donald Trump will be sworn in as President. As always, expect the unexpected this week as the transition comes to an end and the real business of governing begins. A flurry of executive orders repealing a long list of his predecessor's executive orders can be expected in the first few days. President Obama will hold his final press conference this week, and more confirmation hearings will be held, including hearings for Mnuchin at Treasury and Ross at Commerce.

OBAMACARE REPEAL

Congressional Republicans took the first big step toward repealing the Affordable Care Act, passing a budget blueprint which removes the procedural obstacles to the repeal legislation. The repeal bill will be ready for floor votes in early February, and it will be followed by a series of bills to replace the repealed ACA provisions. One key issue is whether the repeal bill will include repealing the ACA tax increases, including the 3.8 percent tax on investment income. President-elect Trump complicated the issue in a weekend interview when he said his replacement plan would provide "insurance for everybody," a costly and difficult proposition. Trump also roiled the drug industry, saying he would pressure them to reduce drug prices and that they are "not politically protected anymore."

TAX REFORM TIMING

Tax reform is a top priority of the Trump administration and Congressional Republicans, and both had hoped to compete a major tax reform bill in the first 100 days of his administration. However, it now appears likely that tax reform could slip until the latter part of the year to give Congress time to work on legislation to replace Obamacare. The original House plan was to repeal Obamacare, begin work on tax reform, and take the rest of the year to work on the Obamacare replacement legislation. But political pressure to repeal and replace Obamacare as soon as possible, much of it generated by Mr. Trump himself, could result in delaying the Trump tax reform plan.

TAX REFORM DIFFERENCES

House Speaker Ryan and top Trump aides met at the Capitol last week for a two-hour discussion about tax reform. Ryan lead the group through the House Republican tax reform plan, and discussed some of the differences between their plan and the Trump tax reform plan he outlined during the campaign. Although the broad structure of the two plans are similar--- lower individual and corporate tax rates and a broadened tax base---there are a number of key

differences which need to be reconciled. One, the Trump plan does not include the border adjustment tax, which taxes imports and exempts exports from the new lower corporate tax rate. Trump has called for a new border tax on imports, but one at a much higher rate. Two, the Trump plan does not include the House proposal to eliminate the interest deduction for debt, a significant proposal which could have a major impact on real estate investments.

Another major difference between the two plans is the corporate tax rate and the tax rate for pass-through entities, including most hedge funds and private equity firms. Under current law, pass-throughs are taxed under the individual tax rate structure at a top rate of 39.6 percent. The Trump plan calls for a 15 percent rate for all business income, both corporate and unincorporated businesses. The House plan would reduce the corporate rate to 20 percent and provide for a new business tax rate for businesses organized as sole proprietorships and pass-through entities at 25 percent. This proposal is likely to become a flashpoint in the tax reform debate, with pressure to set a higher rate for larger hedge funds and private equity firms.

MNUCHIN HEARING

Treasury Secretary-nominee Steve Mnuchin will finally get his confirmation hearing on Thursday, January 19. The hearing had been delayed until all his ethics and financial disclosure forms were filed. Senate Democrats have been targeting this nomination over Mnuchin's bank's foreclosure practices, but the transition people and Senate leadership are confident he can weather this storm and be confirmed. His hearing will be an opportunity to hear his views on tax reform, financial regulatory reform, trade agreements, and the outlook for GSE reform. His statements will be a useful guide to future Trump administration policy on these issues.

A confirmation hearing will also be held this week on Commerce Secretary-nominee Wilbur Ross. Ross is expected to take the lead on trade policy in the new administration, so his statements on trade, tariffs, and renegotiating trade agreements should be instructive.

REGULATORY OVERSIGHT

Rep. Bill Huizenga, a Republican from Michigan, has been named the new Chairman of the House Financial Services Subcommittee on Capital Markets, Securities, and Investment, a key position for the financial services industry. The post had been held by Rep. Scott Garrett, who lost his reelection bid in November. Huizenga told reporters that his primary focus this year as subcommittee chair will be easing financial regulation for US business.

-- Bruce Thompson

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