Take-Away: If Mr. Trump is re-elected President, and the Heritage Foundation's *Project 2025* is adopted by his administration, there will be a profound impact on tax planning as we know it.

Background: What is getting a lot of press these days is the Heritage Foundation's *Project 2025,* which is presented as a 'blueprint' for the next Republican presidency, consisting of 922 pages. The *Project* presents a 180-day policy for each federal agency as well as multiple executive orders that the new President would, presumably, sign into law. While only 26 of the 922 pages are devoted to the Department of Treasury, in those pages are significant policy changes that are intended to "*reinfuse political control over the bureaucracy"* which is the *Project's* stated goal. *Political control* apparently means by the Executive branch of the federal government, meaning by the President.

***Project's* Main Steps:** The *Project's* main steps that would implicate the Department of Treasury include:

(i) Executive action, primarily through Treasury Orders and Treasury Directives;
(ii) Departmental *reorganization*;
(iii) Rulemaking;
(iv) Promoting constructive policies in Congress (I'm not sure what this means; *constructive* is very subjective!); and
(v) Actions in international organizations and treaties.

***Project's* Implementation:** Digging deeper, these *Project's* proposed steps would directly impact: (i) tax policy and tax administration; (ii) fiscal responsibility; (iii) 'improved' financial regulation; (iv) a reversal the Biden

Administration's 'equity' and climate-related financial-risk projects; (v) economic and financial aspects of the geopolitical *threat* posed by China and other *hostile* countries (those are the *Project's* choice of words); and (vi) reform the anti-money laundering and beneficial ownership reporting systems under FinCEN, which is currently the bane of all business owners and *the* hot topic for business advisors.

***Project's* Specific Reforms:** Some of the immediate reforms that the *Project* would cause to be implemented to change the current tax system and the U.S.'s relationships with the rest of the world are briefly summarized below.

***Flat* Income Tax:** A two-tax-rate individual income tax system would be implemented of **15%** and **30%,** while also eliminating most deductions, credits, and exclusions. The 30% income tax rate would align closely with the Social Security wage base. The combined income and payroll tax structure would, practically speaking, act as a *flat* tax on wages beyond the standard deduction amount.

Reduce Capital Gains Tax: Capital gains and qualified dividends would be taxed at a *flat* **15%.** Capital gains taxes would be indexed for inflation.

NIIT: The net investment income surtax currently used to fund Medicaid would be **repealed.**

SALT Limitation: The individual state and local income tax deduction currently capped at an annual $10,000 (SALT) would be **repealed.**

Business Losses: The annual limitation on business loss deductions would be **increased to $500,000,** and *all* net operating losses would be allowed to be fully carry forward indefinitely.

Expense All Capital Expenditures: Immediate expensing of all capital expenditures would be allowed for businesses.

Reduce the Corporate Income Tax: The corporate income tax rate would be reduced to a *flat* **18%.**

Corporate Transparency Act: The CTA would be **repealed** along with its beneficial ownership interest reporting rules to FinCEN.

Excise Taxes: The Inflation Reduction Act's excise taxes regarding (i) book minimum tax; (ii) stock buybacks; (iii) coal; (iv) Superfund; (v) drug manufacturers (requiring manufacturers to comply with Medicare price controls) would *all* be **repealed.**

***Green Energy* Companies:** The tax credits and other tax breaks for *green energy* companies would be **repealed.**

Universal Savings Accounts: An individual would be allowed to annually contribute up to **$15,000** (indexed for inflation) of his/her post-tax earnings to a Universal Savings Account. The tax treatment of the earnings on a Universal Savings Account would be comparable to a Roth IRA. Funds held in a Universal Savings Account could be withdrawn at any time and without penalty.

Health Insurance: Employers would be **denied tax deductions** for health insurance premiums paid and other benefits provided to dependents of their employees if the dependent is over the age of 23.

Wages v Benefits: The *Project* believes there is currently a *tax bias* in the Tax Code against wages when compared to employee benefits. To address this perceived *bias*, an employer's income tax deductions for employee benefits which are untaxed to the employee would be subject to an annual limitation of **$12,000** per each full-time employee. Employee benefit expenses, ***other than tax-deferred retirement account contributions,*** would count towards this $12,000-dollar annual limit per employee, whether offered to specific employees or whether the expense relates to a shared benefit, such as making a building gym available to all employees. Only a percentage of Health Savings Account (HSA) contributions, which are not taxed upon withdrawal, would ‘count’ toward the $12,000 per employee per year dollar limitation. This $12,000 limitation on deductions for employer sponsored benefits would **not be indexed to increase with inflation.**

Consumption Tax: The *Project* believes that a consumption tax will minimize the government’s distortion of private economic decisions and consequently it is the least harmful way to raise tax revenues. The *Project* does not identify exactly what type of consumption tax should be adopted, but it does identify a **national sales tax, a business transfer tax, a vague form of a flat tax, or a cash-flow tax.** Not much else is mentioned in the way of raising revenues to address the currently ballooning national debt is covered in the *Project*, or the presumed revenue deficits if some of the other proposed *Project* recommendations are adopted.

Tax Legislation: Legislation would be enacted that would require a **three-fifths** vote threshold in both the House and the Senate to raise income or corporate tax rates, which would *‘create a wall of protection’* for the *Project’s* new tax rate structure.

World Bank: The U.S. would immediately **withdraw** from both the World Bank, the IMF, and the Organization for Economic Co-operating, and cease all contributions. [At least NATO was not mentioned in the *Project* (so far*!*)]

Dodd-Frank Act: Most of the Dodd-Frank Act would be **repealed** along with the Financial Stability Oversight Council.

Housing: Both Fannie Mae and Freddie Mac would be wound-down, albeit over time, i.e., they would ultimately be **eliminated.** The Federal Housing Administration and the Governmental National Mortgage Association (i.e., Ginne Mae) would be **down-sized** to “better serve their defined missions.”

Taxpayer Rights: Interest on tax overpayments would be the same as the interest paid on tax underpayments. The time limit in which to sue the government for damages for its improper tax collection efforts would be extended, along with the jurisdiction of the Tax Court over these disputes. The tax penalty system currently in place would be over-hauled to reduce some of the more punitive penalties that are currently available for assessment under the Tax Code.

Treasury Department Reform: Many of the deputy commissioners in the Department of Treasury would be made subject to Presidential appointments, subject to Senate confirmation.

Observations: A few observations of *Project 2025* follow.

Federal Deficit: There is very little discussion (or mention) on how all, or any, of these proposals would impact the currently growing federal deficit. Limiting the income tax rates always sounds appealing and will attract considerable favorable attention, yet the impact on the federal deficit gets scant attention.

Unintended Consequences: Reading the *Project's* numerous suggestions recalls of the old 'law of unintended consequences.' There is nothing like sitting in a 'think-tank' like the Heritage Foundation, not live in the 'real world,' and come up with 900+ pages of recommendations.

Mr. Trump: Recently Mr. Trump, when confronted with *Project 2025* purportedly expressed annoyance with the amount of attention that the *Project 2025* is now getting in the press. He went so far as to say, *"I know nothing about Project 2025"* and he even referred to some of its recommendations as *"absolutely ridiculous."* I'm not sure how honest Mr. Trump is with these remarks, considering that many of his former staff are intimately involved with and they originated many of the ideas presented in the Heritage Foundation's proposal, not to mention that Mr. Trump has previously shared many of the same ideas both on the campaign trail and while he was in the White House. It is hard to believe that he 'knows nothing" about them. Then again, Mr. Trump is wellknown (if not notorious) for abruptly changing course depending on what he thinks that his supporters want to hear from him.

President Biden: Apparently Mr. Trump's former staff members do not like Mr. Biden, or any of his initiatives, including the plan to add staff to the IRS to better assure timely compliance with the existing tax laws.

Rest of the World: The world for the past decade has sought to curb money laundering and terrorist activities by requiring reporting from business entities that are often used to hide these illegal activities. Almost all European countries were responsive to this initiative with their anti-secret laws. The U.S. was the last to 'get on board' with these initiatives designed to ferret out illegal activities through secrecy with the adoption of the Corporate Transparency Act, which has yet to force disclosures for existing businesses until January 1, 2025. How will the rest of the world respond if the U.S. abruptly bails from its Corporate Transparency Act commitment that it has dragged its feet on for over the past 10 years, yet the rest of the civilized countries have grudgingly followed through with their commitments? Is this a return to the isolationist-protectionist position the U.S. adopted until Pearl Harbor forced it back into world affairs?

Conclusion: *Project 2025* is serious stuff. Much of what is proposed sounds attractive, like flat taxes, tax rate reductions, tax simplification, and tax repeals. Then again, much of it sounds draconian and isolationist, like pulling out of the World Bank or the IMF or cutting back on the source of Medicaid financing. Businesses would clearly be favored over individuals when it comes to taxes. The Department of Treasury would become a hollow shell of its former self. All of us need to take a close look at *Project 2025's* proposed recommendation and ask the rhetorical question- Will these *Project* proposals, if implemented, make America stronger, or weaker, in the long run?