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WILL 2017 TAX REFORM IMPACT EMPLOYER-SPONSORED RETIREMENT PLANS?

On Wednesday, September 28, 2017, the Trump administration and the so-called "Big 6" revealed an outline for tax reform entitled "Unified Framework For Fixing Our Broken Tax Code." The Big 6 include Senator Orrin Hatch of Utah, House Ways and Means Committee Chairman Kevin Brady, Senate Majority Leader Mitch McConnell, Speaker of the House Paul Ryan, Treasury Secretary Steven Mnuchin and National Economic Council Director Gary Cohen.

It is far too early in the tax reform process to predict how retirement plans will be impacted by the 2017 tax reform bill. The framework announced last Wednesday is really just an outline of principles. The political reality of a U.S. Senate with 52 Republicans and 48 Democrats will likely result in a number of proposals about which we can only speculate at this time.

The framework represents a very general description of the principles upon which the tax reform bill should be created in the appropriate U.S. House of Representatives and Senate committees. It will be up to each committee to work out the details of the bill.

The Trump administration and Big 6 proposal aims to retain benefits that "encourage work, higher education and retirement security." They also encourage the tax writing committees to simplify these benefits by improving their efficiency and effectiveness. They propose that the tax reform bill maintain or raise retirement plan participation for workers and the resources available for retirement. Their vision also includes a simpler and fairer system that would result from repealing many of the provisions of tax law today.

How would tax reform improve efficiency and effectiveness? One idea that has been suggested is to consolidate the various types of retirement plans. The IRS has already pushed retirement plan documentation in that direction. In the next round of defined contribution prototype plan documents, the distinction between money purchase pension plans and profit sharing plans, for example, will largely be eliminated.

At times, Congress has limited tax deductions for benefits under retirement plans in order to raise revenue. Some in Washington have suggested "Rothification" of retirement plans. Rothification might mean employer or employee contributions would be forced into non-deductible status when made but with withdrawals from plans coming to employees on a tax free basis. In short, the current tax revenue from the loss of employer and employee deductions could be used to offset tax rate cuts for individual and corporate tax payers. However, there is growing skepticism about how politically viable Rothification is.

If you have questions about 2017 tax reform impact on employer-sponsored retirement plans, contact Bill Roberts at ebplans@hallrender.com or your regular Hall Render attorney.