

IS TAX REFORM COMING?

Tax reform is a real possibility in 2017 now that the Republicans control the U.S. Senate, the U.S. House of Representatives and the White House. While it is too early to know for sure what tax reform will look like, it is expected that any tax reform will be a mix of the proposals set forth by the House Republicans in their “A Better Way” proposal (the “House Plan”) and the proposals set forth by President Donald Trump on his website (the “Trump Plan”).

It is not certain what process the Republicans will use to pass tax reform. Tax reform can be accomplished through regular order or budget reconciliation. To avoid a possible filibuster, the Republicans could pass tax reform using the budget reconciliation process. If tax reform is accomplished through reconciliation, then the tax reform will not have the support of the Democrats.

The following table compares some of the key points in the House Plan, the Trump Plan and the current tax law:

ITEM	HOUSE PLAN	TRUMP PLAN	CURRENT
INDIVIDUALS			
<i>Reduce the Number of Brackets for Individual Tax Rates</i>	<ol style="list-style-type: none"> 1. 12% 2. 25% 3. 33% 	<ol style="list-style-type: none"> 1. 12% 2. 25% 3. 33% 	<ol style="list-style-type: none"> 1. 10% 2. 15% 3. 25% 4. 28% 5. 33% 6. 35% 7. 39.6%
<i>Capital Gains and Qualified Dividends Rates</i>	Tax as ordinary income but provide a 50% exclusion of capital gains, dividends, and interest income	<ol style="list-style-type: none"> 1. 0% if in 12% bracket 2. 15% if in 25% bracket 3. 20% if in 33% bracket 	<ol style="list-style-type: none"> 1. 0% if in 10% or 15% brackets 2. 15% if in 25% -35% brackets 3. 20% if in 39.6% bracket
<i>3.8% Net Investment Income Tax</i>	Repeal	Repeal	<ol style="list-style-type: none"> 1. \$200,000 for single filers 2. \$200,000 for head of household 3. \$250,000 for joint filers
<i>Personal Exemption</i>	Replace with increased dependent credit and expanded child tax credit	<ol style="list-style-type: none"> 1. Replace with increased dependent credit 2. Replace with the above-the-line deduction for child care and elder care expenses, as well as tax-deferred Dependent Care Savings Accounts 	<ol style="list-style-type: none"> 1. Personal exemption for taxpayer and spouse 2. Personal exemption for children and dependents
<i>Standard Deduction</i>	<ol style="list-style-type: none"> 1. \$12,000 for single filers 2. \$18,000 for head of household 3. \$24,000 for joint filers 	<ol style="list-style-type: none"> 1. \$15,000 for single filers 2. \$30,000 for joint filers 	<ol style="list-style-type: none"> 1. \$6,300 for single filers 2. \$9,300 for head of household 3. \$12,600 for joint filers

ITEM	HOUSE PLAN	TRUMP PLAN	CURRENT
<i>Itemized Deductions</i>	Eliminates all itemized deductions besides the mortgage interest deduction and the charitable deduction	1. \$100,000 for single filers 2. \$200,000 for joint filers	1. State and Local Taxes 2. Gifts to Charity 3. Home Mortgage Interest 4. Medical and Dental Expenses (just some examples)
<i>Alternative Minimum Tax</i>	Repeal	Repeal	Yes
<i>Marriage Penalty</i>	Repeal	Repeal	Yes
<i>Home Mortgage Interest Deduction</i>	Retain	Retain	Yes
<i>Carried Interest</i>	Silent	Taxed at ordinary income rates	Taxed at capital gains rates
CORPORATE			
<i>Corporate Tax Rate</i>	20%	15%	35%
<i>Depreciation</i>	Immediate deduction of capital expenditures	Allows firms engaged in manufacturing in the U.S. to choose between the full expensing of capital investment and the deductibility of interest paid	Most assets are depreciated using the Modified Accelerated Cost Recovery System (MACRS)
<i>Business Tax Rate</i>	Income from S corporations, partnerships, disregarded entities and sole proprietorships would be taxed at 25%	Income from S corporations, partnerships, disregarded entities and sole proprietorships would be taxed at 15%	Can be taxed as high as 44.6% (according to House Plan)
<i>Net Operating Losses</i>	1. Unlimited carryforward 2. Carryforwards are increased by interest factor 3. Income that may be offset in any year limited to 90% of income 4. Eliminates carryback	Silent	1. Two-year carryback 2. Twenty-year carryforward
<i>Section 199 Gross Production Activities</i>	Repeal	Repeal	Yes
<i>Business Tax Credits</i>	Repeal most credits	Repeal most credits	R & D, Energy, etc.
<i>Taxation of International Income</i>	Territorial system based on consumption	Silent	Taxed on world-wide income but foreign income taxed when brought back into the U.S.

ITEM	HOUSE PLAN	TRUMP PLAN	CURRENT
<i>Earnings of Foreign Subsidiaries</i>	One-time deemed repatriation tax on earnings of foreign subsidiaries of U.S. companies of 8.75% to the extent held in cash equivalent and 3.5% otherwise, payable over eight years	One-time deemed repatriation tax of 10% on cash held abroad that represents earnings of foreign subsidiaries of U.S. companies payable over ten years	Taxed on world-wide income but foreign income taxed when brought back into the U.S.
ESTATE & GIFT			
<i>Gift Tax</i>	Silent	Silent	1. Annual gift exclusion of \$14,000 2. 40% tax rate 3. \$5,490,000 exemption per person
<i>Estate Tax</i>	Repeal	Repeal	
<i>GST</i>	Repeal	Repeal	
<i>Step-up in Basis at Death</i>	Silent	Only to extent total appreciation does not exceed \$10 million	Yes
FISCAL IMPACT			
<i>Tax Foundation Analysis</i>	<ol style="list-style-type: none"> 1. Reduce marginal tax rates at the cost of capital, which would lead to 9.1% higher GDP over the long term, 7.7% higher wages, add an additional 1.7 million full-time equivalent jobs 2. Reduce federal revenue by \$2.4 trillion over the first decade on a static basis. Due to the larger economy and the broader tax base, the plan would reduce revenue by \$191 billion over the first decade 3. Much of the revenue loss is a one-time loss and the plan will cost much less in subsequent decades 4. On a static basis, the plan would lead to 0.7% higher after-tax income for all taxpayers and a 5.3% higher after-tax income for the top 1%. When accounting for the increased GDP, after-tax incomes of all taxpayers would increase by at least 8.4% 	<ol style="list-style-type: none"> 1. Reduce marginal rates and the cost of capital, which would lead to higher long-run levels of GDP, wages, and full-time equivalent jobs 2. Reduce the federal revenue between \$4.4 trillion and \$5.9 trillion on a static basis 3. Due to the larger economy and the broader tax base, the plan would reduce revenues between \$2.6 trillion and \$3.89 trillion 4. Would lead to at least 0.8% higher after-tax income for all taxpayers and to at least 10.2% after-tax income for the top 1% of taxpayers 	

ITEM	HOUSE PLAN	TRUMP PLAN	CURRENT
<i>Tax Policy Center Urban Institute & Brookings Institution Analysis</i>	<ol style="list-style-type: none"> 1. Reduce federal revenue by \$3.1 trillion over first decade 2. Increase federal debt by \$3.0 trillion 3. Cut taxes at every income level with high income earners receiving the largest benefit 4. Cut the average tax bill in 2017 by \$1,810, increasing after-tax income by 2.5% 	<ol style="list-style-type: none"> 1. Reduce federal revenue by \$6.2 trillion over first decade 2. Increase federal debt by at least \$7.0 trillion 3. Cut taxes at every income level with high income earners receiving the largest benefit 4. Cut the average tax bill in 2017 by \$2,940, increasing after-tax income by 4.1% 	