

# Tax Reform

As of 11/21/17

\*Changes refer to the House Bill (HR 1), important differences in the Senate proposal are noted\*

- Changes for Business
  - New “Pass through rate”
    - Applies to LLCs, S-corps, partnerships
    - New rate of 25%
      - That 25% rate only applies to 30% of the income, the other 70% is written off as your salary and must pay regular income tax. You can appeal that breakdown to the IRS.
        - This is for active owners of the business, “passive owners” get the 25% on all the income from the business.
      - 85% of small businesses are small enough that they already pay rates of 25% or less, so this change doesn’t matter much to them.
    - Brady Amendment
      - Rate is 9% on the first \$75,000/\$150,000 (individual/joint) of business income, (otherwise would be 12%).
        - New rate is phased in, dropping every 2 years to hit 9% in 2022.
      - After \$225,000 of income, there would be a "bubble tax" to reclaim the new lower rate.
        - Senate bill allows for the deduction of business income of up to 17.4%, does this instead of the new dedicated rate.
  - Corporate Rate
    - Lowered from 35% (among highest in world) to 20%.
  - Corporate vs pass-thrus
    - Current gap is 39.6% on income (plus state income tax as high as 8.75%), vs 35% corporate rate (as high as 9% in NJ).
      - Corporations will likely see a larger benefit than small businesses from this package.
      - Some small business may want to convert to C-corps.
  - Investments
    - Able to immediately write off the full cost of investments in the business for assets purchased over the next 5 years.
    - Companies with average gross receipts of \$25 million or less get to continue to deduct business interest. Beyond that, it is limited to 30% of adjusted gross income.
    - Section 179 deduction is expanded from \$500,000 to \$5 million
      - Section 179 allows a taxpayer to elect to deduct the cost of certain types of property on their income taxes as an expense, rather than requiring the cost of the property to be capitalized and depreciated. This property is generally limited to tangible, depreciable, personal property which is acquired by purchase for use in the active conduct of a trade or business. Buildings were not eligible for section 179 deductions prior to the passage of the Small Business Jobs Act of 2010; however, qualified real property may be deducted now
  - Work Opportunity Tax Credit (WOTC) repealed

- Changes for Individuals

- Tax brackets:

Single Filers			
Tax Bracket	2017 Rate	House Bill	Senate Bill
10.0%	\$0-\$9,325		\$0-\$9,525
12.0%		\$0-\$45,000	\$9,525-\$38,700
15.0%	\$9,325-\$37,950		
22.0%			\$38,700-\$70,000
24.0%			\$70,000-\$160,000
25.0%	\$37,950-\$91,900	\$45,000-\$200,000	
28.0%	\$91,900-\$191,650		
32.0%			\$160,000-\$200,000
33.0%	\$191,650-\$416,700		
35.0%	\$416,700-\$418,400	\$200,000-\$500,000	\$200,000-\$500,000
38.5%			\$500,000+
39.6%	\$418,400+	\$500,000+	

Joint Filers			
Tax Bracket	2017 Rate	House Bill	Senate Bill
10.0%	\$0-\$18,650		\$0-\$19,050
12.0%		\$0-\$90,000	\$19,050-\$77,400
15.0%	\$18,650-\$75,900		
22.0%			\$77,400-\$140,000
24.0%			\$140,000-\$320,000
25.0%	\$75,900-\$153,100	\$90,000-\$260,000	
28.0%	\$153,100-\$233,350		
32.0%			\$320,000-\$400,000
33.0%	\$233,350-\$416,700		
35.0%	\$416,700-\$470,700	\$260,000-\$1,000,000	\$400,000-\$1,000,000
38.5%			\$1,000,000+
39.6%	\$470,700+	\$1,000,000+	

- Removal of deduction for state and local taxes
  - Income tax
  - Property tax
    - First \$10,000 can be deducted
    - Completely eliminated in Senate
  - Sales tax
- Mortgage Interest Deduction
  - Down from \$1 million to \$500,000 (in principle cost)
    - Existing loans grandfathered in

- Not changed in Senate version
    - Mortgage interest on second homes will be excluded
  - Charitable deduction remains
  - Doubling of standard deduction
    - \$12,000 for individuals, \$24,000 for joint filing
      - Currently \$6,200 individual, \$10,400 joint
      - Will increase w CPI
    - All other deductions eliminated, including popular ones like for accounting services. But even if they remained most probably wouldn't use them anyway because they would be covered by the increased standard deduction.
  - Estate Tax repealed completely (effective 2025)
    - Is not repealed by the Senate bill, but the exemption is doubled to \$11 million
  - Adoption tax credit remains after being threatened
  - Child tax credit
    - Increased from \$1,000 a child to \$1,600
    - Senate bill increases to \$2,000
  - Removal of deduction for medical expenses
    - Senate keeps it
  - Elimination of Alternative Minimum Tax
  - Expirations
    - Corporate tax cut would not expire at all
    - Cuts on income would expire in 2023, though they are likely to be renewed since they are the most popular cuts
- About \$1.4 trillion increase in the debt (total, over the 5 year period).

