H.R.1 TAX CUTS AND JOBS ACT

On November 2, 2017, after months of discussion, the U.S. House Ways and Means Committee released its sweeping bill to reform the tax code. Here is a brief summary of some of the individual and business provisions in the 429-page Tax Cuts and Jobs Act. Generally, the changes would go into effect after December 31, 2017, but there are exceptions.

Individual tax breaks

TAX BRACKETS WOULD BE REDUCED.

Currently, there are seven individual tax brackets of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. Under the proposed bill, there would be four brackets of 12%, 25%, 35% and 39.6%. The 39.6% bracket would begin to apply to married couples filing jointly with a $1 million annual income ($500,000 for other filers).

STANDARD DEDUCTION WOULD BE INCREASED.

Under current law, the standard deduction for 2017 is $6,350 for single taxpayers and $12,700 for married couples filing jointly. Under the proposed plan, the standard deduction amounts would increase to $12,000 and $24,000, respectively.

THE DEDUCTION FOR PERSONAL EXEMPTIONS WOULD BE REPEALED.

Taxpayers can currently claim personal exemptions for themselves, their spouses and any dependents. For 2017, taxpayers can deduct $4,050 for each personal exemption, but these tax breaks are phased out as adjusted gross income (AGI) exceeds $261,500 for singles and $313,800 for married joint filers.

THERE WOULD BE AN INCREASED CHILD TAX CREDIT AND A NEW FAMILY CREDIT.

Currently, parents can claim a tax credit of $1,000 for each qualifying child under the age of 17. The credit begins to phase out once AGI is over $75,000 for singles and $110,000 for joint filers. Under the bill, the child tax credit would be increased to $1,600. An additional credit of $300 would be allowed for family members who aren't qualifying children for tax years before 2023. There are a number of rules and qualifications for these proposed credits, including phaseout amounts.

THE ALTERNATIVE MINIMUM TAX WOULD BE REPEALED AND THE ESTATE TAX WOULD EVENTUALLY DISAPPEAR.

Under the proposal, the estate tax exemption would increase from $5.49 million in 2017 to $10 million in 2018 (indexed for inflation) and the estate tax (along with the generation-skipping transfer tax) would be completely phased out in six years. The gift tax would remain.

THE CHARITABLE CONTRIBUTION DEDUCTION WOULD BE RETAINED.

But several changes would be made to the rules applicable to donations made after 2017. In addition, a special rule that provides a charitable deduction of 80% of the amount paid for the right to purchase tickets for college athletic events would also be repealed.

A NUMBER OF PERSONAL TAX BREAKS WOULD BE REPEALED.

These include the deductions for state and local income or sales taxes, personal casualty losses, medical expenses, alimony payments, moving expenses, student loan interest, tax preparation expenses and more. The adoption tax credit and the credit for plug-in electric vehicles would be repealed, as would the credit for taxpayers age 65 and older or those who are retired and disabled.

Homeowner tax breaks

ACQUISITION DEBT LIMIT FOR MORTGAGE INTEREST DEDUCTION WOULD BE REDUCED.

Currently, an itemized deduction for mortgage interest can be claimed for a principal residence and one other residence on up to $1 million of acquisition debt and up to $100,000 in home equity debt. Under the proposed bill, the $1 million limitation would be reduced to $500,000 for homes purchased after

November 2, 2017, and interest could be deducted only on a principal residence. Home equity debt incurred after the effective date wouldn't be deductible.

PROPERTY TAX DEDUCTION WOULD BE LIMITED.

Currently, there's no limit on the deduction for state and local property taxes. Under the bill, the deduction would be limited to $10,000.

RULES FOR PRINCIPAL RESIDENCE GAIN EXCLUSION WOULD BE TIGHTENED.

In order to claim the principal residence exclusion of up to $250,000 for singles and $500,000 for joint filers, a taxpayer would generally have to own and use the home for five out of the previous eight years. Currently, the property must be owned and used for only two out of the previous five years.

Business tax breaks

THE CORPORATE TAX RATE WOULD BE REDUCED.

The current maximum corporate rate of 35% would decrease to 20%. Personal service corporations (such as law, architecture and accounting firms) would be subject to a 25% tax rate.

A SPECIAL RATE WOULD BE ESTABLISHED FOR "PASS-THROUGH ENTITIES."

Currently, owners and shareholders of businesses organized as sole proprietorships, partnerships, limited liability companies and S corporations report net income on their individual tax returns at rates of up to 39.6%. Under the proposal, a portion of net income distributed by a pass-through entity to an owner or shareholder could be treated as "business income" subject to a maximum rate of 25%. The remaining net business income would be treated as compensation and continue to be subject to ordinary individual income tax rates. A number of other rules would be added for pass-through entities.

ENHANCED EXPENSING OF QUALIFIED PROPERTY WOULD BE PERMITTED FOR FIVE YEARS.

Under the proposed bill, instead of bonus depreciation, businesses could fully and immediately expense 100% of the cost of qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023 (with an additional year for certain property with a longer production period). There would also be enhancements made to the Section 179 expensing deduction.

LIMITS WOULD BE PLACED ON POPULAR TAX STRATEGIES.

This would include limits on businesses claiming net operating losses and on taxpayers engaging in Section 1031 like-kind exchanges.

A NUMBER OF BUSINESS TAX BREAKS WOULD BE REPEALED.

The domestic production activities deduction would be repealed. In addition, no deduction would be allowed for entertainment and recreation activities or facilities. (Currently, a deduction of up to 50% of such expenses is allowed if they're directly related to a taxpayer's trade or business.) A number of other tax breaks would also be eliminated, including the Work Opportunity tax credit for hiring employees belonging to certain target groups, the credit for employer-provided child care, the credit for expenses to rehabilitate old and historic buildings, the credit for expenses related to providing access to disabled individuals, and more.

Stay tuned

These are only some of the changes in the proposed Tax Cuts and Jobs Act. For example, there are many additional provisions related to taxation of foreign income.

And it's likely the bill is far from final. In fact, it has been described by the chairman of the House Ways and Means Committee as a starting point for negotiations. The bill could go through revisions, beginning the week of November 6. Lawmakers and special interest groups will weigh in with their views, including criticisms that the changes will add to the federal deficit.

President Trump and GOP lawmakers would like to pass tax reform sooner rather than later. However, before that can happen, a bill would have to be voted on by the full House and the Senate, which is working on its own tax plan. We'll keep you updated on all major tax reform news.