2017 Federal Tax Reform: How Will the Progressing Tax “Simplification” Deal Affect You?

There has been a great deal of information released regarding tax reform, tax cuts, and tax negotiations among the House, the Senate, and the President in 2017. And while a "deal" has been reported, there has been no published or approved bill sent to the President. However, reports indicate that certain provisions are emerging as likely components of 2017 tax reform. The chart below outlines some of the likely reform topics and compares current law, the Senate bill (note that the Senate bill provisions generally expire after 2025), the House bill, and the likely final negotiated provision.

Determining how these potential tax law changes affect a particular taxpayer presents challenges. This is a difficult task due to the overall complexity of the tax law, and the different variables that impact the net liability calculation. Once there is an enactment (assuming a law passes), it will be possible to more accurately estimate the economic effect of the new law.

*In evaluating this chart, note that the column regarding the "likely final provisions" is based on preliminary, informal reports, and these references are subject to the uncertainties of the political process. The enacted law, if there is an enacted law, could vary from what appears likely today. In addition, if a law is enacted the terms likely will be required by the Byrd Rule to sunset (i.e., expire) for tax years after a specific date, such as 2025.

<table>
<thead>
<tr>
<th>Topic Current Law</th>
<th>Senate Bill</th>
<th>House Bill</th>
<th>Likely Final Provision*</th>
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</thead>
<tbody>
<tr>
<td><strong>Individual Tax Rates and AMT</strong></td>
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<td></td>
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<tr>
<td>Top marginal rate</td>
<td>39.6%</td>
<td>38.5%</td>
<td>39.6% (with 45.6% rate for certain high income)</td>
</tr>
<tr>
<td><strong>Number of tax brackets</strong></td>
<td>7</td>
<td>7</td>
<td>4 Unreported</td>
</tr>
<tr>
<td><strong>Alternative minimum tax (AMT)</strong></td>
<td>Complex alternative tax calculated with many disallowed deductions and exemptions</td>
<td>Retains AMT with increased exemption so fewer taxpayers pay AMT</td>
<td>Repeals AMT</td>
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<tr>
<td><strong>Mortgage interest</strong></td>
<td>Income or sales tax, plus property tax deductible</td>
<td>Eliminates, but property tax up to $10,000 is deductible</td>
<td>Limits deduction for state income and property tax to $10,000</td>
</tr>
</tbody>
</table>

*These references are subject to the uncertainties of the political process.*
Deduction  Deduction for interest on loans up to $1m for principal residence plus one additional residence Eliminates deduction for home equity debt Deduction for interest on loans up to $500,000; eliminates deduction for home equity debt Deduction for interest on loans up to $750,000; eliminates deduction for home equity debt

Individual/Family Provisions  Personal and dependency exemptions $4,150 per individual and dependents Eliminates

Standard deduction

$6,500 single
$13,000 married filing jointly $12,200 single
$24,400 married filing jointly $12,200 single
$24,400 married filing jointly $12,200 single
$24,400

Child Tax Credit $1,000 $2,000 $1,600 Negotiated blend

Family Tax Credit $0 $500 for non-children dependents $300 for taxpayer, spouse, and dependents Negotiated blend

Credit phase-out

Income limit Phase out starting at $75,000 single, $110,000 married filing jointly Phase out starting at $500,000 Phase out starting at $115,000 single, $230,000 married filing jointly Negotiated blend

Obamacare individual mandate Penalty imposed on individuals who do not purchase health care insurance Eliminates No change Eliminates individual mandate

Estate Tax  Estate tax Highest tax rate of 40% on estates valued at more than $5.6m Increases threshold to estates valued at more than $11.2m Increases threshold to estates valued at more than $11.2m Increases threshold to estates valued at more than $11.2m

Business Provisions  Highest pass-through rate 39.6% Standard rates with 23% deduction 25% (professional service income excluded) Tax determined with a 20% deduction of pass-through income (professional service income excluded) (resulting in a top marginal individual tax rate of 29.6% on pass-through income)

Highest corporate rate 35% 20% (beginning in 2019) 20% 21%

Corporate alternative minimum tax ("AMT") Complex alternative tax for corporations Retains corporate AMT Eliminates

Business interest deduction Deductible in full (generally) Limits deduction to 30% of net income before deduction for depreciation Limits deduction of 30% of net income Limits deduction to 30% of net income before deduction for depreciation

Section 179 expensing Small business
can expense up to $500,000 of property in first year Expense limit increased to $1m of property Expense limit increased to $5m of property

**Tax on multinational companies** Tax using worldwide system with credits and deferrals Modified territorial system Modified territorial system Modified territorial system

**One-time tax on repatriation of assets** N/A 7.5% tax
(14.5% for cash) 7% tax
(14% for cash) 7.5% tax
(14.5% for cash)