

Tax Cuts and Jobs Act

Both the Senate and House Republicans have released their version of tax reform. There are significant differences between each plan as well as many similarities. The Senate Finance Committee has not provided its mark-up, or final version while the House Committee on Ways and Means has. Once each chamber agrees to and votes on its final plan, differences are hashed out through the Joint Committee on Taxation. Here are some of the more noteworthy similarities and differences.

Income Tax Brackets

Senate Tax Proposal		
Income tax brackets	Joint	Individual
10%	\$0-\$19,050	\$0-\$9,525
12%	\$19,050-\$77,400	\$9,525-\$38,700
22%	\$77,400-\$140,000	\$38,700-\$70,000
25%	\$140,000-\$320,000	\$70,000-\$160,000
32%	\$320,000-\$400,000	\$160,000-\$200,000
35%	\$400,000-\$1million	\$200,000-\$500,000
38.5%	over \$1 million	over \$500,000

House Tax Proposal		
Income tax brackets	Joint	Individual
12%	\$0-\$90,000	\$0-\$45,000
25%	\$90,000-\$260,000	\$45,000-\$200,000
35%	\$260,000-\$1million	\$200,000-\$500,000
39.6%	over \$1 million	over \$500,000

	Senate Tax Proposal	House Tax Proposal
State and Local Tax Deduction	Repealed for all taxes	<p>Retained:</p> <ul style="list-style-type: none"> • Real property tax – capped at \$10,000 <p>Repealed:</p> <ul style="list-style-type: none"> • State and local income tax • Sales tax
Personal Deductions	<p>Retained:</p> <ul style="list-style-type: none"> • Medical expenses • Mortgage interest • Casualty losses (only in presidentially declared areas) • Charitable contributions – increases 50% limit to 60% <p>Repealed:</p> <ul style="list-style-type: none"> • All miscellaneous 2% deductions • Overall limit on itemized deductions • Moving expenses and exclusion for reimbursements • Personal exemption 	<p>Retained:</p> <ul style="list-style-type: none"> • Mortgage interest deduction capped at \$500,000 • Casualty losses (only in presidentially declared areas) • Charitable contributions (mileage indexed for inflation) <p>Modified:</p> <ul style="list-style-type: none"> • Preserves moving expense deduction for active duty armed forces who move pursuant to military order <p>Repealed:</p> <ul style="list-style-type: none"> • All other itemized deductions • Personal exemption • Deduction for alimony paid
Standard Deduction	<p>\$24,000 – Married taxpayers</p> <p>\$12,000 – Single taxpayers</p> <p>\$18,000 – Head of household</p>	<p>\$24,400 – Married taxpayers</p> <p>\$12,200 – Single taxpayers</p> <p>\$18,300 – Head of household</p>
Education	<ul style="list-style-type: none"> • No change to the Lifetime Learning credit or American Opportunity credit (AOTC) • Retains student loan interest deduction up to \$2,500 	<ul style="list-style-type: none"> • Combines AOTC, Hope credit and Lifetime learning credit into one credit - 100% credit for first \$2,000 of qualified expenses, 25% credit on next \$2,000 • Repeals student loan interest deduction

Child Tax Credit	<ul style="list-style-type: none"> • Credit increases to \$2,000 for children under age 18 • \$500 credit for non-child dependents <p>Phase-out:</p> <ul style="list-style-type: none"> • \$500,000 – joint filers • \$500,000 – single filers 	<ul style="list-style-type: none"> • Credit increases to \$1,600 • \$300 credit for non-child dependents <p>Phase-out:</p> <ul style="list-style-type: none"> • \$230,000 – joint filers • \$115,000 – single filers
Adoption Credit	Retained	Retained
Alternative Minimum Tax	Repealed	Repealed
Teacher Deduction	Up to \$500 of classroom expenses	Repealed
Retirement Plans	<ul style="list-style-type: none"> • Generally retains current rules for qualified plans and IRAs. • Catch-up contributions would be eliminated for employees with compensation in excess of \$500,000 	<p>Retained: Current rules for 401k and other qualified plans</p> <p>Repealed:</p> <ul style="list-style-type: none"> • Recharacterization of Roth IRAs to traditional IRAs • Conversion of traditional IRA to Roth IRA
Estate Tax	Increases exemption to \$10 million then increases for inflation	Increases exemption to \$10 million then repeals estate tax provision in tax years after 2023. The step-up in basis for assets acquired from a decedent is retained
Corporate Tax	Reduces corporate tax rate to 20% beginning in 2019	Reduces corporate tax rate to 20% beginning in 2018
Passthrough Entities (Sole Proprietorships, Domestic Partnerships and S Corporations)	<ul style="list-style-type: none"> • Creates a general 17.4% income tax deduction up to 50% of their wages. • This deduction is limited for taxpayers in a service business 	<ul style="list-style-type: none"> • Business income taxed at 25% except for professional service businesses (health, law, accountants, designers, consultants, etc.) • Other business owners can choose to categorize 70% of their income as wages taxed at the individual tax rate, and 30% as business income taxed at 25% OR fix the ratio of wage income to business income based on capital investment.

§179 Expensing	<ul style="list-style-type: none"> • 100% expense deduction for qualified property for five years • \$1 million limit; \$2.5 million phase-out 	<ul style="list-style-type: none"> • 100% expense deduction for qualified property for five years • \$5 million limit; \$20 million phase-out
DPAD	Repealed	Repealed
Like-Kind Exchanges	Only applies to real property, repealed for all other property	Only applies to real property, repealed for all other property
Business Related Entertainment	Not addressed	Repealed
Net Operating Losses	<ul style="list-style-type: none"> • Limits NOL deduction to 90% of taxable income • Repeals 2-year carryback and all special carryback provisions • Allows 2-year carryback for farmers 	<ul style="list-style-type: none"> • Limits NOL deduction to 90% of taxable income • Repeals 2-year carryback • Allows 1-year carryback for small businesses, farmers and certain casualty/disaster losses
Affordable Care Act	Repeals individual mandate for health insurance coverage and reduces the shared responsibility penalty to zero.	No provision

