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CERTIFIED PUBLIC ACCOUNTANTS

OBSERVATIONS

*This is one of periodic blogs we produce on financial issues that impact the taxpayer.
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Tax Reform - Tax Cuts and Jobs Act H.R. 1
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The Senate has passed its version of the Tax Cuts and Jobs Act. This bill details the various cuts and changes to overhaul the tax code and has some significant differences from the bill passed by the House. A Conference Committee will reconcile the differences and each chamber will then vote.

Below are some key highlights to the proposed bills from the House and Senate as compared to current tax law.

INDIVIDUAL TAX REFORM			
	Current Law (2017)	House	Senate
Tax brackets	eight rates; highest 39.6%	four rates; highest 39.6%	seven rates; highest 38.5%
Standard deductions S- Single or Married filing separately M- Married filing jointly SQC- Single with qualifying child	(S) \$6,350 (M) \$12,700 (HOH) \$9,350	(S) \$12,200 (M) \$24,400 (SQC) \$18,300	(S) \$12,000 (M) \$24,000 (SQC) \$18,000
Personal exemptions	\$4,050	\$0, but allows for \$300 credit for non-child dependents, phased out at \$230k (M)	\$0, but allows for \$500 credit for non-child dependents, phased out at \$500k (M)
Alimony	Income to payee Deduction for payor	Repealed* Effective with decrees executed after 2017	No change from current law
Child Tax Credits	\$1,000 credit, phased out at \$110k (M)	\$1,600	\$2,000
Itemized deductions: Medical expenses	Deductible in excess of 10% of AGI.	Eliminates deductibility of medical expenses	Expands medical deduction for 2017 and 2018
Itemized deductions : Mortgage interest	Caps interest deduction on loans up to \$1,000,000.	Caps interest deduction on loans up to \$500,000.	Caps interest deduction on loans up to \$1,000,000. Suspends interest on home equity

			loans.
Itemized deductions: State and local taxes	Allows for deduction	Repeals state and local and other taxes	Repeals state and local and other taxes
Itemized deductions: Real Estate Taxes	Allows for deduction	Caps real estate taxes at \$10,000	Caps real estate taxes at \$10,000
Tax rates on pass-through business income	Taxed at personal income rates	Tax on pass-through business income up to 25%	Deduction allowed for pass-through income of 23%
Education deduction, credits and savings plans	Many savings plans, credits and deductions for college.	Simplified credit, expanded 529 plans for K-12	Simplified credit, expanded 529 plans for K-12
Alternative Minimum Tax (AMT): Individual and corporate	Alternative tax calculation to calculate that a minimum tax is met	Repeals the AMT for both individual and corporate	Retains the AMT for individual and corporate and increases exemption threshold
Healthcare (ACA)	3.8% Net investment tax, 0.9% Medicare payroll tax, and individual mandate to obtain healthcare insurance,	Keeps taxes; does not address Healthcare.	Keeps taxes; repeals the mandate to have insurance.
Eligibility from exclusion of gain on sale of a principal residence.	Gain excluded on principle residence up to \$250,000 (\$500,000 MFJ), once every 2 years, with ownership 2 out of the past 5 years.	Gain excluded on principle residence up to \$250,000 (\$500,000 MFJ), once every 5 years, with ownership 5 out of the past 8 years.	Gain excluded on principle residence up to \$250,000 (\$500,000 MFJ), once every 5 years, with ownership 5 out of the past 8 years.
Exemption for estate tax	40% tax on assets over \$5.49 million (per individual, double for married couple)	Double the exemption for estate tax ¹ .	Double the exemption for estate tax ² .
Expirations			2025

¹ House bill fully repeals the tax permanently in 2025.

² The Senate bill doesn't fully repeal the law and ends the larger exemption in 2026.

BUSINESS TAX REFORM			
	Current Law (2017)	House	Senate
Corporate tax rate	35%	20% effective 2018	20% effective 2019
Personal Service Corporations	35%	25%	25%
Depreciation Deduction	Allows for 50% bonus depreciation; Section 179 capped at \$500,000; Real property 39 year life	Allows for 100% bonus depreciation, expire after 5 yrs; increases Section 179 capped at \$5 mil, phase out starts at \$20 mil; no changes to real property	Allows for 100% bonus depreciation, expire after 5 yrs; Section 179 capped at \$1 mil, phase out starts at \$2.5 mil; shortens real property to 25 year life
Protects the write off of interest on loans for small businesses	No interest limitations	Caps net interest deduction at 30 % of earnings before interest, taxes, depreciation, and amortization (EBITDA)	Caps net interest deduction at 30 % of earnings before interest and taxes (EBIT)
US taxes of foreign earnings	Taxes worldwide profits, credit for taxes paid elsewhere	Territorial –taxes domestic profits, 10% international minimum tax, 20% Excise on certain foreign transactions	Territorial –taxes domestic profits 10% on intangible income and certain foreign transactions
Repatriation of foreign earnings	Taxed as dividend when repatriated	Deemed repatriation at rate of 14% on liquid assets and 7% on illiquid assets	Deemed repatriation at rate 14.49% on liquid assets and 7.49% on illiquid assets

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