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Tax Notes

Trump Administration Rolls Out Tax Reform Framework

Now that the tax reform plan has been released in the "Unified Framework for Fixing Our Broken Tax Code," we are presenting some of the key provisions in the Framework as they affect individuals and businesses. At this point in time there are still many critical details that must be decided as the Framework undergoes Congressional review and deliberation. What ultimately becomes law will likely change from what is outlined in this e-newsletter.

Individuals

Standard Deduction: Doubles to:

- $24,000 for married taxpayers filing jointly
- $12,000 for single filers

Tax Rates: Currently there are seven tax brackets; the Framework consolidates them into three brackets (the Framework allows for a fourth top rate applicable to the highest-income taxpayers):

- 12%
- 25%
- 35%

[**Note:** The corresponding income tax brackets applicable to each rate will be determined by the Congressional committees.]

Child Tax Credit: The Child Tax Credit is increased and personal exemptions for dependents is repealed. The first $1,000 of the credit is refundable as under current law. Additionally, the income levels at which the Child Tax Credit begins to phase out will be increased. [**Note:** The Child Tax Credit will be determined by the Congressional committees.]

Non-Child Dependents: A $500 non-refundable credit is provided.

Individual Alternative Minimum Tax (AMT): Repealed.

Itemized Deductions: All are eliminated EXCEPT: home mortgage interest and charitable contributions.

Work, Education, Retirement: The tax benefits that encourage work, higher education and retirement security are retained.

Other Provisions Affecting Individuals: Certain other exemptions, deductions and credits for individuals will be repealed thereby allowing for the lower tax rates.

Estate and Generation-Skipping Taxes: Repealed.

Small Businesses

Tax Rate for Certain Pass-through Business Income: Limits the maximum tax rate to 25% for small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations. Certain types of businesses will not be eligible. [**Note:** It is contemplated that the Congressional committees will adopt measures to prevent the re-characterization of personal income into business income to prevent wealthy individuals from avoiding the top personal tax rate.]

Tax Rate for Corporations: Reduces the corporate tax rate to 20% [below the 22.5% average of the industrialized world]. Also, eliminates the corporate AMT.

"Expensing" of Capital Investments: Allows businesses to immediately write off (or "expense") the cost of new investments in depreciable assets (other than structures) made after September 27, 2017 for at least five years.

Interest Expense: Deduction of the net interest expense incurred by C corporations will be partially limited. [**Note:** The Congressional committees will consider the appropriate treatment of interest paid by **non-corporate** taxpayers.]

Section 199 Deduction: The current domestic production (Section 199) deduction is eliminated. [**Note:** Other special exclusions and deductions will also be repealed or restricted.]

Research and Development (R&D) and Low-Income Housing: The Framework explicitly preserves these business tax credits. [**Note:** The Framework envisions repeal of other business credits; however, the Congressional committees may decide to retain other business credits to the extent budget limitations allow.]

Tax Rules Affecting Specific Industries: The Framework will modernize the rules pertaining to special tax regimes to ensure that the tax code better reflects economic reality and provides little opportunity for tax avoidance.

Territorial Taxation of Global U.S. Companies: 100% exemption for dividends from foreign subsidiaries (in which the U.S. parent owns at least 10%). [**Note:** As a transition to the new system, foreign earnings that have accumulated overseas under the old system will be treated as repatriated. Accumulated foreign earnings held in illiquid assets will be subject to a lower tax rate than foreign earnings held in cash or cash equivalents. Payment of the tax liability will be spread out over several years.]

Contact Us

There is a long way to go before the Framework is introduced into law. We will keep you updated. In the meantime, please let us know if you have any questions about your particular tax situation.

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