WHAT YOU NEED TO KNOW ABOUT TAX REFORM

12/17

PROPOSED TAX REFORM: KEY DETAILS TO KNOW

This fall, the Senate and House released proposed legislation that would dramatically alter taxes in the United States.[1] Both bills have to pass through a number of steps before potentially becoming law. In the meantime, many people have questions about how the changes could affect them. Read on to learn more about the following tax details:

1. What similarities the plans share
2. Where strategies differ
3. How tax brackets could change

Tax reform is complicated, so we can only cover some of the biggest changes here. Despite differences in each plan, both bills contain additional proposals that could affect everything from small business taxes to foreign revenue.

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PROPOSED TAX REFORM: KEY DETAILS TO KNOW

1. WHAT SIMILARITIES THE PLANS SHARE

At their core, the plans aims to reduce tax burdens for both individuals and businesses while simplifying the tax code.[3] To pursue these goals, the House and Senate each propose to:

- **Increase the standard deduction**
- **Remove personal exemptions**
- **Maintain current 401(k) rules**
- **Maintain deductions for charitable donations**
- **Remove the Alternative Minimum Tax**
- **Raise the child tax credit**
- **Reduce or eliminate state and local tax deductions[4]**

2. HOW THEY DIFFER

Members of the House and Senate met for months as they worked to align their bills and encourage the legislation to pass by year's end. Despite these efforts and the similarities outlined in number 1, the plans are far from identical.[5] Some of the major differences are outlined below.

Tax Rule	House Plan	Senate Plan
Mortgage Interest Deduction[6]	Limits the deductible amounts to a $500,000 purchase price.	Keeps deductions capped at $1 million.
Medical Expense Deduction[7]	Ends all deductions for medical expenses at any level.	Remains as is.
Alimony Deduction[8]	• Individuals can no longer deduct alimony payments. • Recipients no longer have to claim payments as income.	Remains as is.
Corporate Tax Rate[9]	Reduces corporate tax rate to 20% starting in 2018.	Reduces corporate tax rate to 20% starting in 2019.
Estate Tax[10]	Doubles the asset amount exempted from tax. Eliminates the tax completely within 6 years.	Doubles the asset amount exempted from tax, and retains the tax in perpetuity.
Number of Tax Brackets[11]	4	7
Top Tax Rate[12]	Stays at current level of 39.6%.	Reduces to 38.5%.

3. HOW TAX BRACKETS COULD CHANGE

Currently, the IRS has 7 tax rates ranging from 10% to 39.6%. Both the House and Senate proposals would make changes to the tax brackets, though their approaches differ.[13]

TAX BRACKETS FOR SINGLE FILERS[14]

CURRENT LEVELS		HOUSE PROPOSAL		SENATE PROPOSAL	
Tax Rate	Income Bracket Starts At	Tax Rate	Income Bracket Starts At	Tax Rate	Income Bracket Starts At
10%	$0	12%	$0	10%	$0
15%	$9,326	25%	$45,001	12%	$9,526
25%	$37,951	35%	$200,001	22%	$38,701
28%	$91,901	39.6%	$500,001	24%	$70,001
33%	$191,651	--	--	32%	$160,001
35%	$416,701	--	--	35%	$200,001
39.6%	$418,401	--	--	38.5%	$500,001

TAX BRACKETS FOR MARRIED FILERS[15]

CURRENT LEVELS		HOUSE PROPOSAL		SENATE PROPOSAL	
Tax Rate	Income Bracket Starts At	Tax Rate	Income Bracket Starts At	Tax Rate	Income Bracket Starts At
10%	$0	12%	$0	10%	$0
15%	$18,651	25%	$90,001	12%	$19,051
25%	$75,901	35%	$260,001	22%	$77,401
28%	$153,101	39.6%	$1,000,001	24%	$140,001
33%	$233,351	--	--	32%	$320,001
35%	$416,701	--	--	35%	$400,001
39.6%	$470,701	--	--	38.5%	$1,000,001

NEXT STEPS:

Now that the House and Senate have approved their separate bills, the Joint Committee on Taxation must develop an acceptable compromise bill for them to approve. President Trump expects Congress to complete this process before the end of 2017. Whether or not this timeline is achievable remains to be seen.[16]

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Sources:

[1] https://www.nytimes.com/2017/11/09/us/politics/tax-plan-house-senate-differences.html

[2] https://www.nytimes.com/2017/11/09/us/politics/tax-plan-house-senate-differences.html

[3] https://home.kpmg.com/xx/en/home/insights/2017/11/flash-alert-2017-164.html

[4] https://www.cnbc.com/2017/11/09/heres-how-the-house-and-senate-tax-bills-compare.html
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[5] https://www.nytimes.com/2017/11/09/us/politics/tax-plan-house-senate-differences.html

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[9] https://www.forbes.com/sites/anthonynitti/2017/11/10/senate-releases-its-tax-bill-how-does-it-compare-to-current-law-and-the-house-proposal/#4e7449b44252

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[14] http://www.businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-house-senate-comparison-2017-11

[15] http://www.businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-house-senate-comparison-2017-11

[16] https://home.kpmg.com/xx/en/home/insights/2017/11/flash-alert-2017-164.html