Jackson Walker

Potential Tax Changes Under the New Administration

	Current	White House	Representatives Paul Ryan and Kevin Brady
Tax Brackets	**Seven Rates** 10% - below \$18,650 15% - \$18,650 to \$75,900 25% - \$75,901 to \$153,100 28% - \$153,101 to \$233,350 33% - \$233,351 to \$416,700 35% - \$416,701 to \$470,700 39.6% - above \$470,701 Above rates are for couples	**Three Rates** 10% - below \$75,000 25% - \$75,000 to \$225,000 33% - above \$225,000 Above rates are <u>estimates</u> for couples based on prior comments from the President ; thresholds are cut in half for single filers	**Three Rates** 12% - below \$190,150 25% - \$190,150 to \$231,450 33% - above \$231,450 Above rates are <u>estimates</u> for couples
Standard Deduction and Itemized Deductions	Standard deduction is \$6,350 for single filers and \$12,700 for married couples filing jointly Itemized deductions are phased out starting at \$313,800 for married couples filing jointly	Standard deduction would be double the current amount Many itemized deductions other than the home mortgage interest and charitable deductions would be eliminated, including state tax deductions	Standard deduction would be raised for single filers to \$12,000 and \$24,000 for married couples filing jointly Many itemized deductions other than the home mortgage interest and charitable deductions would be eliminated
Capital Gains	Current upper limit is 20%; that tax rate is exclusive to single filers earning more than \$413,200 and married couples earning an income above \$464,850	20% capital gains tax rate	Capital gains and dividends and interest would be taxed as ordinary income, <u>but</u> there would be a 50% exclusion of capital gains, dividends <u>and interest</u> income Effectively taxed at half the ordinary income tax rates, or 6%, 12.5% and 16.5%
Corporate Tax	Essentially 35% Effective rate, with dividends: 48% Effective rate, with the Net Investment Income Tax of 3.8%: 51.8%	15% flat tax rate Effective rate, with dividends: 32% The corporate AMT would be eliminated	Rate would be reduced to 20% Effective rate, with dividends: 33.2% The corporate AMT would be eliminated

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Small Business/ Partnerships	Income items flow through a pass-through entity and are taxed based on the tax rate applicable to the ultimate non-pass through owners of the entity	15% on pass through income - it is not clear the circumstances under which such rate would be applicable (e.g., there may be a requirement to reinvest income in the partnership to obtain such rate) The carried interest is proposed to be eliminated, however it may be unnecessary if the 15% rate is applicable	Income derived from a pass-through business would be taxed at 25%
Business Tax – Corporations and Pass-Through Entities **(e.g., partnerships and S corporations)**		Creation of a territorial tax system on businesses rather than worldwide taxation One time tax on unrepatriated earnings of foreign subsidiaries at a yet to be determined percentage (originally proposed 10%) Based on previous comments from the Administration: - Businesses would have a choice between the full expensing of capital investment and the deductibility of interest expense - The domestic production activities deduction (section 199) and all other business credits, except for the research and development credit, would be eliminated	Creation of a territorial tax system Enhanced expensing rather than deductions - no deduction for interest expense (other than against interest income) Elimination of the domestic production activities deduction and all other business credits, except for the R&D credit Deferred foreign profits would be taxed at a rate of 8.75% for cash and cash-equivalent profits and 3.5% on other profits Deduction for net operating losses would be limited to 90% of net taxable income; further, NOLs could be carried forward indefinitely, and increased by a factor reflecting inflation, but there would be no carry back 100% of dividends from foreign subsidiaries would be exempt from tax All business income taxes would be border-adjustable: companies would no longer be able to deduct the cost of their imported goods (instead taxed at 20%), and the sales of their exports would no longer be subject to U.S. tax

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ACA Taxes	3.8% on "net investment income" (the "NII Tax") and an additional 0.9% medicare employment tax (the "Additional Medicare Tax")	The House version of replacement legislation to the "Affordable Care Act" would: retroactively eliminate the NII Tax as of January 1, 2017; terminate the Additional Medicare Tax in 2023; create refundable tax credits (subject to a phase out) to buy health insurance; and increase HSA contribution limits. The "American Health Care Act," passed the House on May 4 On July 13 the Senate re-released its modified substitute bill called the "Better Care Reconciliation Act of 2017." The Senate version of the legislation would retain both the NII Tax and Additional Medicare Tax. A vote on the legislation is expected during the week of July 17, but it faces the potential of Republican opposition in both the Senate and House	
Estate Tax		Proposed to be repealed Potential that, in lieu of basis step up, assets would be taxable on amounts above a threshold (potentially the current exemption limit $5/$10 million)	Proposed to be repealed
Alternative Minimum Tax		Proposed to be repealed	Proposed to be repealed
Cost		$6 - $7 trillion in the first decade using static scoring; the cost would be lower, however, under the dynamic scoring system	$3 trillion over the first decade using static scoring; the cost would be lower, however, under the dynamic scoring system
Revenue Raisers to Offset Cost		Many current deductions would be repealed, although deductions relating to mortgage interest and charitable giving would be retained One large potential deduction that would be eliminated is the deduction for state taxes Potential for a value added tax (VAT) and possibly a carbon tax to assist in offsetting the cost of tax reform	Border adjustment plan (referenced above) whereby imports are taxed at 20% and exported goods are exempt from tax (5 year phase in, per comments from Kevin Brady) The border adjustment plan faces significant opposition from the Administration, the Senate and importing businesses; there is also concern that it may violate WTO commitments, although it is similar in nature to the value added tax (VAT) used by other countries

Prospects Going Forward		The Administration's "core principles" for tax reform were released on Wednesday, April 26; the explanation of such principles was extremely limited in scope, and therefore quite a bit is yet be determined on the realities of the proposed tax changes. Per Treasury Secretary Mnuchin, legislation may be introduced in September Tax reform could be passed via the budget reconciliation process (requiring only 51 votes in the Senate). Using such process, tax changes would be subject to a sunset based on the applicable budget window if the legislation is not revenue neutral (similar to the tax cuts that were enacted during the George W Bush Administration), but it is possible that such window could be stretched to 15 years or beyond, if necessary. The preference of the Administration is to make the proposed tax reform legislation revenue neutral to eliminate the need for the sunset, which would in turn maximize its potential to boost business investment. Dynamic scoring, which takes into account changes in behavior as a result of a tax cut, may be used in lieu of static scoring to determine if the legislation would be revenue neutral It is unclear if tax reform will apply retroactively, although there is precedent for doing so from the George W. Bush era tax cuts; the repeal of the NII Tax is proposed to be retroactive, per the House Bill The continuation of the NII Tax and Additional Medicare Tax is very uncertain based on the new legislation from the Senate. Those taxes had been on the chopping block, but based on the change in the Senate bill, it is uncertain if they will actually be repealed.

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