

## Comprehensive Tax Reform: A Brief Summary of the Proposed Changes Included in the Republican Tax Bill

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*This Update Includes:*

- Summary of several changes impacting individuals
- Summary of several changes impacting businesses
- Summary of changes to gift, estate and generation skipping transfer taxes

On Friday, December 15, 2017, Congressional Republicans released their tax overhaul proposal. The House and Senate hope to pass the bill by the middle of this week. The bill if passed, will affect taxes for 2018 and future years. Following is a brief summary of the current proposal.

### Individuals:

- The bill retains seven brackets, but proposes new rates. The revisions would go into effect for 2018 and would phase out after 2025.

Proposed Rates	Current Rates
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

- The standard deduction for a single filer is increased to \$12,000 and \$24,000 for married couples filing jointly from \$6,500 and \$13,000, respectively.
- The bill eliminates exemptions for children, but applies a child tax credit of \$2,000 per child, with up to \$1,400 refundable.
- The bill does not change the rules for exclusions on the gain from the sale of a principal residence.
- The AMT exemption for 2018 is raised from \$55,400 for individuals and \$86,200 for married couples, to \$70,300 and \$109,400, respectively. The phase-out threshold is raised to \$500,000 for individuals and \$1 million for married couples.

- Itemized Deductions

Deductions	Summary
State and Local Taxes	For those tax payers who itemize, state and local taxes can still be deducted but are capped at \$10,000 for individuals and married couples.
Mortgage Interest	Mortgage interest can still be deducted, but would be limited to new mortgage debt up to \$750,000. The deduction is limited to first mortgages, and is eliminated for HELOCs.
Medical Expenses	Medical expenses exceeding 7.5% of adjusted gross income can be deducted. Returns to a 10% threshold after 2018.
College and Graduate Students	The bill preserves a taxpayer's ability to deduct some tuition and student loan interest payments and a graduate student's ability to exclude tuition waivers from their income.
Charitable Contributions	Taxpayers continue to be able to deduct charitable contributions, and the bill increases the AGI limitation to 60% for cash donations to public charities.
Itemized Deductions Subject to 2% AGI Floor	Repeals all miscellaneous deductions in this category, including tax preparation fees, investment advisory fees, and home office deduction.

- The long-term capital gains rates remain 0%, 15%, and 20%, though the capital gains preferential treatment will continue to use the old thresholds.
- The bill removes the individual mandate required under Affordable Care Act.

#### Businesses:

- The top corporate income tax rate is decreased to 21%.
- The corporate AMT is eliminated.
- The bill allows a taxpayer to deduct 20% of business income earned by certain pass-through entities.

#### Estate Tax

- The bill retains the gift and estate tax, but doubles the exemption and continues to index it for inflation. The increased exemption amount is only in effect for decedents dying after December 31, 2017, and before January 1, 2026.
- Basis step-up rules remain.

Tax Year	Estate and Gift Tax Exclusion Amount	GST Tax Exclusion Amount	Marginal Estate and Gift Tax Rate	GST Tax Rate
2017	\$5,490,000	\$5,490,000	40%	40%
2018	\$11,200,000	\$11,200,000	40%	40%

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## Investments

- The bill does not include the change to a first-in first-out accounting method for stock sales.
- Tax breaks for retirement savings plans remain intact.
- The bill eliminates the ability of taxpayer to re-characterize Roth IRA conversions.

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