AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

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SUBJECT

HOUSE AND SENATE REACH TAX REFORM COMPROMISE

SUMMARY

On December 13, 2017, House and Senate Republicans reached a compromise on tax reform legislation, the "Tax Cuts and Jobs Act." The compromise bill reportedly includes agreements on corporate and individual tax rates, the treatment of pass-through income, the estate tax, and itemized deductions such as those for mortgage interest and state and local taxes, among other areas. The text of the bill is expected to be released on Friday, with votes in the full House and Senate next week.

DETAILS

These are among the changes reportedly included in the compromise legislation… While bill language is not yet available, these agreed-to provisions are the first provisions reportedly out of the Conference Committee. The corporate tax rate would be set at 21% for tax years beginning in 2018, as opposed to the current rate of 35% and the previously proposed cut to 20%.

- The highest individual tax rate would be reduced from 39.6% to 37%. The Senate legislation originally called for a 38.5% top rate.
- Individuals receiving pass-through income from entities such as partnerships and S corporations would be able to deduct 20% of this income from their taxable income, a lower rate than the 23% proposed in the Senate plan. The House bill would have capped the rate at which this income was taxed at 25%. This deduction would be subject to various limitations and applicable to only certain income sources.
- The estate tax would remain in place; however the lifetime exemption is expected to increase to roughly $11 million in 2018 (and be indexed for inflation). Both the House and Senate had proposed an increased exemption amount. The House had further proposed the future repeal of the estate tax.
- The alternative minimum tax for corporations would be repealed, matching the House bill. The individual AMT would remain, but the threshold amounts would increase.
- Mortgage interest would be deductible based on indebtedness up to $750,000, which is the midpoint between the House proposal of $500,000 and the Senate's plan to keep the existing $1 million cap.

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