

TAX CUTS AND JOBS ACT

National Economic Council



December 18, 2017

Massive Tax Cuts and Reforms

- The TCJA provides \$5.5 trillion of tax cuts
- Nearly 60% of these cuts go to families, not corporations
- The bill includes more than \$4 trillion of reforms by eliminating special interest tax breaks and loopholes

Estimated Budget Effects of the Tax Cuts and Jobs Act Fiscal Years 2018-2027 (billions of dollars)			
	TAX CUTS	TAX REFORMS	NET TAX CUT
Personal	-3,156	2,063	-1,093
S Corps/Partnerships	-415	150	-265
Estate Taxes	-83	-	-83
Businesses	-1,849	1,520	-329
Individual Mandate	-	314	314
Total	-5,503	4,407	-1,456

Source: Joint Committee on Taxation, JCX-67-17, December 18, 2017

BENEFITS OF THE TAX CUTS AND JOBS ACT

- **Massive tax cuts**

- ✓ \$3.2 trillion of tax cuts for American families
 - Typical family of four earning \$75,000 will see a \$2,000 tax cut, cutting their tax bill in half
- ✓ \$415 billion of additional tax cuts for S corps, partnerships and sole proprietors
- ✓ \$1.8 trillion of tax cuts to level the playing field for American businesses

- **Fairness and reform**

- ✓ Raises \$4 trillion of revenue by eliminating dozens of special interest tax breaks and closing loopholes for corporations and wealthy individuals
- ✓ Revenue is used to help offset the cost of the tax cuts

- **Simplification**

- ✓ Vast majority of families will be able to file taxes on a single page because they will no longer have to itemize due to the bigger standard deduction

- **Jobs and growth**

- ✓ The Council on Economic Advisers estimates that the business tax cuts will grow the economy by 3% over the next 10 years, resulting in more revenue and greater economic opportunity for all Americans

- **Pro-America tax reform**

- ✓ Makes American companies more competitive by reducing the corporate tax rate from the highest in the developed world to below the OECD average of 22.5%
- ✓ Shifting from our worldwide system of taxation to a territorial system ends the penalty on companies headquartered in the United States and allows companies to bring future profits back home without additional penalties
- ✓ Imposes one-time tax on corporate money that is already parked offshore, thereby ending the tax incentive for keeping the money overseas

TAX RATES AND BRACKETS

CURRENT LAW		
Rates	Single	Married
2018 Standard Deduction: 0% bracket	\$6,500	\$13,000
Taxable Income:		
10%	\$0 - \$9,525	\$0 - \$19,050
15%	\$9,526 - \$38,700	\$19,051 - \$77,400
25%	\$38,701 - \$93,700	\$77,401 - \$156,150
28%	\$93,701 - \$195,450	\$156,151 - \$237,950
33%	\$195,451 - \$424,950	\$237,951 - \$424,950
35%	\$424,951 - \$426,700 above	\$424,951 - \$480,050
39.6%	\$426,700	above \$480,050

TAX CUTS AND JOBS ACT		
Rates	Single	Married
2018 Standard Deduction: 0% bracket	\$12,000	\$24,000
Taxable Income:		
10%	\$0 - \$9,525	\$0 - \$19,050
12%	\$9,526 - \$38,700	\$19,051 - \$77,400
22%	\$38,701 - \$82,500	\$77,401 - \$165,000
24%	\$82,501 - \$157,500	\$140,001 - \$315,000
32%	\$157,501 - \$200,000	\$320,001 - \$400,000
35%	\$200,001 - \$500,000 above	\$400,001 - \$600,000
37%	\$500,000	above \$600,000

TAX CUTS for INDIVIDUALS

Expire after 2025

➤ Zero tax bracket

- Nearly double the standard deduction to \$12,000 (single), \$18,000 (single parents) and \$24,000 (married)

➤ Lower tax rates

➤ Increased and Enhanced Child Tax Credit

- Double credit to \$2,000 per child under age 17
- Create new \$500 credit for dependents age 17 or older
- Make full credit available to families with incomes of up to \$200,000 (single) and \$400,000 (married)
- Increase the refundable portion of the credit from \$1,000 to \$1,400 (adjusted annually for inflation) to help lower- and middle-income families who do not have enough income tax liability to offset the full amount of the credit

➤ Retain most popular itemized deductions

- Mortgage interest for newly-purchased homes of up to \$750,000 (deduction not allowed for interest on home equity loans)
- State and local taxes up to \$10,000
- Charitable giving
- Medical expenses
 - The threshold for deducting medical expenses is reduced from 10% of AGI to 7.5% of AGI (the pre-Obamacare level) in 2017 and 2018

➤ Education benefits

- Allow up to \$10,000 of distributions per student from 529 savings accounts for primary and secondary education
- Retain existing tax benefits for higher education, including tax-free stipends for graduate students and deductibility of student loan interest

➤ **AMT relief**

- Take middle-income families out of the AMT by increasing exemption amounts to \$500,000 (single) and \$1 million (married)

➤ **Estate (“death”) tax relief**

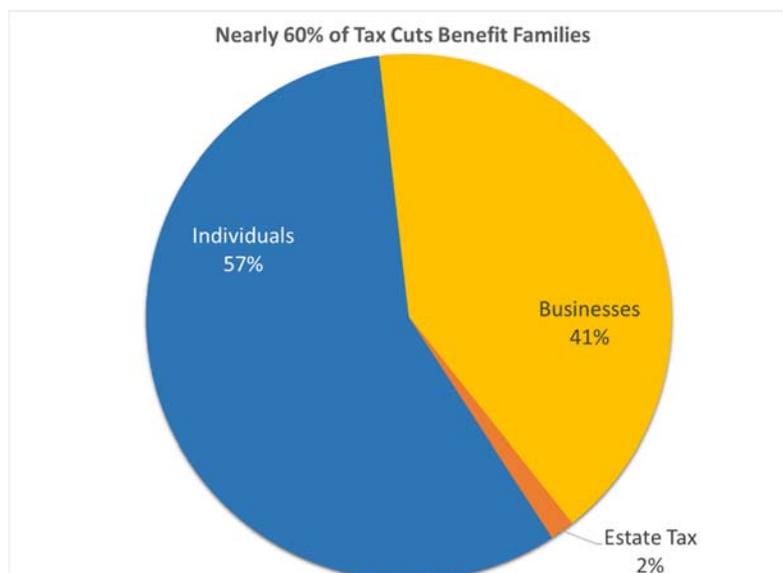
- Exempt vast majority of family farms and businesses by raising exemption amount to \$22 million per couple

➤ **Obamacare individual mandate**

- Repealed. Nearly 80% of households that pad the penalty in 2016 had incomes below \$50,000

➤ **Retain numerous tax benefits**

- Earned Income Tax Credit for low-income workers
- Child and Dependent Care tax credit
- Deduction for teacher out-of-pocket classroom expenses
- Retirement savings tax benefits
- Adoption expense tax credit
- Capital gain exclusion on home sales
- Tax-Free municipal bonds
- Private activity bonds



TAX CUTS for S CORPORATIONS, PARTNERSHIPS AND SOLE PROPRIETORS

Expire after 2025

Current Law

100% of business owner's income is treated as wages and taxed at individual rates of:

0%
10%
15%
25%
28%
33%
35%
39.6%

Tax Cuts and Jobs Act

Owners can deduct 20% of their qualified business income resulting in effective rates of:

0%
8.0%
9.6%
17.6%
19.2%
25.6%
28.0%
29.6%

The deduction is limited to the greater of:
(1) 50% of wages paid by the business or (2)
25% of wages paid plus 2.5% of depreciable
tangible property

The deduction is available to professional
services companies with incomes below
\$157,500 (single) or \$315,000 (joint)

Active pass-through losses in excess of
\$250,000 (single) / \$500,000 (joint) are not
tax-deductible, but can be carried forward

TAX CUTS and REFORMS for BUSINESSES

Permanent

- **Reduce corporate tax rate from 35% to 21% starting in 2018**
- **Repeal AMT**
- **Expensing**
 - 100% deduction for the cost of capital investments in the year the investment is made (through 2022); phases down in 20% increments over next 4 years
- **Interest Deductibility**
 - Deductible up to 30% of EBITDA through 2021; 30% of EBIT thereafter
 - Indefinitely carryforward for disallowed deductions
 - Fully deductible for real estate, regulated utilities, small businesses (those with gross receipts of \$25 million or less), farms, and car dealers
- **Bring Back Overseas Profits**
 - A one-time tax is imposed on money currently parked overseas, thereby ending the tax incentive for keeping the money offshore
 - 8% on illiquid assets
 - 15.5% on cash and cash equivalents
 - Future profits can be brought back home without additional taxes
- **Close loopholes used by multinational corporations**
 - Excess returns earned overseas subject to a minimum tax of 12.5%
 - “Base erosion anti-abuse tax” is created to prevent companies from artificially shifting profits and jobs overseas
- **Important benefits retained**
 - Research & Development tax credit
 - Low-income housing tax credit
 - New markets tax credit

ELIMINATION OF SPECIAL INTEREST TAX BREAKS AND LOOPHOLES

- Like-kind exchanges for property held primarily for sale
- Section 199 deduction for domestic production
- Deduction for meals, entertainment, amusement, and recreation expenses
- Deduction for transportation fringe benefits
- Exclusion for employer-provided bicycle commuter fringe benefit
- Exclusion for employer-provided moving expense reimbursement (other than for members of the Armed Forces)
- Deduction for moving expenses (other than members of the Armed Forces)
- Deduction for alimony payments (payments would be tax-free to the person receiving them)
- Prohibit cash and gift cards from being deducted as an employee achievement award
- Deduction for Member of Congress living expenses
- Capital gains treatment for self-created property
- Limitation on deducting FDIC premiums
- Advance refunding bonds
- Tax credit bonds
- Performance-based exception loophole for deducting executive compensation in excess of \$1 million
- Impose 21% excise tax on compensation in excess of \$1 million for executives at tax-exempt organizations
- Impose 20% excise tax on stock compensation when a company inverts
- Small life insurance company deduction
- Special insurance rule for distributions to shareholders made from pre-1984 policyholder surplus accounts
- Impose excise tax on investment income of private universities and colleges with endowments exceeding \$500,000 per student
- Charitable deduction for right to purchase tickets at athletic events
- Deduction for settlements subject to nondisclosure agreements paid in connection with sexual harassment
- Deduction for local lobbying expenses
- Deduction for hobby expenses
- Deduction for safe deposit box rental fees