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Tax Alert: Comparison of Federal Tax Reform proposals

Information as of May 15, 2017

On April 26, 2017, President Donald J. Trump announced his proposed 2017 Tax Reform for Economic Growth and American Jobs, which calls for lower individual tax brackets, the doubling of the standard deduction, the repeal of both the alternative minimum tax and the estate tax, and the expansion of child tax credits and dependent care expenses. It also proposes lowering the business tax rates to 15%. The reform also calls for the US to transition from its current worldwide tax system to a territorial tax system, and for the enactment of a one-time repatriation tax on the foreign earnings of US companies. On the other hand, the Republicans have issued their proposed tax plan known as "A Better Way" tax reform blueprint.

The following table intends to compare the guidelines under both tax reform proposals.

Proposed US Tax Reform

Topic	Trump Administration	House Blueprint	Comments
Individual income tax rates	10%, 25% and 35%	0, 12%, 25%, 33%	The filing status for 2017 will continue to be: (i) married filing jointly, (ii) head of household, (iii) unmarried individuals (other than surviving spouses and heads of households) and (iv) married individuals filing separate returns.
Standard deduction	Double the current standard deduction: $12,700 for single individuals; $18,700 for head of household; $25,400 for single taxpayers.	$12,000 for single individuals; $18,000 for single individuals with a child in the household; $24,000 for married filing jointly.	Both proposals are intending to double the standard deduction by the individual filing status.
Itemized deductions	Maintain charitable contribution and mortgage interest deductions.	Eliminates all itemized deductions except mortgage interest deduction and the charitable contribution deduction.	Basically, the same under both proposals.
AMT (Individual)	Repeal.	Repeal.	
Child-related expenses	Tax relief for families with child and dependent care expenses. Details not specifically addressed.	$1,500 credit (consolidates child credit and personal exemption for dependents); first $1,000 refundable as under current law. Phase-out credit to begin at $150,000 for married filing jointly.	Under the tax reform blueprint, the marriage penalty tax that exists in the current-law phase-out of the child credit will be eliminated, so that married couples will be able to earn up to $150,000 before their child credits start phasing out.
Net Investment Income Tax	Repeal.	Repeal.	
Corporate Tax Rates	15% business tax rate.	20% flat rate.	Both proposals consider a reduction in corporate tax rates.
AMT (Corporate)	Repeal.	Repeal.	

Business Deductions/Credits	Eliminate tax breaks for special interests.	Full and immediate write-off of business. investment for both tangible and intangible assets (eliminates depreciation).	The Blueprint will provide business with the benefit of fully and immediately. writing off (or "expensing") the cost of investments.
Tax Rate on Pass-through Entities	15% business tax rate.	Maximum rate of 25% on income earned from small businesses and pass-through entities. Deduction allowed for reasonable compensation paid to owner-operator.	The 33/35% bracket will not apply to active business income of sole proprietorships and pass through entities. Sole proprietorships and pass-through businesses will pay or be treated as having paid reasonable compensation to their owner-operators. Such compensation will be deductible by the business and will be subject to tax at the graduated rates for families and individuals.
Estate Tax	Repeal.	Repeal.	
Imports and Exports	Not specifically addressed.	Exempting exports and taxing imports. Products, services and intangibles that are (1) exported from the United States will not be subject to US tax regardless of where they are produced; and (2) sold into the United States will be subject to US tax regardless where they are produced.	The blueprint eliminates the existing self-imposed export penalty and import subsidy by moving to a destination-basis tax system. Under a destination-basis approach, tax jurisdiction follows the location of consumption rather than the location of production. In addition, border adjustments mean that it does not matter where a company is incorporated; sales to US customers are taxed and sales to foreign customers are exempt; regardless of whether the taxpayer is foreign or domestic.
Taxation of Foreign Income (Business Income)	Territorial tax system	Territorial tax system; active business income (products, services and intangibles sold outside the United States) will not be subject to US tax.	Under the blueprint proposal, products, services and intangibles that are exported outside the United States will not be subject to US tax regardless where they are produced. It also means that products, services and intangibles that are imported into the United States will be subject to US tax regardless of where they are produced.

Taxation of Foreign Income (Investment or Passive Income)	Territorial tax system.	100% exemption for dividends from foreign subsidiaries.	This will allow US-based companies to compete in global markets, and bring to the US their foreign earnings in order to be reinvested in the US.
Anti-deferral (Repatriation Tax)	One-time tax on money held overseas. Rate not specifically addressed.	8.75% rate for accumulated foreign earnings held in cash or cash equivalents; 3.5% rate for other earnings. Liability paid over 8-year period.	The Blueprint proposes to provide rules that will allow foreign earnings that have accumulated overseas under the old system to be brought to the United States.
Anti-deferral (Ongoing Income of Foreign Subsidiaries)	Not specifically addressed.	Bulk of Subpart F rules repealed.	The blueprint will allow the subpart F rules of the current international tax regime, which are some of the most complex rules in the tax code, to be significantly streamlined and simplified.

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.

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