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## PRODUCT & SERVICE GUIDE

# Trump Tax Plan Repeals Most Itemized Deductions, AMT, Estate Tax

The new tax plan doesn't provide much detail on how the tax cuts will be paid for and who exactly will benefit. It also throws some important decisions back into Congress' lap.

**Ken Berry** • Sep. 27, 2017

On September 27, President Trump and his handpicked "Big Six" group of Republican leaders finally released the latest version of their long-awaited tax reform package. As with previous proposals, the new plan promises to cut taxes for individuals and businesses, while wiping out deductions and repealing other controversial tax provisions.

Notably, absent some window dressing, the new plan doesn't provide much detail on how the tax cuts will be paid for and who exactly will benefit. It also throws some important decisions back into Congress' lap.

The Big Six — Treasury Secretary Steven Mnuchin, National Economic Council Director Gary Cohn, Senate Majority Leader Mitch McConnell, Senate Finance Committee Chair Orrin Hatch, House Speaker Paul Ryan and House Ways and Means Committee Chair Kevin Brady — have been meeting for months behind closed doors. Here are some of the highlights of the tax plan they've crafted in conjunction with the president.

**Individual tax rates:** Similar to prior proposals by Trump, the new plan replaces the graduated seven-rate structure with a three-bracket system of 12%, 25% and 35%. Currently, the lowest rate is 10% and the top tax rate is 39.6%. It's not yet clear where all the income cut-offs would occur.

**Corporate tax rates:** Previously, President Trump had called for a top 15% corporate tax rate, down from its current 35%. Conceding that the math didn't work, this version settles for a to 20% rate as an "opening bid."

**Pass-through businesses:** As opposed to the current rules where entrepreneurs who own their own business are taxed as individuals, the plan imposes an across-the-board 25% rate for pass-through businesses. The plan also includes a prohibition against "personal income" being taxed at this rate.

**Standard deduction and personal exemptions:** The plan would nearly double – but not quite – the current standard deduction of \$6,350 for single filers to \$12,000 and the \$12,700 standard deduction for joint filers from \$12,700 to \$24,000. This standard deduction would be claimed by more taxpayers in conjunction with other changes. Meanwhile the personal exemptions would be eliminated.

**Itemized deductions:** Following through on previous pledges, the new plan eliminates most itemized deductions, but retains the "sacred cows" of write-offs for mortgage interest and charitable donations. This could result in lot of handwringing from residents of states with high income and property taxes.

**Alternative minimum tax:** Echoing calls over the years to eliminate the convoluted alternative minimum tax (AMT), the new plan would repeal the AMT. Taxpayers would only have to deal with one tax system.

**Estate tax:** If the new plan is adopted, the death of the federal estate tax, or "death tax," would finally become reality. Currently, the estate tax only affects the wealthiest taxpayers, due mainly to the availability of a \$5.49 million exemption.

**Family tax breaks:** Without offering many specifics, the plan would consolidate existing tax breaks for families. A few notable changes would increase the child tax credit from \$1,000 to an unspecified amount and create a new \$500 tax credit for dependents, such as the elderly, who aren't children.

**Repatriation tax:** A one-time repatriation tax would be imposed to have companies bring back profits from overseas. Trump administration officials have indicated the rate would probably be around 10%.

Some of the key elements of the tax reform plan were missing from the nine-page report released by the GOP leadership. The plan also leaves some decisions up to Congress, such as imposing restraints on wealthy individuals benefitting from the 25% rate for pas-through businesses and the possibility of a fourth individual tax rate, higher than 35%, to ensure that the rich pay their fair share of tax.

The Trump administration hopes to push through these tax reforms before the end of the year, but most pundits believe that to be overly optimistic. If sweeping tax reforms are, in fact, enacted, the conventional wisdom is that legislation isn't likely to be signed until 2018.

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