CPA
Practice Advisor

a top rate of 35% and didn't specify income amounts. Thus, this new plans preserves the ...

Ken Berry, JD • Nov. 02, 2017

The other shoe has finally dropped: On November 2, 2017, Republican leaders in the House revealed their massive plan to overhaul the tax code. Although the proposed changes generally fall in line with the blueprint created by President Trump's handpicked "Big Six" group (https://www.cpapracticeadvisor.com/12370867), there are

only three brackets with a top rate of 35% and didn't specify income amounts. Thus, this new plans preserves the existing top 39.6% rate.

The income breakdown of brackets would be as follows:

- 12% rate: $12,000 to $45,000 for single filers and $24,000 to $90,000 for joint filers.
- 25% rate: $45,000 to $200,000 for single filers and $90,000 to $260,000 for joint filers.
- 35% rate: $200,000 to $500,000 for single filers and $260,000 to $1 million for joint filers.
- 39.6% rate: Above $500,000 for single filers and $1 million for joint filers.

Standard deduction: The new law would roughly double the standard deduction to $12,000 for single filers and $24,000 for joint filers. This would encourage more filers to take the standard deduction instead of itemizing.

Itemized deductions: As with the Big Six plan, most itemized deductions would be repealed in conjunction with the higher standard deduction. However, the previous plan completely preserved deductions for mortgage interest and charitable donations. While the new plan retains a full deduction for charitable donations, the current $1 million limit on acquisition debt for mortgage interest would be halved to $500,000. In addition, property taxes would remain deductible up to an annual limit of $10,000, a concession to residents of high-tax states.

Family tax breaks: The prior tax plan was vague on many details relating to proposed tax breaks for families. Under the new House plan, the child tax credit would be raised from $1,000 to $1,600 and a $300 credit would be added for each

in the long run.

Pass-through businesses: As opposed to the current rules where entrepreneurs who own their own business are taxed at individuals, the plan imposes an across-the-board 25% rate for pass-through businesses. But the new plan includes certain "guardrails" to ensure that business owners pay a higher individual tax rate on income received as wages.

Repatriation tax: The new bill includes a one-time repatriation tax as high as 12% to encourage companies to bring back profits from overseas. Previously, the Trump administration had targeted the 10% figure for this tax.

Estate tax: The plan authored by the Big Six would completely repeal the federal estate tax. In contrast, the new House plan would phase out the estate tax over six years, starting with a doubling of the generous $5 million exemption (indexed to $5.49 million in 2017).

Despite some hemming and hawing, the plan revealed by the House would not make changes to popular retirement planning programs such as 401(k)s and Roth IRAs. Of course, in reality everything is still on the table as Congress gets down to work. In fact, it 's been suggested that the bill could be revised as soon as this weekend before a scheduled markup in the House Ways and Means Committee on November 6.

Tax reform is far from a done deal. We will continue to monitor the proceedings in D.C. and report on important developments as thet occur.

Income Tax • IRS