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Ken Berry, JD • Nov. 17, 2017

Tax reform cleared its first major hurdle in Congress on November 16 when the House passed its version of the bill by a 227-to-205 vote mainly along party lines. (No Democrats voted for it.) But the legislation, which would generally be effective for tax years beginning after 2017, still has a long way to go around the track before it hits the finish line.

The bill approved by the House contains many of the measures proposed during the past year by the Trump administration and GOP lawmakers. The following provisions may be of particular interest to your clients.

Individual Tax Provisions

Tax rates: The current tax rate structure of seven brackets would be replaced by just four brackets of 12%, 25%, 35% and 39.6%. (Note that the top rate will remain at 39.6%.) In addition, a “bubble tax” of 6% would apply to a portion of adjusted gross income (AGI) above \$1 million.

Standard deduction: The bill essentially doubles the standard deduction from \$6,350 to \$12,200 for single filers and from \$12,700 to \$24,400 for joint filers. Combined with other proposed tax law changes, many more taxpayers will be claiming the standard deduction in lieu of itemizing deductions.

Personal exemptions: Currently, a taxpayer is entitled to claim a personal exemption of \$4,050 for himself or herself, a spouse and each qualified dependent. The bill eliminates all personal exemptions.

Itemized deductions: The bill repeals most itemized deductions while preserving tax

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Alternative minimum tax: The alternative minimum tax (AMT), which was designed to affect only the wealthiest taxpayers but has been a thorn in the side of millions of others, would be completely repealed.

Family tax credit: The new legislation would create a new \$300 nonrefundable tax credit for each taxpayer as well as any non-child dependent such as an older child or an elderly relative. However, the credit would have a short shelf life and would expire after five years.

Recharacterizations: Although most retirement plan rules would remain intact, the House bill repeals the rule allowing a taxpayer to recharacterize a Roth IRA back into a traditional IRA. Typically, recharacterizations are used when the value of the taxpayer's account drops.

Business Tax Provisions

Corporate tax rates: One of the main tent poles in the new legislation is a reduction in the top corporate tax rate from 35% to 20%. After much debate, lawmakers made the corporate tax rate permanent.

Repatriation tax: Under the House-approved bill, a one-time tax of 14% would apply to existing foreign profits being held in offshore accounts. In addition, foreign profits invested in non-cash assets offshore would be taxed at the rate of 7%. The law gives companies up to eight years to pay up.

Pass-through entities: Currently, profits funneled through pass-through entities like S corporations and partnerships are taxed at individual tax rates as high as 39.6%. The new bill would limit the top tax rate on these earnings to 25%. It would also provide a lower rate of 9% for businesses earning less than \$75,000.

Business deductions and credits: The new bill would add several key tax benefits for

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It's still too early for your clients to take action based on these provisions, but the proceedings should continue to be monitored closely. Keep your clients informed about any significant developments.

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