

Comparison of the House and Senate Tax Bills

LJPR Financial Advisors
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Item	House	Senate
Individual brackets	12%, 25%, 35% and 39.6% ('bump')	10%, 12%, 22%, 24%, 32%, 35% and 38.5%
Personal exemptions	eliminated	eliminated
Standard deduction	\$12,200 for single, \$18,300 for single with qualifying child and \$24,400 for married	\$12,200 for single, \$18,300 for single with qualifying child and \$24,400 for married
Mortgage interest	principal home only (existing mortgages and new mortgages up to \$500,000)	principal home only (existing mortgages and new mortgages up to \$1,000,000). No home equity interest deduction
Charity	Retained, limit changes to 60% for cash contributions	Retained, limit changes to 60% for cash contributions
Property taxes	Up to \$10,000	Up to \$10,000
State and local income and sales taxes	Eliminated	Eliminated
Medical	Eliminated	Retained. Lower threshold of 7.5% of AGI for 2017 and 2018
Unreimbursed employee expense	Eliminated	Eliminated
Educator expenses	Eliminated	Retained, doubled to \$500
Casualty losses	Eliminated	Eliminated, provision for qualified disasters
Alternative minimum tax (AMT)	Eliminated	Preserved, with higher exclusion amounts
Gain on principal residence	\$250K or \$500K exclusion; have home 5/8 years, income limit	\$250K or \$500K exclusion; have home 5/8 years, income limit
Alimony	Not deductible Not included in income	Deductible Included in income

Student loan interest deduction	Eliminated	Retained
Exclusion of tuition waiver for grad school scholarships	Eliminated	Retained
529 Plans	Not addressed	Can be used for K-12
Moving expenses	Eliminated	Eliminated
Child credit	\$1,600 (\$1,000 refundable) \$300 for non-child. Income limit	\$2,000 (\$1,000 refundable) higher income limit threshold than House, \$500 for non-child dependent. Income limit
Plug-in vehicle credit	Repealed	Retained
Corporate tax rate	20%: 2018 (25% rate for personal service corporations)	20%: 2019 (no special rate for personal service corporations)
Pass-through (Sole proprietor, Sub S and LLC)	Passive owners get 25% rate. For businesses you work in, 70% of pass-through income is assumed to be earned income and subject to individual rates. For personal services, like doctors, lawyers, and accountants, all income is presumed to be earned income and subject to ordinary individual rates. Small businesses may have 11% tax instead of 12% on the first \$75,000 of pass-through income if Adjusted Gross Income is less than \$150,000. An alternate calculation is available to apply a capital percentage;	Pass-through owners may take a deduction of the lesser of 23% of their "qualified business income" or 50% of the wages paid by the pass-through business. Phase-in of a lower 9% rate for businesses earning less than \$75,000. The 23% deduction is NOT available to owners of a "specified service business" -- such as accounting, engineering, or law -- unless the owner's income is less than \$250,000 (if single, \$500,000 if married).
Full expensing	Allowed, expires in 5 years, starting 09/27/17	Allowed, phases out in 5 years at 20% a year
Business interest	Deductibility of interest limited to 30% of business 'EBITDA' (exemption for businesses with less than \$25M of revenue-effectively no change from current rules allowing full deduction of interest). Five-year carryover;	Deductibility of interest limited to 30% of business 'adjusted taxable income' (exemption for businesses with less than \$15M of revenue-effectively no change from current rules allowing full deduction of interest). Indefinite carryover;
Business entertainment	Eliminated	Eliminated

Territorial taxation	Adopted	Adopted
Deemed repatriation	14% on cash, 7% on noncash	14.5% on cash, 7.5% on noncash
Cash basis, inventory, completed contract and UNICAP accounting	Entities with <\$25M revenue	Entities with <\$15M revenue
Net Operating Losses (NOL)	Carried forward at 90% of income, no carryback, unlimited carry-forward	Carried forward at 90% of income, no carryback, unlimited carry-forward
Corporate AMT	Eliminated	Retained with new threshold
Estate Tax and generation skipping tax	Exclusion doubles, repealed in 2024	Exclusion doubles, no repeal
Gift tax	Exclusion doubles, 35% rate	Exclusion doubles, 35% rate
Step-up basis	Retained	Retained
Repeal of Individual Mandate	Not addressed	Repealed



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The long-awaited tax reform bill: House vs. Senate

International taxation

	<i>Current law</i>	House bill 2017 (HR 1)	Senate bill 2017	Notes & observations
International taxation	<i>Worldwide regime with deferral and foreign tax credit offsets</i>	Territorial regime with 100% dividend exemption		Generally ends use of foreign tax credits
Foreign-held earnings & profits	<i>US tax deferred until repatriated</i>	Deemed repatriation of previously untaxed E&P at rate of 7% (non-cash) or 14% (cash & equivalents) <ul style="list-style-type: none"> • Applied to E&P as of 11/2/17 or 12/31/17, whichever is higher 	Deemed repatriation of previously untaxed E&P at rate of 5% (non-cash) or 10% (cash & equivalents) <ul style="list-style-type: none"> • Claw-back of rate reduction if company inverts within 10 years after bill enactment 	Payable over 8 years

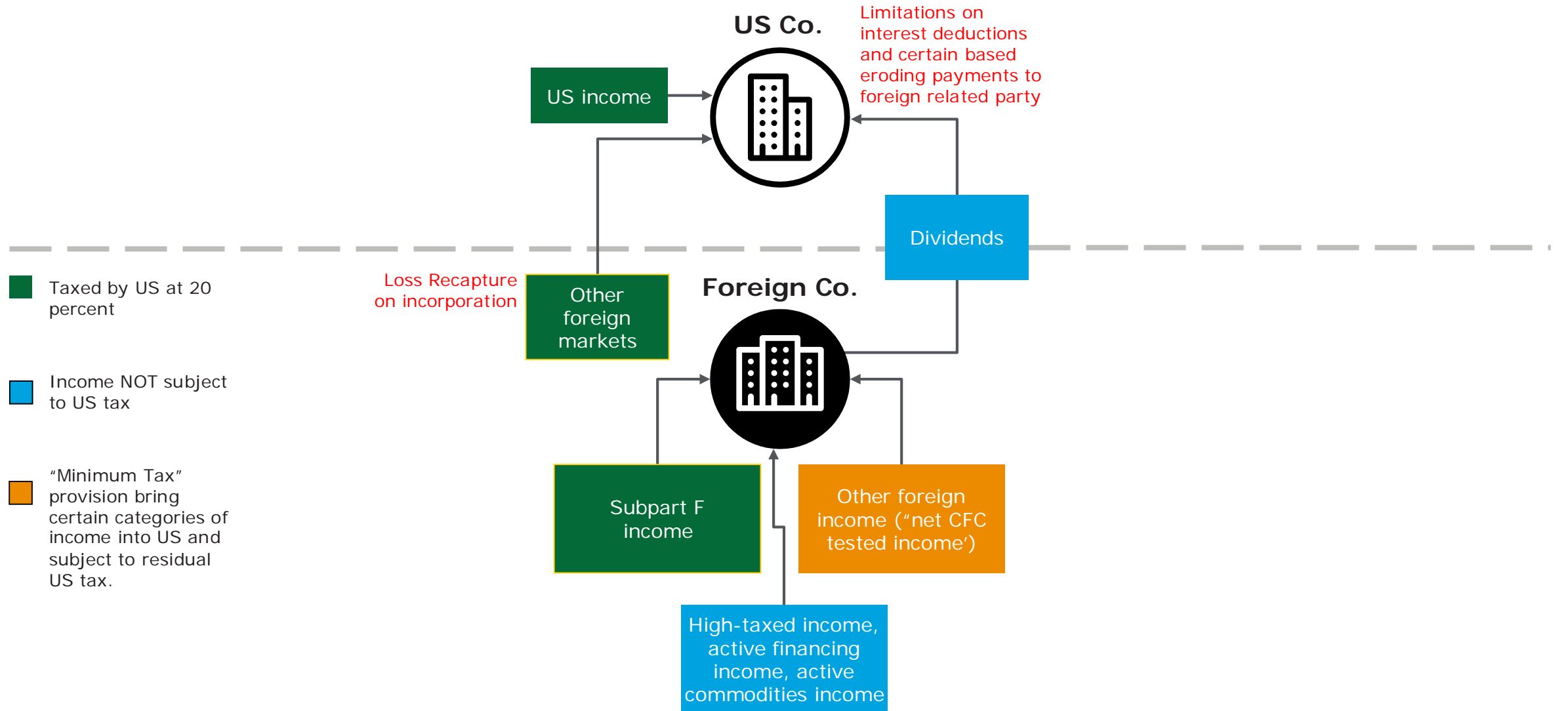
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International taxation (cont.)

	<i>Current law</i>	House bill 2017 (HR 1)	Senate bill 2017	Notes & observations
	<i>Subpart F rules for passive income</i>	20% tax on 50% of foreign high return amounts	20% tax on “global intangible low-taxed income” (GILTI) with 50% deduction for foreign-derived intangible income (FDII) through 2025, then 37.5%; and 20% tax on FDII with 37.5% deduction through 2025, then 21.875% <ul style="list-style-type: none"> • Opens path to tax-free repatriation of IP 	
“Base-erosion prevention” measures		N/A	End special rules for domestic international sales corporations	Effective 1/1/19
		Additional limits on deductions by US corporations of interest paid on related-party debt		
		Tax of up to 20% on payments made to related parties abroad from US operations unless treated as “effectively connected income” (ECI)	10% “minimum tax” on taxable income in excess of deductible payments to related foreign parties Deduction denied for interest or royalties paid abroad if no corresponding inclusion to related party or if related party is allowed deduction	Some are characterizing House provision as “mini BAT” (previously discarded border-adjusted tax) Senate does not apply to COGS – big difference (except in case of inverted companies)
		N/A	Creates new category for effectively connected passenger cruise income and subjects it to net basis taxation	

International tax reform – scope of US international taxation

Tax Cut and Jobs Act



Once in a Generation?

Major Tax Laws Enacted since 1986

