WIPFLi CPAs and Consultants

Based on the proposals as of 12/7/2017

Individual

Topic	House Plan (Passed Nov 16)	Senate Plan (Passed Dec 2)
Tax Rates	**Individual Income Tax Rates** Four-bracket system with rates of 12%, 25%, 35%, and 39.6%. ***Married Filing Jointly and Surviving Spouse*** 12% (Taxable Income not over $90,000) 25% (Over $90,000 but not over $260,000) 35% (Over $260,000 but not over $1M) 39.6% (Over $1,000,000) ***Married Filing Separately*** 12% (Taxable Income not over $45,000) 25% (Over $45,000 but not over $130,000) 35% (Over $130,000 but not over $500,000) 39.6% (Over $500,000) ***Head of Household*** 12% (Taxable Income not over $67,500) 25% (Over $67,500 but not over $200,000) 35% (Over $200,000 but not over $500,000) 39.6% (Over $500,000) ***Single Individuals*** 12% (Taxable Income not over $45,000) 25% (Over $45,000 but not over $200,000) 35% (Over $200,000 but not over $500,000) 39.6% (Over $500,000) For high-income taxpayers, the benefit of the 12% bracket will be phased out and create a 'bubble rate.' A 6% additional tax will apply to any excess of adjusted gross income over $1,200,000 in the case of a joint return or surviving spouse, $600,000 in the case of a married filing separately, and $1,000,000 for any other individual. The amounts will be	**Individual Income Tax Rates** Seven-bracket system with rates of 10%, 12%, 22%, 24%, 32%, 35%, and 38.5% effective for tax years after Dec 31 2017 and before Jan 1 2026. ***Married Filing Jointly and Surviving Spouse*** 10% (Taxable Income not over $19,050) 12% (Over $19,050 but not over $77,400) 22% (Over $77,400 but not over $140,000) 24% (Over $140,000 but not over $320,000) 32% (Over $320,000 but not over $4000,000) 35% (Over $400,000 but not over $1,000,000) 38.5% (Over $1,000,000) ***Married Filing Separately*** 10% (Taxable Income not over $9,525) 12% (Over $9,525 but not over $38,700) 22% (Over $38,700 but not over $70,000) 24% (Over $70,000 but not over $160,000) 32% (Over $160,000 but not over $200,000) 35% (Over $200,000 but not over $500,000) 38.5% (Over $500,000) ***Head of Household*** 10% (Taxable Income not over $13,600) 12% (Over $13,600 but not over $51,800) 22% (Over $51,800 but not over $70,000) 24% (Over $70,000 but not over $160,000) 32% (Over $160,000 but not over $200,000) 35% (Over $200,000 but not over $500,000) 38.5% (Over $500,000) ***Single Individuals*** 10% (Taxable Income not over $9,525) 12% (Over $9,525 but not over $38,700) 22% (Over $38,700 but not over $70,000) 24% (Over $70,000 but not over $160,000) 32% (Over $160,000 but not over $200,000) 35% (Over $200,000 but not over $500,000) 38.5% (Over $500,000) The income levels would be indexed for inflation using the Chained Consumer Price Index for all urban (C-CPI-U) consumers for tax years after 2018.

	adjusted for inflation using C-CPI-U for taxable years after 2018. **<u>Capital Gains Tax Rates</u>** Under the 0% capital gains bracket, the bill would amend the 25% rate to a 15% rate threshold. Under the 15% capital gains bracket, the bill would amend the 39.6% rate to 20% rate threshold. ***Married Filing Jointly and Surviving Spouse*** 15% rate threshold - $77,200 20% rate threshold - $479,000 ***Married Filing Separately*** 15% rate threshold - $38,600 20% rate threshold - $239,500 ***Head of Household*** 15% rate threshold - $51,700 20% rate threshold - $452,400 ***Single Individuals*** 15% rate threshold - $38,600 20% rate threshold - $425,800	**<u>Capital Gains Tax Rates</u>** The breakpoints between the 0% and 15% rates and the 15% and 20% rates would be the same as present law, except the breakpoints are indexed for inflation using the C-CPI-C for taxable years after 2017. ***Married Filing Jointly and Surviving Spouse*** 15% rate threshold - $77,200 20% rate threshold - $479,000 ***Married Filing Separately*** 15% rate threshold - $38,600 20% rate threshold - $239,500 ***Head of Household*** 15% rate threshold - $51,700 20% rate threshold - $452,400 ***Single Individuals*** 15% rate threshold - $38,600 20% rate threshold - $425,800
Standard Deduction	Joint filers and Surviving Spouse - $24,000 Individual filers - $12,000 Single filers with 1 child - $18,000 The amounts would be adjusted for inflation using chained CPI after 2018. Effective for tax years after Dec 31, 2017.	Joint filers and Surviving Spouse - $24,000 Individual filers - $12,000 Single filers with 1 child - $18,000. The plan would retain the enhanced standard deduction for the blind and elderly. The amounts would be adjusted for inflation using the C-CPI-U after 2018. Effective for tax years after Dec 31, 2017
Personal Exemption	Repealed. Effective for tax years after Dec 31, 2017.	Repealed. Effective for tax years after Dec 31, 2017 and before Jan 1, 2026.
Medical expense deduction	Repealed. Effective for tax years after Dec 31, 2017.	Reduce the medical expense deduction floor to 7.5% for tax years beginning after Dec 31, 2016 and before Jan 1, 2019.
State and local tax deduction	Eliminate the itemized deduction for state and local income and sales tax.	Eliminate the itemized deduction for all state and local taxes paid by individuals.

	Retains the state and local property tax deduction up to $10,000.	Retains the state and local property tax deduction up to $10,000 ($5,000 for married taxpayers filing separately)
Mortgage Interest	Debt incurred after November 2, 2017 the limitation would be reduced from $1,000,000 to $500,000. Interest would be deductible only on a *<u>taxpayer's principal residence</u>*. Debt refinanced prior to Nov 2, 2017 is treated as incurred on the same date as the original debt. Repeals deduction of interest on home equity indebtedness.	Retains the deduction with respect to interest on acquisition indebtedness up to $1,000,000 ($500,000 for a married filing separately) Repeal of the mortgage interest deduction with respect to interest on home equity indebtedness after Dec 31, 2017 and before Jan 1, 2026.
Charitable Contributions	Increase the AGI limitation on cash contributions from 50% to 60% and would retain the 5-year carryover; repeal the current 80% deduction for contributions made for university athletic seating rights; standard mileage rate for charitable use of an automobile would take into account the variable cost of operating an automobile rather than the current 14 cents per mile.	Increase the AGI limitation on cash contributions from 50% to 60% effective for contributions made in tax years after 2017 and before 2026. Repeal the current 80% deduction for contributions made for university athletic seating rights after 2017. The plan did not address the standard mileage rate for charitable use of a personal vehicle.
Personal Casualty Losses Deduction	Repeal the personal casualty loss deduction (not in connection with a trade or business or transaction entered into for profit) from fire, storm, shipwreck, and other casualty and theft. Retain the above the line deduction for personal casualty losses incurred due to a natural disaster associated with the special disaster relief legislation.	Repeal the personal casualty loss deduction for property losses incurred from fire, storm, shipwreck, and other casualty and theft. Allow taxpayers to claim a personal casualty loss because of certain disasters. The limitation would apply after Dec 31 2017 and before Jan 1 2026.
Tax Preparation Deduction	Repealed. Effective for tax years after Dec 31, 2017.	Repealed. Effective for tax years after Dec 31, 2017 and before Jan 1, 2026.
Miscellaneous itemized deductions	Not addressed.	Repealed. Effective for tax years after Dec 31, 2017 and before Jan 1, 2026. Increase the limit for the deduction of certain educator expenses to $500 effective after Dec 31, 2017 and before Jan 1 2026.
Child tax credit and new family tax credit (House Bill)	Increased to $1,600 and a $300 credit allowed for non-child dependents. In addition, a family flexibility credit of $300 would be allowed with respect to the	Child tax credit increased to $2,000. The age limit for a qualifying child increased by one year with respect to any qualifying child under the age of 18.

	taxpayer (each spouse in the case of a joint return) who is neither child nor a non-child dependent (effective before years ending January 1, 2023). The phase out for the combined child credit, the non-child dependent credit, and the credit for other taxpayers would be increased to \$230,000 (joint filers) and to \$115,000 (single filers). Effective for tax years after Dec 31 2017.	Also \$500 nonrefundable credit for non-child dependents. The phase out for the child tax credit increased to \$500,000 (all taxpayers). Lower the refundable portion (\$1,000 refundable) of the credit threshold to \$2,500. Effective for tax years after Dec 31, 2017 and before Jan 1, 2026 EXCEPT for the increase age limit which is effective after Dec 31, 2017 and before Jan 1, 2025.
American Opportunity Tax Credit	Modify to consolidate the AOTC, HSC, and LLC into a new enhanced AOTC. The enhanced AOTC would provide 100% credit for the first \$2,000 of higher education expenses and 25% tax credit of the next \$2,000 education expenses. Available for the first 4 years plus an additional 5th year of post-secondary education at half the rate as the first four years up to \$500 refundable credit. Effective for tax years after 2017.	Not addressed.
Education Savings Rules	Contributions to Coverdell education savings accounts after 2017 would be prohibited but tax-free rollovers from Coverdell accounts into Section 529 plans would be allowed. Elementary and high school expenses up to \$10,000 per year would be qualified expenses for 529 plans. Effective for contributions and distributions made after Dec 31, 2017.	Elementary and secondary school expenses up to \$10,000 per year would be qualified expenses for Section 529 plans. Effective for contributions made after Dec 31, 2017.
Alimony	Repeal the above-the-line deduction for alimony payments plus not require the payee receiving payments to include alimony payments into income. Effective for divorce decrees, separation agreements, and modifications entered after Dec 31, 2017.	Not addressed.

Moving Expense Deduction	Repealed other than Members of the Armed Forces. Effective for tax years after Dec 31, 2017.	Repealed. Effective for tax years after Dec 31, 2017 and before Jan 1, 2026. Deduction available for active members of the Armed Forces who move pursuant to a military order and incident to a permanent change of station.
Alternative Minimum Tax (AMT)	Repealed.	For tax years after Dec 31, 2017 and before Jan 1, 2026, the AMT exemption would increase as follows: $109,400 for MJF or SS $70,300 for Single $54,700 for MFS In addition, the phase-out of exemption would increase to: $208,400 for MJF or SS $156,300 for Single $104,200 for MFS All above amounts would be index for inflation after 2018.
Sale of Principal Residence Exclusion	Continue to exclude $500,000 from the sale of a principal residence ***IF*** the taxpayer owned and used the home as such for five out of the previous eight years. *Exclusion available only once every five years.* The exclusion would also phase out by one dollar for every dollar which the taxpayer's gross income exceeds $250,000 ($500,000 for joint filers). Effective for sales and exchanges after Dec 31, 2017.	Continue to exclude $500,000 from the sale of a principal residence ***IF*** the taxpayer owned and used the residence as a principal residence for at least five of the eight years. *Exclusion available only once every five years.* Also, a taxpayer could exclude the gain once every five years. Effective for sales and exchanges after Dec 31, 2017 and before Jan 1, 2026.

Corporate and Business

Topic	House Plan (Passed Nov 16)	Senate Plan (Passed Dec 2)
Tax Rate	20% flat rate and 25% flat rate for personal service corporations effective for tax years after 2017.	20% flat rate and no special rate for personal service corporations effective for tax years after 2018.

	The 80% dividend received deduction would be reduced to 65% and the 70% DRD would be reduced to 50%. Effective for tax years after Dec 31, 2017.	The 80% dividend received deduction (DRD) would be reduced to 65% and the 70% DRD would be reduced to 50%. Effective for tax years after Dec 31, 2018.
Alternative Minimum Tax	Repealed after 2017. For tax years 2019, 2020, and 2021 if the taxpayer would have AMT credit carryforward the taxpayer could claim a refund of 50% of remaining credits to the extent remaining credits exceed regular tax. For 2022 the taxpayer would be able to claim a refund for the remaining credits.	Preserved.
Cash Method of Accounting	The $5 million average gross receipts test would be increased to $25 million for tax years after 2017. The prior 3-year average requirement would be repealed. Effective for tax years after Dec 31, 2017.	The $5 million average gross receipts test would be increased to $15 million and extend to farming C corporations and farming partnerships with C corporation partners for years after 2018. The prior 3-year average requirement would be $15 million. Effective for tax years after Dec 31, 2017.
Inventory	The current bill for taxpayers with average gross receipts of less than $10M are permitted to account for inventories as materials and supplies that are not incidental. The House bill would increase the average gross receipts of $10M to $25M regardless of industry. Effective for tax years after Dec 31, 2017.	Taxpayers would be exempt from the requirement to keep inventories. Taxpayers that meet the $15 million gross receipts test would not be required to account for inventories rather could use a method of accounting for inventories that treat inventories as non-incidental materials and supplies, or conforms to the taxpayer's financial accounting treatment. Effective for tax years after Dec 31, 2017.
UNICAP	Increase the average gross receipts threshold from $10M to $25M.	Increase the average gross receipts from $10M to $15M.
Accounting for Long-Term Contracts	The $10M average gross receipts exception to the requirement to use the POC within 2 years would be increased to $25M for contracts entered after 2017.	The $10M average gross receipts exception to the requirement to use the POC within 2 years would be increased to $15M for contracts entered after 2017.
Contributions to Capital	Contributions to capital of a corporation would be included in the corporation's gross income unless exchanged for stock. Contributions in excess of FMV of stock issued would be included in gross income.	Not addressed.
Section 179	For tax years 2018 through 2022 the expensing limitation would increase to $5M and the phase out amount to $20M.	Increase the expense to $1M and the phase out threshold to $2.5M.

	Effective after Nov 2, 2017, Section 179 property would include qualified energy efficient heating and air-conditioning property.	The definition would also add as eligible property such as real property for improvements made to non-residential property. Items such as roofs, heating, ventilation, and air conditioning property, fire protection, and alarm systems would be eligible for expensing.
Bonus Depreciation	Increase the first-year additional depreciation percentage to 100% allowing taxpayers to deduct immediately the full cost of qualified property acquired and placed in service after Sept 27, 2017 and before Jan 1, 2023. The definition of "qualified property" under current law was available for "NEW" property is now modified to include "USED" if the property was not used by the taxpayer before the taxpayer acquired it.	Full expensing for property placed in service after Sept 27, 2017 but phase down the percent that may be expensed for property placed in service after Jan 1, 2023 as follows: After Sept 27, 2017 and before Jan 1, 2023 – 100% After Dec 31, 2022 and before Jan 1, 2024 – 80% After Dec 31, 2023 and before Jan 1, 2025 – 60% After Dec 31, 2024 and before Jan 1, 2026 – 40% After Dec 31, 2025 and before Jan 1, 2027 – 20%
Depreciation limitation for luxury autos and personal use property	Raise the $8,000 first-year depreciation increase for passenger automobiles eligible for bonus depreciation to $16,000 effective for vehicles acquired and placed in service after Sept 27, 2017 but before Jan 1, 2023.	Under 280F the limitation would be increased for passenger's automobiles placed in service after Dec 31 2017 to $10,000 (first year), $16,000 (second year), $9,600 (third year), and $5,760 (remainder years). The amounts would be indexed for inflation after 2018. Computer or peripheral equipment would be removed from the definition of listed property.
Recovery period for Farming	Not addressed.	The recovery period for machinery or equipment used in a farm business that is placed in service after Dec 31, 2017 reduced from 7 to 5 years. In addition, the requirement to use the 150 percent declining balance method would be repealed.
Non-residential rental and residential	Not addressed.	The proposed changes the statutory recovery period for nonresidential real and residential rental property to 25 years for purposes of determining whether a rental agreement is long-term. 10-year recovery period for qualified improvement property Eliminate the separate definition of qualified leasehold improvement property, qualified restaurant property, and qualified retailed improvement property. Lower the ADS recovery period to 30 years for residential rental property.

		Effective for assets placed in service after Dec 31, 2017.
Interest expense deduction	For tax years after 2017, every business regardless of form would be subject to a disallowance of a deduction for net interest expense in excess of 30% of the business's adjusted taxable income. The disallowance for a partnership would be calculated at the partnership level. Adjusted taxable income is a business taxable income computed without regard to business interest expense, interest income, net operating losses, depreciation, amortization and depletion. Any interest disallowed would be carried forward to the succeeding five taxable years. Businesses with average annual gross receipts of $25 million or less are exempt from the interest limitation effective after Dec 31, 2017.	For tax years after 2017, the deduction for net interest expenses incurred by a business in excess of the sum of 30% of the business's adjusted taxable income, the business interest income, and the floor plan financing interest. Any interest disallowed would be carried forward indefinitely. Business interest would be interest paid or accrued on indebtedness properly allocable to a trade or business. Business interest does not include investment interest. Businesses that satisfy the $15M gross receipts test would be exempt from the limitation rules.
Net Operating Loss	A taxpayer would be allowed to deduct a NOL carryback or carryover up to 90% of the taxpayer's taxable income. The bill would repeal all carrybacks but for a special one-year carryback for small businesses and farms. Effective for tax years after Dec 31, 2017.	The plan would limit the NOL deduction to 90% (80% in tax years after Dec 31, 2022) of taxable income and the carryover amounts would be adjusted to account for inflation. The bill would eliminate carrybacks (except for farming NOLs, which are permitted a 2-year carryback) and allow unused NOLS to be carried forward indefinitely. Effective for tax years after Dec 31, 2017.
Like-kind exchange for real property	Limit the deferral of gain on exchanges after 2017.	Limit the non-recognition of gain in the case of like-kind exchanges to real property not held primarily for sale for exchanges after 2017.
DPAD	Repealed after 2017.	Repealed after 2017 for taxpayer other than C-Corporations, including for agricultural or horticultural cooperative and their patrons. Repealed after 2018 for all taxpayers.
Amortization of Research and Experimental Expenditures	Capitalized and amortized over a 5-year period (15 years for foreign research).	Research or experimental expenditures including software development expenditures, would have to be capitalized and amortized ratably over a five-year period (15 years if attributable to research conducted outside of the United States).
R&D Credit	Preserved.	Preserved.

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Pass-through Entities

Topic	House Plan (Passed Nov 16)	Senate Plan (Passed Dec 2)
Income tax treatment	Maximum rate of 25% on a portion of net income distributed to an owner/shareholder. Any remaining portion of net business income would be treated as compensation and be subject to ordinary individual rates. Shareholders/owners may elect to apply a capital percentage of 30% to the net business income derived from active business income eligible for the 25% rate. The remaining 70% would be subject to ordinary income tax rates ***OR*** Ratio of business income to wage income based on capital investment. Owners or shareholders receiving distributions from passive business activities would be able to treat 100% as business income. Certain personal service businesses (i.e., law, accounting, consulting, engineering, financial services, or performing arts) would not be eligible for the pass-through rate. The bill would provide a 9% tax rate in lieu of the proposed 12% rate, for the first $75,000 ($37,500 for unmarried individuals, $56,250 for HOH) in net business taxable income of an active owner or shareholder earning less than $150,000 ($75,000 for unmarried individuals, $112,500 for HOH) in taxable income through a pass-through business. As taxable income exceeds $150,000 the benefit of the 9% rate relative to the 12% rate would be reduced and fully phased out at $225,000. All types of businesses would be eligible for the preferential 9% rate. The 9% rate would be phased in that the rate for 2018 and 2019 would be 11% and the rate for 2020 and 2021 would be 10%.	Taxpayers would be able to deduct 23% of domestic qualified business income “QBI” from a partnership, S corporation or sole proprietorship. Deduction would be limited to 50% of the taxpayer’s allocable or pro rata share of W2 wages paid by the partnership, S corporation or 50% of the W2 wages of the sole proprietorship. W2 wages of a partnership, S corporation or sole proprietorship would be the sum of wages subject to wage withholding, elective deferrals, and deferred compensation paid by the business during the calendar year. The W2 wage limit would not apply to a taxpayer with taxable income not exceeding $500,000 (MFJ) or $250,000 (other individuals) and the W2 wage limit would be phased in for individuals with taxable income exceeding these amounts. The deduction would expire after Dec 31, 2025.
S Corporation Conversion to C Corporation	For S Corporations that revoke their S Corporation elections during the two-year period beginning on the enactment date and have the same owners on both the enactment date and the revocation date, distributions	Same as House

	from a terminated S Corporation would be treated as paid from its accumulated adjustments account and from its earning and profits. Adjustments under Section 481(a) would be accounted for over a six-year period.	

Estate, Gifts and Trust

Topic	House Plan (Passed Nov 16)	Senate Plan (Passed Dec 2)
Estate and Gift Tax	The unified credit applicable exclusion amount is increased to $10M effective for decedents dying and gifts made after 2017. A repeal of the federal estate tax for decedents dying after 2024. The gift tax rate would drop from 40% to 35% for gifts made after 2024.	The unified credit increased to $10M effective for decedents dying and gifts made after 2017 and before 2026. No decision to repeal.
GST	GST exemption increased to $10M for transfers after 2017. A repeal of the GST effective after 2024.	GST exemption increased to $10M for transfers after 2017 and before 2026. No decision to repeal.