

Patrick J. Deo, CPA, Cr.FA
patd@dldcpa.com
Anthony LaManna, CPA
tonyl@dldcpa.com
Michael J. Deo, CPA
miked@dldcpa.com

CLIENT ALERT

TAX REFORM UPDATE

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Well the Senate has come up with its own version of tax reform. Many of the proposals are similar to the House of Representatives proposal. However, as suspected, there are some significant differences that need to be reconciled.

Here are a few of the significant differences:

1. The Senate is proposing seven (7) tax brackets (10% to 38.5%) vs. the House, four (4) tax brackets. Both proposals appear to be geared to lowering the tax “bite,” except for taxable income over \$500,000 (\$1 million for joint returns).
2. Both the Senate and the House propose a reduced rate of tax on “qualified business income.” The Senate proposes a 17.4% deduction of pass through income, while the House proposes a maximum tax rate of 25%. Both provide exceptions to these benefits for certain service business activity. Each have rules to prevent converting service income or wages to the lower tax benefits, with each having different methods for achieving it.
3. The Senate proposes changes to the timing and calculation of net operating losses.
4. The Senate proposes a child tax credit of \$1,650 vs. the House proposal of \$1,600.
5. The Senate proposes a \$500 non-child credit vs. the House proposal of \$300.
6. Both the Senate and House phase-out the credit for higher income taxpayers. The Senate however, proposes a higher phase-out threshold.
7. The Senate would eliminate any deduction for state & local taxes.
8. The Senate would keep the mortgage interest expense deduction however, it would eliminate the deduction for home equity loans.
9. The Senate would keep the medical expense deduction.

10. The Senate would keep the education credits as is, whereas the House proposes to consolidate the credits into the American Opportunity Credit.
11. The Senate proposes to keep the student loan interest deduction.
12. The Senate proposes to keep Estate taxes, but effectively double the lifetime exclusion.
13. The Senate would reduce the corporate tax rate to 20%, effective for years beginning in 2019, vs. the House proposal to have it effective for years beginning in 2018.
14. Both the Senate and the House propose to increase the Section 179 deduction. The Senate however, would make it \$1 million with a phaseout threshold of \$2.5 million.

The House is looking to schedule a vote on its proposal the week of November 13, 2017. Meanwhile, the Senate is working its way through the process to bring it to a vote before Thanksgiving. Once both versions are finalized and passed then they go through the process of reconciliation. Keep in mind it is not yet a “slam dunk” that the tax bill will be passed.

Again - stay tuned!