RBC Wealth Management

Proposed Tax Reform Legislation

Note: On November 16, 2017, the House passed its version of the Tax Cuts and Jobs Act. On that same day, the Senate Finance Committee approved its version; it can now be considered by the full Senate. If the Senate approves its version, the House and Senate would then need to reconcile the two versions.

On November 2, 2017, House Republicans released their comprehensive tax reform plan, the Tax Cuts and Jobs Act. Then, on November 9, 2017, Senate Republicans released their own plan. The two plans have much in common, but also have significant differences. Some key provisions of these tax proposals are discussed below. Of course, provisions may change as the legislation winds its way through Congress. Most provisions, if enacted, would be effective for 2018. Comparisons below are generally for 2018.

Individual income tax rates

Current law. There are seven regular income tax brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

House proposal. The seven tax brackets would be reduced to four: 12%, 25%, 35%, and 39.6%.

Income Bracket Thresholds					
Tax Rate	**Single**	**Married Filing Jointly/ Surviving Spouse**	**Married Filing Separately**	**Head of Household**	**Trust/Estate**
12%	$0	$0	$0	$0	$0
25%	$45,000	$90,000	$45,000	$67,500	$2,550
35%	$200,000	$260,000	$130,000	$200,000	$9,150
39.6%	$500,000	$1,000,000	$500,000	$500,000	$12,500

In addition, the benefit of the 12% rate would be recaptured by an additional tax if adjusted gross income (AGI) exceeds $1,000,000 ($1,200,000 for married filing jointly and surviving spouses).

Senate proposal. There would be seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 38.5%.

Income Bracket Thresholds					
Tax Rate	**Single**	**Married Filing Jointly/ Surviving Spouse**	**Married Filing Separately**	**Head of Household**	**Trust/Estate**
10%	$0	$0	$0	$0	$0
12%	$9,525	$19,050	$9,525	$13,600	N/A
22%	$38,700	$77,400	$38,700	$51,800	N/A
24%	$70,000	$140,000	$70,000	$70,000	$2,550
32%	$160,000	$320,000	$160,000	$160,000	N/A
35%	$200,000	$400,000	$200,000	$200,000	$9,150
38.5%	$500,000	$1,000,000	$500,000	$500,000	$12,500

Standard deduction, itemized deductions, and personal exemptions

Current law. In general, personal (and dependency) exemptions are available for you, your spouse, and your dependents. Personal exemptions may be phased out based on the amount of your adjusted gross income.

You can generally choose to take the standard deduction or to itemize deductions. Additional standard deduction amounts are available if you are blind or age 65 or older.

Itemized deductions include deductions for: medical expenses, state and local taxes, home mortgage interest, investment interest, charitable gifts, casualty and theft losses, job expenses and certain miscellaneous deductions, and other miscellaneous deductions. There is an overall limitation on itemized deductions based on the amount of your adjusted gross income.

House proposal. The standard deduction would be significantly increased, but personal and dependency exemptions would no longer be available, and additional standard deduction amounts for the blind and those over age 65 would no longer be available.

Most itemized deductions would be eliminated (or restricted).

- The deduction for mortgage interest would still be available, but the benefit would be reduced for some individuals, and interest on home equity loans would no longer be deductible.
- The deduction for state and local taxes would be limited to $10,000 of real property taxes (income taxes, sales taxes, and personal property taxes would not be deductible).
- The deduction for personal casualty losses would be eliminated, except for previously granted relief for qualified victims of Hurricanes Harvey, Irma, and Maria.
- The charitable deduction would still be available, but modified.

Senate proposal. The standard deduction would be significantly increased, and the additional standard deduction amounts for those over age 65 or blind would still be available. The personal and dependency exemptions would no longer be available.

Most itemized deductions would be eliminated (or restricted).

- The deduction for mortgage interest would still be available, but not for home equity loans.
- The deduction for all state and local taxes would be eliminated.
- The deduction for personal casualty losses would be eliminated unless the loss was incurred in a federally declared disaster.
- The charitable deduction would still be available, but modified.

Standard deduction, itemized deductions, and personal exemptions

Personal and Dependency Exemptions (you, your spouse, and dependents)			
	Current law	**House proposal**	**Senate proposal**
Exemption	$4,150	No personal exemption	No personal exemption

Standard Deduction			
	Current law	**House proposal**	**Senate proposal**
Married filing jointly	$13,000	$24,400	$24,000
Head of household	$9,550	$18,300	$18,000
Single/married filing separately	$6,500	$12,200	$12,000
Additional aged/blind			
Single/head of household	$1,550	Not available	$1,550
All other filing statuses	$1,250	Not available	$1,250

Itemized Deductions			
	Current law	**House proposal**	**Senate proposal**
Medical expenses	Yes	No	No
State and local taxes	Yes, income (or sales) tax, real property tax, personal property tax	$10,000 of real property tax only	No
Home mortgage interest	Yes, limited to $1,000,000 ($100,000 for home equity loan)	Yes, limited to $500,000, principal residence only, and no home equity loan	Yes, but no home equity loan
Investment interest	Yes	No	No
Charitable gifts	Yes	Yes, 50% AGI limit raised to 60% for certain cash gifts	Yes, 50% AGI limit raised to 60% for certain cash gifts
Casualty and theft losses	Yes	No, but continued relief for qualified victims of Hurricanes Harvey, Irma, and Maria	Federally declared disasters only
Job expenses and certain miscellaneous deductions	Yes	No	No
Other miscellaneous deductions	Yes	No	No

Child tax credit and new family tax credit

Current law. The maximum child tax credit is $1,000. The child tax credit is phased out if modified adjusted gross income exceeds certain amounts. If the credit exceeds the tax liability, the child tax credit is refundable up to 15% of the amount of earned income in excess of $3,000 (the earned income threshold).

House proposal. The maximum child tax credit would be increased to $1,600. A credit of $300 would be available for non-child dependents. In addition, a family flexibility credit of $300 would be available for a qualifying individual who is neither a child nor a non-child dependent. The maximum refundable amount of the credit would be $1,000, indexed for inflation. The amount at which the credit begins to phase out would be increased.

Senate proposal. The maximum child tax credit would be increased to $2,000. A nonrefundable credit of $500 would be available for non-child dependents. The maximum refundable amount of the credit would be $1,000, indexed for inflation. The amount at which the credit begins to phase out would be increased, and the earned income threshold would be lowered to $2,500.

Child Tax Credit			
	Current law	**House proposal**	**Senate proposal**
Maximum credit	$1,000	$1,600	$2,000
Non-child dependents	N/A	$300	$500
Family flexibility	N/A	$300	N/A
Maximum refundable	$1,000	$1,000 indexed	$1,000 indexed
Refundable earned income threshold	$3,000	$3,000	$2,500
Credit phaseout threshold			
Single/head of household	$75,000	$115,000	$500,000
Married filing jointly	$110,000	$230,000	$500,000
Married filing separately	$55,000	$115,000	$500,000

Alternative minimum tax

Under both the House and Senate plans, the alternative minimum tax would be eliminated.

Kiddie tax

Instead of taxing most unearned income of children at their parents' tax rates, both the House and Senate plans would tax children's unearned income using the trust and estate income tax brackets.

Corporate tax rates

Under both the House and Senate plans, corporate income would be taxed at a 20% rate. The House plan would make this effective starting in 2018. The Senate plan, however, would delay implementation to 2019.

Special provisions for business income of individuals

House proposal. A portion of the net income distributed by a pass-through entity (e.g., a partnership or S corporation) to an owner or shareholder would be taxed at a maximum rate of 25%. Wages and payments for services would be taxed at ordinary individual income tax rates.

Senate proposal. An individual taxpayer would be able to deduct 17.4% of domestic qualified business income (excludes compensation) from a partnership, S corporation, or sole proprietorship. The benefit of the deduction would be phased out for specified service businesses with taxable income exceeding $250,000 ($500,000 for married filing jointly). The deduction would be limited to 50% of the W-2 wages of the taxpayer. The W-2 wage limit would not apply if taxable income does not exceed $250,000 ($500,000 for married filing jointly), and the limit would be phased in for taxable income above those thresholds.

Retirement plans

Under both the House and Senate plans, the contribution levels for retirement plans would remain the same. However, it would no longer be permissible to recharacterize (or undo) a contribution or conversion to a Roth IRA.

Estate, gift, and generation-skipping transfer tax

House proposal. The gift and estate tax basic exclusion amount would be doubled to about $11,200,000 in 2018.

In 2025, the estate tax and the generation-skipping transfer tax would be repealed. In general, income tax basis would continue to be stepped-up (or stepped-down) to fair market value at death. The gift tax would remain, but the top gift tax rate would be reduced from 40% to 35%.

Senate proposal. The gift and estate tax basic exclusion amount would be doubled to about $11,200,000 in 2018.

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