

Federal Tax Reform Proposals  
 Tax Section – Hawaii State Bar Association  
 February 16, 2017

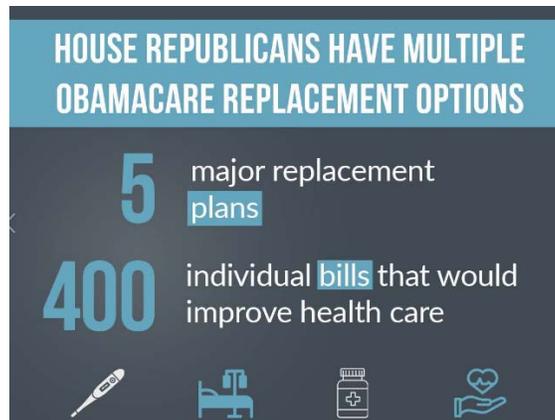
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Affordable Care Act (tax provisions)

1. Net investment income tax 3.8%
2. Additional Medicare tax 0.9% for single filers with wages (or equivalent SE income) over \$200,000

CGA’s opinion: Likely to be repealed as part of the changes to the Affordable Care Act.

Unlikely there is a unified plan that is generally agreed upon by Congressional Republicans and President Trump.



House Budget Committee GOP Facebook 2/13/17

Individual Ordinary Income Tax Brackets

INDIVIDUAL INCOME TAX BRACKETS UNDER THE BLUEPRINT

Current Law	Blueprint
10%	0%/12%*
15%	
25%	25%
28%	
33%	
35%	33%
39.6%	

\*As described below, the new standard deduction is larger than the current-law standard deduction and personal exemptions combined. This, in effect, creates a larger 0 percent bracket. As a result, taxpayers who are currently in the 10-percent bracket always will pay lower taxes than under current law.

The “A Better Way” blueprint 6/24/16, by Rep Kevin Brady, supported by House Speaker, Paul Ryan

1. Both the House GOP blueprint and the Trump tax plan collapse the brackets into 3 different brackets: 12%, 25%, and 33%

- a. Trump had his brackets starting at lower income rates than the House GOP plan
- 2. Both would like to combine the standard deduction and personal exemptions, or also known as eliminating personal exemptions
- 3. Both would increase the standard deduction, Trump has said \$15,000 standard deduction for single filers (\$30,000 joint), House GOP has a \$12,000 standard deduction for single filers \$24,000 joint)
- 4. House GOP increases the child tax credit to \$1,500, and includes a \$500 credit for non-child dependent
- 5. Trump has talked about creating a deduction for childcare expenses
- 6. Itemized deductions-
  - a. Trump – to cap itemized deductions at \$100,000 for single (\$200,000 joint)
  - a. House GOP – eliminate all itemized deductions except for charitable contribution deduction and mortgage interest deduction

**Capital Gains and Other Investment Income**

- 1. Trump’s tax plan – long-term capital gains and qualified dividends would get the same current preferential tax rates of 0%, 15%, and 20%, except the 20% rate starts at the highest marginal tax rate, which under Trump’s plan the highest marginal tax rate starts at a lower income level than it does now
- 2. House GOP Plan – tax only ½ of investment income (capital gains, all dividends, and interest) with that ½ taxed at ordinary income rates
  - a. Current tax law only gives preference to qualified dividends and long-term capital gains

*Simplification for Families*

<b>SIMPLE, FAIR “POSTCARD” TAX FILING</b>		
1	Wage and compensation income	1
2	Add 1/2 of investment income	2
3	Subtract contributions to specified savings plans	3
4	Subtract standard deduction OR	4
5	Subtract mortgage interest deduction	5
6	Subtract charitable contribution deduction	6
7	<b>Taxable income</b>	<b>7</b>
8	Preliminary tax (from tax table)	8
9	Subtract child credit	9
10	Subtract earned income credit	10
11	Subtract higher education credit	11
12	<b>Total tax</b>	<b>12</b>
13	Subtract taxes withheld	13
14	<b>Refund due / taxes owed</b>	<b>14</b>

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**Alternative Minimum Tax (both individual and corporate AMT)**

Eliminated under the Trump plan & the House GOP plan

**Estate, Generation Skipping, and Gift Tax**

- 1. Eliminated under the Trump plan & the House GOP plan

2. Have maximum 20% capital gains tax rate under Trump plan for sale of assets passed through an estate, with \$10 million exemption
3. Trump however would not allow a step up in basis upon death, the House GOP does not address this issue

### C Corporation taxes

1. Trump tax plan – to drop the corporate tax rate from 35% to 15%
2. Trump tax plan – 10% deemed repatriation of corporate cash held overseas
3. House GOP – Destination Based Cash Flow Tax with a border adjustment, which may not get past the World Trade Organization (WTO) rules
  - a. Dropping the tax rate to 20%
  - b. Export sales are not taxed (“border adjustment”)
  - c. Import purchases are not deductible (“border adjustment”)
  - d. 100% exemption from income taxes for dividends brought back to the U.S. from foreign subsidiaries
  - e. Repatriated accumulated income from “old” system can be brought back at 8.75% tax rate to the extent repatriation is in cash or cash equivalents; otherwise the tax rate is 3.5%. Tax can be paid over 8 years.
  - f. Remove special interest deductions and credits, keep research and development credit
  - g. Would be similar to a Value Added Tax (VAT), except
    - i. U.S. wages would be deductible (unclear in the House GOP blueprint whether general and administrative expenses would be deductible)
    - ii. And imported goods would not be deductible

### How a Value-Added Tax Works

In a country with a value-added tax, businesses collect the tax on their sales and pay it on their purchases from other businesses. Here’s how a 10% VAT would apply to the production and sale of a shirt.



Source: Heritage Foundation

THE WALL STREET JOURNAL.

## Corporate Asset Purchases & Depreciation

1. Trump's tax plan – immediate expensing of all corporate assets, but maybe not being able to expense the interest associated with the borrowings to pay for any asset immediately expensed.
  2. House GOP Plan – Immediate expensing of all tangible and intangible property (except land), no deduction of “net interest expense”.
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## Pass-Through Entities: S Corporations, Partnerships (including most LLCs), and Sole Proprietorships

1. The Trump plan – income from these entities will be taxed at 15%...maybe?
  2. House GOP – these entities “will pay or be treated as having paid reasonable compensation to their owner-operators” (taxed at ordinary income rates), then the remaining income will be taxed up to 25%.
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## What Is Next?

1. Dealing with the Affordable Care Act
2. Trump administration proposals expected in next couple of weeks
3. House Ways and Means proposals – Paul Ryan wants proposed legislation out by late April/early May, with passage by the end of August
4. Senate Finance Committee – Senator Orrin Hatch says the House will have to reconcile its bill with concerns of the Senate, which could push passage to after October 1