



US Tax Reform

US tax reform

Overview of individual provisions



Top individual provisions

- ▶ Seven brackets: 10%, 15%, 22%, 25%, 32%, 35%, 37%
- ▶ Standard deduction set at \$24k for joint returns, \$12k for single filers; personal exemptions repealed
- ▶ Net capital gains and qualified dividends retain current law; subject to 3.8% net investment income tax
- ▶ Individual alternative minimum tax (AMT) retained; exemption amount increased; phase-out of exemption increased
- ▶ Estate tax exclusion increased to \$10m (indexed for inflation)
- ▶ Child tax credit increased to \$2k, \$1,400 refundable; phase-out increased to \$200k (single) and \$400k (MFJ)



Top individual provisions

- ▶ Principal cap on deductible home mortgage interest for new mortgages (after 12/15/17) reduced from \$1m to \$750k; deduction retained for second homes but no longer available for home equity lines
- ▶ Itemized deductions subject to 2% floor repealed
- ▶ Medical expense deduction would apply to expenses that exceed 7.5% of adjusted gross income (AGI) in 2017 and 2018 and expenses that exceed 10% of AGI thereafter
- ▶ 50% AGI limitation for charitable contributions increased to 60% for gifts of cash to specified organizations
- ▶ State and local deduction available for \$10k of property and income (or sales) taxes
- ▶ ACA “shared responsibility payment” reduced to \$0

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Overview of business provisions



Top business provisions

- ▶ 21% corporate rate, beginning 2018; AMT repealed
- ▶ 20% deduction for domestic “qualified business income” from a partnership, S corporation or sole proprietorship
- ▶ Limits interest deduction to 30% of earnings before interest, tax, depreciation and amortization (EBITDA) for four years; thereafter, 30% of earning before interest and tax (EBIT); worldwide debt limit removed
- ▶ Bonus depreciation increased from 50% to 100% for “qualified property” placed in service after 9/27/17; starting in 2023 phase-down of 20% for five years
- ▶ Expands definition of covered employee for purpose of compensation deduction limits (§162m)

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Overview of international provisions



Top international provisions

- ▶ Establishes exemption for dividends received by US corporations from 10%-owned foreign corporations
- ▶ Transition tax on deferred foreign earnings – 5.5% (cash)/8% (non-cash)
- ▶ New broad-based anti-deferral provision taxes global intangible low-taxed income (GILTI) on a current basis at 10.5% effective tax rate (some foreign tax credits available)
- ▶ New deduction for “foreign-derived intangible income”
- ▶ New base erosion anti-abuse tax (BEAT) provision; minimum tax of 10% (5% transition rate in 2018) applied on income determined after adding back deductible payments made to related foreign persons