

Tax Reform In the Making: A Comparison of the Potential Revisions

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With the coming of a new administration in Washington, D.C., there has been much speculation regarding potential tax law changes. Below is a comparison of various revisions being discussed by both President Trump and the House of Representatives in the House blueprint known as the “Better Way for Tax Reform.” Final legislation will depend in large part upon the budgeting process and various procedural rules that govern the passage of laws that are expected to create fiscal deficits. However, the comparison of the varying proposals will give you a flavor of potential things to come.

Comparison of Trump Tax Proposals vs. House Republican Blue Print

Trump proposal

Individual ordinary income rates: 12%-25%-33%

Increase standard deduction to \$15,000 for Individual filers and \$30,000 for Married Filing Jointly.

Retain current three tier capital gain tax rate structure of 0%, 15% and 20% at varying income levels.

Eliminate Net Investment Income Tax (3.8% Medicare Surtax).

Repeal Alternative Minimum Tax (AMT).

Generally keep current menu of itemized deductions but limit deductible amount to \$100,000 for Individual filers and \$200,000 for Married Filing Jointly.

Provide an above-the-line deduction for child care for up to four children.

Deduction to be limited to the average cost of care in the state of residence per child. Would phase out at income levels above \$250,000 for individual filers and \$500,000 for married filing jointly. Support to be provided to low income taxpayers through an Earned Income Tax Credit.

Provide an above-the-line deduction for expenses related to care of dependent parent living in the home of up to \$5,000.

Provide for deductible contributions to “Dependent Care Savings Accounts” (DCSA) which would function similarly to Health Savings Accounts. Annual deductible contribution would be limited to \$2,000. Low income households would be eligible for a match of up to 50% on contributions of up to \$1,000 per year.

Repeal estate tax, but tax capital gains on assets held until death and valued at more than \$10 million. It is unclear what, if anything, will happen to gift tax.

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Individual ordinary income rates: 12%-25%-33%

Consolidate personal exemption/standard deduction into a larger standard deduction of \$12,000 for individual filers, \$18,000 for Head of Household (with child) and \$24,000 for married filing jointly.

Provide 50% exclusion for investment income including capital gains, dividends and interest which effectively taxes these income sources at 50% of the ordinary income tax rates or 6%, 12.5% or 16.5%.

Repealed if Affordable Care Act (Obamacare) is repealed.

Repeal Alternative Minimum Tax (AMT).

Eliminate itemized deductions other than home mortgage interest and charitable deductions. Additional limits may apply above certain income levels.

Anticipates provision of an unspecified "enhanced" child and dependent care tax credit.

No specific eldercare provision.

No specific provision for Dependent Care Savings Accounts.

Repeal estate tax and generation-skipping transfer tax (GST). It is unclear what, if anything, will happen to gift tax. Also unclear is whether the quid pro quo will be loss of basis step up or taxation of "capital gain" at death.

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