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Robert W. Wood

THE TAX LAWYER

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Trump Republican Tax Plan's 10 Key Cuts

So far, President Trump and Republicans have not managed to repeal Obamacare. But they have moved on to the equally tough topic of tax reform, hoping for a better result. Here are ten big features of the framework released to the public.

1. Cut corporate tax rates. Corporate tax rates would be slashed from 35% to 20%. The reality is that most companies—especially big companies—do not pay the 35%. But the 20% rate would make America more competitive worldwide.

2. Cut individual tax rates. Our current system has rates of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. They would morph into three rates of 12%, 25% and 35%. If you pay at the top, paying 35% is better than paying 39.6%. At the bottom, 12% hurts more than 10%. However, if you don't itemize deductions, the standard deduction would double to $12,000 for individuals, and to $24,000 for married couples.

3. New Pass-through Rate. Another big change would be to reduce the tax on S corporations, partnerships and sole proprietorships to 25%. Actually, the shareholders, members or partners actually pay the tax. Instead of top individual rates of 39.6%, this plan would cap the rate owners pay on business income at

25%. If you are a successful Uber driver paying 39.6%, why not form an entity and pay 25%? Lawmakers recognize the possibility that taxpayers may try to rejigger their operations to slash their taxes from 39.6% to 25%. So, the plan says it will include "measures to prevent the recharacterization of personal income into business income to prevent wealthy individuals from avoiding the top personal tax rate."

4. Corporate expensing. When companies buy certain assets, they are often required to claim depreciation or amortization deductions over time, even if they laid out all the cash for the purchase in the first year. A faster write-off is better, preferably all at once. Under the proposal, businesses could immediately expense the cost of certain assets. Notably, real estate would still have to be depreciated over many years. But more expensing and faster write-offs really appeal to businesses.

5. Itemized deductions. Most itemized deductions would be eliminated. Californians would be hurt by this, since the high cost of California taxes at least gets you a deduction on your federal return. However, this deduction would go under the plan. The deduction for property taxes would go, as would deductions for medical expenses. The only deductions you could claim under the proposal might be home mortgage interest and charitable contribution deductions.

6. Alternative Minimum Tax (AMT). The dreaded AMT would be eliminated. AMT may be the most insidious and counterintuitive tax there is. Even if you’re good with numbers, it’s hard to see it coming. It’s about time the AMT was repealed.

7. Federal estate tax. The federal estate tax would be eliminated too. Currently, the federal estate is imposed on estates which exceed $5.49 million. But beyond that, you pay 40%. And generation skips can taxed at 80%. President Trump has railed against the estate tax as hurting small businesses and farmers, and the tax does put a premium on planning and sophistication. So the plan would repeal it. Notably, though, the plan does *not* include repeal of the gift tax, which applies to transfers made during life. It also is not clear whether there would be a stepped-up basis in the decedent’s property on death for income tax purposes. So there are many details to work out in this proposed estate tax repeal.

8. Worldwide taxation. The proposal calls for a switch to a territorial system of taxation for businesses. The idea would be for U.S. companies to pay taxes on their profits to the U.S. only for amounts earned in the U.S. What about individuals? Sorry, it looks like *individual* Americans will still be taxed on their worldwide income, even if they live abroad and pay taxes abroad. 8 million American expats around the world with complex tax reporting and FATCA worries will evidently get no relief.

9. Repatriating Earnings. Many companies (including Apple, Microsoft, etc.) are stockpiling cash overseas in foreign subsidiaries without paying U.S. tax. The

proposal would subject them to a one-time repatriation tax at a low tax rate, perhaps 10%. The actual tax rate remains unclear, so it might be less or more than 10%. And how many companies would take advantage of this remains murky too. There's clearly more to come on this hot topic.

10. Obamacare taxes. President Trump wanted to repeal Obamacare, and its bevy of taxes. One especially burning one for wealthy investors is the 3.8% net investment income tax. But with Obamacare repeal efforts down to defeat, all these taxes remain in place. Stay tuned.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.