US TAX REFORMS 2017

WHAT IT MEANS TO YOU

A brief on the current changes in US Tax policies

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OVERVIEW:

The controversial tax overhaul signed into law on 22nd Dec 2017 by President Donald Trump will slash the US corporate tax rate from 35 percent to 21 percent. The reduction of the federal corporate income tax rate results in an income tax benefit increasing the net income of the group for the year 2017 by approximately 1.7 billion euros.

House of Representatives (HR1) will lower business and individual tax rates, modernize US international tax rules, and provide the most significant overhaul of the US tax code in more than 30 years.

The law retains the current structure of seven individual income tax brackets, but in most cases it lowers the rates: the top rate falls from 39.6% to 37%, while the 33% bracket falls to 32%, the 28% bracket to 24%, the 25% bracket to 22%, and the 15% bracket to 12%. The lowest bracket remains at 10%, and the 35% bracket is also unchanged. The income bands that the new rates apply to are lower, compared to 2018 brackets under current law, for the five highest brackets.

The changes will be temporary, going into effect in 2018 and expiring after 2025, as is the case with most personal tax breaks included in the law. The expiration date allows the Senate to comply with "reconciliation" rules that block a Democratic filibuster – which Republicans do not have the votes to defeat – only if the law does not raise the deficit in any year outside of a 10-year window and if it stays within its $1.5 trillion budget constraint during the 10-year window. Republican congressional leaders have signaled that individual tax cuts will be extended at a later date.

The applicable tax rates are explained with the help of the below table:

Single filers, 2018-2025		
Taxable income over	***Up to***	***Marginal rate***
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000	And up	37%

Heads of household, 2018-2025		
Taxable income over	***Up to***	***Marginal rate***
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000	And up	37%
Married couples filing jointly, 2018-2025		
Taxable income over	***Up to***	***Marginal rate***
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000	And up	37%
Married couples filing separately, 2018-2025		
Taxable income over	***Up to***	***Marginal rate***
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000	And up	37%

MAJOR TAX REFORMS

Here are the list of tax reforms that have changed for the coming tax years:

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
1	**Alternative inflation adjustment**	**Under current law, certain individual income tax amounts are adjusted based on annual changes in the Consumer Price Index for All Urban Consumers (CPI-U), including the: regular income tax brackets, basic standard deduction, additional standard deduction for aged and blind, personal exemption amount, thresholds for overall limitation on itemized deductions and personal exemption phase-out, IRA contributions limits and deductible amounts, and saver's credit.**	**The provision would require indexing for inflation using the Chained Consumer Price Index (C-CPI) instead of the current CPI-U.**	**after 2017**
2	**Increase in standard deduction and repeal of the deduction for personal exemptions**	**— $6,350 for single individuals and married individuals filing separately — $9,350 for heads of households — $12,700 for married couples filing jointly**	**— $18,000 for single filers with at least one qualifying child — $12,000 for all other taxpayers — $24,000 for married couples filing jointly and surviving spouses**	**After December 31, 2017**
3	**Enhanced child tax credit and new family credit**	**A taxpayer may claim a $1,000 tax credit for each qualifying child, younger than 17. The aggregate amount of the credit that a taxpayer may claim is phased out for taxpayers with AGI above $75,000 for single taxpayers and heads of households, or above $110,000 for married couples filing**	**—A taxpayer may claim a $2,000 tax credit for each qualifying child, younger than 17. - temporarily provide a $500 nonrefundable credit for qualifying dependents other than qualifying children. The maximum refundable amount of the credit would not exceed $1,400 per qualifying child. —The income level at which the credit begins to phase**	**After December 31, 2017**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
		jointly and $55,000 for married individuals filing separately. The credit may be claimed under the regular tax system and the alternative minimum tax (AMT).	**out would be $400,000 for married taxpayers filing jointly and $200,000 for all other taxpayers, not indexed by inflation.**	
4	**Alternative minimum tax**	**For individual taxpayers, estates, and trusts the two AMT brackets are 26% (applied to the first $182,500 of AMT income) and 28% (applied to AMT income over $182,500).**	**For tax years beginning between January 1, 2018 and December 31, 2025, the AMT exemption amount would be $109,400 for married taxpayers filing jointly, $54,700 for married taxpayers filing separately, and $70,300 for all other taxpayers (except trusts and estates). The phase-out threshold would be increased to $1 million for married taxpayers filing jointly and $500,000 for all other taxpayers, except trusts and estates.**	**After December 31, 2017.**
5	**Repeal of overall limitation on itemized deductions**	**For 2017, the thresholds at which the Pease limitation applied were: (1) $261,500 for single taxpayers; (2) $313,800 for married couples filing jointly and surviving spouses; (3) $287,650 for heads of households; and (4) $156,900 for married taxpayers filing separately.**	**The provision would repeal the overall limitation on itemized deductions**	**After December 31, 2017.**
6	**Modification of deduction for home mortgage interest**	**Mortgage deductions may be claimed on interest payments on up to $1 million in acquisition indebtedness and up to $100,000 in home equity indebtedness.**	**-For tax years beginning between January 1, 2018 and December 31, 2025, the provision would allow a taxpayer to treat up to $750,000 as acquisition indebtedness ($375,000 for married taxpayers filing separately).** **-For tax years beginning after December 31, 2025, the provision would permit a taxpayer to treat up to $1 million ($500,000 for**	**After December 31, 2017.**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
			married taxpayers filing separately) as acquisition indebtedness, regardless of when the indebtedness is incurred. -The provision would also eliminate the deduction for interest on home equity loans for tax years beginning between January 1, 2018, and December 31, 2025 and would apply to mortgages entered into after December 15, 2017.	
7	**Modification of deduction for taxes not paid or accrued in a trade or business**	**Current law allows taxpayers who itemize deductions to claim a deduction for state and local government income and property taxes paid during the tax year. Rather than deducting state and local income taxes, an itemizing taxpayer may choose to claim an itemized deduction for state and local sales taxes paid**	**- The provision would allow an individual taxpayer to claim a deduction for state, local or foreign property or sales taxes only when the taxes were paid or accrued in carrying on a trade or business or an activity described in Section 212. - exception : allowing a taxpayer to claim an itemized deduction of up to $10,000 ($5,000 if married filing separately) for the aggregate amount of state and local property tax, war profits, excess profits tax and income tax (or sales taxes**	**after December 31, 2017, and before January 1, 2026.**
8	**Modification to personal casualty losses**	**Current law allows a taxpayer who itemizes deductions generally to claim a deduction for any loss sustained during the tax year that is not compensated by insurance or otherwise. For individuals, deductible losses must be incurred in a profit-seeking activity or consist of property losses due to fire, storm, or other casualty or from theft, for amounts that exceed 10% of AGI.**	**The provision would limit deductions for personal casualty losses to those incurred in a disaster declared by the President under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.**	**After December 31, 2017.**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
9	**Limitation on wagering losses**	**Current law generally allows a taxpayer who itemizes to claim: (1) a deduction for gambling losses to the extent of the taxpayer's gambling winnings; and (2) certain other deductions connected to gambling**	**The provision would clarify that the limitation on losses a taxpayer may claim from wagering applies not only to the costs that gamblers actually incur but also to other expenses that gamblers incur in connection with their gambling activities (e.g., hotel and travel expenses).**	**The provision would not apply to tax years beginning after December 31, 2025.**
10	**Modifications to the deduction for charitable contributions**	**-Deductions for contributions to public charities, private operating foundations, and some non-operating foundations are limited to 50% of the donor's AGI. -Contributions to private foundations may be deducted up to the lesser of: (1) 30% of AGI; or (2) the amount by which the 50%-of-AGI limitation for the tax year exceeds the amount of charitable contributions subject to the 30% limitation.**	**The provision would increase the income-based percentage limit (Section 170(b)(1)(A)) from 50% to 60% on the total charitable contribution deduction an individual taxpayer may claim for certain charitable contributions of cash to public charities.**	**-would not apply to tax years beginning after December 31, 2025. - The provision would be effective for tax years beginning after December 31, 2017**
11	**Repeal of certain miscellaneous itemized deductions subject to the 2% floor**	**individual taxpayers who itemize may claim deductions for certain miscellaneous expenses like: -Expenses for the production or collection of income (investment expenses, etc.) — Unreimbursed expenses attributable to the trade or business of being an employee — Repayments of income received under a claim of right (only subject to the 2% floor if less than $3,000)**	**The provision would suspend all miscellaneous itemized deductions subject to the 2% floor under current law, and would not apply to tax years beginning after December 31, 2025**	**After December 31, 2017**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
		— Repayments of Social Security benefits — Shares of deductible investment expenses from pass-through entities		
12	Modification to the deduction for medical expenses	Current law allows a taxpayer who itemizes deductions to claim an itemized deduction for out-of-pocket medical expenses for the taxpayer, a spouse and dependents to the extent the expenses exceed 10% of the taxpayer's AGI	The provision would establish a 7.5% threshold for deducting medical expenses for tax years beginning after December 31, 2016 and ending before January 1, 2019, both for regular tax and AMT purposes	After December 31, 2017
13	Repeal of deduction for alimony payments and corresponding inclusion in gross income	Current law generally provides that alimony payments must be included in the income of the payee and may be claimed as an above-the-line deduction by the payor.	Under the provision, alimony payments would not be included in the payee's income and would not be deductible by the payor.	The provision would be effective for divorce decrees and separation agreements executed after 2018, as well as for any modification made after 2018 to a divorce decree or separation agreement if it expressly states that this change is intended.
14	Repeal of special rule permitting recharacterization of IRA contributions	Under current law, an individual may recharacterize a contribution to a traditional IRA as a contribution to a Roth IRA, or vice versa, if the election is made in a timely manner	The provision would repeal this ability to make such recharacterizations. Under the provision, the special rule allowing recharacterization of IRA contributions would not apply to a conversion contribution to a Roth IRA. As a result, recharacterization could not be used to unwind a Roth	

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
			IRA conversion, but would still be permitted with respect to other contributions	
15	**Modifications to estate, gift, and generation-skipping transfer taxes**	**Current law generally applies a top tax rate of 40% to property inherited through an estate. The first $5 million in transferred property (the basic exclusion) is exempt from any combination of estate, gift, and generation-skipping taxes.**	**The provision would double the estate and gift tax exemption for estates of decedents dying and gifts made between January 1, 2018 and December 31, 2025, by increasing the Section 2010(c)(3) basic exclusion amount from $5 million to $10 million, indexed for inflation occurring after 2011.**	**The provision would be effective for estates of decedents dying and gifts made after December 31, 2017.**
16	**Changes to electing small business trusts**	**-The treatment of a charitable contribution passed through by an S corporation depends on the shareholder. Because an ESBT is a trust, the deduction for charitable contributions applicable to trusts under Section 642(c), rather than the deduction applicable to individuals, applies to the trust.** **-Generally, a trust is allowed a charitable contribution deduction for amounts of gross income, without limitation, which pursuant to the terms of the governing instrument are paid for a charitable purpose. No carryover**	**The provision would allow a nonresident alien individual to be a potential current beneficiary of an ESBT. The Conference Agreement provides that the charitable contribution deduction of an ESBT is not determined by the rules generally applicable to trusts but rather by the rules applicable to individuals. Thus, the percentage limitations and carryforward provisions applicable to individuals apply to charitable contributions made by the portion of an ESBT holding S corporation stock.**	**The nonresident alien beneficiary provision would take effect on January 1, 2018. The change to the charitable deduction would apply to tax years beginning after December 31, 2017.**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
		of excess contributions is allowed.		
17	**Elimination of shared responsibility payment for individuals failing to maintain minimum essential coverage**	**Under current law, Section 5000A imposes an excise tax on individuals("individual responsibility payment" or "individual mandate")) , who do not maintain health insurance for themselves and their family members**	**The provision would reduce the amount of the individual responsibility payment to zero.**	**The provision would be effective with respect to health coverage status for months beginning after December 31, 2018.**
18	**Deduction for qualified business income**	**The tax liability of individual taxpayers is determined by applying the tax rate tables to the taxpayer's regular taxable income, according to the taxpayer's filing status. Partnerships, S corporations, and sole proprietorships are generally treated as pass-through entities so income is taxed to the partners or owners on an individual basis, rather than at the entity level. The individual taxpayer may deduct his share of the entity's losses to the extent of the individual's adjusted basis in the pass-through entity (unless otherwise limited by the at-risk or passive loss rules); generally, unused losses may be carried over to the next year.**	**would permit an individual taxpayer before January 1, 2026, to deduct: (1) 20% of qualified business income from a partnership, S corporation or sole proprietorship; and (2) 20% of aggregate qualified real estate investment trust (REIT) dividends, qualified cooperative dividends and qualified publicly traded partnership income. For a taxpayer with qualified business income, the deduction would be limited to the greater of: (1) 50% of W-2 wages paid with respect to a qualified trade or business or (2) the sum of 25% of W-2 wages with respect to the qualified trade or business plus 2.5% of the unadjusted basis of all qualified property immediately after acquisition of such property.**	**The provision would be effective for tax years beginning after December 31, 2017 and before January 1, 2026.**
19	**Modification to interest expense**	**Current law allows business interest as a deduction in the tax year in which the interest is paid or accrued, subject to limitation rules, as applicable. Section**	**The provision would limit the net interest expense deduction for every business, regardless of form, to 30% of adjusted taxable income. Adjusted taxable income for purposes of this provision is**	**After December 31, 2017**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
		163(j) limits a corporation's ability to deduct disqualified interest (i.e., interest paid or accrued to a related party when no federal income tax is imposed on the interest) paid or accrued in a tax year if: (1) the payor's debt-to-equity ratio exceeds 1.5 to 1.0 (safe harbor ratio); and (2) the payor's net interest expense exceeds 50% of its adjusted taxable income.	**modified from the Senate bill and would be a business's taxable income calculated without taking into account: (i) any item of income, gain, deduction, or loss which is not properly allocable to a trade or business; (ii) any business interest or business interest income; (iii) NOLs; (iv) the amount of any deduction allowed under Section 199A; (v) in the case of tax years beginning before January 1, 2022, any deduction allowable for depreciation, amortization or depletion; and (vi) such other adjustments as provided by the Secretary. Adjusted taxable income also would not include the Section 199 deduction, as it would be repealed.**	
20	**Modification to depreciation and expensing**	**Current law allows taxpayers to claim additional depreciation (i.e., bonus depreciation) under Section 168(k) in the year in which qualified property (as described later) is placed in service through 2019 (with an additional year to place the property in service for qualified property with a longer production period, as well as certain aircraft). Bonus depreciation generally equals 50% of the cost of the property placed in service in 2017 and phases down to 40% in 2018 and 30% in 2019. Qualified property is defined as tangible property with a**	**- The provision would allow taxpayers to claim 100% bonus depreciation with respect to qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2024, for certain qualified property with a longer production period, as well as certain aircraft). - The provision would phase down bonus depreciation to 80% for qualified property placed in service before January 1, 2024 -60% for qualified property placed in service before January 1, 2025; -40% for qualified property placed in service before January 1, 2026 -20% for qualified property placed in service before January 1, 2027**	**The provision would apply to property acquired and placed in service after September 27, 2017**

S.No	Type of Taxes	Current Flow	Upcoming Provisions	Provision Up To
		recovery period of 20 years		
21	**Modification of net operating loss deduction**	**Under current law, Section 172 allows taxpayers to carry back an NOL arising in a tax year for two years and carry forward the NOL for 20 years to offset taxable income. The AMT rules do not allow a taxpayer's NOL deduction to reduce the taxpayer's alternative minimum taxable income by more than 90%.**	**-The provision would make two significant changes to the rules governing NOL deductions. First, NOLs arising in tax years beginning after December 31, 2017. - for losses arising in tax years beginning after December 31, 2017, the amount of an NOL that a taxpayer could use to offset taxable income would be limited to 80% of taxable income.**	**After December 31, 2017**
22	**Limitation on losses for taxpayers other than corporations**	**Passive loss rules limit the deductions and credits that individuals, estates, trusts and closely held corporations may claim attributable to passive trade or business activities, allowing passive losses to be deducted only against passive gains**	**- The provision would disallow excess business losses, including the excess farm loss, for taxpayers other than C corporations. These losses may be carried forward and treated as part of the taxpayer's NOL carryforward. - An excess business loss is: the excess of the taxpayer's aggregate deductions attributable to the taxpayer's trades or businesses over the sum of the taxpayer's aggregate gross income or gain, plus a threshold amount ($500,000 for married taxpayers filing jointly; $250,000 for other individuals). For partnerships or S corporations, the provision would apply at the partner or shareholder level.**	**The provision would be effective for tax years beginning after December 31, 2017 and before January 1, 2026.**

CONCLUSION

The cornerstone of the tax bill, the change that's permanent and enduring and that even a future Democratic administration is unlikely to fully reverse, is its reduction of the corporate income tax rate from 35 percent to 20 percent.

The analysis suggests the wealthiest Americans would see their incomes rise most in both relative and absolute terms. The average household in the top 1% would see a 8.5% increase in their income, compared with a 1% increase for middle-income households.

Also, over the long-term, the Tax Policy Center projects households in the 80th to 95th percentage of income are projected to see a tax increase, though the top 5% of earners would continue to gain the most.

The reason the wealthy gain so much more than others is that the biggest tax reductions are for corporations, small businesses, and the deceased (via the estate tax). The overwhelming impact of the reform plan is to reduce taxes on businesses. Business tax cuts typically offer the greatest benefit to owners of stock and wealthy small business owners.

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