HIGHLIGHTS OF THE PROPOSED TAX CUTS AND JOB ACT

By Chaney Black

Last Thursday, the House Ways and Means Committee released their tax reform bill known as the “Tax Cuts and Jobs Act.” Over the next month, the House and Senate plan to refine and markup the proposed tax bill. The two chambers hope to resolve any differences and pass a final bill before year's end.

Below I have highlighted some of the main features of the bill that we feel are applicable to our clients:

Increase in standard deduction: The bill raises the standard deduction for singles to $12,000 from $6,350 currently; and it raises it for married couples filing jointly to $24,000 from $12,700.

Eliminates personal exemptions: Today you're allowed to claim a $4,050 personal exemption for yourself, your spouse and each of your dependents. The House bill eliminates that option.

Expands child tax credit: The bill would increase the child tax credit to $1,600, up from $1,000, for any child under 17.

Reduces income tax brackets: There are seven federal income tax brackets in today's code that are taxed at 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The House bill consolidates those into four brackets:

- 12% (on the first $45,000 of taxable income for individuals; $90,000 for married couples filing jointly)
- 25% (starts at $45,000 for individuals; $90,000 for married couples)
- 35% (starts at $200,000 for individuals; $260,000 for married couples)
- 39.6% (starts at $500,000 for individuals; $1 million for married couples)

Repeal of the alternative minimum tax (AMT): The tax, which forces people who qualify because of an outsized number of deductions, would be eliminated under the legislation.

Repeals many other deductions: The bill would repeal the deduction of state and local income taxes, medical expenses, tax preparation fees, alimony payments, student loan interest and moving expenses. The bill would allow the following deductions: local property taxes up to $10,000, charitable contributions, and mortgage interest deduction.

Changes to the estate tax: The estate-tax exemption, currently set for $5.6 million per person and $11.2 million per married couple, would double immediately under the House plan. The tax would get repealed starting in 2024. Even after repeal, heirs would continue to get a "step-up in basis."

Lower corporate tax rate: The corporate tax rate would be lowered to 20% from 35%. It is unclear if this reduction would be immediate or gradually implemented.

Changes to self-employment tax on business and rental income:

- Active business income on Schedule C & F, as well as active income from flow-through entities, such as S corporations and partnerships, will be subject to self-employment income up to a maximum of 70% of the income.
- All rental income, including farm crop share and cash rent, will be subject to social security tax.

My Analysis

As with any form of new tax legislation, there will be winners and losers. At Kaup's Financial, we believe that farmers will likely see a decrease in overall income tax, but at the same time see an increase in self-employment tax. The increase in the estate tax exemption, and future elimination, is good news since there does not seem to be a reduction in step-up in basis.

Regardless of what happens, we can all plan on higher taxes in the future as the fact is our federal government has made trillions of dollars in promises when it comes to Social Security, Medicare, and Medicaid, as well as the interest on the country's debt that will need to be paid. Therefore, if taxes are lowered now, we would strongly suggest taking advantage of the lower rates because it is very unlikely they will be around for very long.

The "Tax Cuts and Jobs Act," in its current form, is still subject to revision and will likely undergo several alterations over the next couple months. We will continue to track the status of the tax reform bill and provide our clients with the latest information about its progress.

If you have any questions or concerns, please give us a call!

Thanks,

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