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Tax Bulletin:
House Tax Bill (H.R.1)

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Dear Clients and Friends of the Firm:

As you may be aware, the House Republicans, via the Ways and Means Committee, recently released its proposal for tax reform titled the 'Tax Cuts and Jobs Act.' Yesterday afternoon, the Senate released the initial details of its version of this tax bill as well. If either passes in its current form, this would likely have the effect of increasing taxes on many high net worth individuals, beginning as early as 2018. It is important to note, however, that any tax legislation has several hurdles to pass before becoming law, including approval by all relevant committees, full votes in both the House and Senate, a conference committee to reconcile the House and Senate bills, and then the President's signature. Thus, the final tax bill that is presented to the President is likely to look different from the current House and Senate proposals. Therefore, we recommend that you continue with your current tax planning strategies until we receive more clarity out of Washington. We have highlighted below some key information from the final House bill that has exited the committee stage, and we will communicate an update once the final Senate legislation exits committee in the next week.

Highlights of the proposed House legislation include:

Individuals & Families

- Reduces tax rates for low- and middle income families, creating four new tax brackets, down from the current seven. These brackets will be taxed at 12% (<$90,000 joint, <$45,000 single), 25% ($90,000-$260,000 joint, $45,000-$200,000 single), 35% ($260,000-$1,000,000 joint, $200,000-$500,000 single), and 39.6% (>$1,000,000 joint, >$500,000 single).
    - **CTC Observation**: Clients should note that while the top tax rate has not changed, the income brackets have changed considerably under the proposed legislation. The current year income floor for the top bracket is $470,700 for joint filers and $418,800 for single filers. Further note that the benefit of the 12% rate would be phased out for taxpayers in the 39.6% bracket.
- Reduces the benefit for the exclusion of gain from the sale of a principal residence. Currently, joint filers can exclude up to $500,000 ($250,000 for single filers) in gain from the sale of their principal residence if they owned and used the home as their primary residence for at least two out of five years before the sale. For joint filers, the proposed bill phases out the $500,000 exclusion once their adjusted gross income (AGI) exceeds $500,000. The AGI limitation is $250,000 for single filers. In addition, it extends the own and use test to five out of eight years.
- Significantly increases the standard deduction from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for joint filers, indexed for inflation. The personal exemption, however, would be repealed.

- Preserves the charitable contribution deduction.
- Preserves the mortgage interest deduction for existing mortgages, while reducing the deduction limitation on new mortgages from $1,000,000 to $500,000. This provision would also repeal the deduction for interest on second homes and home equity loans.
- Preserves the state and local property tax deduction, but only up to $10,000 per year. Also repeals the state and local income tax deduction.
  - **CTC Observation**: Clients that pay property taxes in excess of $10,000 or pay significant state income taxes each year will likely see an increase in their federal tax liability due to this new restriction, as there is no limitation on the amount of property or income taxes allowed to be deducted currently. In particular, clients who reside in Northeastern states, California, or other high tax states will be most affected by this provision. However, any increase in tax may be partially mitigated by the elimination of the alternative minimum tax for those taxpayers normally subject to it.
- Eliminates the medical expense and miscellaneous deductions
  - **CTC Observation:** Clients who pay large fees to professional advisors may see an increase in their federal tax liability. Currently, miscellaneous fees are deductible to the extent they exceed 2% of a taxpayer's adjusted gross income. However, any increase in tax may be lessened by the elimination of the alternative minimum tax for those taxpayers normally subject to it.
- Repeals popular above-the-line deductions, such as, the domestic production activities deduction, moving expenses, alimony, and student loan interest.
- Abolishes of the Alternative Minimum Tax (AMT)
  - **CTC Observation:** Clients with AMT credit carryforwards should note that these credits may be refunded up to 50% if the proposed legislation passes.
- Eliminates the Estate and Generation-Skipping Transfer Taxes after 2024, and doubles the exemption until that date.
  - **CTC Observation:** Note that the gift tax was not repealed in the House bill although the exemption doubles along with the estate and GST tax exemptions. Moreover, the rate of tax is reduced to 35% starting after 2024.
- Preserves all rules relating to contributions to 401(k) plans and IRAs, but eliminates the ability to convert Traditional IRAs to Roth IRAs.

Business

- Lowers the corporate tax rate from 35% to 20%; personal services corporations would be subject to tax at a 25% rate.
- Imposes a top tax rate of 25% on income from pass-through entities (partnerships, LLCs, S-Corporations).
  - **CTC Observation:** Clients may see a reduction in their federal tax liability due to this change. Currently, income from pass-through entities is taxed at the taxpayer's individual tax rate. For clients in the highest tax bracket, this results in a 14.6% tax cut on their passive business and investment income through family partnerships or investment funds. The rules are somewhat more complicated for active business owners. Also note that service providers, such as accountants, doctors, and lawyers, will not be eligible to claim compensation income from pass-through entities at this lower rate.

- Removes the carryback period for most net operating losses, imposes a 90% of taxable income limitation on the amount of an NOL carryforward that can be deducted currently, and repeals the 20-year carryforward period and replaces it with an unlimited period for NOLs starting after 2017.
- Preserves the Research & Development tax credit
- Allows businesses to immediately deduct the full cost of qualified property for a five-year period (September 27, 2017 to December 31, 2022).
- Carried Interest - Imposes a three-year holding period requirement for qualification as long-term capital gains with respect to certain partnership interests received in connection with the performance of services.

Based on discussions with our Washington policy experts, we believe that tax reform has a greater than 50% chance of becoming law. However, it is important to note that we do not believe that the current version as approved by the House Ways & Means Committee (the 'Tax Cuts & Jobs Act') will remain fully intact by the time the final bill is signed into law.

The Chilton Trust tax group will continue to monitor all proposed tax reform legislation throughout the Congressional bill process and will update our clients accordingly as changes in the proposal begin to take firmer shape. We expect that the House of Representatives may vote on the Tax Cuts and Jobs Act as early as Thanksgiving, while the Senate may take longer, possibly into January 2018, to enact any legislation regarding tax policy. As always, please contact us with any questions or concerns as it relates to your individual or entity tax situation.

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