Retirement Income
JOURNAL

Trump Tax Plan Revealed

By Editorial Staff *Wed, Sep 27, 2017*

'The framework retains tax benefits that encourage work, higher education and retirement security,' said the report issued by the White House Wednesday. It was entitled, Unified Framework for Fixing Our Broken Tax Code.

The nine-page tax reform framework that the Trump administration released Wednesday referred only briefly to the treatment of retirement savings. There was no sign that the current tax deferral regime would change, but the document left the door open to future adjustments.

Here's what it said about retirement: "The framework retains tax benefits that encourage work, higher education and retirement security. The committees are encouraged to simplify these benefits to improve their efficiency and effectiveness. Tax reform will aim to maintain or raise retirement plan participation of workers and the resources available for retirement."

The document, entitled, "Unified Framework for Fixing Our Broken Tax Code," also contained these proposed federal tax law changes:

"Zero tax bracket"

The framework doubled the standard deduction to: $24,000 for married taxpayers filing jointly, and $12,000 for single filers. To simplify the tax rules, the additional standard deduction and personal exemptions for the taxpayer and spouse are consolidated into this larger standard deduction. These changes create a larger "zero tax bracket" by eliminating taxes on the first $24,000 of income earned by a married couple and $12,000 earned by a single individual.

Individual tax rate structure

Under current law, taxable income is subject to seven tax brackets. The framework aims to consolidate the current seven tax brackets into three brackets of 12%, 25% and 35%. Typical families in the existing 10% bracket are expected to be better off under the framework due to the larger standard deduction, larger child tax credit and additional tax relief that will be included during the committee process.

An additional top rate may apply to the highest-income taxpayers to ensure that the reformed tax code is at least as progressive as the existing tax code and does not shift the tax burden from high-income to lower- and middle-income taxpayers. The framework also envisions the use of a more accurate measure of inflation for purposes of indexing the tax brackets and other tax parameters.

Enhanced child tax credit and middle-class tax relief

The framework repeals the personal exemptions for dependents and significantly increases the Child Tax Credit. The first $1,000 of the credit will be refundable as under current law. In addition, the framework will increase the income levels at which the Child Tax Credit begins to phase out. The modified income limits will make the credit available to more middle-income families and eliminate the marriage penalty in the existing credit. The framework also provides a non-refundable credit of $500 for non-child dependents to help defray the cost of caring for other dependents.

Individual Alternative Minimum Tax (AMT)

The framework repeals the existing individual AMT, which requires taxpayers to do their taxes twice. The nonpartisan Joint Committee on Taxation (JCT) and the Internal Revenue Service (IRS) Taxpayer Advocate have both recommended repealing the AMT because it no longer serves its intended purpose and creates significant complexity.

Itemized deductions

The framework eliminates most itemized deductions, but retains tax incentives for home mortgage interest and charitable contributions.

Death and generation-skipping transfer taxes

The framework repeals the death tax and the generation-skipping transfer tax.

Tax rate structure for small businesses

The framework limits the maximum tax rate applied to the business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%. The framework contemplates that the committees will adopt measures to prevent the re-characterization of personal income into business income to prevent wealthy individuals from avoiding the top personal tax rate.

Tax rate structure for corporations

The framework reduces the corporate tax rate to 20%—which is below the 22.5% average of the industrialized world—and aims to eliminate the corporate AMT, as recommended by the non-partisan JCT. The committees also may consider methods to reduce the double taxation of corporate earnings.

“Expensing” of capital investments

The framework allows businesses to immediately write off (or “expense”) the cost of new investments in depreciable assets other than structures made after September 27, 2017, for at least five years. This policy represents an unprecedented level of expensing with respect to the duration and scope of eligible assets.

Interest expense

The deduction for net interest expense incurred by C corporations will be partially limited. The committees will consider the appropriate treatment of interest paid by non-corporate taxpayers.

Other business deductions and credits

The current-law domestic production ("section 199") deduction will no longer be necessary. In addition, numerous other special exclusions and deductions will be repealed or restricted. The framework explicitly preserves business credits in research and development (R&D) and low-income housing, however.

Territorial taxation of global American companies

The framework will replace the existing worldwide tax system with a 100% exemption for dividends from foreign subsidiaries (in which the U.S. parent owns at least a 10% stake). The framework treats foreign earnings that have accumulated overseas under the old system as repatriated. Accumulated foreign earnings held in illiquid assets will be subject to a lower tax rate than foreign earnings held in cash or cash equivalents. Payment of the tax liability will be spread out over several years.

Stopping corporations from shipping jobs and capital overseas

To prevent companies from shifting profits to tax havens, the framework includes rules to protect the U.S. tax base by taxing at a reduced rate and on a global basis the foreign profits of U.S. multinational corporations. The committees will incorporate rules to level the playing field between U.S.-headquartered parent companies and foreign-headquartered parent companies.