TAX REFORM

MORE jobs | FAIRER taxes | BIGGER paychecks

HIGHLIGHTS OF THE UNIFIED TAX REFORM FRAMEWORK

Lowers Rates for Individuals and Families

The framework shrinks the current seven tax brackets into three – 12%, 25% and 35% – with the potential for an additional top rate for the highest-income taxpayers to ensure that the wealthy do not contribute a lower share of taxes paid than they do today.

Doubles the Standard Deduction and Enhances the Child Tax Credit

The framework roughly doubles the standard deduction so that typical middle-class families will keep more of their paycheck. It also significantly increases the Child Tax Credit.

Eliminates Loopholes for the Wealthy, Protects Bedrock Provisions for Middle Class

To provide simplicity and fairness the framework eliminates many itemized deductions that are primarily used by the wealthy, but retains tax incentives for home mortgage interest and charitable contributions, as well as tax incentives for work, higher education, and retirement security.

Repeals the Death Tax and Alternative Minimum Tax (AMT)

The framework repeals the unfair Death Tax and substantially simplifies the tax code by repealing the existing individual AMT, which requires taxpayers to do their taxes twice.

Creates a New Lower Tax Rate and Structure for Small Businesses

The framework limits the maximum tax rate for small and family-owned businesses to 25% - significantly lower than the top rate that these businesses pay today.

To Create Jobs and Promote Competitiveness, Lowers the Corporate Tax Rate

So that America can compete on level playing field, the framework reduces the corporate tax rate to 20% – below the 22.5% average of the industrialized world.

To Boost the Economy, Allows "Expensing" of Capital Investments

The framework allows, for at least five years, businesses to immediately write off (or "expense") the cost of new investments, giving a much-needed lift to the economy.

Moves to an American Model for Competitiveness

The framework ends the perverse incentive to offshore jobs and keep foreign profits overseas. It levels the playing field for American companies and workers.

Brings Profits Back Home

The framework brings home profits by imposing a one-time, low tax rate on wealth that has already accumulated overseas so there is no tax incentive to keeping the money offshore.

PLEASE READ ON TO SEE KIMBE'S OPINION OF THE PROPOSED CHANGES

Proposed Tax Reforms

President Trump, in keeping with his promise to fix the tax code, has had his administration put together a list of tax reforms they are calling “Unified Framework for Fixing our Broken Tax Code”. The President laid out four principles for his tax reform:

- Make the tax code simple, fair, and easy to understand
- Give American workers a pay raise by allowing them to keep more of their hard earned paychecks
- Make America the jobs magnet by leveling the playing field for American businesses & workers
- Bring back money to reinvest in America that is currently being kept offshore

So help you understand and make a determination as to whether or not to support the changes, I have read the proposals so far and have the following to share with Individualized Systems clients and their families:

Simpler, Fairer Tax Code:

- Tax relief for middle and lower classes
  - The standard deduction would be doubled to $12,000 for single and $24,000 for couples
  - Personal exemption of $4,050 would be eliminated
  - The seven (7) current tax brackets would become three (3) - 12%, 25%, and 35%
  - The dependent deduction would be eliminated in favor of larger child tax credits
  - The amount of the credit has not been decided but the refundable amount will stay the same at $1,000
  - Additional credits of $500 per non-child dependent would be put in place

> This is a good spot for a short explanation about the difference between deductions and credits.
>
> A deduction lowers your taxable income so it only saves you a portion of tax equivalent to your tax rate. If you are in the 10% tax bracket, a deduction of $100 saves you $10 in tax.
>
> A credit lowers your tax dollar for dollar so a $100 tax credit saves you $100 in tax.
>
> Therefore, by and large credits are better than deductions and often fairer - for example:
>
> *A family with one parent at home would see the following: If they are In the 12% tax bracket a credit of $500 is the tax equivalent of a deduction of $4,200. In the 25% bracket, the same credit is the tax equivalent of a $2,000 deduction which is and in the 35% bracket it’s the tax equivalent of $1,430.*
>
> So those with more money to start with get less of a tax break.

  - The Death tax would be repealed allowing families to keep the assets their parents and grand-parents worked so hard to accumulate
  - The Generation-skipping transfer tax would be repealed allowing grandparents to makes tax free gifts to grandchildren as well as children

- Make it simple enough for a ‘post card’ tax filing for the majority
  - Eliminate the Individual Alternative Minimum Tax. It is very complex and requires taxpayers to do their taxes twice
  - Itemized deductions would be simplified and most deductions eliminated. But tax incentives for home mortgage interest and charitable contributions would remain.
  - The preliminary paper does not address specific actions on Work, Education and Retirement, but does state they will aim at raising retirement plan participation and retirement resources which means that there will probably be bigger deductions and/or credits allowed as well as raised contribution limitations.

Economic Growth and Job Creation:

- Tax relief for small business

  Defined as: companies earning less than $7.5 million a year and fewer than 500 employees
  - Limits the maximum tax rate applied to business of small and family-owned businesses conducted as sole proprietorships, partnerships and S-corporations to 25%. This is a significant improvement over the 48% maximum rate we have now.
  - Corporate tax rate would be raised to 20% from 15% but is still below the 22% average world wide
  - Corporate AMT would be eliminated to compensate for the raise in the tax rate

- The committee is still considering methods of eliminating the double taxation of Corporate monies. Currently the corporation pays tax on its earnings and then the shareholders have to pay tax on the distribution of those earnings in the form of dividends. They want to eliminate this double tax.
- Currently, businesses may expense the cost of new depreciable assets. The Committees want to expand what can be written off and increase the write-off limits, especially for small businesses.
- The net interest expenses allowed for C-Corporations will be limited but the committee is still considering the appropriate treatment of interest for non-corporate taxpayers.
- The committees are looking at other exclusions and deductions to see where the Code can be simplified and improved to help small business, but there are no plans to reduce the business credits for research and development or for low-income housing.

Closing special interest loopholes and tax breaks:

- The committee is looking at all the special interest loopholes and tax breaks in light of the economic changes since they were instituted. The review is looking for ways to simplify the Code and ensure that it reflects the current economic realities while reducing the opportunity for tax avoidance.

Global Competitiveness:

- End incentives to ship jobs, capital and tax revenue overseas by exempting foreign profits from tax when they are repatriated such as 100% exemption for dividends from foreign subsidiaries of US companies.
- To transition, the proposal will treat foreign earnings that have accumulated overseas as ‘repatriated’
- Earnings held in illiquid assets (non-cash), will be subject to lower rate tax than foreign earnings held as cash or cash equivalents.
- Any tax liability payments can be spread out over several years
- New rules protect the U.S. tax base by taxing as a reduced rate on a global basis so the playing field is leveled between U.S headquartered companies and foreign-based parent companies, giving businesses incentives to ‘come home’.

My opinion of the proposal:

While I will await the final rules with interest, these are excellent economic incentives. History has shown us that lower taxes on businesses and earnings stimulate the economy faster and more than refunds or rebates which are, unfortunately, usually put into savings. The steady, secure, increased income, week after week and month after month will work magic on small business’s ability to create new jobs and give raises to individual employees. Getting our businesses to come home will create more jobs here and get people off unemployment thereby reducing the government’s need for higher taxes.

Over the course of my 40 years in the tax and accounting industry, I have seen a lot of things tried by the various administrations to ‘fix’ our problems. I have to say, this seems, to my eyes, to be one of the better proposals. I have seen what tax cuts can accomplish. When Ronald Regan and G.W. Bush tried it, it helped. The problem was they didn’t do enough. They helped individuals, but forgot businesses.

What so many people forget is that business taxes are still paid by individuals in the form of higher prices on products and services. So, reducing business taxes at the same time, to me, looks like a double tax break for the economy.

It’s not perfect. No plan is. It won’t do much to truly simplify the tax code, but it is a start and, I think, a good one. Whether you are Democrat, Republican, Libertarian, Green, Independent, or completely non-partisan - Please take the time to really read and look at this plan. If you agree that it’s good, tell your family, your friends and your co-workers. Let them read about the changes. More importantly please call your Congressmen and your Senators and tell everyone you know to do that as well. Tell our government you are tired of high taxes and you need a break! Don’t let partisan politics continue to hurt our country. Let’s make these tax cuts happen! For us and our children!

Thank you for your time.

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