



2017 Federal Tax Reform

Business Tax Changes

Corporate Income Tax Rate
Lowers the corporate income tax rate from 35 percent to 21 percent, beginning in 2018.
Territorial Tax System
Exempts 100 percent of dividends from foreign subsidiaries. Imposes a base erosion minimum tax of the excess of 5 percent of modified taxable income over an amount equal to regular tax liability for the first year. Rate increases to 10 percent for taxable years after 2018, and 12.5 percent after 2025 (11 percent and 13.5 percent rates for banks and broker dealers).
Deemed Repatriation
Foreign-source dividends and profits of U.S. companies will not be subject to tax upon repatriation. Repatriation of deferred foreign profits will be taxed at a rate of 15.5 percent for cash and 8 percent for reinvested foreign earnings.
AMT
Eliminates the alternative minimum tax.
Pass-Through Income
Adopts a 20 percent deduction on qualified pass-through business income with limitations.
NOLs
Allows net operating losses to be carried forward indefinitely, limited to 80 percent of taxable income, and repeals NOL carrybacks.
Expensing
Makes changes to expensing of capital investments, including full expensing of short-lived investments for five years, and then phases this out over 5 years in increments of 20 percent each year. Eliminates the original use requirement, and raises the expensing limit to \$1 million and increases the phaseout beginning at \$2.5 million.
Interest Expense
Modifies net interest expense deduction so it is limited to 30 percent of the business' adjusted taxable income (earnings before interest, taxes, depreciation, and amortization) for four years, and 30 percent of the business' adjusted taxable income (earnings before interest and taxes) going forward.
Tax Credits and Deductions
Eliminates the domestic production deduction (Section 199), reduces the orphan drug credit, and limiting the deduction for FDIC premiums. Retains the New Market Tax Credit, the Work Opportunity Tax Credit, the Low Income Housing Tax Credit, and all conventional energy tax credits.
R&D
Preserves the tax credit for research and development, but requires certain research and experimental expenses to be amortized over five years.

Individual Tax Changes

Income Tax Rate Reductions

Maintains seven brackets, lowers rates for some – including the top marginal rate to 37 percent – and makes changes to the income bracket thresholds.

Tax Brackets for Individuals Under Current Law

For Taxable Income Over...	2018 Tax Rate
\$0	10%
\$9,525	15%
\$38,700	25%
\$93,700	28%
\$195,450	33%
\$424,950	35%
\$426,700	39.6%

Tax Brackets for Individuals Under Tax Reform Bill

For Taxable Income Over...	Tax Rate
\$0	10%
\$9,525	12%
\$38,700	22%
\$82,500	24%
\$157,500	32%
\$200,000	35%
\$500,000	37%

Standard Deduction Increase

Increases the standard deduction to \$12,000 for individuals, \$24,000 for married couples, and \$18,000 for heads of household (sunsets in 2025).

AMT

Retains the alternative minimum tax with increased deductibility.

Modified Deduction for State and Local Taxes

Individual income tax filers would be allowed to deduct the cost of state and local taxes up to \$10,000, but limited by having to choose either deducting property and income taxes, or property and sales taxes.

Tax Credits for Families

Increases the Child Tax Credit to \$2,000, \$1,400 of which is refundable, with a phaseout starting at \$400,000 for married filers. Also provides a new dependent credit of \$500.

Estate Tax

Doubles the exemption for the estate tax.

Popular Personal Deductions

Preserves some deductions, including the deduction for charitable contributions, and the medical expense deduction with modifications. The home mortgage interest deduction would continue for owners of existing homes, but prospectively would be allowed only for homes purchased for \$750,000 or less, and also repeals deduction for equity debt.

401(k) Limit

Retains tax treatment of 401(k)s, and makes modifications relating to individual retirement account contributions.

“Obamacare” Individual Mandate Penalty

Eliminates the penalty in 2019.