Let the Games Begin: Halftime - Part II

Client Advisories

11.22.2017

Earlier this fall I detailed in a client advisory, President Trump's proposals for changing the tax code. Since that time the Republican majority in the House of Representatives has passed a tax bill ("H.R.1"). The Senate Finance Committee has marked up its own Bill for consideration. It is expected that the Senate Finance version will be taken up by the Senate after Thanksgiving. Here is a comparison of the major differences between the House legislation and the Senate Finance Committee version as of Thanksgiving week. This list of differences highlight the domestic law provisions and does not address the international tax provisions.

	House Bill	**Senate Finance Committee Bill**
Top individual tax rate	39.6%	38.5%
Number of individual tax brackets	Four	Seven
Estate Tax	Expands exemption to about $11 million per person, repeals in 2024	Expands exemption to about $11 million per person
Corporate rate	20%	20%
Corporate tax rate reduction starts	2018	2019
Top pass-through rate	25% with caveats	Above 30%
State and local deduction	Preserves for property tax up to $10,000	Eliminates
Medical expenses deduction	Eliminates	Preserves
Student loan interest rate deduction	Eliminates	Preserves
Personal exemption	Eliminates	Eliminates
Standard deduction	Nearly doubles	Nearly doubles
Alternative minimum tax	Eliminates	Eliminates
Child tax credit	$1,600 per child	$1,650 per child

Already, there are serious questions as to whether the Senate Finance Committee Bill can clear the Senate in its present form. I believe that a number of changes will need to be made before it can pass the Senate. That is because the Republicans have only a two vote majority in the Senate and in order to pass the law without the votes of any Democrats, 50 Republicans will need to agree on the Bill.

Several Republican senators have already asked for changes in the Senate Finance Committee Bill as a condition for their vote. They have raised four major issues as follows:

1. The Senate Finance Committee version repeals the mandate under the Affordable Care Act that requires everyone to obtain health insurance. Some senators have voiced concern that removing this mandate will gut the Affordable Care Act and might raise health care premiums for many, as the insurance pool will shrink without the participation of a large number of participants.

2. Republican senators from states with high taxes, have expressed concern that the Senate Finance Committee Bill provides no deduction for state and local taxes. The House provision contains a deduction

for state and local real estate property taxes subject to a $10,000 cap. The Senate Finance version had no deduction at all for state and local tax.

3. One senator has raised a question regarding unfair treatment of small businesses compared to corporations. Corporations are afforded a 20% maximum tax rate. Small businesses, not in corporate form, can be taxed at a higher rate.

4. Finally, some Senate Republicans have voiced concerns about the impact of this legislation on the federal deficit. The federal deficit is expected to increase by $1.5 trillion dollars over the next ten years under their proposal. Increasing the deficit can cause interest rates to rise, which in turn can increase the value of the dollar, which in turn can disadvantage U.S. companies which export their products abroad. In short, deficit financed tax cuts can end up hurting the economic expansion the tax cuts were designed to encourage.

Tax Planning Suggestions

At this point there is at least a strong likelihood that a tax Bill will pass the Congress effective in 2017. Under both versions of the legislation, itemized deductions are likely to be significantly reduced. If you can benefit from itemizing deductions now, be sure to make the expenditures this year to fully utilize them this year. Prepay your state and local tax estimates due in January 2018. See your doctor and dentist and pay for prescriptions this year. Be sure to pay for medical insurance premiums this year. Prepay your January home mortgage payment in December. Make your charitable contributions this year. If you have an ongoing pledge commitment for the coming year, prepay it now. Consider using highly appreciated stock to fund your gift, instead of cash. Make sure that bills for tax preparation, investment management fees, and employee business expenses are paid this year.

Whether or not you itemize deductions, review your stock portfolio and consider realizing losses in your portfolio to offset gains. If you can still make contributions to a tax deferred retirement or savings plan, make an added contribution this year.

If you have tax planning questions, we are here to assist you. Please call us if you need assistance. We will be preparing another client advisory if and when a final tax Bill passes the Congress.

If you have questions about the potential tax reform and how it may affect your business, please contact **Kenneth Ahl** at (215) 246-3132 or kahl@archerlaw.com or any member of **Archer's Tax Group** in Haddonfield, N.J., at (856) 795-2121, in Princeton, N.J., at (609) 580-3700, in Hackensack, N.J., at (201) 342-6000, in Philadelphia, Pa., at (215) 963-3300, or in Wilmington, Del., at (302) 777-4350.

DISCLAIMER: This client advisory is for general information purposes only. It does not constitute legal or tax advice, and may not be used and relied upon as a substitute for legal or tax advice regarding a specific issue or problem. Advice should be obtained from a qualified attorney or tax practitioner licensed to practice in the jurisdiction where that advice is sought.

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