

Tax Cuts and Jobs Act

| Business Tax | |
|-------------------------------------|---|
| Corporate Tax Rate | |
| Current | The top rate for corporations is 35%. |
| Proposed | <p>The House bill would reduce the top corporate rate to 20%. Personal Service Corporation's top tax rate would be reduced to 25%. The alternative corporate tax on net capital gain would also be repealed.</p> <p>The Senate bill also cuts the top rate to 20%, but would delay the change to 2019.</p> |
| Pass-through Entity Tax Rate | |
| Current: | Pass-through entity income passes through to the individual's tax return and is taxed at the individual's tax rates. |
| Proposed: | <p>The House bill would provide a maximum 25% rate to net business income from passive activities and to a "capital percentage" of active business activities. Generally, active businesses will have a 30% capital percentage to which the max 25% tax rate can apply. Alternatively, specified service businesses are deemed to have a capital percentage of zero and will not be eligible for the 25% max tax rate. The House bill also provides, that for active shareholders earnings less than \$150,000 in taxable income from a pass through business, the first \$75,000 will be taxed at 9% in lieu of the ordinary 12% rate (see Individual tax for new tax brackets).</p> <p>The Senate bill does not distinguish between passive and non-passive owners. The Senate bill provides for a 17.4% deduction for non-wage income, subject to phase-out. Specified service businesses would not be eligible, unless household income is less than \$500,000 for joint filers.</p> |
| Like-Kind Exchanges | |
| Current | Current tax law allows swaps of property including real estate, art, and other assets. |
| Proposed | Both the House bill and the Senate bill would only allow like-kind exchanges of real estate on exchanges after December 31, 2017. |
| Purchase of Business Assets | |
| Current: | The tax code assigns a specific useful life over which purchased business assets will be expensed (depreciated over time), in lieu of taking the expense all at once. |
| Proposed: | <p>Both the House bill and the Senate bill would allow 100% expensing of "qualified" property (generally assets with a life under 20 years). This additional expensing would be permitted for assets purchased during a five year period; assets purchased between September 28, 2017 and December 31, 2022. "Qualified" property is also expanded to include used property, provided it is the taxpayer's first use.</p> <p>The House bill would also increase Section 179 expensing limitation to \$5 million and the phase out amount to \$20 million through 2022.</p> <p>The Senate bill would include an increase in Section 179 expensing to \$1 million, reduce the depreciable life of real property from 39 years and 27.5 years to 25 years, reduce farm property life from 7 to 5 years and eligible for the 200% DB method, increase the maximum depreciation deduction for autos, and utilization of the 10 year straight-line life for certain leasehold improvements, restaurants, and retail properties.</p> |

| Business Tax | |
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| Interest Deductions | |
| Current | Businesses deduct interest expense. |
| Proposed | <p>The House bill would cap business interest expenses (not investment interest expense) to 30% of EBITDA. The disallowed interest can be carried forward indefinitely. The House bill would include exceptions for entities engaged in real property and small businesses (generally gross receipts under \$25 million). Companies that finance high cost inventory would be able to write off interest payments, however they will not be able to immediately expense capital investments.</p> <p>The Senate bill would cap business interest expense (not investment interest expense) to 30% of “adjusted taxable income” and would allow the excess interest that is non-deductible in the current year to be carried forward indefinitely.</p> |
| Net Operating Losses | |
| Current | Net operating losses (NOLs) can be carried forward for twenty years and carried back for 2 years. |
| Proposed | Both the House bill and the Senate bill would allow NOLs to be carried forward indefinitely. However, the NOL would be limited to 90% of taxable income. Carrybacks would also be repealed, except for casualty and disaster losses. |

Individual Tax

Tax Rate Changes

Proposed

The House bill would eliminate three tax brackets, reducing number of brackets from 7 to 4. The change to income brackets are shown below.

The Senate bill would eliminate one tax bracket, reducing number of brackets from 7 to 6. The change to income brackets are shown below.

| 2018 TAX RATE COMPARISON - MARRIED FILING JOINT | | | | | |
|---|-----------------------|--------------|-------------------------|---------------|-------------------------|
| CURRENT | | HOUSE REFORM | | SENATE REFORM | |
| 39.6% | \$480,051+ | 39.6% | \$1,000,001+ | | |
| | | | | 38.5% | \$1,000,001+ |
| 35% | \$424,960 - \$480,050 | 35% | \$260,001 - \$1,000,000 | 35% | \$390,001 - \$1,000,000 |
| 33% | \$237,961 - \$424,959 | | | | |
| | | | | 32.5% | \$290,001 - \$390,000 |
| 28% | \$156,151 - \$237,960 | | | | |
| 25% | \$77,401 - \$156,150 | 25% | \$90,001 - \$260,000 | 25% | \$120,001 - \$290,000 |
| | | | | 22.5% | \$77,401 - \$120,000 |
| 15% | \$19,051 - \$77,400 | | | | |
| | | 12% | \$0 - \$90,000 | 12% | \$19,051 - \$77,400 |
| 10% | \$0 - \$19,050 | | | | |

| 2018 TAX RATE COMPARISON - SINGLE | | | | | |
|-----------------------------------|-----------------------|--------------|-----------------------|---------------|------------------------|
| CURRENT | | HOUSE REFORM | | SENATE REFORM | |
| 39.6% | \$426,701+ | 39.6% | \$500,001+ | | |
| | | | | 38.5% | \$500,001+ |
| 35% | \$424,951 - \$426,700 | 35% | \$200,001 - \$500,000 | 35% | \$200,001 to \$500,000 |
| 33% | \$195,451 - \$424,950 | | | | |
| | | | | 32.5% | \$170,001 to \$200,000 |
| 28% | \$93,701 - \$195,450 | | | | |
| 25% | \$38,701 - \$93,700 | 25% | \$45,001 - \$200,000 | 25% | \$60,001 to \$170,000 |
| | | | | 22.5% | \$38,701 to \$60,000 |
| 15% | \$9,525 - \$38,700 | | | | |
| | | 12% | \$0 - \$45,000 | 12% | \$9,526 - \$38,700 |
| 10% | \$0 - \$9,525 | | | | |

Increased Standard Deduction

Current

Current law taxpayers will deduct the greater of itemized deduction or the standard deduction. The current standard deduction would be \$9,550 for single taxpayers and \$13,000 for married filing joint.

Proposed

The House bill and the Senate bill would increase the standard deduction to \$12,200 for single and \$24,400 for married filing joint.

Repeal of Personal Exemptions

Current:

The current personal exemption is \$4,050 for oneself, spouse, and dependents, subject to limitation.

Proposed:

The House bill and the Senate bill would eliminate the personal exemption.

Individual Tax

Reduction of Itemized Deductions

New Limit on Home Mortgage Interest Deduction

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| Current | Currently the itemized deduction for mortgage interest is permitted on mortgage debt up to \$1 million. When mortgage debt exceeds \$1 million we allocate a percentage of mortgage interest derived on debt over \$1 million as disallowed. |
| Proposed | <p>The House bill would reduce the permissible mortgage debt from \$1 million to only \$500,000. This limitation would apply to new mortgages after November 2, 2017. Furthermore, the proposal would not allow mortgage interest on home-equity loans and second homes taken out after November 2, 2017.</p> <p>The Senate bill would maintain the current law to limit mortgage interest on debt over \$1 million. The Senate bill would not allow a deduction on home equity loans.</p> |

Complete Repeal of State and Local Income Tax Deduction

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| Current | Taxpayers include state and local taxes as itemized deductions. |
| Proposed | Both the House bill and the Senate bill would eliminate the state and local income tax itemized deduction. |

Limitation or Repeal of Property Tax Deduction

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| Current | Taxpayers include property taxes as an itemized deduction. |
| Proposed | <p>The House bill would limit this deduction to \$10,000.</p> <p>The Senate bill would eliminate this itemized deduction completely.</p> |

Repeal of Medical Expense Deduction

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| Current | Taxpayers may include medical expenses that exceed 10% of Adjusted Gross Income. |
| Proposed | <p>The House bill would eliminate this itemized deduction completely.</p> <p>The Senate bill would preserve the current medical expense itemized deduction.</p> |

Repeal of Alternative Minimum Tax (AMT)

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| Current | Certain taxpayers are required to pay a supplementary tax, Alternative Minimum Tax (AMT). AMT is a computation of an alternate liability, and the taxpayer must pay the greater of regular tax and AMT. |
| Proposed | Both the House bill and the Senate bill would eliminate Alternative Minimum Tax. |

Alimony

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| Current | Current law permits Alimony to be deducted by the person who pays it and is taxable income to the person who receives it. |
| Proposed | <p>The House bill would no longer allow Alimony from divorces and separations to be deductible for the payer and no longer income to the payee. This would take effect for divorces and separations after December 31, 2017.</p> <p>The Senate bill would not repeal the Alimony deduction and would retain current law treatment.</p> |

Individual Tax

Sale of Home

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| Current | Current law allows an exclusion of gain on the sale of a personal home up to \$250,000, if single and \$500,000, if married. This can only be utilized if the taxpayer(s) lived in the home for 2 of 5 prior years. |
| Proposed | The House bill would remove the exemption if adjusted gross income (in a look back period) exceeds \$500,000 if married filing joint, and \$250,000 if single. This can only be utilized if the taxpayer(s) lived in the home for 5 of the past 8 years. This would be effective for homes sold after 2017. |

| Estate Tax | |
|------------|---|
| Current | Estate tax is a tax specifically on assets transferred from deceased persons to heirs. Current estate tax law excludes income of \$5.49 million for an individual and \$10.98 million for married couples. Amounts exceeding these exclusions are subject to a max tax rate of 40%. |
| Proposed | <p>The House bill would double the federal tax exclusion in 2018 to \$11,200,000 and eliminates the estate tax completely after 6 years (2024).</p> <p>The Senate bill would also double the tax exclusion, however it would not repeal the estate tax in 2024.</p> |