Jackson Walker

Potential Tax Changes Under the New Administration

	Current	Big 6 Proposal: Unified Framework for Fixing Our Broken Tax Code	Impact
Tax Brackets	**Seven Rates** Ranges from 10% to 39.6%	**Three Rates** 12%, 25% and 35%	Without actual dollar amounts, it is unknown how this will actually impact individuals Per the proposal, however, a top rate above 35% may ultimately be included to ensure that taxes are not increased for the "middle class"
Standard Deduction and Itemized Deductions	Standard deduction is $6,350 for single filers and $12,700 for married couples filing jointly Itemized deductions are phased out starting at $313,800 for married couples filing jointly	Standard deduction would be raised for single filers to $12,000 and $24,000 for married couples filing jointly Personal exemptions (currently $4050 per person) are being eliminated, even for dependents The child tax credit will be increased	The standard deduction is not really doubled - personal exemptions (currently $4050 per person) are being eliminated to fund the increase Taxpayers who itemize would not be able to: • use the eliminated personal exemption • deduct state taxes (income or property) The net effect of the change may be to push more people into using the standard deduction, thereby accomplishing simplification. This may result in some individuals paying more in taxes than they do currently
Capital Gains	Current upper limit is 20%; that tax rate is exclusive to single filers earning more than $413,200 and married couples earning an income above $464,850	No proposal has been made with respect to the rates on capital gains and dividends and interest	Previous proposals would have treated capital gains, dividends and interest as ordinary income, but at half the effective rate. At this point, any change to reduce such rates appears unlikely.

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Corporate Tax	Maximum rate: 35% Blended rate, with dividends: 48% Blended rate, with the Net Investment Income Tax of 3.8% (the "NII"): 50.5%	Maximum rate would be reduced to 20% (industrialized world average rate is 22.5%) Blended rate, with dividends: 36% Blended rate, with the NII: 39.04% The corporate AMT would be eliminated	The corporate tax rate reduction should lead to renewed interest in C corporations: • Blended rate would be equivalent to a partnership investment currently • Eliminates partnership complexity Section 1202 small business corporations may become one of the best bets in entity formation - An investment in qualifying small business stock can be sold tax-free if held for at least five years, effectively dropping the income tax rate to 20%
Small Business/ Partnerships	Income items flow through a pass-through entity and are taxed based on the tax rate applicable to the ultimate non-pass through owners of the entity	Income derived from pass-through businesses (e.g., sole proprietorships, partnerships and S corporations) would be taxed at 25% Steps will be taken to ensure that personal income is not converted to businesses income	This is a significant tax savings for those investing in partnerships by reducing the top rate on taxable income by 10 percentage points (pass-through income is currently taxed at partners' individual rates) Per comments from Steve Mnuchin, the 25% rate will not apply to service type businesses (e.g., law firms)
Business Tax Changes		Significantly enhanced expensing, rather than amortization of business expenses, for at least 5 years The C corporation deduction for interest expense (other than against interest income) would be limited Elimination of the domestic production activities deduction and most other business credits, except for the R&D credit and low income housing credit	100% expensing would enable entities to recover their expense on a much quicker basis, but it is unclear what would happen after the 5^{th} year A limitation on the deduction of interest expenses could create a chilling effect on corporate bond programs

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<tr><th></th><th>Current</th><th>Big 6 Proposal:
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<tr><td>Business Tax Changes - Continued</td><td></td><td>Creation of a territorial tax system - Multinational corporations would be taxed on their global profits at a reduced tax rate, with further rules expected on US versus foreign-headquartered companies

Deferred foreign profits would be deemed repatriated with separate rates for liquid versus illiquid assets. The liability would be spread over a number of years

100% of dividends from foreign subsidiaries would be exempt from tax</td><td>Based on the language in the proposal, the repatriation of foreign profits would be mandatory, rather than optional. Although the tax would likely be payable over time, this may create some cash difficulties for businesses with large amounts of unrecognized profits held overseas</td></tr>
<tr><td>Affordable Care Act Taxes</td><td>3.8% on “net investment income” and an additional 0.9% medicare employment tax</td><td colspan="2">Congress has made several attempts at repealing and replacing the “Affordable Care Act.” Most recent attempts would have retained the ACA taxes. It is unlikely at this point that such taxes will be eliminated</td></tr>
<tr><td>Estate Tax</td><td></td><td>Proposed to be repealed, along with the generation skipping transfer tax</td><td>This may not be a permanent repeal</td></tr>
<tr><td>Alternative Minimum Tax</td><td></td><td>Proposed to be repealed</td><td>The AMT has been on the chopping block for some time, and its elimination would be welcome news to many taxpayers</td></tr>
<tr><td>Cost</td><td></td><td colspan="2">The net estimated cost of the proposed tax changes would be $2.4 trillion according to the Committee for a Responsible Federal Budget</td></tr>
<tr><td>Revenue Raisers to Offset Cost</td><td></td><td colspan="2">Many current deductions other than those relating to mortgage interest and charitable giving would be repealed (including, potentially, the deduction for state and local taxes)

Repatriation of foreign profits is intended to offset the cost of the corporate rate reduction</td></tr>
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Prospects Going Forward		The next step for tax reform is the actual drafting of the legislation and fleshing out of the changes needed within the Internal Revenue Code. An October/November timeline has been proposed, but the probability of passing this legislation before the end of 2017 is low due to some very contentious pieces (e.g., the potential elimination of the deduction for state and local taxes). Retroactive application of the tax cuts to the beginning of 2017 (similar to the George W. Bush era tax cuts) is possible, but is not likely given the cost. If 60 votes in the Senate cannot be obtained on the final form of the proposed legislation, the bill would need to be passed via the budget reconciliation process (requiring only 51 votes in the Senate). Using such process, tax changes would be subject to a sunset based on the applicable budget window if the legislation is not revenue neutral (similar to the George W. Bush era tax cuts). The preference of the Administration is to eliminate the need for the sunset, which would in turn maximize its potential to boost business investment.	

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