

Comparison of House and Senate Tax Reform Bills

<u>Provision</u>	<u>House Version of H.R. 1, the Tax Cuts and Jobs Act</u>	<u>Senate Version of the Tax Cuts and Jobs Act</u>
Individual Rates (Married Filing Jointly)	12% \$0 - \$89,999 25% \$90,000 - \$259,999 35% \$260,000 - \$999,999 39.6%* \$1 million + * 12 percent bracket phases out over \$1 million at \$6 for every \$100 of AGI over \$1 million	10% \$0 - \$19,049 12% \$19,050 - \$77,399 22% \$77,400 - \$139,999 24% \$140,000 - \$319,999 32% \$320,000 - \$399,999 35% \$400,000 - \$999,999 38.5% \$1 million + *Expires 12/31/25
Corporate Rates	20%	20% beginning 1/1/19
Personal Service Corporations (C-Corp)	25%	20%
Standard Deduction	Increased to \$12,000 for individuals, \$24,000 for married filing jointly	Increased to \$12,000 for individuals, \$24,000 for married filing jointly *Expires 12/31/25
Alternative Minimum Tax (AMT)	Corporate and Individual AMT Repealed	Corporate and Individual AMT* Repealed *Individual AMT Repeal Expires 12/31/25
Pass-Through Business Income	Capped at 25%; Income for active shareholders* over 25% defaults to 70% ordinary income and 30% to 25% rate cap; Alternative “return on investment” calculation available if depreciable capital times Federal short-term rate plus 7 percent exceeds 30% net business income; First \$75,000 of net business income taxed at special 9% rate for owners with less than \$150,000 in taxable income, then phases out up to \$225,000. Special rate phased in over 5 years *Defined under Section 469	17.4% deduction on pass-through income*; Deduction not allowed for reasonable compensation paid to S-Corp owners; Limited to half of W-2 wages for individuals with over \$250,000 in business income (\$500,000 MFJ)**; Effective top marginal rate on pass-through income of 31.8%; Excess business losses disallowed. Excess loss is aggregate deductions of the taxpayer attributable to trades or businesses of the taxpayer, over the sum of aggregate gross income or gain of the taxpayer plus \$500,000 (MFJ) or \$250,000 (Ind) *17.4% deduction expires 12/31/25 ** Phases out at \$300,000 (ind)/\$600,000 (MFJ)

Passive Shareholder	100% of passive income* capped at 25% rate. *Defined under Section 469	Passive shareholder* income subject to 17.4% deduction. 3.8% Net Investment Income Tax for passive income over \$200,000 (ind) / \$250,000 (MFJ) retained *Defined under Section 469
Service Businesses	Defaults to 100% of income from service businesses treated as wages*; Services eligible for special small business rate above *Can access 25% through ROI calculation	Excluded from receiving the 17.4% deduction above \$500,000 (MFJ) and \$250,000 (Ind)* *Fully phased out at \$600,000/\$300,000 **Expires 12/31/25
Expensing	Temporary full expensing for property currently eligible for bonus depreciation for 5 years	Temporary full expensing for property currently eligible for bonus depreciation for 5 years
Section 179 Expensing	Temporarily increased to \$5 million with \$20 million phaseout for 5 years *Indexed to inflation	Permanently increased to \$1 million with \$2,500,000 phaseout; Restaurant, retail, and leasehold improvements no longer deductible under 179; now 10-year straight line depreciation *Indexed to inflation
Real Property Depreciation	No provision	Depreciable life reduced to 25 years
Cash Accounting	Available to C-Corps and Pass-Throughs with up to \$25 million in gross receipts, including inventories* *Farming and Professional Service Corporation Exemptions from Accrual Retained	Available to C-Corps and Pass-Throughs with up to \$15 million in gross receipts, including inventories* *Farming and Professional Service Corporation Exemptions from Accrual Retained
UNICAP Exemption	Increased to \$25 million	Increased to \$15 million
Small Contractor Exemption	Increased to \$25 million	Increased to \$15 million
Interest Deduction	Interest exceeding 30 percent EBITDA not deductible. Exempts real property trades or businesses. Exempts businesses with less than \$25 million in gross receipts.	Interest exceeding 30 percent EBIT not deductible. Exempts real property trades or businesses. Exempts businesses with less than \$15 million in gross receipts.
State and Local Taxes	Repealed except for \$10,000 property tax deduction allowance	Fully repealed

Net Operating Losses (NOLs)	Follows AMT rule for NOLs to be carried forward indefinitely. Deduction of NOLs limited to 90% of current year taxable income; NOL carrybacks eliminated, except for one-year carrybacks for certain disaster losses.	Follows AMT rule for NOLs to be carried forward indefinitely. Deduction of NOLs limited to 90% of current year taxable income; Limited to 80% of taxable income in 2024; NOL carrybacks eliminated, except for one-year carrybacks for certain disaster losses.
Domestic Production Activities Deduction (Section 199)	Repealed	Repealed
Mortgage Interest	Deductible up to \$500,000; Home equity deduction repealed; Interest from second home deduction repealed	Deductible up to \$1 million; Home equity deduction repealed
Estate/Gift/GST Taxes	Estate tax exclusion doubled from current level* to \$10.98 million for 5 years (40 percent rate retained), then estate and GST tax fully repealed after 2023; Stepped-up basis retained; Gift tax exclusion raised to \$10 million, rate lowered to 35% *Indexed to inflation from 2011	Estate and gift tax exclusion doubled from current level* to \$10.98 million** *Indexed to inflation from 2011 **Expires 12/31/25
Like-Kind Exchanges (LKEs)	LKEs for real property only. Equipment disallowed.	LKEs for real property only. Equipment disallowed.
Independent Contractor	No provision	No provision
Indexing	Chained CPI for inflation adjustment	Chained CPI for inflation adjustment

Private Activity Bonds (PABs)	Repeals tax exemption for all PABs issued after 2017	Repeals tax exemption for advance refunding bonds
Historic Tax Credit	Repealed	10% credit for pre-1936 buildings repealed; 20% credit for certified historic structures reduced to 10%.
New Markets Tax Credit	Prospectively repealed beginning in 2018. Existing credits can be used for up to 7 years.	No provision
Municipal Bonds	No provision	No provision
Advanced Refund Bonds	Repealed	Repealed
Work Opportunity Tax Credit (WOTC)	Repealed	No provision
Carried Interest	Imposes a 3-year holding requirement for long-term capital gains in investment partnerships	No provision
Composite Plans	No provision	No provision
Highway Trust Fund	No provision	No provision