

Proposed Federal Income Tax Reform: Who Will the Winners and Losers Be?

The following chart outlines the state of current income tax law provisions, the changes proposed by Congressional Republicans, and President Trump during his campaign.



Issue	Current Law	House GOP Proposal	Trump Proposal
Individual Tax Rate Brackets	7 Brackets with highest rate of 39.6%	3 Brackets - 12%, 25% and 33%	Same as GOP
Standard Deduction and Personal Exemptions	Individuals can claim both std. deduction and personal exemptions	Increase std. deduction and eliminate personal exemptions	Same as GOP with slight differences in amounts
Itemized Deductions	Subject to phaseouts and AMT clawback	Retain home mortgage interest and charitable deductions but eliminate nearly all others	Caps itemized deductions at \$100K for singles; \$200K for joint filers
Individual Alternative Minimum Tax (AMT)	AMT imposed on top of regular income tax to eliminate tax preference items, such as state income tax deduction	Repeal	Repeal
Capital Gains Tax Rates	Generally 20% rate for long-term capital gains	One-half of the applicable ordinary income tax rates; including on interest income	Retain 20% long-term rate; Interest income not included
Corporate Income Tax Rate	Generally 35% top tax rate (highest in industrialized world)	20%	15%
Type of Corporate Tax System	Taxes worldwide income, including that of foreign subsidiaries when repatriated	Territorial	Worldwide
Corporate AMT	AMT imposed on top of regular income tax to eliminate tax preference items (such as full NOL deductibility)	Repeal, but retain 90% limitation on use of NOLs	Repeal
Pass Through Tax Rate	S Corporation and Partnership Income generally taxed at individual owner's marginal tax rate	25% tax rate applies to active business income; subject to reasonable compensation requirements for owner/operators	15% rate for "small" pass-throughs; "Large" pass-throughs only get 15% rate if their distributions are taxed like C Corporation dividends
Business Tax Benefits	Too numerous to list	Retain only R&D tax credit and LIFO provisions	Retain only R&D tax credit
Depreciation	Accelerated expensing and depreciation permitted on a very limited basis	Current expensing of all capital expenditures, including buildings	Full expensing of manufacturing equipment, but must forego interest deductions
Business Interest Deductions	Generally fully deductible	No deductions for excess interest (exceptions for financial institutions)	No deduction of expensing equipment purchases
International Activities	Amounts earned by foreign subsidiaries are generally fully subject to tax when repatriated to US parent corporation (but currently with respect to certain CFCs and PFICs)	One time tax of 8.75% on cash and other amount reinvested (e.g., in PPE) - payable over 8-year period; 100% exclusion going forward	10% on previously unrepatriated earnings; Retains worldwide system (at 15% rate), but ends deferral on foreign earnings going forward
Foreign Trade	Limited differential for imported goods and products versus those domestically produced; some tax credits available for domestic activity	Creates "border adjustability" - i.e., no deduction for imported goods or components, and may exclude gross receipts derived from exported products of components in computing income of domestic activities	Has suggested tariffs on foreign goods Initially against border adjustability as "too complicated"
Carried Interest	Treated as any other partnership interest and presumably resulting in taxation at capital gains tax rates	No proposal	Tax as ordinary ("service") income
Affordable Care Act Taxes	In effect, including individual mandate penalties, medical device tax and net investment income tax	Repeal all	Repeal all