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Dear Clients and Friends:

After months of fanfare about tax reform.....House GOPers have finally released a tax bill, cutting rates for businesses and most individuals and nixing or paring back many popular tax breaks.

Although we still expect passage of tax cuts sometime in early 2018... It's going to be a bumpy ride, somewhat akin to the health reform saga. A big sticking point: The impact on the federal deficit. Senate fiscal hawks could end up balking if the tax cuts threaten to add too much to the national debt. With that, let's turn to details of what's included in the House bill, the vast majority of which would apply to tax years beginning after 2017.

Capital Gains and Dividends
The tax rates for capital gains and dividends would stay the same.

Standard Deductions
Standard deductions would nearly double...to $24,000 for married filers and $12,000 for single individuals. Singles with children could claim $6,000 more. An increased child tax credit, too...$1,600 per dependent under age 17. And a new, temporary, five-year credit of $300 for a taxpayer, spouse and non-child dependents. Higher-income phase-outs would apply to these credits. But personal exemptions for filers and their dependents would be repealed.

Credits
The credits for adoption, plug-in vehicles and a few others would disappear. Many education tax breaks would be nixed. But 529s would be enhanced to allow payouts for elementary and secondary education and apprentice programs.

Also, the American Opportunity and earned income credits would be saved.

Alternative Minimum Tax
The alternative minimum tax would be repealed. Likewise for the estate tax... **REFORM** but not right away. The estate tax exemption would first be doubled, to over $10 million, starting in 2018. Full repeal of the tax is scheduled for 2024.

Itemized Deductions
The bill takes a chain saw to many itemized deductions on Schedule A. The write-off for state and local income and sales taxes would be eliminated. The deduction for property taxes would be capped at $10,000. Expect heated debate on this issue. Whatever emerges will likely differ from the current House proposal.

Mortgage Interest
The mortgage interest deduction would be nicked. Under current law, taxpayers can deduct interest on as much as $1 million of mortgages used to buy, build, or improve primary residence and a second home, plus the interest paid on up to $100,000 of home equity debt. The House would slash the $1-

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million cap to $500,000, and axe the write-off for interest on home equity loans and second homes. The provision would generally be effective for loans incurred after Nov. 2, 2017.

Charitable Contributions
The charitable contribution write-off would be saved and expanded a bit. Several other big write-offs would go away. Personal casualty losses, gambling, tax preparation fees, moving expenses, alimony, although the payments would be tax-free to recipients, employee business expenses, and medical costs, though this last one, which impacts seniors and the chronically ill, among others, has a good chance of surviving in some form in any tax package enacted.

Sale of Home
Even the home sale exclusion doesn't escape unscathed under the House bill. For joint return filers, the $500,000 exclusion starts to phase out dollar for dollar when adjusted gross income tops $500,000. For singles, the $250,000 exclusion begins to phase out at $250,000 of AGI. The requirements to qualify for the tax break would be tighter. Filers must own and use the residence as their primary home for at least five out of the eight years before the sale...up from two years out of five.

Business Tax
The House bill would dramatically reform the taxation of businesses. Corporations would pay tax at a flat 20% rate, down from 35% now. This lower rate would be permanent and would begin in 2018 with no phase-in. Personal services corporations would be subject to a flat 25% corporate rate.

The corporate alternative minimum tax would be scrapped, too.

Asset Write-off
Enhanced write-offs for business asset purchases are included in the bill: 100% bonus depreciation for many assets put into use during the year. But there's a catch. This business tax break is temporary, lasting for only five years.

A higher cap on expensing business assets. It would skyrocket to $5 million.

Many key breaks would be eliminated or pared back: Business entertainment. The 9% domestic production deduction. The rehab and work opportunity tax credits. Net operating losses could offset only 90% of taxable income, and NOL carrybacks would be prohibited. Tax-deferred like-kind swaps would be limited to real property.

Check out our "Resources" tab on our website for more information or contact our office with any questions or concerns.

We look forward to seeing you soon!

Very truly yours,
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