



## Tax Reform: It happened, now what?

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The conference report on the tax reform bill (unofficially referred to as **The Tax Cuts and Jobs Act**) has now been approved by both the House and Senate. As you may know, the conference report passed the house on Tuesday morning and was sent to the Senate. During the Senate consideration on Tuesday evening, the Democrats raised a point of order against three provisions in the bill (the Senate Parliamentarian had ruled that these provisions violated the rules of budget reconciliation). One of those provisions was the short title of the bill: The Tax Cuts and Jobs Act. The Republican leadership moved to waive those points of order, which failed on a 51-48 vote (60 votes are required to waive a budget reconciliation point of order), and the three provisions were removed from the bill. Very early Wednesday morning, the Senate approved the amended conference report and sent it back to the House for a final vote. The House approved the amended version early Wednesday afternoon. The final step for this bill is for the House and Senate to finish enrolling the amended version and to send it to the President for his signature. This will not occur until after the first of the year in order to avoid potential sequestration (cuts) in spending for Medicare, Medicaid, and other government programs caused by increased deficits from the tax cuts in the conference report.

### What Businesses Need to Know about the Tax Provisions

Effective for taxable years beginning *after* December 31, 2017, the conference report replaces the current corporate rate structure with a 21 percent flat rate on all corporate taxable income and fully repeals the corporate alternative minimum tax (AMT). It also allows full expensing of business equipment for assets placed in service through 2022, with a phase-out (reduced by 20 percentage points per year) of that benefit from 2023 to 2027. Business revenue offsets include: new limits on the deduction for net business interest, repeal of the section 199 manufacturing deduction and the deduction for state and local lobbying expenses, and disallowance of like-kind exchanges other than for real property. For pass-through businesses, the bill allows a deduction of up to 20 percent of certain pass-through income. In addition, the bill moves the US from a worldwide tax system to a participation exemption system by giving corporations a 100 percent dividends received deduction for dividends distributed by a controlled foreign corporation (CFC). One of the largest revenue raisers in the bill is a one-time deemed repatriation tax, payable over eight years, on unremitted earnings and profits (E&P) of a CFC at a rate of 15.5 percent for E&P held in cash and cash equivalents and 8 percent for E&P held in illiquid assets.

### What Individuals Need to Know Now about the Tax Provisions

The conference report generally follows current law by maintaining seven individual income tax brackets and reduces the top individual income tax rate from 39.6 percent to 37 percent (lower than in either the House or Senate bills). The bill includes a significant "marriage penalty," while nearly doubling the standard deduction, repealing the current limitation on itemized deductions, and expanding the refundability of the child tax credit. The bill retains the deduction for unreimbursed medical expenses (and even offers an increased deduction for some taxpayers in 2017 and 2018) and leaves intact the current-law capital gains exclusion on the sale of a primary residence. Revenue offsets for individuals include repealing personal exemptions, retaining the individual AMT (albeit with higher exemption amounts), reducing the deduction for home mortgage interest – existing mortgages are grandfathered – and placing new limits on the ability of taxpayers to deduct state and local taxes. All of these individual tax changes expire after 2025. While these changes may have significant implications for employee tax withholding, it will take the IRS some time to issue revised withholding allowance worksheets implementing the changes enacted in this bill. *No immediate action is required until the IRS reacts to the new law.*

For your reference, [click here](#) for a two-page summary of the conference agreement prepared by the staffs of the House Ways and Means Committee and Senate Finance Committee.

### For more information

For additional information on the tax reform package or any other tax issues, please contact me at [mlp@vnf.com](mailto:mlp@vnf.com) or 202-298-1988.

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