# Quick Take on the Current House Tax Bill[1]

## Winners

**Big Corporations.** The bill cuts the top rate that large corporations pay from 35 percent to 20 percent. The plan would eliminate most business deductions and credits, with the exception of those for research and development and low-income housing. Cutting this tax rate is the most expensive change in the bill. A recent analysis by the Tax Foundation found that eliminating these corporate tax expenditures that do not change the structure of the tax code would only pay to lower the rate to 28.5 percent from 35 percent, far short of the 20 percent rate called for in the bill. Companies would get some new tax breaks to help lower their bills, such as the ability to deduct all the costs of purchasing new equipment, as well as a special low rate on any money they bring back to the United States—they would get a tax rate of 12 percent. The entire business tax system would also change from a worldwide system, in which money anywhere around the globe is taxed, to a territorial system in which it's mostly money made in the United States that is taxed. Businesses have long lobbied for this change.

**The Super-rich.** The estate tax would go away by 2024, meaning wealthy families would be able to pass on estates and trust funds to their heirs tax-free, including accrued capital gains, which might never be taxed. At the moment, only estates worth over $5.49 million face the estate tax (the GOP plan doubles that amount immediately until the tax goes totally away).

**People Paying the AMT.** The bill eliminates the alternative minimum tax, which forces people who earn more than about $130,000 to calculate their taxes twice, once with all the deductions they can find and once with the AMT method, which prevents the use of most most tax breaks.

**"Pass through" Companies.** Businesses structured as sole proprietorships, partnerships or LLCs would get a sizable discount on their taxes. Under the House bill, these "pass through" companies would pay a tax rate of 25 percent on 30 percent of their business income, a big reduction from the 39.6 percent rate some pay now. The bill tries to prevent "service firms" like law firms and accounting firms from being able to pay the lower 25 percent rate. The bill does not change or eliminate carried interest, which is used by hedge fund operators and real estate developers.

## Losers

**Holders of High Dollar Mortgages.** The legislation would cut in half the mortgage interest deduction, changing the deduction's rules for new mortgages. At present Americans can deduct interest payments made on the first $1 million worth of home loans. Under the bill, for new mortgages, they would be able to deduct interest payments made only on the

[1] As of 11/8/2017—Probably subject to change. Check the news for updated info. The issues will probably remain the same, but their treatment in the bills may change as Congress reacts to lobbyists and the public.

first $500,000 worth of home loans. The National Low Income Housing Coalition says mortgages over $500,000 are rare: Only 5 percent of mortgages are more than that amount.

**Home Owners, Particularly People in High-tax States.** Over a third of filers in many high tax states such as California, New York, New Jersey and Connecticut claim the state-and-local-property-tax (SALT) deduction on their returns. In addition to capping the mortgage deduction, the bill also caps the SALT deduction at $10,000 a year. That said, many people believe these limits are a good idea because the housing incentives in the current tax code favor the wealthy.

**(Some) small-business owners.**The original idea was to lower small businesses' taxes to 25 percent, but the language in the bill allows small-business owners to pay only 30 percent of their business income at the 25 percent rate. The rest would be paid at the business owner's individual tax rate. Any individuals earning over $200,000 a year (or couples earning more than $260,000) would pay the rest of their taxes at a rate of 35 percent. The National Federation of Independent Business, which represents 325,000 small businesses, said it would not support the House bill, because it “leaves too many behind.”

**Families with Children.** The new, single deduction would be higher for many filers, except those who claim multiple children. An increase in the child tax credit to $1,600 from $1,000 and a new $300 credit for each parent and non-child dependent could make up the difference.

**The Working Poor.** The bottom 35 percent of Americans do not get any extra benefits. They already have a $0 federal tax liability. Some argue a more equitable tax system would increase the earned income tax credits (EITC) that lower-income families get, especially those that work low-wage jobs. The House bill preserves the popular EITC, but does not expand it.

**Charities.** While the House bill enables filers to continue deducting their charitable giving, many middle- and upper-middle-class families would no longer take that tax break. At the moment about 30 percent of Americans itemize, but under the House bill, the standard deduction roughly doubles from $6,350 to $12,000 for individuals and $12,700 to $24,000 for married couples, meaning fewer people would probably itemize.
The National Council of Nonprofits warns that charitable deductions are likely to go down under this bill.

**Senate vs. the House.**

- **Delays cutting the corporate rate** from 35 percent to 20 percent until 2019. The House bill would lower the rate immediately, and the proposed delay is likely to be contentious among Republicans.
- **Expands the benefit of the special 25 percent rate** for pass-through businesses.
- **Keeps seven tax brackets,** compared with four in the House. The thresholds for the Senate plan’s brackets weren’t immediately available.
- **Sets the top individual tax rate at 38.5 percent,** down from the 39.6 percent in the House. That rate would apply to individuals making $500,00 or more, or couples making $1 million or more.
- **Leaves the estate tax in place,** but doubles the exemption to about $11 million per person. The House bill would repeal the estate tax after 2023.
- **Fully repeals the deduction for state and local taxes.** The House version keeps a deduction of up to $10,000 for state and local property taxes.

- **Keeps the mortgage-interest deduction** for home loans up to $1 million. The House had lowered the limit to $500,000 and ended the break for second homes.
- **Sets the child tax credit at $1,650**, up from $1,600 in the House bill.
- **Keeps the existing deduction for medical expenses and a tax break for graduate students**.