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Alerts

Framework for Tax Reform Announced

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Hinshaw Alert

On September 28, the Trump Administration and the Republican Congressional leadership announced their framework for tax reform. Many of the crucial details have been left for Congress to decide, but the major points of the framework include:

For individuals:

- A 25% tax rate for income from small businesses operated as a sole proprietorship, partnership or S corporation. The current maximum tax rate on such income (taxed to the individual owners) is 39.6%.
- Changing the current seven income tax brackets to three (12%, 25% and 35%).
- Repeal the estate tax and the generation skipping tax.
- Repeal the alternative minimum tax for individuals.
- Double the standard deduction (to $12,000 for individuals and $24,000 for married couples).
- Eliminate most itemized deductions, including the one for state and local taxes. Charitable gifts and home mortgage interest are to retain "tax incentives".

For C corporations:

- A 20% tax rate for C corporations; reduced from the current 35%.
- A C corporation’s ability to deduct interest will be "partially limited".
- A C corporation will be allowed to expense the cost of new depreciable assets, other than structures, for at least five years.
- The domestic production deduction (Section 199) will be repealed.
- The current arrangement of taxing a C corporation on its world-wide income will be replaced by a territorial income tax system. Dividends from related (10% or more ownership) foreign subsidiaries will not be taxable. Currently accumulated foreign earnings will be deemed repatriated and taxable over "several years".

All of the details for this framework, except as noted above, will be negotiated over by Congress over the next few weeks, with the Congressional leadership anticipating completion of the work by the end of this month.

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