Summary of House of Representatives Tax Reform Plan of June 24, 2016

"A Better Way – Our Vision For a Confident America"

Tax Executives Institute, Inc.

House Republican Tax Reform Plan Basics

Rates for Individuals:

- Lowers individual brackets to three: 12%, 25%, and 33%
  - New 12% replaces current 15% bracket
  - New 25% bracket replaces current 25% and 28% brackets
  - New 33% bracket replaces current 33%, 35%, and 39.6% brackets
- Raises standard deduction to $24,000 (married filing jointly), essentially swallowing current 10% tax bracket
- Allows 50% deduction of all net capital gains, dividends, and interest income

House Republican Tax Reform Plan Basics (cont.)

Other Highlights for Individuals:

- Eliminates all itemized deductions except for mortgage-interest and charitable deductions
- Consolidates various child credits and exemptions into $1,500 child tax credit, $1,000 of which is refundable
- Eliminates estate tax
- Eliminates AMT

House Republican Tax Reform Plan Basics (cont.)

Rates for Businesses:

- C Corps taxed at 20%
- Pass-throughs taxed at individual rates up to 25% (no 33% bracket) after deducting reasonable compensation to owners
- Reasonable compensation to pass-through owners taxed at individual rates

House Republican Tax Reform Plan Basics (cont.)

Other Highlights for Businesses:

- Full and immediate expensing of expenditures (tangible and intangible)
- § 41 R&E credit remains
- No § 199 domestic production activities deduction
- No AMT

International Taxation

- Shift from worldwide taxation of businesses to territorial taxation of businesses, 100% exemption for dividends from foreign subsidiaries
- Existing foreign E&P subject to 8.75% tax on cash repatriation, 3.5% tax on all other repatriation, all payable over eight years
- Subpart F will focus on foreign personal holding company rules to counter potential for truly passive income being shifted to low-tax jurisdictions

International Taxation (cont.)

- "Border adjustability" – shift to destination-basis tax system, tax jurisdiction following location of consumption rather than location of production
- Exports are therefore not taxed, while imports are taxed
- Creates parity with trading partners that impose VAT that is rebated upon export
- Such border adjustments permissible under WTO rules when consumption taxes (i.e., "indirect taxes") but not when income taxes (i.e., "direct taxes")

Interest Deductions

- Businesses can only deduct interest expense against interest income
- Net interest expenses can be carried forward indefinitely
- “The Committee on Ways and Means will work to develop special rules with respect to interest expense for financial services companies, such as banks, insurance, and leasing, that will take into account the role of interest income and interest expense in their business models.”

Net Operating Losses

- NOLs can be carried forward indefinitely and can be increased by interest factor to compensate for inflation and real return on capital
- NOL carryforwards limited to 90% of net taxable amount for such year
- NOLs cannot be carried back

LIFO

- Last-in-first-out method of accounting preserved for inventory
- “The Committee on Ways and Means will continue to evaluate options for making the treatment of inventory more effective and efficient in the context of the new tax system.”