

# The Major Changes in the New Republican Tax Code

Congressional Republicans fulfilled one of their biggest and most long-awaited goals: an overhaul of the tax code. Their changes—which were signed by President Donald Trump on Friday—cut corporate taxes permanently and provide temporary cuts for individuals.

## Income Tax Brackets Individual tax provision

### REVISE

There are **seven** tax brackets, starting at 10 percent and reaching **39.6 percent** for incomes above **\$418,400 for singles** and **\$470,700 for joint filers**.

### Previous

Rate	Single	Married, filing jointly
10%	Up to \$9,325	Up to \$18,650
15%	\$9,325–\$37,950	\$18,650–\$75,900
25%	\$37,950–\$91,900	\$75,900–\$153,100
28%	\$91,900–\$191,650	\$153,100–\$233,350
33%	\$191,650–\$416,700	\$233,350–\$416,700
35%	\$416,700–\$418,400	\$416,700–\$470,700
39.6%	More than \$418,400	More than \$470,700

### NEW

It will maintain **seven** tax brackets, starting at 10 percent and reaching **37 percent** for incomes above **\$500,000 for singles** and **\$600,000 for joint filers**. The changes will begin in **2018** and expire after **2025**.

Rate	Single	Married, filing jointly
10%	Up to \$9,525	Up to \$19,050
12%	\$9,525–\$38.7K	\$19,050–\$77.4K
22%	\$38.7K–\$82.5K	\$77.4K–\$165K

24%	\$82.5K–\$157.5K	\$165K–\$315K
32%	\$157.5K–\$200K	\$315K–\$400K
35%	\$200K–\$500K	\$400K–\$600K
37%	\$500K+	\$600K+

**Corporate Tax Cut**  
Business tax provision

REVISE

**Previous**

The current corporate rate is **35 percent**.

**New**

It will lower the corporate rate to **21 percent in 2018**.

**Corporate Alternative Minimum Tax**  
Business tax provision

REPEAL

**Previous**

It applies a **20 percent rate** as part of a parallel tax system that limits tax benefits to prevent large-scale tax avoidance. Companies must calculate their ordinary tax and AMT tax, and pay whichever is higher.

**New**

It will **repeal** the corporate alternative minimum tax.

**Individual Alternative Minimum Tax**  
Business tax provision

REVISE

**Previous**

It can apply after exemption level of **\$54,300** for singles and **\$84,500** for married, joint filers, and the exemptions phase out at higher incomes.

**New**

It will **increase the exemption** to **\$70,300** for singles and **\$109,400** for joint filers. It will **increase the phase-out threshold** to **\$500,000** for singles and **\$1 million** for joint filers. The higher limits will **expire in 2026**.

### **Full and Immediate Expensing**

Business tax provision

**REVISE**

#### **Previous**

Businesses must take depreciation, **spreading the recognition** of their equipment costs for tax purposes **over several years**.

#### **New**

It will allow companies to **fully and immediately deduct** the cost of certain equipment purchased **after Sept. 27, 2017** and **before Jan. 1, 2023**. After that, the percentage of cost that could be immediately deducted will gradually phase down.

### **Repatriation**

Business tax provision

**REVISE**

#### **Previous**

Multinationals are taxed on their global earnings at the corporate rate of **35 percent**, but they can defer taxes on foreign earnings until they bring them back to the U.S., or “repatriate” them.

#### **New**

It will tax companies' accumulated overseas income held as cash at **15.5 percent**, while non-cash holdings will be taxed at **8 percent**. Companies can make the payments in eight annual installments. Going forward, the corporate income tax will focus largely on domestic economic activity, though some special levies will be aimed at preventing corporations from shifting profits offshore.

### **Pass-Through Business Income**

Individual tax provision

**REVISE**

#### **Previous**

Pass-through businesses pass their income to their owners, who pay tax at their individual rates.

#### **New**

It will allow pass-through owners to **deduct 20 percent** from their business income, subject to limits that will begin at **\$315,000** for married couples, or half that for single taxpayers.

### **Obamacare Individual Mandate**

Individual tax provision

**REPEAL**

#### **Previous**

Individuals who fail to buy health insurance must pay **penalties of \$695** (the penalty is higher for families), or **2.5 percent** of their household income—whichever is higher, but capped at the national average cost of the most basic, low-premium, high-deductible plan.

#### **New**

It will **repeal** the Affordable Care Act's individual mandate.

### **Standard Deduction and Personal Exemptions**

Individual tax provision

**REVISE**

#### **Previous**

Single taxpayers may take a standard deduction of **\$6,350**, and joint filers may take a deduction of **\$12,700**. Personal exemptions of **\$4,050** are allowed for each family member.

#### **New**

It will expand the standard deduction for individuals to **\$12,000** and to **\$24,000** for joint filers. Personal exemptions will be **repealed**.

### **State and Local Tax Deductions**

Individual tax provision

**REVISE**

#### **Previous**

Individuals can deduct the state and local taxes they pay, but the value is subject to certain limits for high earners.

#### **New**

It will **cap the deduction at \$10,000**, which could include a combination of property taxes and either sales or income taxes.

## **Mortgage Interest Deduction**

Individual tax provision

**REVISE**

### **Previous**

Deductible mortgage interest is capped at loans of \$1 million.

### **New**

It will limit deductible mortgage interest for **newly purchased first or second homes** to loans of **\$750,000 or less**, starting **in 2018**.

## **Medical Expense Deduction**

Individual tax provision

**REVISE**

### **Previous**

Qualified medical expenses that exceed **10 percent** of the taxpayer's adjusted gross income are deductible.

### **New**

It will reduce the threshold to **7.5 percent** of adjusted gross income for 2017 and 2018.

## **Child Tax Credit**

Individual tax provision

**REVISE**

### **Previous**

Families may claim a **\$1,000 credit for each child under 17**. The credit begins phasing out for couples earning more than **\$110,000**. The credit is at least **partially refundable** to qualified taxpayers who earned more than \$3,000.

### **New**

It will double the credit to **\$2,000 per child younger than 17** through **2025**. It will raise the phase-out threshold to **\$400,000** and cap the refundable portion at **\$1,400** in 2018.

## **Estate tax**

Individual tax provision

**REVISE**

### **Previous**

Heirs must pay **40 percent** in tax on estates worth more than **\$5.49 million** for individuals and **\$10.98 million** for couples.

### **New**

It will **double the thresholds** so the tax applies to fewer estates. The higher thresholds will **sunset in 2026**.

As you may be aware, there are some provisions in the tax code that may yet need to be amended. We will continue to follow developments closely and update our clients as we receive information. In the meantime, if you have any questions please contact us at [chilobe@kalambocpa.com](mailto:chilobe@kalambocpa.com) or [info@kalambocpa.com](mailto:info@kalambocpa.com).