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Insight

Where does Tax Legislation Stand?

-Manchester Capital Management Strategy Group

Republicans continue to move toward passage of a tax bill, with the goal of having it on President Trump's desk by December 20th. Though reconciliation of the House and Senate bills has lost momentum recently, passage before Christmas is still anticipated.

If a reconciled bill is passed this year, changes next year may make certain actions this year more advantageous and we recommend you consult with your accountant regarding:

- Pre-paying state and local taxes.
- Making large sales-tax purchases this year rather than next.
- Completing like-kind exchanges for non-real estate (art and other collectables).
- Accelerating charitable deductions to offset this year's higher tax rates.

We realize this legislation is still subject to change, though this is our current thinking on the subject. We will notify you in the future should there be substantive changes to the measures outlined below.

A House and Senate conference committee met on December 13th to reconcile the two separate versions of the bill. This required ten hours of debate and a mini "vote-a-rama" on amendments and changes to the bill. The conference committee hopes to submit a single, reconciled bill to Congress by Friday, December 15th. The Senate would likely vote on the final bill first, on December 18th or 19th, in order to ensure it passes Senate budget rules before the House takes up its vote. If all goes according to the Republicans' plan, the approved bill would be presented to President Trump for his signature on December 20th.

The Republicans have sufficient votes to pass a bill on their own without the threat of a Democratic filibuster under special budget rules but those rules restrict them to $1.5 trillion of deficit spending. For that reason, Republicans need to offset some tax reductions with other revenues. One major change we anticipate is a smaller reduction in the corporate tax rate--to 21% from the current 35% instead of the originally proposed rate of 20%, though implementation will likely be in 2018. The corporate AMT may be repealed, but the individual AMT will likely be retained in some form. State and local income taxes may continue to be deductible but the amount in combination with property and sales taxes may have a cap of $10,000.

On December 10th, the Wall Street Journal published an insightful article entitled “The Taxman Cometh: Senate Bill’s Marginal Rates Could Top 100% for Some.” In it, the author detailed the unintended consequences of current proposals and the work ahead needed to rectify them. Following is our guestimate at some of the possible changes for individual tax payers.

Possible Changes for Individual Tax Payers

- Seven tax brackets with a top rate of 37%, a decrease from the current 39.6% top rate.
- Standard deduction increased to $24k for married filers.
- Individual AMT to be retained with exemptions up to $500k for individuals and $1 million for married couples.
- Child tax credit increased to $2k per qualifying child under age 18, $500 per non-child dependent. The income threshold for phase-out may be increased to $500k from $150k for joint filers.
- Estate and gift tax exemption doubled to $11mm, sunsets at end of 2025.
- 7.5% deduction for medical expenses.
- Mortgage interest deduction limited to a $750k loan, reduced from current limit of $1 million.
- Carried interest holding period for partnership income increased to 3 years from 1 year to qualify as long-term capital gain.
- No catch-up contributions to retirement accounts if wages of $500k or more were earned the preceding year.
- Like kind exchanges restricted to real estate.
- Deduction for pass-through companies set at 20%.