STANDING GUARD

2/2/17

TAX REFORM SPECIAL EDITION

WHAT IS LIKELY TO HAPPEN TO INDIVIDUAL TAXES?

One of ACCA's and the HVACR Industry's top legislative and regulatory priorities is Tax Reform and Tax Incentives specifically:

Tax Reform and Incentives

Issue: *The HVACR Alliance encourages the reinstatement of market-driven incentives for energy efficient equipment. Tax provisions that expire at the end of 2016, like 25D, and 179D, have promoted energy efficiency by encouraging homeowners and commercial building owners to purchase better performing equipment.*

Solution: *The HVACR Alliance believes it is crucial to the HVACR industry and others, that federal tax codes provide alternative depreciation schedules that reflect actual equipment lifespans and allow for accelerated expensing while promoting quality installation and maintenance of energy efficient equipment. Additionally, it is imperative that we not forget pass-through entities such as S Corporations as overall tax reform policies are explored.*

ACCA believes tax reform is truly possible for the first time in a decade. There is a real pent up demand on the part of Republicans to simplify the tax code, make it more pro-growth and reduce tax rates. Their plan is to tackle tax reform using the budget reconciliation process with the 2018 budget that is expected to be released sometime late this summer (2017). Using budget reconciliation would allow tax reform to be passed in the Senate with just 51 votes because debate on reconciliation bills is time limited, eliminating the potential for a filibuster (which takes 60 votes to break). In theory, it should be relatively easy for the Republicans to get tax reform through the House, the Senate (because of reconciliation) and to get the President to sign the bill.

Any downside to using budget reconciliation to get tax reform through the Senate? Yep. Any tax provision passed under the budget reconciliation process that would lose revenue beyond the budget window (almost always 10 years) must expire at the end of the budget window. You might remember when federal estate taxes were repealed in 2010 and then sprung back into being in 2011. That's because the 10 year budget window ran out in 2011 and if the provision had continued past the 10 year window it would have lost tax revenue so it had to expire. The same tax bill that had estate tax repeal also contained very favorable retirement plan provisions such as increasing the amount that an individual could contribute to a retirement plan. Those favorable retirement plan provisions remained after 2010 because they were later passed again by the House and the Senate (without the benefit of budget reconciliation) as part of separate legislation during the 10 year window.

What could stop tax reform? What could stop tax reform this year, and maybe even next year, is Congress running out of time. Congress could run out of bandwidth if it ends up spending the entire year figuring out a replacement plan for the Affordable Care Act (ACA), how to deal with the wall on our southern border and immigration, what to do with our infrastructure and nominating a Supreme Court justice, among other issues. Many of these issues, other than tax reform, will require 60 votes in the Senate to get passed which means that any bill getting through the Senate will have to be acceptable to a number of Democratic Senators in addition to most, if not all, of the Republican Senators. Moreover, the Republicans have already moved forward to repeal and replace much of the ACA through the budget reconciliation process using the 2017 budget, which would normally mean they would want to solve health care (no small feat) before they moved on to tax reform.

What is comprehensive tax reform anyway? Comprehensive tax reform means that the corporate tax provisions, individual tax provisions, provisions dealing with pass-through entities, and international tax provisions would all be modified (hopefully simplified) at the same time. Last year, it looked like some of the corporate tax provisions would be modified for C corps but it was ultimately decided that Congress couldn't reduce the C corp tax rate without reducing the tax rates applicable to the pass-through entities and that such broader tax changes were just too much to tackle last year.

What is likely to happen to individual taxes? Based on the House Republicans' Tax Reform "Blueprint" and President Trump's plan (which are about 80% the same):

There will be 3 lower personal tax rates:
0 – 12% for married couples filing jointly with taxable income below $75,000
25% for married couples filing jointly with taxable income between $75,000 and $225,000
33% for married couples filing jointly with taxable income above $225,000
The thresholds are half the above amounts for single taxpayers and the head of household rates are eliminated.

The standard deduction will be increased:
The standard deduction would be increased to **$24,000 for a joint filer**, **$18,000 for a single taxpayer with a child** and **$12,000 for a single filer** under the House Blueprint. Trump's plan would be a bit higher - $30,000 for a joint filer and $15,000 for a single filer.

Personal exemptions will be eliminated.

Trump's plan would cap itemized deductions at $200,000 for joint filers and $100,000 for single filers. The Blueprint would not cap itemized deductions.

Reduced rates for capital gains, dividends and interest income. Under the House Blueprint, **the tax rates for net capital gains, dividends and interest income will be cut in half** – so subject to a tax rate of 6%, 12.5% or 16.5% depending on the tax bracket. **Trump's plan states that it would not change the current capital gains rates.**

AMT would be eliminated.

The 3.8% net investment income tax which was enacted to help pay for the Affordable Care Act **would be eliminated.**

Estate tax and generation skipping transfer tax would be repealed. Neither the Blueprint nor Trump's plan mentions whether the gift tax would also be repealed. It is also not clear whether a new "death capital gains tax" would be imposed under the House Blueprint. **Under Trump's plan, it appears that a new "death capital gains tax" would be imposed but not on the first $10,000,000 of capital gains**. This seems like a high enough number to protect many small businesses but, based on what has happened in the past, we are concerned that this number over time would be reduced in order to raise revenue.

The mortgage interest and the charitable contribution deduction would be preserved for those itemizing deductions under the House Blueprint.

Be on the lookout for a future Tax Reform "Part 2" special where we will focus on business tax reform changes.

THIS WEEK IN CONGRESS

Much of the focus in Congress this week has been on the executive orders signed by President Trump late Friday (and temporarily halted by a Boston court on Saturday.) Congress will vote to invalidate several rules enacted by the Obama administration in its final months.

Nominations will continue in the Senate, with floor votes expected for Rex Tillerson (Secretary of State) and Elaine Chao (Secretary of Transportation). Announcement expected Tuesday of President Trump's nominee for the Supreme Court.