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Republican Framework for U.S. Tax Reform released

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On September 27, 2017 the Republican Party released their long anticipated proposal for U.S. tax reform. The key takeaways of the framework have been summarized below. Please contact your local Collins Barrow U.S. tax advisory professional if you have any questions and to find out how these proposals may impact you and your U.S. or cross-border business.

CORPORATE TAXES

Corporate tax rate lowered to 20%. This represents a drastic cut in the U.S. corporate tax rate from the current rate of 35%. The U.S. would potentially be the low tax jurisdiction between Canada and the U.S., which may affect existing tax structures.

Small businesses maximum tax rate capped at 25%. Sole proprietorships, partnerships, and S corporations would be subject to a maximum tax rate of 25%, down from the current top rate of 39.6%.

Immediate expensing of depreciable assets. Businesses can immediately write off the cost of new investments in depreciable assets other than structures made after September 27, 2017, for at least five years.

Interest expenses limited. The deduction for net interest expense incurred by C corporations will be partially limited. Further details have not been released.

Deductions and credits limited. Many business deductions and exclusions are eliminated including the domestic production deductions under Section 199. The only areas where business credits are explicitly preserved are for research and development (R&D) and low-income housing.

Rules for specific industries. Tax rules affecting specific industries are to be reformed. Further details have not been released.

PERSONAL TAXES

Number of tax brackets reduced. There is a reduction in the number of tax brackets from seven to three. The proposal leaves open the possibility of including a fourth top bracket. The three tax brackets as proposed are 12%, 25%, and 35%.

Standard deduction increased. The standard deduction will be increased to $12,000 for single filers and $24,000 for married taxpayers filing jointly.

Most itemized deductions eliminated. Itemized deductions are eliminated save for two: home mortgage interest and charitable contributions.

Enhancement of the child tax credit. Personal exemptions for dependents are eliminated and the child tax credit will be increased.

Elimination of the alternative minimum tax (AMT). Upon the recommendation of the Joint Committee on Taxation and the Internal Revenue Service Taxpayer Advocate, the AMT is eliminated.

Elimination of the "death tax". The estate tax is eliminated. Further details have not been released.

OTHER TAX CHANGES

Change to a territorial tax system. Shift from a worldwide system of tax to a territorial system whereby U.S. multinationals will only

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be subject to tax in the jurisdiction the trade or business exists. To transition to the territorial system, the framework treats foreign earnings that have accumulated overseas under the worldwide system as repatriated. Accumulated foreign earnings held in illiquid assets will be subject to a lower tax rate than foreign earnings held in cash or cash equivalents. Payment of the tax liability will be spread out over several years.

Prevention of U.S. tax base erosion. Implementation of a minimum tax on the foreign profits of U.S. multinational corporations. A specific tax rate is not included.

Please see the attachment for the full text of the Republican's proposed framework for U.S. tax reform.

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