

Planning for 2017 Tax Reform

As the year draws to a close, tax reform remains a priority of both President Trump and Congressional Republicans. With the introduction of H.R. 1, both the President and leaders in Congress have made clear their intent to enact broad individual income tax reforms.

The bill would, among other things:

- create individual income tax brackets of 12%, 25%, and 35%, while maintaining a 39.6% bracket for incomes over \$1,000,000 for joint filers and surviving spouses, or over \$500,000 for other individuals;
- repeal the alternative minimum tax;
- set the standard deduction at \$24,400 for married couples, \$18,300 for unmarried individuals with at least one qualifying child, and \$12,200 for all other taxpayers (subject to inflation), but repeal personal exemptions;
- increase the child credit to \$1,600 (\$1,000 of which would be refundable), create a \$300 nonrefundable credit for non-child dependents, and provide a temporary \$300 nonrefundable credit to non-child, non-dependent taxpayers (both spouses for joint returns), and increase the income amounts at which the combined credit amount is phased out;
- repeal some nonrefundable credits, including the credit for the elderly and permanently or totally disabled, the adoption credit, the home mortgage interest credit, and the plug-in electric drive motor vehicle credit;
- consolidate the existing education credits into one enhanced American Opportunity Tax Credit and repeal other education-related deductions and exclusions;
- exclude from income student loan debt discharged due to the student's death or total disability;
- repeal the overall limit on itemized deductions;
- stop contributions into Coverdell education accounts but permit rollovers from Coverdell accounts to qualified tuition programs, allow up to \$10,000 of elementary and high school expenses to qualify, and allow unborn children to be qualified beneficiaries;
- preserve the mortgage interest deduction for existing mortgages, but allow deduction of mortgage interest only on the first \$500,000 of mortgage debt for purchases after November 2, 2017, limited to debt incurred to purchase the taxpayer's principal residence;
- repeal the deduction for state and local income taxes and state and local sales taxes;

- allow a deduction of up to \$10,000 for state and local real property taxes;
- repeal the deduction for personal casualty losses (with an exception for losses associated with recent hurricanes);
- repeal the deduction for tax preparation fees;
- repeal the medical expense, alimony, and moving expense deductions;
- modify the charitable contribution deduction by increasing the cash contribution limit to 60% of AGI and adjusting the cents-per-mile rate to reflect the variable cost of operating an automobile;
- terminate the deduction for contributions to Archer Medical Savings Accounts and eliminate the income-exclusion for employer contributions to such accounts;
- deny a deduction for expenses attributable to the trade or business of performing services as an employee;
- limit to \$50,000 (\$25,000 for married taxpayers filing separately), and limit to one residence at a time, the exclusion for housing provided to employees for the convenience of the employer and to employees of educational institutions;
- make the ownership and use tests more restrictive for the exclusion of gain from the sale of a principal residence and set an AGI phaseout beginning at \$250,000 (\$500,000 for married taxpayers filing jointly).

While H.R. 1 is likely to be substantially amended before enactment, the possibility of existing tax breaks being repealed or greatly modified makes this a good time to begin discussing and planning for possible tax reform scenarios.

We hope you will contact us at 256.533.1040 to schedule a convenient time to discuss your tax plan and how we might work to modify it to address your current situation and build in flexibility to adapt it as the details of tax reform develop.

Sincerely,

Anglin Reichmann Sullycore & Armstrong P.C.

305 Quality Circle | Huntsville, AL 35806

www.anglincpa.com

256.533.1040