

What Does 2017 Tax Reform Mean?

As of early November 2017, Congress is considering proposals for dramatic reform of the tax code. This will not be a comprehensive overview of the different proposals. It will only hit the high points based upon what is known in early November 2017. A lot will change after that point. You will need to consult with a tax or legal advisor to get the final word on the tax law before you make any plans or decisions.

The general direction of the proposals is to cut income tax rates and simplify things by eliminating deductions. The upper tax rates for corporations would be eliminated so that there is a lower maximum tax rate. The upper tax brackets for individuals would also be eliminated so that the maximum tax rate for individual taxpayers would drop as well. Middle income taxpayers would receive higher individual credits and child credits to reduce their overall taxes. In exchange for the higher individual credits, almost all itemized deductions will be eliminated. Even if taxes do not necessarily get cut in this process, most tax returns will likely be easier to fill out.

One major piece of the puzzle is elimination of what President Trump refers to as the “death tax.” This is understood to mean a collection of tax laws that include the estate tax, the gift tax and the generation-skipping tax, or some combination of those taxes. While “repeal” seems simple enough, things are a little bit hazy in this area.

Each of the three taxes involved are complicated and interrelated. After years of study on the matter, the economic and non-economic consequences of outright repeal is difficult to predict. Perhaps most importantly, the number of people impacted by these taxes is also relatively small. The current income tax proposals involve increasing the federal budget deficit and there will be a pitched battle with entrenched special interests. Congress may not be willing to add to the deficit or fight quite as hard if only a small number of taxpayers will benefit from the estate tax changes. Many experts believe that “repeal” will likely transform into some kind of “reform” where estate, gift and generation-skipping taxes are still in place, but they apply to even fewer families than they do now.