

# Washington Update



## **NCACC Justice and Public Safety and Tax & Finance Steering Committees December 7, 2017**

**Presentation by: Leslie Mozingo**



# Presentation Overview

- FY2018 Appropriations
- FY2018 Budget Resolution
- Tax Reform
- Year-end To Do List



# FY2018 Appropriations

- Continuing Resolution (CR) for FY2018 expires December 8
- Another short-term CR until end of year
- Current CR bought time for House to pass a FY2018 budget resolution, setting stage for reconciliation as a tool to move tax reform
- CR also necessary to allow for negotiation of final discretionary spending caps

# FY2018 Budget Caps

	FY2018 Budget Cap	FY2018 House Budget	FY2018 Senate Budget
Defense	\$549b	\$621.5b	\$551b
Non-Defense	\$515.7b	\$511b	\$518.5b

- Budget resolutions are blueprints, but without raised caps, even current CR triggers sequestration.
- Budget Control Act of 2011 put sequesters in place through 2021.

# FY2018 Budget Resolution and Tax Reform

- Budget resolution approves an increase in deficit spending by \$1.5 trillion over 10 years
  - Estimated cost is \$1.3 trillion over 10 years
- House passed November 16 (227-205)  
Senate passed at 2 a.m. December 2 (51-49)
- Conference Committee compromise has to pass both House and Senate
- President wants bill before Christmas

# Tax Reform

## Corporate and Individual Rates

Rule	Current law	House bill	Senate bill
<b>Corporation top rate</b>	35 percent	20 percent flat rate beginning in 2018	20 percent flat rate beginning in 2019
<b><u>Passthroughs</u></b>	39.6 percent top rate	25 percent flat rate on a portion of income for certain types of <u>passthroughs</u>	23 percent deduction for income of certain types of <u>passthroughs</u> . Expires after 2025
<b>Individual brackets and rates</b>	7 brackets; 39.6 percent top rate	4 brackets: 12, 25, 35, and 39.6 percent. No expiration	7 brackets: 10, 12, 22, 24, 32, 35, 38.5 percent. Rates expire after 2025
<b>Estate tax</b>	Applies to \$5.49M single, \$10.98M couple	<ul style="list-style-type: none"> <li>• Double the exclusion</li> <li>• Repeal in 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Double the exclusion through 2025</li> <li>• No repeal</li> </ul>
<b>Alternative minimum tax</b>	Separate tax calculation on some returns	Repeal	Retain for corporations; larger exemption and <u>phaseout threshold</u> for individuals until 2026
<b>Carried interest</b>	Capital gains rate on certain investment manager income	Assets would have to be held for three years	Assets would have to be held for three years

Source: Bloomberg Government



# Tax Reform

## Individual Deductions and Credits

Rule	Current law	House bill	Senate bill
<b>Standard deduction</b>	\$6,350 for individuals; \$12,700 for joint filers (2017)	\$12,200 for individuals in 2018; \$24,400 for joint filers*	\$12,000 for individuals; \$24,000 for joint filers*; Expires after 2025
➔ <b>State and local tax deduction</b>	Itemized deduction for taxes paid	Preserve property tax deduction of as much as \$10,000**	Preserve only property tax deduction of as much as \$10,000 until 2026**
<b>Child tax credit</b>	\$1,000 per child	New family credit: \$1,600 per child; \$300 per non-child dependent; \$300 "family flexibility" credit	\$2,000 per child, \$500 for non-child dependents. Expands eligibility by increasing income limit. Expires after 2025
<b>Mortgage interest</b>	Deduct as much as \$1 million in mortgage principal	Retain for existing mortgages; deduct as much as \$500,000 for future home purchases	Retain current law
<b>Charitable giving</b>	Deduct as much as 50 percent of AGI	<ul style="list-style-type: none"> <li>• Deduct as much as 60 percent of AGI</li> <li>• End deduction for college athletic seating</li> </ul>	<ul style="list-style-type: none"> <li>• Deduct as much as 60 percent of AGI through 2025</li> <li>• End deduction for college athletic seating</li> </ul>

\*Would consolidate standard deduction and personal exemption \*\*Current deduction would be retained for corporations and passthroughs  
NOTE: AGI – adjusted gross income





# Tax Reform

## Individual Deductions and Credits

Rule	House bill	Senate bill
Individual health insurance mandate penalties	Retain	Repeal in 2019
Adoption credit	Retain	Retain
Personal casualty loss deduction	Eliminate, aside from specific recent disasters	Allow only for presidentially declared disasters through 2025
Medical expense deduction	Eliminate	Retain and reduce threshold to 7.5 percent of AGI
Child and dependent care	Retain	Retain
Electric vehicle credit	Eliminate	Retain
Tax preparation expense deduction	Eliminate	Suspend through 2025
Alimony deduction	Eliminate	Retain
Moving expense deduction	Retain only for members of the armed forces	Limit to members of the armed forces through 2025
Moving expense exclusion	Eliminate	Suspend through 2025
Home equity indebtedness	Eliminate	Suspend through 2025
Exclusion of employer-paid bicycle expenses	Retain	Suspend through 2025

Source: Bloomberg Government





# Tax Reform

## Business Provisions Include Expensing Rules

Rule	Current law	House bill	Senate bill
<b>Expensing</b>	Depreciated over time	Immediate 100 percent expensing after Sept. 27, 2017, and before Jan. 1, 2023	Immediate 100 percent expensing before Jan. 1, 2023; gradual drawdown through 2026
<b>Business interest</b>	Deductible	Limit to 30 percent of adjusted taxable income for most businesses with average gross receipts greater than \$25 million	Limit to 30 percent of adjusted taxable income for most businesses with average gross receipts of \$15 million or more
<b>Repatriation</b>	No special rate	14 percent repatriation rate for cash profits held offshore; 7 percent for non-cash	14.5 percent repatriation rate for cash profits held offshore; 7.5 percent for non-cash
<b>Bonds</b>	Interest on state and local bonds isn't taxable	End exclusion for private activity and advance refunding bonds	End exclusion for advance refunding bonds

Source: Bloomberg Government



# Tax Reform

## Business Provisions Include Expensing Rules

Rule	House bill	Senate bill
Orphan drug credit	Eliminate	Reduce to 27.5 percent of expenses from 50 percent
➔ Low income housing credit	Retain	Modify and retain
Employer-provided child care credit	Eliminate	Retain
Structure rehab credit	Eliminate after 24 months	Modify and retain for historic structures
Work opportunity tax credit	Eliminate	Retain
➔ New markets tax credit	Eliminate	Retain
Disabled access credit	Eliminate	Retain
Domestic production deduction	Eliminate	Retain for corporations until 2019
Entertainment, employee fringe benefits	Eliminate for most expenses; retain for food and beverages	Eliminate for most expenses
Capital contribution exclusion	Eliminate	Retain
Local lobbying expense deduction	Eliminate	Eliminate
Deduction for unused credits	Eliminate	Retain

Source: Bloomberg Government



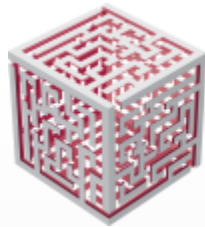
# Tax Reform Conference

- Senate bill moved closer to House version on several issues (mainly SALT) during process
- Senate bill already meets Senate's complex budget rules, so assume it will take priority where possible
- Key Senate Rule: Can't add to deficit after a decade
- President wanted 15% corporate rate, settled for 20%, might be 22% to get it now vs year later

# Year-end To Do List

- FY2018 Appropriations
- Disaster Relief
- National Flood Insurance Program Reauthorization
- Children's Health Insurance Program (CHIP) Renewal
- Deferred Action for Childhood Arrivals (DACA)
- Debt Ceiling

# Turning Challenges Into Achievements



# STRATEGICS

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