Tax and Accounting Center
ISSN 1947-3923

What's in the Tax Agreement for Individuals?

INDIVIDUAL RATES AND CREDITS

The legislation would preserve the seven-rate structure for individuals, while modifying the rates in tax years 2018 through 2025 as follows:

Individual Tax Rates: Tax years 2018 through 2025

Rate	Joint Returns	Head of Household	Individuals
10 percent	$0 –$19,050	$0 – $13,600	$0 – $9,525
12 percent	$19,051 – $77,400	$13,601 – $51,800	$9,526 – $38,700
22 percent	$77,401 – $165,000	$51,801 – $82,500	$38,701 – $82,500
24 percent	$165,001 – $315,000	$82,501 – $157,500	$82,501 – $157,500
32 percent	$315,001 – $400,000	$157,501 – $200,000	$157,501 – $200,000
35 percent	$400,001 – $600,000	$200,001 – $500,000	$200,001 – $500,000
37 percent	> $600,000	> $500,000	> $500,000

The House version proposed four brackets. Unlike the House-passed bill, the lowest bracket wouldn't phase out for the highest earners in the agreement.

In 2026 and beyond, the current rates would be restored: 10, 15, 25, 28, 33, 35, and 39.6 percent.

The modified rates would reduce revenue by $1.21 trillion from fiscal 2018 through 2027, according to JCT.

The measure would impose a $500 penalty on tax preparers who don't comply with Internal Revenue Service (IRS) due diligence requirements for individuals claiming head of household status, the child tax credit, the earned income tax credit, or the Hope scholarship credit.

Standard Deductions

The standard deduction would be expanded through the 2025 tax year, while the personal exemption would be suspended during that time. Currently, individuals reduce their adjusted gross income by their personal exemption and either claim the standard deduction or itemize their deductions.

The standard deduction would be increased as follows in 2018:

• To $24,000 from $12,700 for joint filers.

• To $18,000 from $9,350 for heads of household.

• To $12,000 from $6,350 for individuals.

JCT estimated that suspending the personal exemption would increase revenue by $1.21 trillion in fiscal 2018 through 2027, while temporarily increasing the standard deduction would reduce revenue by $720.4 billion.

Under the measure, the IRS would have until Jan. 1, 2019, to modify withholding rules for employers.

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Alternative Minimum Tax

Like the Senate bill, the agreement would retain the AMT for individuals but increase the exemption amount and phaseout thresholds so fewer people would pay it. The corporate AMT would be repealed.

The AMT is levied on certain individuals with exemptions or special circumstances that allow them to pay a lower standard income tax. Taxpayers calculate their liability twice—once under the rules for the regular income tax and once under the AMT rules—and then pay the higher amount.

From 2018 through 2025, a higher AMT exemption would apply to income, beginning with $109,400 for joint filers and $70,300 for other taxpayers in 2018. The exemption would phase out at $1 million for joint filers and $500,000 for other taxpayers. Thresholds would be adjusted for inflation using the chained consumer price index.

In 2017, the exemption is $84,500 for joint filers and $54,300 for individuals. The phaseout threshold is $160,900 for joint filers and $120,700 for individuals.

Increasing the exemption amount and phaseout thresholds would reduce revenue by $637.1 billion over a decade.

The House version would have repealed both the individual and corporate AMT, while the Senate plan maintained the corporate AMT and increased exemptions for individuals.

Child and Dependent Credits

From 2018 through 2025, the measure would increase the value of the child tax credit to $2,000 per child under 17 from $1,000. As much as $1,400 of the credit would be refundable, instead of $1,000 under current law, allowing recipients to benefit even if they don't owe taxes.

Filers would have to provide their children's Social Security number to claim the refundable portion through 2025.

The refundable portion of the credit would be indexed for inflation and rounded down to the nearest hundred in future years.

The legislation would expand eligibility for the credit by increasing the phaseout threshold to $400,000 in adjusted gross income for joint filers, from $110,000. The threshold for all other filers would be set at $200,000. The phaseout threshold wouldn't be indexed to inflation.

A $500 nonrefundable credit for dependents other than children would be provided through 2025. The dependent wouldn't need a Social Security number.

Changes to the child and nonchild dependent credits would reduce revenue by $573.4 billion from fiscal 2018 through 2027, while requiring children's Social Security numbers for refundable credits would increase revenue by $29.8 billion in that time.

Inflation Adjustment

The calculation method used to adjust certain tax thresholds for inflation would be changed. Tax parameters that are currently adjusted based on the consumer price index for all urban consumers

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(“CPI-U”) would instead be adjusted based on the chained consumer price index for all-urban consumers (“C-CPI-U”), which results in larger estimates of inflation, according to the Congressional Budget Office (CBO).

Parameters modified by the bill, such as income brackets, would be adjusted using C-CPI-U after 2018. Other parameters would be adjusted based on C-CPI beginning in 2018.

The change would increase revenue by $133.5 billion over a decade.

MAJOR DEDUCTIONS AND EXCLUSIONS

The measure would suspend the limit on the total amount of itemized deductions that certain high earners can claim from 2018 through 2025. Currently, itemized deductions are reduced by 3 percent of the amount by which a taxpayer's adjusted gross income exceeds a certain threshold.

The legislation would modify a number of itemized deductions through 2025, which would increase revenue by $668.4 billion through fiscal 2027, according to JCT.

SALT Deduction

Under the conference agreement, individuals could only deduct an aggregate of $10,000 of state and local government taxes. The bills passed by the House and Senate would have limited the state and local tax (SALT) deduction to just property taxes, but the conference agreement would also allow the deduction for sales or income tax. The measure would also repeal the deduction for foreign property taxes. The provisions would apply to the 2018 through 2027 tax years.

Corporations and pass-throughs could continue to deduct their state and local income and sales taxes.

Individuals couldn't deduct prepayments of 2018 state or local tax from their 2017 federal returns.

Personal Casualty Loss

The measure would limit the deduction for personal casualty losses to those related to a presidentially declared disaster during tax years 2018 through 2025.

Under current law, losses due to theft, disaster, or other casualties are deductible if they aren't compensated by insurance and exceed 10 percent of an individual's adjusted gross income.

Real Estate Provisions

The conference agreement would temporarily reduce the cap on the amount of mortgage interest that taxpayers can deduct to $750,000 from $1 million for mortgages incurred on or after Dec. 15, 2017. If a mortgage incurred before Dec. 15, 2017, was refinanced, it would still be considered to have been incurred on the original date of the mortgage for purposes of the deduction.

The cap would be restored to $1 million in 2026, regardless of when the mortgage was incurred.

The conference agreement didn't adopt a proposal from the House-passed bill to limit the deduction to a taxpayer's primary residence, instead of their primary residence and a second home, as under current law.

The measure would also suspend the deduction for as much as $100,000 in home equity indebtedness through 2025.

Medical Expense Deduction

Individuals could deduct their medical expenses in 2018 and 2019 if they exceeded 7.5 percent of their adjusted gross income The deduction is currently available for expenses that exceed 10 percent of adjusted gross income.

The 7.5 percent threshold would also apply for purposes of the AMT.

The House-passed tax measure would've eliminated the deduction.

The provision would reduce revenue by $5.2 billion over a decade.

Alimony Deduction

The conference agreement would permanently eliminate the above-the-line deduction for alimony paid for divorces or separations executed after Dec. 31, 2018.

Under current law, alimony is deducted by the payer and included in the recipient's taxable income unless otherwise specified in the couple's divorce decree or separation agreement. A summary from the House Ways and Means Committee said that under the current treatment “a divorced couple can often achieve a better tax result for payments between them than a married couple can.” The joint explanatory statement says the change would uphold a U.S. Supreme Court ruling.

The provision wouldn't affect the current treatment of child support payments.

It would increase revenue by $6.9 billion over a decade.

Other Deductions

During tax years 2018 through 2025, the measure would make expenses related to gambling, not just gambling losses, deductible, and therefore limited to gambling winnings. The provision would increase revenue by $0.1 billion over 10 years.

The moving expense deduction would be limited to members of the armed forces during the 2018 through 2025 tax years, which would increase revenue by $7.6 billion fiscal 2018 through 2027.

Members of Congress would no longer be able to deduct their living expenses, beginning in the tax year after the bill's enactment. Currently they can deduct as much as $3,000 per year. The provision would increase revenue by less than $50 million over a decade.

The measure would also suspend through 2025 a number of miscellaneous itemized deductions that taxpayers can claim if they exceed 2 percent of their adjusted gross income, including:

• Costs related to the production or collection of income, such as appraisal fees, investment fees, and safety deposit box rent.

• Expenses related to employment, such as uniforms, professional society dues, and a computer used for

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work.

• Other miscellaneous deductions, such as repayments of Social Security benefits.

Employer-Provided Exclusions

The measure would suspend through 2025:

• An exclusion for employer-provided moving expenses, unless the taxpayer was a member of the armed forces moving pursuant to a military order. The provision would increase revenue by $4.8 billion over a decade.

• An exclusion of as much as $20 per month in employer-provided bicycle expense reimbursements. The provision would increase revenue by less than $50 million over a decade.

INDIVIDUAL MANDATE

The measure would repeal the penalties used to enforce the Affordable Care Act's individual mandate beginning in 2019.

The ACA required most individuals to have health insurance or pay a penalty, which consists of a percentage of income or a flat per person fee. The mandate was intended to help offset the risk and costs to insurance companies that were required to cover more people and provide a wider range of benefits.

The provision would increase revenue by $314.1 billion in fiscal 2018 through 2027, according to JCT.

Repealing the penalties would increase the number of uninsured people by 4 million in 2019 and 13 million in 2027, according to a joint analysis from JCT and CBO on the version of the legislation approved by the Senate Finance Committee.

Nongroup insurance markets would continue to be stable in almost all areas of the country, and average premiums would increase by about 10 percent, the analysis said.

The effects would be caused by more healthy people choosing not to purchase insurance.

Senators have discussed combining repeal of the individual mandate penalty with passage of the "Bipartisan Health Care Stabilization Act" sponsored by Sens. Lamar Alexander (R-Tenn.) and Patty Murray (D-Wash.). CBO said doing so wouldn't substantially change their estimate of the number of people that would be uninsured following repeal of the individual mandate penalties.

DISASTER RELIEF

The measure includes two provisions that would provide relief to individuals with losses from recent disasters.

Individuals who lived where a presidentially declared major disaster occurred in 2016 could temporarily withdraw as much as $100,000 from their retirement accounts for disaster recovery without paying the 10 percent early withdrawal penalty. Individuals would be eligible if they had sustained a loss from the disaster and withdrew funds between Jan. 1, 2016, and Dec. 31, 2017.

The withdrawal would be included in taxable income over three years, although it could be treated as a

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tax-free rollover if the individual recontributed the funds to their retirement account within that time. The taxpayer would file an amended return to claim a refund for any taxes paid if part or all of the withdrawal had been included in their income.

Individuals could deduct losses exceeding $500 from presidentially declared disasters in 2016 and 2017, in addition to any standard deduction they claimed. Under current law, losses must exceed 10 percent of a taxpayer's adjusted gross income to be deductible.

The provisions would be effective upon enactment and would reduce revenue by $4.6 billion over a decade, according to JCT.

CHARITABLE CONTRIBUTIONS

The conference agreement would increase the limit on the amount of charitable cash contributions a taxpayer can deduct to 60 percent of adjusted gross income, from 50 percent, through 2025.

Charitable contributions to colleges could no longer be deducted if the donation was related to seating at an athletic event. Currently, 80 percent of the value of such a donation can be deducted. The provision, which would be permanent, would increase revenue by $2 billion over a decade.

The measure would eliminate a provision that waives the requirement for a taxpayer to provide evidence of a donation of $250 or more if the recipient organization files a return with information on the contribution. The provision would be effective for the 2017 tax year and would have a negligible revenue effect.

EDUCATION

The legislation would allow as much as $10,000 to be withdrawn annually from section 529 education savings accounts for tuition at elementary and secondary public, private and religious schools. The accounts could also be used for home-school expenses. The changes would reduce revenue by $0.5 billion in fiscal 2018 through 2027, according to JCT.

Student loans discharged by both public and private entities would be excluded from taxable income if a student dies or becomes totally disabled.

Under current law, the Education Department forgives student loans when the individual dies or becomes permanently disabled. The individual's family must report the loan forgiveness as income.

The provision would apply to loans discharged after Dec. 31, 2017, and would sunset after 2025. It would reduce revenue by $0.1 billion over a decade.

ABLE ACCOUNTS

The measure would make several changes to ABLE accounts, which are tax-advantaged savings accounts for individuals with disabilities.

From 2018 through 2025, designated beneficiaries could contribute more than the annual limit, which is based on the gift tax exemption, which is $14,000 in 2017. Contributions would be limited to the federal poverty line for an individual, or the beneficiary's compensation for the tax year, whichever is less. The provision would reduce revenue by less than $50 million over a decade.

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Designated beneficiaries with income below a certain threshold—less than $30,750 of adjusted gross income for individuals in 2017—could claim the “saver's credit” for part of their contribution during the 2018 through 2025 tax years.

The conference agreement would also allow rollovers from section 529 plans to ABLE accounts during the 2018 through 2025 tax years. Rolled-over amounts would count toward the ABLE account annual contribution limit. The provision would reduce revenue by less than $50 million over a decade.

RETIREMENT SAVINGS

The agreement would limit the ability of individuals to recharacterize their contributions to traditional individual retirement accounts (IRAs)—which are taxed upon withdrawal—and to Roth IRAs—which are taxed when a deposit is made. Under the measure, individuals couldn't recharacterize a contribution to a traditional IRA as a Roth IRA and later reverse the conversion.

The provision, which would be effective for 2018, would increase revenue by $0.5 billion in fiscal 2018 through 2027, according to JCT.

When an employee has a loan against funds in their retirement account and the plan is terminated or the employee separates from their employer, the measure would extend the time that the loan amount could be contributed to another retirement plan as a tax-free rollover. The contribution would have to be made by the deadline for filing taxes for the year in which the event occurred, instead of 60 days as under current law. The provision would have a negligible revenue effect.

The legislation would increase the limit on the size of the award that volunteer firefighters and other public safety volunteers can receive in any year of service to $6,000 from $3,000. The provision would reduce revenue by $0.5 billion over 10 years.

ESTATE TAX

The conference agreement would double the basic exemption from the estate, gift, and generation-skipping transfer taxes to $10 million during the 2018 through 2025 tax years. The exemption was $5 million as of 2011 and $5.49 million in 2017 after adjusting for inflation.

The provision would reduce revenue by $83 billion in fiscal years 2018 through 2027, according to JCT.

The House and Senate both proposed doubling the exemption, though the House version also would have repealed the estate tax in 2025.

COMPENSATION

Carried Interest

The measure would restrict the tax advantages of hedge fund and other investment firm managers' “carried interest,” which is currently taxed as a capital gain instead of income when held for one year.

Partnership interests received in connection with performing services would have to be held for three years to be eligible for long-term capital gain tax rates.

The provision would increase revenue by $1.1 billion over fiscal years 2018 through 2027, according to JCT.

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Equity Grants

The conference report would allow employees at private companies to defer tax payments when they exercise their stock options or gain equity interest through a restricted stock unit.

The provision could benefit employees of startups, which often compensate their employees by giving them an ownership stake in the company through stock. Employees typically can't sell their stock to cover their associated tax liability because the company isn't public.

Under the measure, employees could defer the gain from exercising their stock options or vesting their restricted stock units for the earliest of five years after their ownership vested or the company becomes readily tradable.

Certain highly paid executives and employees with substantial ownership stakes wouldn't be eligible for the deferral.

The provision would reduce revenue by $1.2 billion over a decade.

OTHER PROVISIONS

Egyptian Combat Pay

The measure would grant combat zone tax benefits to members of the armed forces stationed in Egypt's Sinai Peninsula. Members receiving special pay for operating in an area subject to hostile fire or imminent danger would be eligible to exclude military pay from their gross income. The estates of service members killed in the combat zone would be subject to special rules.

Most of the tax benefits would be effective for amounts received from June 9, 2015, through Dec. 31, 2025, although changes to wage withholding would be effective for amounts paid after the bill's enactment.

The provision would reduce revenue by less than $50 million from fiscal 2018 through 2027, according to JCT.

IRS Levies

The measure would extend the time in which taxpayers can request that proceeds from the sale of property wrongfully levied by the Internal Revenue Service (IRS) be returned.

Under current law, property that is wrongfully levied by the IRS can be returned at any time, but if the property is sold, the proceeds can only be returned within nine months of the sale.

The nine-month period is often insufficient for taxpayers to discover the wrongful levy and request a refund, according to an amendment to the Senate measure that contained the provision.

The conference report would extend the period in which the proceeds from sold property can be returned to two years. The provision would reduce revenue by less than $50 million in fiscal 2018 through 2027, according to JCT.

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OMITTED PROVISIONS

The final legislation omits certain provisions that were in the versions passed by the House or Senate. The conference agreement wouldn't:

• Tax the tuition waivers that graduate students receive from education institutions as income.

• Eliminate deductions for tuition and student loan interest.

• Eliminate the exclusion for employer-provided housing or assistance for adoption, dependent care, or education.

• Repeal credits for the elderly and permanently disabled and lifetime learning.

• Allow contributions to 529 education savings accounts for unborn children.

• Limit the exclusion of an individual's gain from the sale of their principal residence.

• Change the treatment of payments to whistleblowers and the wrongly incarcerated.

• Bar increases in user fees for installment agreements with the IRS.

This summary corrects the descriptions of the medical expense deduction under the 'Medical Expense Deduction' section and state and local tax deduction under the 'SALT Deduction' section.

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