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Highlights of the Senate Tax Plan

The Senate formally announced its version of a tax reform bill last night. While there are a number of variances in the Senate bill relative to the recently announced House version, the most notable differences are: (1) the Senate's delaying of the corporate tax rate reduction until 2019 (which rattled investors yesterday); (2) the total exclusion of the state and local tax deduction (vs. $10K cap in House bill); and, (3) doubling the estate tax threshold to $11MM (House bill phases out estate tax entirely over time).

Here are the key provisions of the 253-page Senate bill titled "Tax Cuts and Jobs Act":

Individual Provisions

- Keeps 7 tax brackets: namely, 10%, 12%, 22.5%, 25%, 32.5%, 35% and 38.5% (which is a reduction from current top rate of 39.6%). While the income ranges for each bracket are unclear at this point, it's expected to result in a tax cut for the majority of taxpayers.
- Increases the standard deduction to $12,000 from $6,350 for individuals and from $12,700 to $24,000 for married couples. For single parents, the deduction increases from $9,300 to $18,000.
- Maintains deductions for people with high medical bills.
- Maintains deductions for student loan interest.
- Maintains the adoption tax credit.
- Preserves deduction for charitable contributions.
- Preserves 401 (K) benefits.
- Completely eliminates the federal deduction for state and local taxes (SALT).
- Keeps the maximum mortgage deduction on interest for loans up to $1 million.
- Doubles the estate tax exemption to $11 million.
- Increases the child tax credit from $1,000 per child to $1,650 per child.
- Repeals the alternative minimum tax (AMT).

Corporate/Business Provisions

- The Corporate tax rate would be cut from 35% to 20%, but the implementation would be delayed until 2019. The delay will limit the revenue impact of the cut, making passage easier in the Senate.
- The plan sets the top rate on "pass throughs" at 30%.
- It shifts to a territorial tax system which mainly shields offshore corporate income from U.S. taxation.
- One positive for corporations is that the bill will allow for full and immediate expensing of new equipment.

Now that we have the President's framework, the House bill and the Senate bill, the reconciliation process will begin in earnest. It is expected to be a challenging process, and we will be watching the developments closely to determine what we believe the ultimate bill will look like and what the implications are for markets and our clients. For any questions, call United Asset Strategies at (516) 222-0021 or email info@unitedasset.com.

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