

Tax Blueprint (House)

November 15, 2015

The following presentation is a summary of the tax provision described in paper presented by House Ways & Means Committee Chairman Kevin Brady (R-TX), and it is the centerpiece of GOP's economic plan. The entire 35-page proposal is entitled "A Better Way" and it can be found at www.better.gop. Comments are presented following each provision in italic.

Individual Income Tax

Reduce the number of tax bracket from seven to three:

10% and 15% consolidated into 0%/12%

25% and 28% consolidated into 25%

33%, 35% and 39.6% consolidated into 33%

COMMENT: Alliance should supports

Repeal the individual alternative minimum tax.

COMMENT: Alliance strongly supports.

Allows a 50% deduction on net capital gains, dividends, and interest income, leading to basic rates of 6%, 12.5%, and 16.5% on such investment income depending on the individual's tax bracket.

COMMENT: Alliance strongly supports.

Current deductions consolidated into a larger standard deduction of \$24,000 for married individuals filing jointly, \$18,000 for single individuals with a child in the household, and \$12,000 for other individuals and adjusted annually for inflation.

COMMENT: No opinion.

The child credit and personal exemptions for dependents consolidated into a \$1,500 child credit.

COMMENT: No opinion.

Earned income tax credit continued.

COMMENT: No opinion

Continue incentives for retirement savings (such as IRAs) and health savings accounts (HRAs and HSAs).

COMMENT: Alliance strongly supports.

Deductions for interest payment on home mortgages and charitable giving, i.e. dues to the Alliance.

COMMENT: Strongly support

Eliminate the Death Tax.

COMMENT: Alliance very strongly supports.

Business Tax Rate

Provides all businesses with the benefit of full and immediate write-offs of the investments in both tangible and intangible asset, which is equivalent to a 0% marginal effective tax rate.

COMMENT: Alliance should support strongly. Expensing of investments in the year incurred simplifies the tax code and allows oil and gas to continue current tax policy. Not sure what "0% marginal effective tax rate" means, and we need to get more details to fully understand.

25% tax rate for sole proprietorships or pass-through entities such as partnerships, limited liability companies (which are taxed in the same manner as partnerships), and S corporations. The 33% bracket will not apply to the active business income of sole proprietorships and pass-through entities.

COMMENT: Alliance strongly supports.

"Under this new approach, these companies will pay or be treated as having paid reasonable compensation to their owner-operators. Such compensation will be deductible by the business and will be subject to tax at the graduated rates for families and individuals. The compensation that is taxed at the lowest individual tax bracket of 12% effectively will further reduce the total income tax burden on these small businesses and pass-through entities."

COMMENT: On the surface this looks like something that the Alliance should strongly support. However, not sure what "reasonable compensation" means. Need more information and discussion.

The corporate tax rate lowered to a flat 20%.

COMMENT: Alliance strongly supports.

Tax on dividends and capital gains of individual shareholders cut in half.

COMMENT: Alliance strongly supports.

Repeal corporate alternative minimum tax.

COMMENT: Alliance strongly supports.

“...Interest expense allowed to be deducted against any interest income, but no current deduction will be allowed for net interest expense. Any net interest expense may be carried forward indefinitely and allowed as a deduction against net interest income in future years. The benefit of immediate expensing of business investment operates as a more beneficial and more neutral substitute for the deduction of interest expense associated with debt incurred to finance such investments. Allowing investments to be immediately written off provides a greater incentive to invest than is provided through interest deductions under current law; allowing both together would be distortive as it would result in a tax subsidy for debt-financed investments.”

COMMENT: On the surface it appears that the Alliance should oppose. Need more information and discussion.

Net operating losses will be allowed to be carried forward indefinitely and will be increased by an interest factor that compensates for inflation and a real return on capital to maintain the value of amounts that are carried forward. Carrybacks of net operating losses will not be permitted and the deduction allowed with respect to an NOL carryforward in any year will be limited to 90% of the net taxable amount for such year determined without regard to the carryforward.

COMMENT: Support, but it eliminates current law that allows taxpayers to carry losses back 3 years.

Preserve the last-in-first-out method of accounting.

COMMENT: No opinion.

Special-interest deductions and credits – such as percentage depletion – are in trouble. “These provisions create incentives for businesses to make decisions because of the tax consequences rather than because of the underlying economics,” the Blueprint stated. “These special interest provisions are a source of both complexity and controversy. Moreover the proliferation of such provisions adversely affects the public’s confidence in the fairness of the tax system as they can contribute to taxpayers’ believing the everyone but them is getting special tax breaks. Finally, the existence of special-interest provisions reduces revenue and therefore requires growth-stunting higher tax rates on businesses across the board.”

COMMENT: Oppose and draft one page supporting retention of percentage depletion.

A research-and-development credit will be made permanent.

COMMENT: Support.

Eliminates the existing export penalty and import subsidy by moving to a destination-basis tax system, whereby tax jurisdiction follows the location of consumption rather than the location of production. This change will exempt exports from taxes and begin taxing imports, such as crude oil.

COMMENT: Strongly support.