

FEDERAL TAX REFORM

Potential State Impacts

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Federal Tax Reform

- House Republican Blueprint
- Trump Tax Plan
- No Senate Plan
- Impact on Vermont (linked to federal taxable income)
 - Rate changes unlikely to impact VT
 - Base changes will pass through

Individual Income Tax Reform

- Marginal Tax Rate reductions
- Standard Deduction and Personal Exemption changes
- Itemized Deduction changes
- Child and Dependent Care changes
- Capital Gains Rates reductions
- Other Income Tax Provisions
- Estate Tax repeal

Marginal Rate Reductions

Current Law	House Republican Blueprint	Trump Tax Plan
10%	12%	12%
15%	12%	12%
25%	25%	25%
28%	25%	25%
28%	33%	25%
33%	33%	33%
35%	33%	33%
39.6%	33%	33%

Bracket Changes (2017 MFJ example)

Current Law MFJ	Republican House Blueprint	Trump Tax Plan
0% and 12%	0% and 12%	12%
TI less than \$75,900	TI less than \$75,900	TI less than \$75,000
25%	25%	25%
\$75,901 to \$233,350	\$75,901 to \$233,350	\$75,000 to \$225,000
33%	33%	33%
Over \$233,350	Over \$233,350	Over \$225,000

Standard Deduction and Personal Exemption changes

	Personal Exemption	Standard Deduction by Filing Status		
	All filing statuses	Single	Married Filing Joint	Head of Household
Current Law	\$4,000	\$6,300	\$12,600	\$9,300
House Republican Blueprint	\$500 Credit	\$12,000	\$24,000	\$18,000
Trump	Repealed	\$15,000	\$30,000	Repealed

Itemized Deductions

Current Law	House Republican Blueprint	Trump Tax Plan
PEP and Pease Limitations by AGI Level	All itemized deductions eliminated except home mortgage interest and charitable contributions	Cap value of itemized deductions at \$100,000 for single and \$200,000 for married filing joint

Current Law: Annual Income (AGI) Limit Range for Claiming Itemized Deductions and Personal Exemption Phase-out

Filing Status

2017

Single Filer	\$261,500 to \$384,000
Married Filing Joint Return	\$313,800 to \$436,300
Heads of Households	\$287,650 to \$410,150
Married Filing Separate Returns	\$156,900 to \$218,150

Child & Dependent Care Expenses

Current Law 2017	House Republican Blueprint	Trump Tax Plan "IvankaCare"
<p>Child and Dependent Care Credit: Expenses of \$3,000 for one qualifying individual and \$6,000 for two. Credit is 20 – 35% of expenses for a max credit of \$2,100.</p>	<p>Child care credit up to \$1,500</p> <p>First \$1,000 refundable</p> <p>Non-refundable credit of \$500 for non-child dependents</p>	<p>Deduction for child care and elderly dependents capped at the average state cost for child care</p> <p>Limited to Single less than \$250K and MFJ of \$500K</p>
<p>Child Tax Credit \$1,000</p>		
<p>Income phase-out of \$50 for each \$1,000 above the thresholds of \$110K MFJ and \$75 KSingle</p>		

Capital Gains Rates

Current Law	House Republican Blueprint	Trump Tax Plan
Long Term Capital Gains Ordinary = Capital Gains	No change	50% deduction for capital gains
10% = 0%		
15% = 0%		Effective rates of 6%, 12.5% and 16.5% (half of ordinary income rates)
25% = 15%		
28% = 15%		
33% = 15%		
35% = 15%		
39.6% = 20%		

Other Income Tax Provisions

Current Law	House Republican Blueprint	Trump Tax Plan
Dividends: at ordinary rates	(Not addressed)	Existing rates but NIIT repealed - A 3.8 percent Net Investment Income Tax applies to individuals, estates, and trusts with net investment income above applicable threshold amounts.
Carried Interest: at capital gains rates	(Not addressed)	Taxed as ordinary income
AMT (alternative minimum tax)	Eliminated	Eliminated
Life Insurance “Inside Build-up” – the increased redemption value of permanent life insurance policies over time	(Not addressed)	Included in income for high earners

Estate Tax

Current Law	House Republican Blueprint	Trump Tax Plan
Estate and Gift Taxes \$5.49 million threshold	Repealed	Repealed but capital gains held until death subject to tax (no step-up in basis) with the first \$10 million tax free

Business Tax Provisions

- Reduce Corporate Income Tax Rates and Eliminate Corporate AMT
- Eliminate Deductions and Credits except R&D Credit
- Worldwide taxation versus a Destination Based Cash Flow Tax with a Border Adjustment
- Repatriation of profits
- Cost Recovery/Interest
- Limit Tax Rate on Pass-through Business Income

Corporate Income Tax Rates

Current Law	Republican House Blueprint	Trump Tax Plan
39% TI > \$100K < \$335K 34% TI > \$335K < \$10M 35% TI > \$10M < \$15M 38% TI > \$15M and over	20% flat rate	15% flat rate

Worldwide corporate tax

- A true “worldwide tax system” is where corporations are taxed on their profits, wherever they are earned, minus taxes paid to foreign governments.
- U.S. has a modified worldwide tax system where we only tax profits that are brought back home, or “repatriated” to the United States.
- We allow a deferral of tax due on profits earned in foreign jurisdictions until they are repatriated.

Deferral of tax

- As a result, corporations can and do defer their overseas profits indefinitely, stockpiling them in no tax jurisdictions, where they accrue interest and remain untaxed.
- For example, a company can transfer ownership of assets, such as patents or intellectual property, to offshore subsidiaries, which then accumulate the profits from these assets, and defer the tax indefinitely.
- It is currently estimated that U.S. multinationals are deferring tax on more than \$2 trillion in profits in offshore jurisdictions.

Territorial corporate tax

- A true territorial system would be a two-tiered system in which domestic profits would get taxed at the full rate, and profits from abroad would be tax-free.
- Most countries that tax corporate income have a modified territorial system where one rate is applied to domestic profits, and a much lower rate to foreign profits.

House GOP plan

- Move to a territorial system with a border adjustment mechanism.
- Mandatory tax for deferred profits paid over 8 years:
 - 8.75% for cash
 - 3.5% for other untaxed assets

Trump administration plan

- Has called for a true worldwide system (2015), where tax deferral is not permitted.
- Would include a mandatory 10% tax on untaxed accumulated foreign earnings.
- Not clear if he still supports this approach, but has criticized the House territorial approach with a border adjustment as too complicated.

Destination based cash flow tax with a border adjustment

- Cost of imports not deductible.
- Revenue of exports not taxed.
- Assumes domestic currency appreciates.
- GOP House plan drops tax rate to 20% and assumes a 25% appreciation in US currency.

No border adjustment

20 percent income tax, no border adjustment

	Business 1: All Domestic	Business 2: Foreign Inputs, Sells Domestic	Business 3: Domestic Inputs, Foreign Sales
Revenue	\$100	\$100	\$100
Cost of Goods Sold	\$60	\$60	\$60
Taxable Income/Profits	\$40	\$40	\$40
Tax	\$8	\$8	\$8
After-tax Income	\$32	\$32	\$32

Border adjustment, no currency adjustment

20 percent income tax, a border adjustment, before currency adjustment

	Business 1: All Domestic	Business 2: Foreign Inputs, Sells Domestic	Business 3: Domestic Inputs, Foreign Sales
Revenue	\$100	\$100	\$100
Cost of Goods Sold	\$60	\$60	\$60
Taxable Income/Profits	\$40	\$100	-\$60
Tax	\$8	\$20	-\$12
After-tax Income	\$32	\$20	\$52

Border adjustment with currency adjustment

20 percent income tax, a border adjustment, after currency adjustment

	Business 1: All Domestic	Business 2: Foreign Inputs, Sells Domestic	Business 3: Domestic Inputs, Foreign Sales
Revenue	\$100	\$100	\$80
Cost of Goods Sold	\$60	\$48	\$60
Taxable Income/Profits	\$40	\$100	-\$60
Tax	\$8	\$20	-\$12
After-tax Income	\$32	\$32	\$32

Why does this matter to Vermont?

- If the border adjustment mechanisms are made at the level of the tax base, it could affect different companies in VT differently, and affect the base from which VT taxes.
- Does VT have more importers or exporters who pay corporate taxes?

Cost recovery/Interest

- Trump Plan:
 - Manufacturers could choose to either immediately expense capital investments, or continue to deduct the cost of interest paid.
- House GOP Plan:
 - All corporate taxpayers could immediately expense capital investments.
 - Deduction for the cost of interest paid eliminated.

Fiscal Impacts

- Health Care changes not included here
- Models of the House Republican Blueprint – multiple analyses – national estimates
- Direct impact on Vermont tax revenue
- More to come