Senate approves tax reform bill with amendments

December 2, 2017

In brief

The Senate early on December 2 voted 51 to 49 to pass an amended version of the tax reform bill previously reported by the Senate Finance Committee. The Senate adopted several significant changes to the Finance Committee bill in order to secure sufficient votes to pass the legislation. Senator Bob Corker (R-TN) joined all 48 Senate Democrats in opposing the bill.

Changes to the Finance Committee bill that were adopted by the Senate include increasing the proposed 17.4 percent deduction for certain pass-through business income to 23 percent, and adding a $10,000 deduction for individual state and local property taxes. To offset part of the cost of these provisions and other revenue-losing changes, the Senate agreed to increase the tax rates for the mandatory repatriation toll tax to 14.49 percent for cash or cash-equivalents and 7.49 percent for illiquid assets (slightly higher levels than in the House-passed bill). In addition, the Senate agreed to maintain the current corporate alternative minimum tax (AMT) and to increase the individual AMT exemption amounts and phase-out thresholds in lieu of full repeal. The Senate also accepted other changes to the Finance Committee bill. For details on the original Senate Finance Committee bill as reported, see our PwC Insight.

Although similar in overall structure, the amended Senate tax reform bill differs in key details from the 'Tax Cuts and Jobs Act' (HR 1) approved on November 16 by the House of Representatives. For more on the House-passed bill, see our PwC Insight.

A House and Senate conference committee is expected to begin work next week on resolving the differences in the two versions of tax reform legislation. Once the conference committee has reached an agreement, both the House and Senate must vote to pass a final bill in identical form before tax reform legislation can be signed into law by President Trump. Congressional Republican leaders remain hopeful that the 'Tax Cuts and Jobs Act' will be enacted before the end of December 2017.

In detail

The Senate-passed version of the 'Tax Cuts and Jobs Act' differs significantly from the House-passed bill (the House bill) but still includes numerous similar proposals to lower business and individual tax rates, modernize US international tax rules, and simplify the tax law. Both bills also include various revenue-raising provisions to offset part of the cost of the proposed tax reforms, and these provisions will have varying effects on business and individual taxpayers, tax-exempt organizations, and state and local governments.

Provided below is a summary of key provisions of the Senate tax reform bill, along with a side-by-side comparison of House and Senate provisions that have general applicability to businesses or individuals.

Business provisions

Under the Senate bill, the current 35-percent top corporate rate would be reduced permanently to 2o percent, for tax years beginning after 2018. The one-year delay (to 2019) in reducing the US corporate rate remains a key difference from the House version, which would lower the rate for tax years beginning after 2017.

Both the House and Senate bills would reduce taxes on certain domestic qualified business income from a partnership, S corporation, or sole proprietorship. As noted above, the Senate bill would provide a 23-percent deduction for qualified pass-through business income (up from 17.4 percent in the Finance Committee bill), effectively resulting in a top rate of 29.6 percent in the absence of other limitations. The House bill would provide a 25-percent top rate for qualified income. Both bills include various limitations on the types of business income that can qualify, and the tax relief would not apply to certain 'specified service businesses.' The Senate also adopted language modifying the Finance Committee bill to broaden eligibility requirements to include income from certain publicly traded partnerships.

Both bills would implement a territorial tax system by providing a 100-percent DRD for certain qualified foreign-source dividends received by US corporations from foreign subsidiaries, effective for tax years of foreign corporations beginning after 2017, but the versions of international reform approved by each chamber differ in many ways. In particular, the House and Senate bills include differing provisions to reduce the erosion of the US corporate tax base. For more details on the significant international tax reforms in the House and Senate Finance Committee bills, see our PwC International Tax Services Insight.

As noted above, the full Senate adopted a provision to increase the tax rates for the mandatory repatriation toll tax to 14.49 percent for cash or cash-equivalents and 7.49 percent for illiquid assets, up from the 10 percent and five percent rates for cash and illiquid assets, respectively, as originally proposed in the Finance Committee bill. The full Senate also adopted a provision to restore the interest charge domestic international sales corporation (IC-DISC) tax incentive for certain small- and medium-sized manufacturers of domestic goods sold outside the United States.

Similar to HR 1, the Senate bill would allow businesses to immediately write off (or 'expense') the cost of qualified property (not including structures) acquired and placed in service after September 27, 2017 and before January 1, 2023 (January 1, 2024 for longer production period property and aircraft). The Senate amended the Finance Committee bill to phase-down full expensing by 20 percent a year in the case of property placed in service after December 31, 2022 and before January 1, 2027 (after December 31, 2023 and before January 1, 2028 for longer production period property and aircraft). The Senate's expensing proposal also differs from the House bill in the definition of qualifying property.

Both bills include differing provisions to limit business interest deductions, as noted in the side-by-side below.

Both bills include differing proposals to limit net operating loss (NOL) deductions to 90 percent of taxable income, with the Senate bill increasing the limitation to 80 percent of taxable income after 2022.

Both bills would retain the research credit but would require the amortization of research expenditures in future years.

Both bills would repeal the Section 199 domestic manufacturing deduction and various other business tax credits. Both bills also would repeal like-kind exchange except for real property.

Both bills would impose a three-year holding period requirement for qualification as long-term capital gain with respect to certain partnership interests received in connection with the performance of services.

Individual provisions

The Senate bill would retain the current bracket structure of seven individual tax rates, but would make additional modifications to the income levels for each bracket, with a top rate of 38.5 percent. The House bill would provide four tax brackets, with a top rate of 39.6 percent. Both bills would increase estate tax exemption amounts, but the House bill also would repeal the estate tax after 2024. Both bills would nearly double the individual standard deduction while eliminating or reducing differing individual tax deductions and exclusions. Both bills would repeal the individual deduction for state and local taxes but would permit individual taxpayers to deduct up to $10,000 in state and local property taxes. Both bills also would eliminate the 'Pease' limitation on individual itemized deductions.

Individual tax relief sunsets

The Senate bill would sunset nearly all individual provisions (including pass-through business tax relief provisions) after 2025, in order to comply with a Senate budget reconciliation rule that allows a procedural point of order against any legislation increasing federal deficits in future decades. The

Senate bill would make permanent the proposed corporate and international reforms.

The final bill to be negotiated by a House and Senate conference committee also would have to comply with this Senate rule, in the absence of a 60-vote majority to waive the rule.

Alternative minimum tax

The Senate-passed bill drops the Finance Committee proposals to repeal the corporate and individual alternative minimum tax. Instead, the Senate agreed to maintain the current corporate AMT and to increase individual AMT exemption amounts and phase-out thresholds in lieu of full repeal. The House bill would repeal both the individual and corporate AMT.

Observation: The Senate's decision to retain the corporate AMT and a modified individual AMT is a notable departure from the tax reform goals set in the September 27, 2017 'unified framework' agreed to by House and Senate Republican leaders and the Trump Administration. With a 20 percent tax rate applying to both the corporate AMT and the regular corporate income tax, the corporate AMT would be significantly more important going forward. This issue will be one of many differences in the House and Senate bills that will need to be addressed by the upcoming conference committee. In addition to resolving policy differences, conferees must ensure that the tax reform legislation does not exceed the overall net deficit increase limit set by the FY 2018 budget resolution, as discussed below.

Other Senate provisions

The Senate bill would effectively repeal the Affordable Care Act (ACA) individual mandate by reducing the ACA individual shared responsibility payment to zero. The Senate bill also would allow oil and gas exploration in the Arctic National Wildlife Refuge (ANWR). The House bill does not include similar provisions.

The Senate adopted additional modifications to the Finance Committee bill that include the following:

- Strikes a provision in the Finance Committee bill repealing the deduction for certain unused business credits
- Modifies certain provisions in the Finance Committee bill affecting insurance companies.
- Adds a provision allowing an election to increase the percentage of domestic taxable income offset by overall domestic loss treated as foreign source income.
- Adds language providing that certain qualified derivative payments are not treated as base erosion payments.
- Adds a provision modifying the treatment of S corporation conversions to C corporations (the House bill also includes a provision modifying rules on S corporation conversions to C corporations).
- Allows full deductibility for motor vehicle floor plan financing interest costs (a similar provision is in the House bill).
- Exempts mortgage servicing rights from the Finance Committee income inclusion accounting method proposal (there is no similar income inclusion provision in the House bill).
- Strikes a provision in the Finance Committee bill related to passenger cruise ship income (there is no similar provision in the House bill).
- Provides a temporary reduction in the individual medical expense deduction floor for 2017 and 2018 to include costs that exceed 7.5 percent of AGI, rather than 10 percent as under present law (The House bill would repeal the current-law deduction).
- Strikes a provision in the Finance Committee bill allowing unborn children to qualify as 529 plan beneficiaries (the House bill includes a similar provision).
- Adopts an amendment allowing the use of 529 savings plans for K-12 schools and homeschooling (the House bill includes a similar provision).
- Strikes a provision in the Finance Committee bill affecting catch-up contributions to certain retirement accounts.
- Strikes a provision in the Finance Committee bill that would treat name and logo royalties as unrelated business taxable income.

For more details on key tax reform proposals and differences in the House and Senate bills, see our side-by-side comparison below.

Revenue estimates

The FY 2018 budget resolution 'reconciliation' instructions require that the net overall deficit increase resulting from the tax reform legislation not exceed $1.5 trillion over 10 years. Failure to comply with the reconciliation instructions would put at risk the ability of the Senate to pass the legislation with a simple majority, instead of the generally required 60-vote supermajority.

The Joint Committee on Taxation (JCT) staff projected that the Finance bill as reported on November 16 would reduce federal revenues by $1.41 trillion over 10 years. For a copy of the JCT revenue estimate of the Finance Committee bill, click here.

JCT staff on December 1 released a revenue estimate for the Senate bill, which includes amendments made to the Finance Committee bill, projecting that the bill as amended would reduce federal revenues by $1.447 trillion over 10 years, under conventional scoring methodologies.

JCT staff released a macroeconomic analysis of the Finance Committee bill as reported on November 30 that estimates that the legislation would increase economic output (as measured by Gross Domestic Product) by about 0.8 percent on average over the 10-year budget window. That increase in income would reduce the conventionally estimated $1.4 trillion revenue loss by $458 billion over the budget period. JCT projects that this budget effect would be partially offset by an increase in interest payments on the Federal debt of about $50 billion over the same period. As a result, JCT projects that the Finance Committee bill would increase federal budget deficits by just over $1 trillion over 10 years. For a copy of the JCT macroeconomic analysis of the Finance Committee bill, click here.

Next steps

The House currently is expected formally to appoint conferees on December 4, and the Senate is expected to appoint conferees in coming days. Under the reconciliation rules in the Senate, there are 10 hours of debate on going to conference with unlimited motions to instruct conferees potentially in order. As with the earlier procedural steps, all of these matters require only a simple majority vote to proceed.

Once the conference committee has reached an agreement, both the House and Senate must vote to pass a final bill in identical form before tax reform legislation can be signed into law by President Trump.

The takeaway

Congress has continued to make dramatic progress in approving an historic tax reform, with the Senate now joining the House in having approved separate versions of tax reform legislation. The effort to enact a reform of US tax law providing a more competitive tax system for business taxpayers and improved economic opportunities for individuals and families is now entering a critical final phase.

Stakeholders should remain engaged in the legislative process as a conference committee works to resolve differences in the bills approved by each chamber and then both the House and Senate hold votes in an effort to enact the final legislation before the end of 2017.

For more information on the Senate tax reform bill

- Text of Senate-passed bill (479 pages)
- JCT staff revenue score for Senate-passed bill

Of further interest

- Visit our Policy on the move website to understand how policy change could impact your business.
- Get your free trial of Inside Tax Policy, our on-demand video platform to keep up with policy changes as they unfold.

Let's talk

For a deeper discussion of how this might affect your business, please contact:

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Side-by-side comparison

Proposal	Current Law	House Tax Cuts and Jobs Act (H.R. 1)	Senate Tax Cuts and Jobs Act
General business tax reform proposals			
Corporate tax rates	35% rate	20% rate for taxable years beginning after 12/31/2017. A blended rate applies for fiscal-year taxpayers.	20% rate for taxable years beginning after 12/31/2018. A blended rate applies for fiscal-year taxpayers.
Corporate AMT	20% corporate AMT rate	Corporate AMT repealed after 2017. AMT credits are refundable from 2019 through 2022	No provision
Cost recovery (full expensing)	Recover investment over the investment's applicable life under MACRS or ADS	100% full expensing for investments made after Sept. 27, 2017 and before January 1, 2023 (additional year for certain qualified property with longer production period). Excludes property used by a regulated public utility or in a real property trade or business. Extends to used property.	Generally the same as H.R. 1, except that the Senate bill would phase-down full expensing by 20 percent a year in the case of property placed in service after December 31, 2022 and before January 1, 2027 (after December 31, 2023 and before January 1, 2028 for longer production period property and aircraft). The Senate bill also does not exclude qualifying property used in a real property business and does not expand expensing to used property.
Business interest expense	Deductible as incurred	**Two tests would apply:** First, limited to the sum of business interest income plus 30 percent of the adjusted taxable income (defined similar to EBITDA). Would not apply to certain regulated public utilities and real property trades or businesses. **Worldwide leverage test:** Second, limits deduction of interest by a US corporation that is part of an 'international financial reporting group' (IFRG) to US corporation's share of the IFRG's EBITDA (expressed as a percentage), multiplied by	**Two tests would apply:** First, limited to the sum of business interest income plus 30 percent of the adjusted taxable income (defined similar to EBIT, i.e., without add-back of depreciation and amortization) of the taxpayer for the taxable year. Would not apply to certain regulated public utilities and at the

		110% of the IFRG's reported net interest expense. Both limitations apply to both related-party and unrelated-party debt. The harsher of the two limitations will apply. Disallowed interest is permitted to be carried forward five years.	taxpayer's election certain real property trades or businesses. **Worldwide leverage test:** Second, limits deduction of net interest expense of a US corporation that is part of a 'worldwide affiliated group' to the extent the US corporation's domestic indebtedness exceeds a percentage of the indebtedness it would have if its domestic debt: equity ratio were the same as that of the worldwide group. The percentage used in determining excess indebtedness phases down from 130% in 2018 to 110% in 2022 and thereafter. Both limitations apply to both related-party and unrelated-party debt. The bill explanation states that the harsher of the two limitations will apply. Disallowed interest may be carried forward indefinitely.
Pass-through entities	Income is passed through to the owners to be taxed at the individual rates	25% maximum rate with exclusion for certain pass-through business income. Guardrails around what qualifies as business income, including a general exclusion for income from any active business activity involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing, trading, or dealing in securities, partnership interests, or commodities (specified services business income).	Creates a 23% deduction for non-wage portion of pass-through income. Deduction is limited to 50% of the taxpayer's allocable share of W-2 wages. W-2 limitation applies to taxpayers with income over $500,000 (married) or $250,000 (individuals). The 50% limit is phased in over the next $100,000 (married) of taxable income ($50,000 for

		9% tax rate, phased in over 5 years, for the first $75,000 of net business income for joint returns ($37,500 for individuals) in lieu of the 12% rate. Phased out at $225,000 of taxable income.	individuals). The Senate bill includes language modifying the Finance Committee bill to broaden eligibility requirements to include income from publicly traded partnerships. The deduction does not apply to specified services business income, except when income of taxpayers married filing jointly does not exceed $500,000 ($250,000 for individuals). The benefit of the deduction is phased out over the same limits as above.
Domestic production	Deduction up to 9% of qualified income for items manufactured, produced, grown, or extracted in US (6% of qualified income for oil & gas production).	Repeals Section 199 deduction for taxable years beginning after 12/31/2017.	Repeals Section 199 for taxable years beginning after 12/31/2018 (12/31/2017 for pass-through entities).
R&D	Regular credit – 20%	Maintains R&D credit. Section 174 research and experimentation expenditures must be capitalized and amortized over a 5-year period for expenditures paid or incurred after 2022 (15 years for foreign expenditures)	Maintains R&D credit. Section 174 research and experimentation expenditures must be capitalized and amortized over a 5-year period for expenditures paid or incurred after 2025 (15 years for foreign expenditures)
Net operating losses	Carryback up to 2 years and carryforward up to 20 years	Limit to 90% of income, with indefinite carryforward and increase by interest factor; no carryback	Limit to 90% of income, indefinite carryforward; no carryback. Limit to 80% of taxable income beginning after 12/31/2022.
Like-kind property	Allows deferral of gain from an exchange of 'like-kind' property	Repeals like-kind exchange except for real property	Repeals like-kind exchange except for real property
Accounting methods	C corporations/partnerships with a C-corporation partner may only use the cash method of accounting	Increase to $25 million	Increase to $15 million

	if their average annual gross receipts for the prior three tax years do not exceed $5 million for all prior tax years for tax years beginning after December 31, 2017 and indexed for inflation after 2018. Taxpayers with average annual gross receipts for the prior three tax years that do not exceed $10 million are exempt from the UNICAP and the percentage of completion method.		
Private activity bonds	Allows for the issuance of tax-exempt bonds on behalf of private parties (private activity bonds), including qualified IRC §501(c)(3) organizations.	Eliminates tax-exempt interest from qualified private activity bonds	No change from current law
Advance refunding bonds	Interest on advance refunding bonds is tax-exempt.	Repeals exemption for any bond issued after 1/1/2018	Repeals exemption
Sale or exchange of patents	Certain self-created property, including patents, is treated as a capital asset	Repeals IRC §1235, resulting in the gain or loss from a disposition to be ordinary in character	No change from current law
Revision of treatment of contributions to capital	The gross income of a corporation generally does not include contributions to its capital. A debtor corporation that acquires its own debt from a shareholder as a contribution to capital generally will not recognize cancellation of debt income except to the extent the shareholder's basis in such debt is less than the adjusted issue price.	Repeals both provisions and adds new IRC §76, which provides that the gross income of any entity includes any contribution to capital. For corporations, the gross income of would include contributions to its capital only to the extent that the amount of money and the fair market value of property contributed to the corporation exceeds the fair market value of any stock that is issued in exchange for such money or property.	Not provided
8% surtax on life insurance company income	Not provided	Imposes 8% surtax on life insurance company taxable income beginning 1/1/2018. The surtax is identified as a 'placeholder'.	Not provided

Capitalization of certain policy acquisition expenses	Certain policy acquisition expenses, such as commissions, are required to be capitalized over 120 months. A special rule provides for 60-month amortization of the first $5 million of certain policy acquisition expenses, with a phase-out	Not provided	The provision extends the amortization period for specified policy acquisition expenses from a 120-month period to a 180-month period
FDIC premium deduction	FDIC premiums are deductible once the all events test for the premium is satisfied	Phases out deductions for any FDIC premiums paid by financial institution groups with assets between $10 billion and $50 billion.	Same as H.R. 1
Entertainment deduction	Employers may deduct 50% of business-related entertainment costs	Repeals deduction	Repeals deduction
Moving expense deduction	Provides deductions for certain moving expenses	Repeals deduction, except for those in the Armed Forces	Repeals deduction, except for those in the Armed Forces
Moving expense reimbursement exclusion	Employer-provided reimbursements for certain moving expenses are excluded from income	Repeals	Repeals
Transportation and parking	Employers may deduct cost of certain benefits provided, such as transportation and parking	Repeals	Repeals
Work Opportunity Tax Credit	Employers receive tax credits for hiring individuals from certain groups, such as veterans	Repeals	No change from current law

International business tax reform proposals

Proposal	Current Law	House Tax Cuts and Jobs Act (H.R. 1)	Senate Tax Cuts and Jobs Act
International tax regime	'Worldwide' system Foreign tax credits to mitigate double taxation	'Territorial' system 100% foreign dividend exemption	'Territorial' system 100% foreign dividend exemption
Repatriation 'toll tax'	Currently no provision. Previously untaxed foreign earnings: • 35% corporate rate when repatriated with foreign tax credit	Previously untaxed foreign earnings: • 14% cash and cash-equivalents • 7% non-cash assets • Payable over 8 years • Proportional reduction in foreign tax credits attributable to previously untaxed foreign earnings	Previously untaxed foreign earnings: • 14.49% cash and cash-equivalents • 7.49% non-cash assets • Payable over 8 years • Proportional reduction in foreign tax credits attributable to

			previously untaxed foreign earnings
Anti-base erosion regime (Subpart F)	Subpart F anti-deferral regime includes CFC's insurance income, foreign base company income, etc., with foreign tax credit	Subpart F generally maintained; US shareholder of CFCs subject to current 20% tax on 50% of its aggregate share of CFC's foreign high return amount (effective tax rate of 10%). An 80% foreign tax credit is permitted. In effect, the new minimum tax will not apply to taxpayers if, on an aggregate basis, the CFC effective foreign tax rate is 12.5% or higher.	Subpart F generally maintained; US shareholders of CFCs subject to current US tax on 'global intangible low-taxed income' (GILTI) with a 50% deduction (reduced to 37.5% for tax years beginning after 12/31/2025). An 80% foreign tax credit is permitted. Special rules to encourage transfers of intangible property from CFCs to US shareholders.
Incentive for US production for sale to foreign customers	Not provided	Not provided	A 37.5% deduction is allowed for foreign-derived intangible income produced in the US. The deduction is reduced to 21.875% for taxable years starting after 12/31/2025.
Anti-base erosion regime (Inbounds)		20% excise tax or similar tax on effectively connected income relating to certain outbound payments (other than interest) that are deductible, includible in cost of goods sold, or includible in the basis of a depreciable or amortizable asset, made to related foreign corporations. An 80% foreign tax credit is permitted.	New add-on minimum tax equal to the excess of (i) 10% of taxable income (12.5% for tax years after 12/31/2025) generally determined without regard to amounts paid or accrued to a foreign related party, including amounts includible in the basis of a depreciable or amortizable asset, over (ii) regular tax liability (determined after reduction by credits other than the R&D credit). For tax years beginning after 12/31/2025, the regular

			tax is reduced by all credits (including GBC).
Look-through rule	'Look-through' rule provides that a US parent can exclude passive income received by one CFC from a related CFC (expires after 2019)	Makes the 'look-through' rule permanent	Makes the 'look-through' rule permanent
Limitation on losses	Gain recognized by a US shareholder on the sale or exchange of stock in a foreign corporation is generally treated as a dividend distribution to the extent of the foreign corporation's E&P.	A domestic corporation is required to reduce the basis of its stock in a foreign subsidiary by the amount of any exempt dividend received, but only for purposes of determining the amount of a loss on the sale or exchange of the stock.	Appears to be same as the House bill, but recapture amount limited to amount of deduction allowed to the taxpayer for foreign dividends received in taxable year of the transfer, and any excess is carried forward to future years
Foreign tax credit	A taxpayer can generally take a credit or deduction for foreign taxes paid or accrued. US shareholder may be deemed to pay foreign income taxes paid by a foreign corporation when the US shareholder receives a dividend from a foreign corporation or includes earnings of a foreign corporation in gross income.	Repeals deemed paid tax credit for dividends received from a foreign corporation. Retains deemed paid tax credit for subpart F inclusions. Proposal eliminates need for computing and tracking cumulative tax pools. No foreign tax credit or deduction permitted for any taxes paid or accrued with respect to any dividend subject to the new deduction for foreign dividends.	Same as H.R. 1
Foreign tax credit limitation	Amount of credit is subject to a limitation based on the taxpayer's foreign source income. Limitation applies separately with respect to passive category income and general category income ('baskets').	Adds separate basket for the foreign high return inclusion.	Adds separate baskets for foreign branch income and GILTI.
Allocation of interest expense	Members of a US affiliated group can allocate interest expense based on fair market value or adjusted tax basis of assets.	No change from current law.	Members of a US affiliated group must allocate interest expense based on the adjusted tax basis of assets.
Foreign high returns/	Subpart F	A US shareholder in a CFC must include 50% of its 'foreign high return amount' (FHRA) in gross income.	A US shareholder in a CFC must include its GILTI in gross income.

Intangible income	Transfer pricing rules govern the allocation of profits to a foreign affiliate holding intangible assets.	A US shareholder's FHRA is equal to amount by which its aggregate pro rata share of 'net CFC tested income' exceeds a specified return. Specified return is a percentage (7% plus the short-term AFR) of the shareholder's aggregate pro rata share of CFC qualified business asset investment (QBAI), and is reduced by interest expense taken into account in determining net CFC tested income.	A US shareholder's GILTI is equal to amount by which its aggregate pro rata share of net CFC tested income exceeds a specified return. Specified return is equal to 10% of shareholder's aggregate pro rata share of QBAI. A domestic corporation can deduct 50% of GILTI included in gross income and 37.5% of its foreign-derived intangible income.
Transfers of intangible property from CFCs to US shareholders	A shareholder recognizes ordinary income on a distribution out of a corporation's E&P. Distributions in excess of E&P reduce a shareholder's basis in the stock of distributing corporation, and distributions in excess of stock basis are treated as gain from the sale or exchange of property. A distributing corporation recognizes gain on a distribution of appreciated property. A shareholder's basis in distributed property is equal to its fair market value.	No change from current law	Applies to distributions by a CFC of certain intangible property to a US shareholder before the last day of the CFC's third taxable year beginning after December 31, 2017. Fair market value of the property distributed is treated as not exceeding its adjusted basis. US shareholder's adjusted basis in the stock of a CFC is increased by amount of distribution that would otherwise be included in shareholder's gross income. Shareholder's basis in property distributed is reduced by amount of increase.
Transfers of property from US to foreign corporation	In general, an exchange in which a US person transfers property to a foreign corporation is not eligible for non-recognition treatment.	No change from current law	Repeals the active trade or business exception.

	Under the active trade or business exception, certain property transferred to a foreign corporation for use in the active conduct of a trade or business outside of the United States is eligible for non-recognition.		
Related party payments	Fixed or determinable annual or periodical (FDAP) income received by a foreign corporation from US sources is subject to a 30% gross basis withholding tax which may be reduced under a US income tax treaty.	Imposes a 20% excise tax on certain amounts paid by a US corporation to a foreign corporation if both corporations are part of the same international financial reporting group. Excise tax does not apply to amounts treated by foreign recipient as ECI; foreign recipient can elect to treat payments from a US corporation that would otherwise be subject to excise tax as ECI. The excise tax does not apply to FDAP income to the extent the income is subject to the 30% withholding tax.	Imposes minimum tax equal to excess of (i) 10% of taxable income determined without regard to base erosion payments (i.e., deductible payments to a related foreign person); over (ii) regular tax liability. Rate above is increased to 12.5% for taxable years beginning after December 31, 2025. Modified taxable income is reduced by payments to the extent they are subject to the 30% tax on FDAP income. Denies a deduction for interest or royalties paid or accrued to a related party in connection with a hybrid transaction or a hybrid entity, to the extent that the related party does not have a corresponding inclusion or is allowed a deduction with respect to the amount paid for foreign tax purposes.

Individual tax reform proposals

Proposal	Current Law	House Tax Cuts and Jobs Act (H.R. 1)	Senate Tax Cuts and Jobs Act
Individual rates	Seven rate brackets (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%)	Four rate brackets (12%, 25%, 35%, and 39.6%) Phases out benefit of 12% rate for AGI exceeding $1 million ($1.2 million married filing joint)	Seven rate brackets (10%, 12%, 22%, 24%, 32%, 35%, and 38.5%). Sunsets after 2025.

AMT	AMT imposed when minimum tax exceeds regular income tax	Repeals AMT	Increases individual AMT exemption amounts and phase-out thresholds in lieu of full repeal. Sunsets after 2025.
Individual – standard deduction	$6,500 for single filers/ $13,000 joint filers (2018)	$12,200 for single filers/ $24,400 joint returns (adjusted for inflation based on chained CPI)	$12,000 for single filers/ $24,000 joint returns (adjusted for inflation based on chained CPI). Increased deduction sunsets after 2025. Chained CPI does not expire after 2025.
Personal exemption	$4,150 for each person, spouse, and dependents (2018)	Repeals deduction for personal exemptions	Repeals deduction for personal exemptions. Sunsets after 2025.
Individual – itemized deductions	Itemized deduction phase out begins at $320,000 for joint filers and $266,700 for single filers (2018)	No overall limitation on itemized deductions. Repeals state and local income and sales tax deductions but retains the deduction for state and local property taxes up to $10,000. Repeals certain other itemized deductions.	No overall limitation on itemized deductions. Repeals state and local income and sales tax deductions but retains the deduction for state and local property taxes up to $10,000. Repeals certain other itemized deductions. Sunsets after 2025.
Mortgage interest deduction	Mortgage interest deduction limited to acquisition debt of $1 million and home equity debt of $100k on a principal and second home	Retains for existing mortgages, limited to $500,000 for newly purchased homes, no longer available for a second home	Retains current law but repeals interest on home equity indebtedness. Sunsets after 2025.
Child tax credit	$1,050 per child	$1,600 per child ($1,000 refundable) and a $300 credit for non-child dependents	$2,000 per child ($1,000 refundable) and $500 for non-child dependents. Sunsets after 2025.
Estate Tax	Maximum 40% rate for taxable estates exceeding $5.6 million (2018 indexed amount)	Doubles exemption amounts until repeal of estate tax in 2024	Doubles exemption amounts. Sunsets after 2025.
Carried interest	Taxed at capital gains rates	Imposes a three-year holding period requirement for qualification as long-term capital gain with respect to certain partnership interests received in	Same as H.R. 1

		connection with the performance of services	
ACA Individual Mandate	For tax year 2017, the payment is 2.5% of a household's AGI or a flat rate of $695/adult and $347.50/child, up to a maximum of $2,085	No change	Reduces the amount of the individual mandate payment to $0 beginning after December 31, 2018.
Excessive employee remuneration for covered officials	Corporate salaries of 'covered officials' have a $1 million cap on deduction. Exception for performance-based compensation.	Compensation paid by publicly traded entities to executives is subject to a $1 million deduction limit. Repeals the exception for performance-based compensation.	Same as H.R. 1
Minimum age for in-service distributions	Allows for in-service distributions at the age of 62 for defined benefit plans and state and local government defined contribution plans	Reduces the age to 59 and a half.	No change from current law
American Opportunity Tax Credit	Tax credit of up to $2,500 of the cost of tuition, fees and course materials. Also, 40% of the credit is refundable. The credit is only available for the first four years of a student's post-secondary education.	The American Opportunity Tax Credit, the Hope Scholarship Credit and the Lifetime Learning Credit would be consolidated into the American Opportunity Tax Credit. The credit is available for a fifth year of a student's post-secondary education but is limited to $1,250.	No change from current law
Other provisions related to education	Provisions related to education: •Provides for an above-the-line deduction for interest payments on qualified education loans for qualified higher education expenses •Provides for an above-the-line deduction for certain qualified tuition and related expenses •Excludes from income interest on US. savings bonds used to pay qualified higher education expenses •Excludes from gross income of qualified tuition reductions provided by	Repeals the following incentives: • Interest deduction on qualified education loans • Deduction for qualified tuition and related expenses • Exclusion for interest from U.S. savings bonds used to pay qualified higher education expenses • Exclusion of qualified tuition reductions by educational institutions •Exclusion for employer-provided education expenses	No change from current law

	educational institutions •Excludes from gross income employer-provided education assistance		
Exclusion of gain from sale of a principal residence	Allows individuals to exclude gain of up to $250,000 (or $500,000 for joint filers) from the sale of a principal residence who own and use a house for two of the previous five years. The exclusion can only be used once every two years.	The capital gain exclusion of $500,000 (for married filing jointly) would be limited to taxpayers who own and use a house for five out of the previous eight years. The exclusion could only be used once every five years. The exclusion would start to phase out one dollar for every dollar that the taxpayer's AGI exceeds $500,000 (married filing jointly).	The capital gain exclusion of $500,000 (for married filing jointly) would be limited to taxpayers who own and use a house for five out of the previous eight years. The exclusion could only be used once every five years. Sunsets after 2025.