Tax Reform Gains Momentum

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In the early morning hours of December 2nd, the Senate passed its tax reform bill with a 51-to-49 vote that mostly followed party lines (Senator Bob Corker was the lone Republican to dissent citing deficit concerns). The recent Senate vote follows the House's tax bill which was passed several weeks earlier. While the House could choose to expedite legislation by voting on the Senate bill without amendments, Republican leadership has indicated a conference committee will be assembled to reconcile differences between the bills. Given the slim margin that the bills passed the House and Senate, modifications need to be done in a manner that finds suitable compromises while still positioning the final bill to carry a majority vote in both houses.

Key Points:

- The Senate bill shifted to align with the House on several key issues, though notable differences still remain (excerpted list below):

	House	Senate
Duration of Changes	Most tax provisions would be permanent for individuals and corporations	Most tax provisions would be permanent for corporations, while most of the tax provisions for individuals would expire ('sunset') after 2025
Individual Income Tax Brackets	Reduces from seven to four (top tax rate of 39.6%)	Retains seven brackets (top tax rate of 38.5%)
Child Tax Credit	$1,600 per child under age 17, with the phaseout for joint filers beginning at $230,000	$2,000 per child under age 18, with the phaseout for joint filers beginning at $500,000
Medical Expense Deduction	Repeals	Retains (and lowers the threshold to 7.5% of AGI for 2017 & 2018)
Mortgage Interest Deduction	New mortgages would have a $500,000 limit	Retains the current $1 million mortgage limit
Alternative Minimum Tax (AMT)	Repeals	Retains for corporations and individuals, though with a higher exemption rate for individuals
Federal Estate Tax	Increases exemption to $11 million; repeals estate tax after 2024	Increases exemption to $11 million
Corporate Tax Rate Decrease	Rate drops to 20% beginning in 2018	Rate drops to 20% beginning in 2019
Pass-Through Business Income	Maximum rate of 25% (certain restrictions and income limits apply)	Allows for deduction of 23% of qualifying pass-through income (certain restrictions and income limits apply)

- Attention will now shift to the conference committee tasked with creating a unified bill.
  - The goal of the conference committee is to reconcile differences between the House and Senates' bills via a conference report (rather than the more arduous process of both houses making amendments to each other's bills, potentially resulting in prolonged negotiations).
  - Each party (Democrats and Republicans) names conferees in proportion to the seats held in each chamber.
  - According to the Congressional Research Service, conferees "as a general rule, may not change a provision on which both houses agree, nor may they add anything that is not in one version or the other. Furthermore, conferees are to reach agreements within the 'scope' of the differences between the House and Senate positions."[1]
  - If the committee's conference report is passed by a majority of each house's delegation, the conference report is then submitted for a floor vote (the conference report is not open to further amendment on the floor).
  - The first chamber to consider the conference report can choose 1) to accept or reject the conference report or 2) to recommit the conference report back to the committee. After one chamber has taken action on the conference report, the other chamber can only accept or reject the conference report.
  - If a chamber rejects the conference report, the committee can make modifications and resubmit for another floor vote (while possible, it is generally rare since the committee solicits input from congressional leaders before finalizing the conference report).

- With year-end fast approaching, Republicans hope to produce a conference report shortly that will pass the House and Senate in time for President Trump to sign the legislation before Christmas.

- The House and Senate bills give some indication as to what tax reform might entail, though taxpayers (in consultation with trusted advisors) should continue to monitor tax reform developments to evaluate planning opportunities.

For further information and assistance, please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

[1] *Rybicki, Elizabeth. "Conference Committee and Related Procedures: An Introduction." Congressional Research Service Report, 9 Mar. 2015.*

About the Author:

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Nick provides investment consulting services to nonprofit organizations, corporate executives, family trusts and other high net worth investors. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. Nick is also a member of the firm's Core Investment Strategy Group. Prior to joining the firm in 2007, Nick was a Senior Financial Planner with The Ayco Company where he provided comprehensive advice to affluent clientele. Nick earned a BA in Finance and Economics from the University of Illinois at Urbana-Champaign. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning and is a CFA® charterholder and member of the CFA Society of Chicago. Nick enjoys long distance running (having completed three marathons and multiple half-marathons) and spending time with his family.