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The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law

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Summary

A tax revision enacted late in 2017 substantively changed the federal income tax system (P.L. 115-97). Broadly, for individuals, the act temporarily modifies income tax rates. Some deductions, credits, and exemptions for individuals are eliminated, while others are substantively modified. These changes are mostly temporary. For businesses, pass-through entities experience a reduction in effective tax rates via a new deduction, which is also temporary. The statutory corporate tax rate is permanently reduced. Many deductions, credits, and other provisions for businesses are also modified. The act also substantively changes the international tax system, generally moving the U.S. tax system towards a territorial system.

This report provides a brief summary of P.L. 115-97, comparing each provision in the act with prior tax law. The report also provides a brief legislative history of activity leading to enactment of P.L. 115-97, along with estimated revenue and distributional effects of the recently enacted law.

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Introduction

P.L. 115-97 was signed into law by President Trump on December 22, 2017. The act substantively changes the federal tax system. Broadly, for individuals, the act temporarily modifies income tax rates. Some deductions, credits, and exemptions for individuals are eliminated, while others are substantively modified, with these changes generally being temporary. For businesses, pass-through entities experience a reduction in effective tax rates via a new deduction, which is also temporary. The statutory corporate tax rate is permanently reduced. Many deductions, credits, and other provisions for businesses are also modified. The act also substantively changes the international tax system, generally moving the U.S. tax system towards a territorial system. This report provides a brief summary of P.L. 115-97, comparing each provision in the act with prior tax law.¹ The report also provides a brief legislative history of activity leading to the enactment of P.L. 115-97, along with estimated revenue and distributional effects of the recently enacted law.²

Legislative History³

In October of 2017, the House and Senate agreed to a budget resolution for FY2018 (H.Con.Res. 71) which directed the House Committee on Ways and Means and the Senate Committee on Finance to report legislation within their jurisdiction that would increase the deficit by no more than \$1.5 trillion over ten years.⁴ These directives triggered the budget reconciliation process which stipulates that committee legislation developed in response to a reconciliation directive is eligible to be considered under expedited procedures in both the House and Senate. These expedited procedures are particularly noteworthy in the Senate, since debate on reconciliation legislation is limited to 20 hours, and therefore does not require the support of three-fifths of Senators to invoke cloture to avoid a filibuster and reach a final vote on the bill.⁵

In response to the reconciliation directive included in H.Con.Res. 71, the House Committee on Ways and Means held a mark-up on proposed tax reform legislation,⁶ and subsequently reported

¹ This report expands on CRS In Focus IF10796, *Comparing Key Elements of H.R. 1 to 2017 Tax Law*, by Mark P. Keightley and Molly F. Sherlock, which provides a summary of key elements of P.L. 115-97 compared with prior law. See also CRS In Focus IF10792, *Tax Cuts and Jobs Act (H.R. 1): Conference Agreement*, by Jane G. Gravelle. For an overview of the tax system for the 2017 tax year, see CRS Report R45053, *The Federal Tax System for the 2017 Tax Year*, by Molly F. Sherlock and Donald J. Marples.

² This report does not summarize or compare any non-tax provisions in P.L. 115-97.

³ Megan S. Lynch, Specialist on Congress and the Legislative Process, contributed to this section.

⁴ H.Con.Res. 71 (115th Congress). The budget resolution also directed the Senate Committee on Energy and Natural Resources to report legislation that would *reduce* the deficit by not less than \$1 billion over ten years.

⁵ For more information on the reconciliation process, see CRS Report R44058, *The Budget Reconciliation Process: Stages of Consideration*, by Megan S. Lynch and James V. Saturno.

⁶ The House Ways and Means Committee held a committee mark-up on November 6 and 7, 2017. See U.S. Congress, Joint Committee on Taxation, *Description of H.R. 1, The "Tax Cuts and Jobs Act,"* committee print, 115th Cong., 1st sess., November 3, 2017, JCX-50-17; U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of H.R. 1, The "Tax Cuts and Jobs Act," As Ordered Reported By The Committee On Ways And Means On November 9, 2017,* committee print, 115th Cong., 1st sess., November 11, 2017, JCX-54-17; U.S. Congress, Joint Committee on Taxation, *Distributional Effects Of H.R. 1, The "Tax Cuts And Jobs Act," As Ordered Reported By The Committee On Ways And Means On November 9, 2017,* committee print, 115th Cong., 1st sess., November 14, 2017, JCX-55-17; and U.S. Congress, Joint Committee on Taxation, *Macroeconomic Analysis Of The "Tax Cuts And Jobs Act" As Passed By The House Of Representatives On November 16, 2017,* committee print, 115th Cong., 1st sess., December 11, 2017, JCX-66-17.

H.R. 1 on November 13, 2017.⁷ On November 16, 2017, the legislation passed the House by a vote of 227-205.⁸

In response to the reconciliation directive included in H.Con.Res. 71, the Senate Committee on Finance held a mark-up on proposed tax reform legislation,⁹ and on November 16, 2017 voted to submit legislative text to the Senate Committee on the Budget (as instructed in H.Con.Res. 71) by a vote of 14-12.¹⁰ On November 28, the Senate Committee on the Budget reported S. 1, “an original bill to provide for reconciliation pursuant to title II of the concurrent resolution on the budget for fiscal year 2018” which included the legislative text reported from the Committee on Finance, by a vote of 12-11.¹¹

On November 29, the Senate voted to proceed to the consideration of H.R. 1, and after agreeing to several amendments, one of which substituted the text of the bill, the Senate passed H.R. 1 with an amendment on December 2 by a vote of 51-49.¹²

On December 4, 2017, the House disagreed to the Senate amendment (the Senate version of H.R. 1) and requested a conference with the Senate by a vote of 222-192.¹³ On December 6, 2017, the Senate agreed to the request for conference by a vote of 51-47.¹⁴ On December 15, 2017, the conference committee filed a conference report.¹⁵ On December 19, 2017, the House agreed to the conference report by a vote of 227-203.¹⁶ During subsequent Senate consideration of the

⁷ U.S. Congress, House Committee on Ways and Means, Tax Cuts and Jobs Act Report of the Committee on Ways and Means, House of Representatives, on H.R. 1 Together with Dissenting and Additional Views, 115th Cong., 1st sess., H.Rept. 115-409 (Washington: GPO, 2017).

⁸ House of Representatives Roll Call vote number 637, <http://clerk.house.gov/evs/2017/roll637.xml>.

⁹ On November 13, 2017, in U.S. Congress, Joint Committee on Taxation, *Description Of The Chairman’s Mark Of The “Tax Cuts And Jobs Act”*, committee print, 115th Cong., 1st sess., November 9, 2017, JCX-51-17; U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The Chairman’s Mark Of The “Tax Cuts And Jobs Act,” Scheduled For Markup By The Committee On Finance On November 13, 2017*, committee print, 115th Cong., 1st sess., November 9, 2017, JCX-52-17; U.S. Congress, Joint Committee on Taxation, *Distribution Effects Of The Chairman’s Mark Of The “Tax Cuts And Jobs Act,” Scheduled For Markup By The Committee On Finance On November 13, 2017*, committee print, 115th Cong., 1st sess., November 11, 2017, JCX-53-17; and U.S. Congress, Joint Committee on Taxation, *Macroeconomic Analysis Of The “Tax Cut And Jobs Act” As Ordered Reported By The Senate Committee On Finance On November 16, 2017*, committee print, 115th Cong., 1st sess., November 30, 2017, JCX-61-17.

¹⁰ U.S. Congress, Senate Committee on Finance, *Results of Executive Session to Consider an Original Bill Entitled Tax Cuts and Jobs Act*, 115th Cong., 1st sess., 2017, <https://www.finance.senate.gov/download/results-of-executive-session-to-on-november-14-16-2017>.

¹¹ The Senate Committee on the Budget included in S. 1 not only the text submitted by the Senate Committee on Finance in response to its reconciliation instruction, but also the legislative text submitted to the Senate Committee on the Budget by the Senate Committee on Energy and Natural Resources in response to its reconciliation instruction included in H.Con.Res. 71.

¹² Senate Roll Call vote number 303, https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=115&session=1&vote=00303.

¹³ House of Representatives Roll Call vote number 653, <http://clerk.house.gov/evs/2017/roll653.xml>.

¹⁴ Senate Roll Call vote number 306, https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=115&session=1&vote=00306.

¹⁵ U.S. Congress, *Conference Report to Accompany H.R. 1*, 115th Cong., 1st sess., December 15, 2017, H.Rept. 115-446; U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects Of The Conference Agreement For H.R. 1, The “Tax Cuts And Jobs Act,”* committee print, 115th Cong., 1st sess., December 18, 2017, JCX-67-17; U.S. Congress, Joint Committee on Taxation, *Distributional Effects Of The Conference Agreement For H.R. 1, The “Tax Cuts And Jobs Act,”* committee print, 115th Cong., 1st sess., December 18, 2017, JCX-68-17; and U.S. Congress, Joint Committee on Taxation, *Macroeconomic Analysis Of The Conference Agreement For H.R. 1, The “Tax Cuts And Jobs Act,”* committee print, 115th Cong., 1st sess., December 18, 2017, JCX-69-17.

¹⁶ House of Representatives Roll Call vote number 692, <http://clerk.house.gov/evs/2017/roll692.xml>.

conference report, points of order were sustained against certain language included in the conference report, and that language was subsequently stricken from the bill.¹⁷ The Senate then passed the amended bill by a vote of 51-48 on December 20.¹⁸ Later that day, the House agreed to the legislation as amended by the Senate, by a vote of 224-201.¹⁹ On December 22, 2017, President Trump signed into law the act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for FY2018 (P.L. 115-97).

Cost Estimates

The Joint Committee on Taxation (JCT) estimated that the conference agreement for H.R. 1 would reduce federal revenue by \$1,456.0 billion between FY2018 and FY2027 (the 10-year budget window).²⁰ In total, tax reform for individuals was estimated to reduce federal revenues by \$1,126.6 billion over the 10-year budget window (see **Table 1**). Tax reform for individuals includes two provisions for businesses taxed under the individual income tax system (pass-through businesses): the 20% deduction for qualified business income and the limit on pass-through losses. These two provisions account for a reduction in revenue of \$264 billion. Tax reform for businesses was estimated to reduce federal revenues by \$653.8 billion over the 10-year budget window, while international tax reform was estimated to raise \$324.4 billion over the same time period. The revenue losses are concentrated in the earlier years of the budget window. JCT estimates suggest revenue would increase in 2027, reflecting the expiration of most individual provisions and the phase-in of other provisions affecting businesses.

Table 1. Estimated Budget Effects of the Conference Agreement for H.R. 1

Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2027
Individual	-75.3	-188.8	-171.9	-156.3	-150.8	-144.0	-140.9	-139.2	-41.4	83.0	-1,126.6
Business	-129.3	-133.8	-112.9	-92.5	-50.4	-16.4	-15.9	-24.1	-28.4	-49.4	-653.8
International	68.9	42.6	26.0	28.0	22.9	22.5	36.7	48.7	29.1	-0.8	324.4
Total	-135.7	-280.0	-258.8	-220.8	-178.3	-137.9	-120.1	-114.6	-40.6	32.9	-1,456.0

Source: Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for H.R. 1*, <https://www.jct.gov/publications.html?func=startdown&id=5053>.

Notes: Rows and columns may not sum due to rounding.

Macroeconomic Effects

The JCT estimated that the conference agreement for H.R. 1 would increase economic output (as measured by gross domestic product, or GDP) by 0.7% relative to the baseline over the 10-year

¹⁷ This language was stricken because it violated what is known as the Senate's Byrd rule, a rule that prohibits inclusion of "extraneous" matter in a reconciliation bill. For more information on the Byrd rule, see CRS Report RL30862, *The Budget Reconciliation Process: The Senate's "Byrd Rule"*, by Bill Heniff Jr.

¹⁸ Senate Roll Call vote number 323, https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=115&session=1&vote=00323.

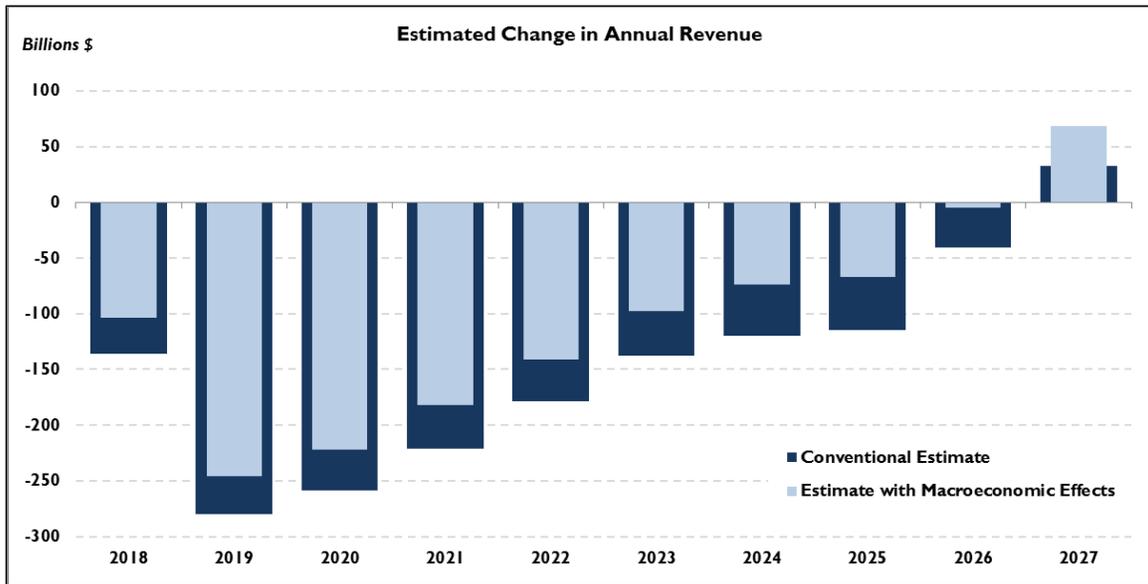
¹⁹ House of Representatives Roll Call vote number 699, <http://clerk.house.gov/evs/2017/roll699.xml>.

²⁰ This is the JCT's conventional revenue estimate. JCT also prepared a macroeconomic or "dynamic" estimate, discussed below.

budget window.²¹ In other words, the level of GDP over the 10-year period is estimated to be 0.7% higher than it would have been had the proposal not been enacted. Higher economic output can result in additional tax revenue and offset some of the revenue loss estimated using conventional revenue estimating methods. After accounting for macroeconomic effects, the conference agreement was estimated to reduce revenues (or increase the deficit) by \$1,071.4 billion over the 10-year budget window.²² **Figure 1** illustrates how incorporating macroeconomic effects changes the revenue estimates over the budget window.

Figure 1. Estimated Budget Effects of the Conference Agreement for H.R. 1: Conventional and Macroeconomic Analysis

Billions of Dollars



Source: CRS analysis of Joint Committee on Taxation, *Macroeconomic Analysis Of The Conference Agreement For H.R. 1, The “Tax Cuts And Jobs Act”*, committee print, 115th Cong., 1st sess., December 18, 2017, JCX-69-17.

The feedback effects include demand-side effects (stimulus of the economy due to additional spending), supply-side effects (increases in capital and labor as tax rates change), and crowding-out effects (which contract the economy by reducing private investment as the government increases borrowing). The magnitude of the effects depend on the types of models used as well as estimates of behavioral responses.

The JCT indicated that demand-side effects would not be important as the economy is at full employment; thus, the effects are largely supply-side. The JCT revenue feedback effect is higher than effects estimated by the Urban-Brookings Tax Policy Center and the University of Pennsylvania’s Wharton School models, as well as some past JCT estimates.²³ The larger effect in

²¹ Joint Committee on Taxation, *Macroeconomic Analysis Of The Conference Agreement For H.R. 1, The “Tax Cuts And Jobs Act”*, committee print, 115th Cong., 1st sess., December 18, 2017, JCX-69-17.

²² This estimate can be further decomposed into revenue due to increased economic growth, and revenue changes associated with increased interest rates and the associated federal debt service. Economic growth associated with the proposal was estimated to reduce revenue loss by \$451 billion over the 10-year budget window. JCT’s estimated that part of this would be offset by an increase in the cost of federal debt, resulting from higher interest rates, of \$66 billion.

²³ See CRS In Focus IF10632, *Key Issues in Tax Reform: Dynamic Scoring*, by Jane G. Gravelle.

the JCT estimate appears to reflect, in part, a greater reliance on life-cycle and infinite-horizon models, which tend to produce larger supply-side effects, for 60% of the input into the estimate.²⁴ It also reflects shifts of capital into the U.S. from abroad. The JCT estimate also reflects the impact of temporary expensing for equipment for the first five years in the proposal, which shifts investment into the present in these models (also a feature of the Wharton model), as well as the expiration of the individual tax cuts, causing an intertemporal shift in labor supply into the period before the tax cuts expire. The result is a more rapid growth than would be the case with permanent provisions.

Distributional Effects

Distributional analysis can be used to illustrate how changes in tax policy affect the economic well-being of taxpayers. The Joint Committee on Taxation (JCT) regularly prepares distributional analyses of major tax proposals. On December 18, 2017, the JCT released its distributional analysis of the conference agreement for H.R. 1.²⁵ When the goal of distributional analysis is to look at taxpayers' economic well-being, one commonly used metric is the percentage change in after-tax income.²⁶ **Figure 2** illustrates the estimated percentage change in after-tax income resulting from the conference agreement for H.R. 1.²⁷

Several observations can be made examining the distribution in **Figure 2**, including the following:

- The largest percentage increases in after-tax income tend to appear in the years following enactment, with estimated increases in after-tax income decreasing (or becoming negative) over time. This trend appears across the income distribution.
- Higher-income groups tend to have the largest percentage increase in after-tax income. The group with the largest percentage increase in after-tax income in 2019, 2021, 2023, and 2025 is the \$500,000 to \$1 million income group.
- For low- and moderate-income taxpayers (taxpayers in income groups of \$40,000 or less), after-tax income was generally estimated to fall in 2023 and later.

A number of factors help explain the trends observed in **Figure 2**. First, most individual income tax provisions are set to expire at the end of 2025. Thus, any gains from changes to the individual income tax system disappear after 2025. Second, one change that is permanent, as opposed to temporary, is using a chained Consumer Price Index (CPI) to adjust parameters in the tax code for inflation. This change tends to increase tax burdens over time, and the effect tends to be larger for those in the lower part of the income distribution.²⁸ These factors help explain why, by 2027,

²⁴ For a discussion of the different types of models, see CRS Report R43381, *Dynamic Scoring for Tax Legislation: A Review of Models*, by Jane G. Gravelle.

²⁵ Joint Committee on Taxation, *Distributional Effects of the Conference Agreement for H.R. 1, the "Tax Cuts and Jobs Act,"* JCX-68-17, Washington, DC, December 18, 2017, available at <https://www.jct.gov/publications.html?func=startdown&id=5054>.

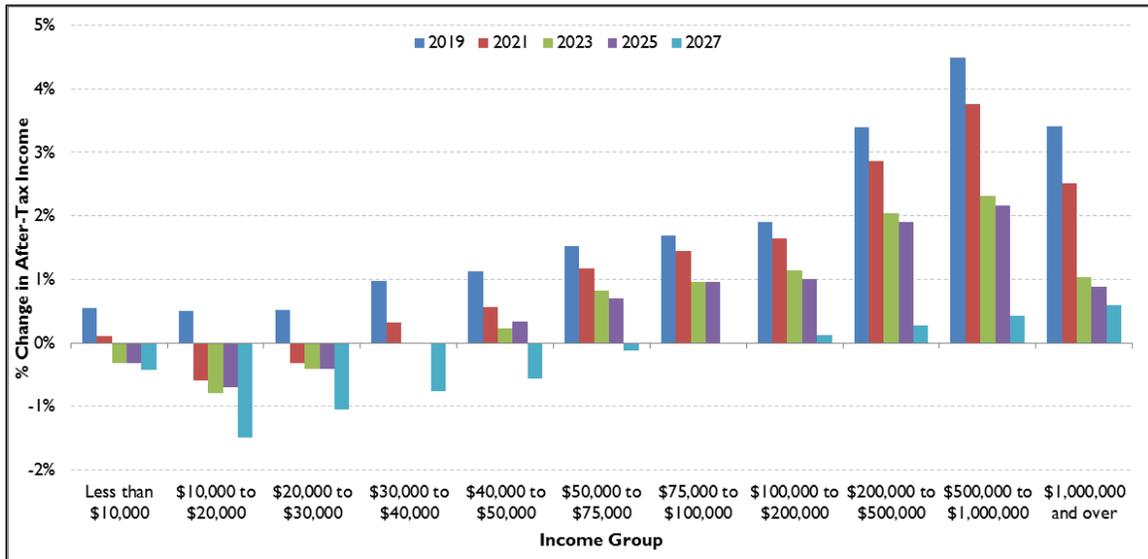
²⁶ William G. Gale, *The Right Way, And The Wrong Way, To Measure the Benefits Of Tax Changes*, TaxVox, November 20, 2017, available at <http://www.taxpolicycenter.org/taxvox/right-way-and-wrong-way-measure-benefits-tax-changes>.

²⁷ The estimated distributional effects of the conference agreement are similar to the distributional effects JCT estimated for the Chairman's Modification to the Chairman's Mark of the Senate's Tax Cuts and Jobs Act. For more on the distribution of the earlier House and Senate proposals, see CRS Insight IN10824, *The Distribution of the Tax Policy Changes in H.R. 1 and the Senate's Tax Cuts and Jobs Act*, by Molly F. Sherlock and Joseph S. Hughes.

²⁸ CRS Report R43347, *Budgetary and Distributional Effects of Adopting the Chained CPI*, by Donald J. Marples.

after-tax income is estimated to fall for income groups of \$75,000 or less. Third, the deduction for pass-through business income tends to benefit taxpayers in the higher part of the income distribution, as pass-through income tends to be earned by taxpayers with higher incomes.²⁹ Reductions in the corporate rate also tend to benefit higher-income taxpayers.³⁰ Finally, a factor explaining the decline in after-tax income for taxpayers in the \$10,000 to \$30,000 income range before 2027 is reducing the fee for not having health insurance to zero. The elimination of the penalty causes fewer taxpayers to purchase insurance and reduces subsidies for purchasing insurance by lower- and middle-income taxpayers. Thus, although the penalty reduction is a tax cut, it is more than offset by the loss of these subsidies, a tax increase.³¹

Figure 2. Estimated Percentage Change in After-Tax Income Under the Conference Agreement for H.R. 1, by Year and Income Group



Source: CRS calculations using Joint Committee on Taxation, *Distributional Effects of the Conference Agreement for H.R. 1, the “Tax Cuts and Jobs Act,”* JCX-68-17, Washington, DC, December 18, 2017.

Notes: JCT provided estimates for odd years only. JCT’s distributional analysis does not reflect the increased exemption amounts for the estate tax. The percentage change in after-tax income is calculated using JCT’s average tax rate estimates as $[(1 - \text{proposal average tax rate}) - (1 - \text{present law average tax rate})] / (1 - \text{present law average tax rate})$.

Provisions in P.L. 115-97

Table 2 lists all tax provisions in P.L. 115-97. The table contains a brief description of 2017 law, and describes how prior law was changed by P.L. 115-97. The content of this report is intended to be descriptive, and to provide readers with a basic understanding of the provisions. The basic descriptions provided generally do not identify exceptions or special rules that may be included in

²⁹ CRS Report R42359, *Who Earns Pass-Through Business Income? An Analysis of Individual Tax Return Data*, by Mark P. Keightley.

³⁰ CRS In Focus IF10742, *Who Pays the Corporate Tax?*, by Jane G. Gravelle.

³¹ Further discussion of this effect can be found in Nicole Kaeding, *Understanding JCT’s New Distributional Tables for the Senate’s Tax Cuts and Jobs Act*, Tax Foundation, November 16, 2017, available at <https://taxfoundation.org/understanding-jcts-new-distributional-tables-senates-tax-cuts-jobs-act/>.

the provision. The descriptions contained in **Table 2** explain the law in plain language, and any deviations from the statutory text are not intended to be legal interpretations of such text. **Table 2** does not identify potential ambiguities in the statutory language or places where technical amendments may be needed. The table includes primary citations to the Internal Revenue Code (IRC) for each provision, but other IRC provisions and sources of law may be relevant. As a general rule, **Table 2** does not address the treatment of two uncommon types of tax filers: married taxpayers who file separate returns and surviving spouses.

Table 2. Comparison of 2017 Tax Law to Changes in P.L. 115-97

Topic	2017 Tax Law	P.L. 115-97
Individual Tax Reform		
<i>Tax Rate Reform</i>		
Individual income tax brackets	<p>Seven individual income tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. Top rate of 39.6% applies to taxable income over \$480,050 for married joint filers, \$453,350 for head of household filers, or \$426,700 for single filers in 2018.</p> <p>See Appendix A for full bracket and rate tables.</p> <p>A “kiddie tax” is imposed on the net unearned income of a child. If a child meets certain conditions, the net unearned income of a child (over \$2,100 for 2018) is taxed at the parents’ tax rates if the parents’ tax rates are higher than that of the child.</p> <p>Capital gains and qualified dividends are not taxed if the taxpayer is in the 15% bracket or below, taxed at 20% if the taxpayer is in the 39.6% bracket, and taxed at 15% otherwise. (There are special rates for certain categories of capital gains).</p> <p>IRC Section I</p>	<p>Seven individual income tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Top rate of 37% applies to taxable income over \$600,000 for married joint filers, or \$500,000 for single and head of household filers.</p> <p>See Appendix A for full bracket and rate tables.</p> <p>The tax on unearned income of children is simplified by effectively applying ordinary and capital gains rates applicable to trusts and estates to the net unearned income of a child.</p> <p>The links to the old brackets are retained for capital gains and dividends. Thus, they are not affected by the law (except for the change in the inflation measure discussed below).</p> <p>Provision expires 12/31/25 (Section 11001 of P.L. 115-97)</p>
Alternative inflation measure	<p>Selected tax parameters (including tax rate brackets and the value of the standard deduction) are adjusted on an annual basis for changes in the price level.</p> <p>The adjustment is made using the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U is an index that measures prices paid by typical urban consumers on a broad range of products and is developed and published by the Department of Labor.</p> <p>IRC Section I</p>	<p>The adjustment for inflation is made using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U). The C-CPI-U differs from the CPI-U by allowing individuals to alter their consumption patterns in response to relative price changes. The chained CPI-U results in lower estimates of inflation than the CPI-U does.</p> <p>(Section 11002 of P.L. 115-97)</p>

Deduction for Qualified Business Income of Pass-Thru Entities

Deduction for pass-through business income

Pass-through business income generally is taxed according to ordinary individual income tax rates.
IRC Sections 1, 701, and 1366

Taxed according to ordinary individual rates. Taxpayers may deduct 20% of qualified pass-through income. Deduction limited to the greater of 50% of W-2 wages, or 25% of W-2 wages plus 2.5% multiplied by depreciable property (equipment and structures). Specified service businesses generally may not claim the deduction (health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, and services consisting of investment and investment management, and trading of securities, partnership interests, or commodities). Specified service business definition does not include architecture or engineering firms. Deduction limitation and specified service business limitation do not apply if taxable income is less than \$157,500 (single) or \$315,000 (married). These limits are phased in over a \$50,000 (single) and \$100,000 (married) range, and thus apply fully at \$207,000 (single) and \$415,000 (married).

Adds Sections 4 and 199A to IRC

Provision expires 12/31/25

(Section 11011 of P.L. 115-97)

Limitation on losses for noncorporate taxpayers

Businesses are generally permitted to carry over a net operating loss (NOL) to certain past and future years. Under the passive loss rules, individuals and certain other taxpayers are limited in their ability to claim deductions and credits from passive trade and business activities, although unused deductions and credits may generally be carried forward to the next year. Similarly, certain farm losses may not be deducted in the current year, but can be carried forward to the next year.
IRC Section 461(l)

For taxpayers other than C corporations, disallows a deduction in the current year for excess business losses and treats such losses as a NOL carryover to the following year. An excess business loss is the amount that a taxpayer's aggregate deductions attributable to trades and businesses exceed the sum of (1) aggregate gross income or gain attributable to such activities and (2) \$250,000 (\$500,000 if married filing jointly), adjusted for inflation. For partnerships and S corporations, this provision is applied at the partner or shareholder level.

Provision expires 12/31/25

(Section 11012 of P.L. 115-97)

Tax Benefits for Families and Individuals

Standard deduction

To calculate taxable income, taxpayers subtract from their adjusted gross income (AGI) the appropriate number of personal exemptions and, if the taxpayer does not itemize their deductions, the standard deduction.

The standard deduction is the sum of the basic standard deduction and, if applicable, the additional standard deduction for the blind or elderly. The basic standard deduction amount varies by the taxpayer's filing status and is adjusted annually for inflation. Before passage of P.L. 115-97, the basic standard deduction amounts for 2018 would have been \$6,500 for single filers, \$9,550 for heads of household filers, and \$13,000 for married taxpayers filing jointly.

IRC Section 63

Increases the dollar amounts of the basic standard deduction. Specifically, for 2018, the basic standard deduction amounts are \$12,000 for single individuals, \$18,000 for heads of household; and \$24,000 for married individuals filing jointly. After 2018, these amounts are adjusted for inflation using the chained-CPI. The additional standard deduction for the blind and elderly is unchanged by P.L. 115-97.

Provision expires 12/31/25

(Section 11021 of P.L. 115-97)

Child tax credit

The child tax credit allows a taxpayer to reduce their federal income tax liability by up to \$1,000 per qualifying child.

Taxpayers with little or no federal income tax liability may be eligible to receive the child tax credit as a refundable credit—the additional child tax credit, or ACTC. The maximum ACTC is \$1,000 per child. The ACTC equals 15% (“the refundability rate”) of the family's earnings in excess of \$3,000 (“the refundability threshold”).

The child tax credit begins to phase out for taxpayers with income over a phase-out threshold: \$75,000 for single parents and \$110,000 for married taxpayers filing joint returns.

None of the parameters of the child credit are indexed for inflation.

Taxpayers claiming the child credit (including the ACTC) must provide the identification number for each child claimed for the credit. This ID number is generally the child's Social Security number (SSN) or individual taxpayer identification number (ITIN). The ID number must have been issued before the due date of the return.

IRC Section 24

Increases the child credit to \$2,000 per qualifying child and increases the ACTC to \$1,400 per qualifying child.

The ACTC refundability threshold is reduced to \$2,500.

The phaseout thresholds are increased to \$200,000 for unmarried taxpayers and \$400,000 for married taxpayers filing jointly.

The maximum ACTC amount is adjusted for inflation beginning in 2019. All other parameters of the child credit are not indexed for inflation.

The act modifies the ID requirement for the credit. Taxpayers claiming the child credit (including the ACTC) must provide the SSN for each child claimed for the credit. The SSN must have been issued before the due date of the return.

Provision expires 12/31/25

(Section 11022 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Family credit	No credit in current law.	<p>Creates a new “family credit” for non-child credit-eligible dependents (children ineligible for the child tax credit or older non-child dependents). Non-child credit-eligible dependents excludes otherwise eligible dependents who are citizens of Mexico or Canada.</p> <p>The credit is equal to \$500 per non-child credit-eligible dependent. The amount is not annually adjusted for inflation.</p> <p>The phase out parameters of the child credit (e.g., phaseout thresholds of \$400,000 married filing jointly, \$200,000 other taxpayers, 5% phaseout rate) apply to the family credit. Taxpayers do not have to provide an SSN for non-child credit-eligible dependents.</p> <p>Provision expires 12/31/25 (Section 11022 of P.L. 115-97)</p>
Charitable contributions deduction	<p>Taxpayers who itemize their deductions can deduct charitable donations of cash or property to certain organizations including public charities; federal, state, local and Indian governments; private foundations; and other less common types of qualifying organizations.</p> <p>There are limitations on the total dollar amount that can be deducted by a taxpayer in a given tax year. The limitations are defined as a percentage of the taxpayer’s adjusted gross income, or AGI. Most cash contributions are generally limited to 50% of the taxpayer’s AGI. (The limit is generally 30% of AGI for cash contributions to non-operating private foundations.)</p> <p>IRC Section 170</p>	<p>Increases the percentage limit for charitable contributions of cash to public charities and other qualifying organizations to 60% of AGI. The 30% AGI limitation of cash donations to private non-operating foundations is unchanged.</p> <p>Provision expires 12/31/25 (Sections 11023 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
ABLE account contribution limit	<p>ABLE accounts are tax-favored savings accounts intended to benefit qualifying disabled individuals (referred to as “designated beneficiaries”). Generally, in a given year an ABLE account cannot receive aggregate contributions in excess of the annual gift tax exemption, which was scheduled to be \$15,000 in 2018 before passage of P.L. 115-97.</p> <p>IRC Section 529A</p> <p>Taxpayers who make qualified retirement savings contributions may be eligible for a nonrefundable saver’s credit of up to \$2,000 per individual. Contributions to an ABLE account are not eligible for this credit.</p> <p>IRC Section 25B</p>	<p>Increases the annual contribution limits of ABLE accounts in certain circumstances. Specifically a designated beneficiary can contribute an additional amount to their ABLE account (above the annual gift-tax exclusion amount) equal to the lesser of (1) the federal poverty level for a one-person household or (2) the individual’s compensation for the year.</p> <p>While the base gift tax exclusion amount is unchanged by P.L. 115-97, the inflation adjustment is changed to chained-CPI which may result in a slightly different exclusion amount in 2018.</p> <p>The law also temporarily allows a designated beneficiary of an ABLE account to claim the saver’s credit for contributions made to their ABLE account.</p> <p>Provisions expire 12/31/25 (Section 11024 of P.L. 115-97)</p>
529 to ABLE account rollover	<p>Rollovers from a 529 plan to an ABLE account (even amounts below the annual ABLE account contribution limit) are taxable.</p> <p>IRC Section 529</p>	<p>Allows tax-free rollovers from a 529 account to an ABLE account that are equal to or less than the annual ABLE contribution limit. These rollovers are not subject to taxation provided that the ABLE account is that of the designated beneficiary of the 529 account (or a member of the designated beneficiary’s family). The portion of the rollover in excess of the annual contribution limit is taxable.</p> <p>Provision expires 12/31/25 (Section 11025 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Combat zone tax exclusion	<p>Members of the Armed Forces serving in a combat zone (and their families) are entitled to several tax benefits including (but not limited to):</p> <ul style="list-style-type: none"> (1) an exemption from income tax on military pay received during any month in which the member served in a combat zone (IRC Section 112); (2) an exemption from taxes on death while serving in a combat zone (IRC Section 692); (3) special estate tax rules where death occurs in a combat zone (IRC Section 2201); (4) special benefits to surviving spouses (IRC Sections 2(a)(3) and 6013(f)(1)); (5) an extension of tax filing deadlines (IRC Section 7508); (6) an exclusion of telephone excise taxes (IRC Section 4253(d)). <p>Currently, the Department of Defense does not consider the Sinai Peninsula a combat zone.</p>	<p>Grants combat zone tax benefits to members of the Armed Forces in the Sinai Peninsula of Egypt, if as of the date of enactment, any member of the Armed Forces of the United States is entitled to special pay under Section 310 of Title 37 of the U.S. Code (relating to special pay and duty pay subject to hostile fire or imminent danger) as a result of serving in this area. This provision is generally effective beginning June 9, 2015 and remains in effect while this condition is met or the statutory sunset, whichever comes first.</p> <p>Provision expires 12/31/25 (Section 11026 of P.L. 115-97)</p>
Medical and dental expense deduction	<p>Individual taxpayers who choose to itemize their deductions instead of claiming the standard deduction can deduct combined medical and dental expenses in excess of 10% of their AGI (2017 law was changed in P.L. 115-97). IRC Section 213</p>	<p>Reduces the AGI threshold from 10% to 7.5% for individual taxpayers claiming an itemized deduction for unreimbursed medical and dental expenses in 2017 and 2018.</p> <p>Provision expires 12/31/18 (Section 11027 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
2016 disaster areas	<p>Generally, distributions from certain tax-favored retirement accounts are included in income for the year distributed. Distributions from certain retirement plans received before age 59½ may be subject to a 10% early withdrawal tax.</p> <p>In 2016 and 2017, casualty losses are generally deductible if they exceed \$100 per casualty, and to the extent aggregate net casualty losses exceed 10% of adjusted gross income (AGI).</p> <p>IRC Sections 72(t) and 165(h)</p>	<p>Provides tax relief related to 2016 disasters declared major disasters by the President under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The tax relief is related to (1) distributions from retirement plans; and (2) casualty losses.</p> <p>For retirement plan distributions, the provision provides an exception to the 10% early withdrawal penalty for up to \$100,000 in disaster distributions related to 2016 disasters. The provision also allows income from 2016 disaster distributions to be recognized over three years. Taxpayers are also allowed up to three years to make recontributions for 2016 disaster distributions.</p> <p>Under the provision, disaster losses arising in 2016 or 2017 may qualify for an enhanced deduction. Specifically, losses are deductible to the extent that they exceed \$500 per casualty. Losses are not subject to the 10% of AGI threshold. Further, losses may be claimed in addition to the standard deduction.</p> <p>(Section 11028 of P.L. 115-97)</p>
<i>Education</i>		
Student loans discharged for death or disability	<p>Generally, gross income includes discharged student loan debt, hence these amounts are generally taxable. There are exceptions to this general rule, but these exceptions do not include the death or disability of the student.</p> <p>IRC Section 108</p>	<p>Expands the categories of non-taxable discharged student loan debt to include student loan debt that is discharged on account of the death or permanent and total disability of the student.</p> <p>Provision expires 12/31/25</p> <p>(Section 11031 of P.L. 115-97)</p>
Education savings accounts	<p>Generally, taxpayers are not subject to taxation on distributions from 529 savings accounts if these distributions are used for qualified higher education expenses at most higher education institutions. For the purposes of 529 accounts, qualified higher education expenses include tuition and required fees, room and board, books, supplies, equipment, and additional expenses of special needs beneficiaries. For the purposes of 529 plans, qualified higher education expenses do not include K-12 expenses.</p> <p>IRC Section 529</p>	<p>Allows taxpayers to withdraw up to \$10,000 per year tax-free from a 529 account for a beneficiary's K-12 education expenses in connection with enrollment or attendance at public, private, or religious elementary or secondary school. The \$10,000 cap is per student (as opposed to per 529 account).</p> <p>(Section 11032 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Deductions and Exclusions</i>		
Personal exemptions	<p>To calculate taxable income, taxpayers subtract from their adjusted gross income (AGI) the standard deduction or sum of their itemized deductions (whichever is greater) and the appropriate number of personal exemptions for themselves, their spouse (if married), and their dependents. For 2018, before enactment of P.L. 115-97, the personal exemption amount would have been \$4,150.</p> <p>IRC Section 151</p>	<p>Repeals personal exemptions for the taxpayer, their spouse (if married), and their dependents.</p> <p>Provision expires 12/31/25 (Section 11041 of P.L. 115-97)</p>
State and local tax deduction	<p>State and local (and foreign) income and property taxes are deductible as an itemized deduction. State and local sales taxes paid may be deducted in lieu of income taxes.</p> <p>IRC Section 164</p>	<p>Limits itemized deductions for state and local income, sales, and property taxes to \$10,000. No deduction is allowed for foreign real property taxes. Property taxes associated with carrying on a trade or business are fully deductible.</p> <p>Provision expires 12/31/25 (Section 11042 of P.L. 115-97)</p>
Mortgage interest deduction	<p>Mortgage interest is deductible on the first \$1 million of combined (first and second home) acquisition debt, plus interest on \$100,000 of home equity debt.</p> <p>IRC Section 163(h)</p>	<p>Limits the amount of mortgage interest that may be deducted to the interest paid on the first \$750,000 of mortgage debt. The limitation applies to new loans incurred after December 15, 2017. Mortgage debt that is the result of a refinance on or before December 15, 2017, is exempt from the reduction to the extent that the new mortgage does not exceed the amount refinanced. No interest deduction for new or existing home equity debt.</p> <p>Provision expires 12/31/25 (Section 11043 of the P.L. 115-97)</p>
Personal casualty loss deduction	<p>Taxpayers can generally claim an itemized deduction for non-compensated personal casualty losses. Casualty losses are generally deductible if they exceed \$100 per casualty, and to the extent aggregate net casualty losses exceed 10% of adjusted gross income (AGI).</p> <p>IRC Section 165(h)</p>	<p>Repeals itemized deduction for casualty losses, except for losses associated with a disaster declared by the President under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.</p> <p>Provision expires 12/31/25 (Section 11044 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Itemized deduction for miscellaneous expenses	Individual taxpayers who itemize their deductions can deduct miscellaneous expenses to the extent that they collectively exceeded 2% of AGI. Expenses subject to the 2% floor include unreimbursed employee expenses, tax preparation fees, and certain other expenses. IRC Sections 62, 67, and 212	Repeals the itemized deduction for miscellaneous expenses. Provision expires 12/31/25 (Section 11045 of P.L. 115-97)
Overall limitation on itemized deductions	For taxpayers with AGI above certain thresholds (inflation adjusted; \$320,000 for married taxpayers filing jointly and \$266,700 for singles in 2018), the total amount of itemized deductions is limited. For affected taxpayers, the total of certain itemized deductions is reduced by 3% of the amount of AGI exceeding the threshold. The total reduction, however, cannot be greater than 80% of the deductions. The itemized deductions not subject to the limitation include deductions for medical and dental expenses, investment interest, qualified charitable contributions, and casualty and theft losses. IRC Section 68	Repeals the overall limitation on itemized deductions. Provision expires 12/31/25 (Section 11046 of P.L. 115-97)
Bicycle commuter reimbursement	Up to \$20 per month in employer reimbursements for qualifying bicycle commuting expenses are excludable from the employee's income and wages and hence not subject to income or employment taxes. IRC Sections 132(f)	Repeals the exclusion for employer-provided bicycle commuter fringe benefits. Provision expires 12/31/25 (Section 11047 of P.L. 115-97)
Moving reimbursements exclusion	Qualified moving expense reimbursements from an employer are generally excludable from an employee's gross income and hence not subject to income or employment taxes. IRC Sections 132 and 82	Repeals the exclusion for employer-provided qualified moving expense reimbursements (other than for members of the Armed Forces). Provision expires 12/31/25 (Section 11048 of P.L. 115-97)
Moving expenses deduction	Taxpayers can claim an above-the-line deduction for moving expenses incurred as a result of work at a new location, subject to certain conditions dealing with the individual's employment status as well as the distance of the move. Special rules apply to members of the Armed Forces. IRC Section 217	Repeals the deduction for moving expenses (other than members of the Armed Forces). Provision expires 12/31/25 (Section 11049 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Wagering losses deduction	A taxpayer may deduct gambling losses to the extent gambling winnings are included in gross income. IRC Section 165(d)	Provides that gambling losses include deductible expenses incurred in carrying on the gambling activity. Provision expires 12/31/25 (Section 11050 of P.L. 115-97)
Tax treatment of alimony payments	Alimony payments (and separate maintenance payments) are deductible by the payor spouse and includible in the income of the recipient spouse. Child support payments are not treated as alimony payments. IRC Sections 61(a)(8) and 215	Repeals the deduction for alimony payments by the payor and corresponding inclusion in income by the recipient. Applicable to divorce or separation agreements entered into after 12/31/2018 or divorce or separation agreements modified after 12/31/2018 if they specifically mention this provision. (Section 11051 of P.L. 115-97)

Increase in Estate and Gift Exemption

Estate and Gift Tax	Estate and gift taxes are levied on transfers after applying a cumulative exclusion that would have been a \$5.6 million per decedent exclusion in 2018 (the \$5 million per decedent amount in statute adjusted annually for inflation). The tax rate is 40%. IRC Sections 2001 and 2010	Increases the federal estate and gift exclusion to \$10 million per decedent (adjusted for inflation). Provision expires 12/31/25 (Section 11061 of P.L. 115-97)
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Extension of Time for Contesting IRS Levy

IRS levy	If the Internal Revenue Service (IRS) determines that it wrongfully levied property to collect a tax debt, the agency can return to the taxpayer an amount of money equal to the money levied upon or proceeds from a property's sale within nine months of the date of the levy. In addition, a person other than the taxpayer against whom the levy was imposed who claims a financial interest in levied property can file a civil suit to challenge the levy as wrongful and to recover levy proceeds. The suit has to be filed no later than nine months after the date of the levy, which can be extended by a period of 6-12 months depending on the circumstances. IRC Sections 6343 and 6532	Increases from nine months to two years the period for returning money or sales proceeds. Extends from nine months to two years the period for filing a civil suit to contest a wrongful levy by a person other than the taxpayer (the existing 6-12 month extensions are unchanged). Provision applies to levies made after the date of enactment and to levies made within the nine months before that date. (Section 11071 of P.L. 115-97)
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Topic	2017 Tax Law	P.L. 115-97
<i>Individual Mandate</i>		
ACA individual penalty	<p>Most individuals must maintain health insurance coverage or pay a penalty for noncompliance. To avoid the penalty, individuals needed to maintain minimum essential coverage for themselves and their dependents, which includes most types of public and private health insurance coverage, for any month of noncompliance within a given tax year. Some individuals are exempt. The penalty is generally the greater of (1) 2.5% of applicable income (generally, household income in excess of filing thresholds); or (2) \$695 per taxpayer and dependent in 2017 and 2018 (adjusted for inflation), capped at 300% of the flat dollar amount.</p> <p>IRC Section 5000A(c)</p>	<p>Reduces the individual penalty to \$0 effective with the 2019 tax year.</p> <p>(Section 11081 of P.L. 115-97)</p>

Alternative Minimum Tax

Corporate alternative minimum tax	<p>A flat 20% tax imposed on a corporation's alternative minimum taxable income (income with a disallowance of certain preferences) less an exemption amount of \$40,000. The exemption is phased out when corporate minimum taxable income exceeds \$150,000. Small corporations with gross receipts of less than \$7.5 million are exempted. Prior-year AMT amounts can be credited against regular tax.</p> <p>IRC Sections 53 and 55</p>	<p>Repeals the corporate AMT and allows prior-year corporate AMT credits to reduce regular tax liability.</p> <p>(Sections 12001 and 12002 of P.L. 115-97)</p>
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Topic	2017 Tax Law	P.L. 115-97
Individual alternative minimum tax	<p>A tax is imposed at 26% on an individual's alternative minimum taxable income (primarily income without a standard deduction, state and local income deduction, or deductions for personal exemptions) less an exemption amount. For 2018 the exemption is \$55,400 for singles and \$86,200 for married couples. The exemption phases out beginning at \$123,100 for singles and \$164,100 for married couples. A higher rate of 28% applies to taxpayers with incomes above \$95,750 for single filers and \$191,500 for married taxpayers filing joint returns. These amounts are indexed for inflation. Prior-year AMT amounts can be credited against regular tax.</p> <p>IRC Section 55</p>	<p>Increases the AMT exemption amounts to \$70,300 for unmarried taxpayers (single filers and heads of households) and \$109,400 for married taxpayers filing joint returns. Exemption phases out at \$500,000 for singles and \$1,000,000 for married taxpayers filing jointly. These amounts are indexed for inflation.</p> <p>Provision expires 12/31/2025 (Section 12003 of P.L. 115-97)</p>

Business-Related Provisions

Corporate Provisions

Corporate rate

Corporate taxable income is subject to a graduated rate structure. The top corporate rate of 35% generally applies to taxable income above \$10 million. If taxable income is not over \$50,000, the tax rate is 15%. If taxable income is over \$50,000 but not over \$75,000, the tax rate is 25%. If taxable income is over \$75,000 but not over \$10 million, the tax rate is 34%.

The corporate tax rate increases above 35% for two income brackets. Corporations with taxable income between \$100,000 and \$335,000 are subject to a 39% tax rate, and corporations with income between \$15,000,000 and \$18,333,333 are subject to a 38% tax rate. These “bubble” brackets increase the effective tax rate for higher-income corporations by offsetting any tax savings they would realize from having the first \$75,000 in income taxed at lower rates.

Personal service corporations pay the 35% rate on all taxable income.

IRC Section 11

Corporate taxable income is taxed at a flat rate of 21%.

Special rules are provided for certain taxpayers, such as public utilities.

(Section 13001 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Dividends received deduction	<p>Corporations can generally deduct 70% of dividends received from other taxable domestic corporations. 80% of dividends received from a 20%-owned corporation (a corporation where the taxpayer owns at least 20% of the stock) can generally be deducted. 100% of dividends can be deducted for dividends of an affiliated group, which requires 80% ownership.</p> <p>IRC Section 243</p>	<p>The 70% dividends received deduction is reduced to 50% and the 80% dividends received deduction is reduced to 65%.</p> <p>(Section 13002 of P.L. 115-97)</p>
<i>Small Business Reforms</i>		
Section 179 expensing	<p>Section 179 permits a business to deduct as a current expense up to \$500,000 of the cost of qualified assets placed in service in a tax year. That amount starts to phase out (but not below zero) when the business's spending on such assets during the year totals \$2 million. Both amounts have been indexed for inflation since 2016. Generally, qualified assets consist of machinery, equipment, off-the-shelf computer software, and certain real improvement property.</p> <p>IRC Section 179</p>	<p>Increases the Section 179 expensing allowance to \$1 million, sets the phaseout threshold at \$2.5 million, and indexes both amounts for inflation beginning in 2019.</p> <p>Expands the definition of qualified property to include improvements to the interior of any non-residential real property, as well as roofs; heating, ventilation, and air conditioning systems; fire protection and alarm systems; and security systems installed on such property.</p> <p>Eliminates the exclusion for tangible personal property used in connection with lodging facilities.</p> <p>Indexes for inflation starting in 2019 the \$25,000 expensing limit for sport utility vehicles.</p> <p>Provision applies to property placed in service in 2018 or later.</p> <p>(Section 13101 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Small business accounting methods	<p>A business may generally choose the method of accounting it uses to calculate its taxable income, provided the method accurately reflects income. Two widely used methods are the cash method and the accrual method.</p> <p>Section 448 generally bars C corporations, partnerships with C corporations as a partner, and two other entities from using the cash method for tax purposes. But all four entities may do so if their annual gross receipts have never exceeded \$5 million.</p> <p>Businesses must use the accrual method to compute their taxable income if they have to account for inventories. This especially applies to firms that derive income from the purchase, production, or sale of merchandise. But companies that satisfy at least one of the following two conditions may use a different method (e.g., the cash method), even though they maintain inventories: (1) their average annual gross receipts in the past three years do not exceed \$1 million; or (2) they belong to industries that are allowed to use the cash method under Section 448 and had no more than \$10 million in average annual gross receipts in the past three years.</p> <p>The uniform capitalization (UNICAP) rules under Section 263A require businesses that produce real or tangible personal property, or that acquire such property for sale to others, to capitalize their direct costs and a portion of their indirect costs attributable to such property. Capitalized costs may be recovered in several ways, including depreciation and cost-of-goods sold. Certain small producers and resellers are exempt from these rules.</p> <p>Under Section 460, income from a long-term contract is generally determined using the percentage-of-completion method of accounting. An exception is made for qualified small construction contracts. Income from these contracts may be reported using the completed contract method. Under this method, a company can report income and direct costs from a contract only after it has been completed, but the company has the option of reporting indirect costs in the year they are paid or incurred.</p> <p>IRC Sections 263A, 448, 460, and 471</p>	<p>Expands the range of companies that may use the cash method of accounting to include firms with average annual gross receipts in the previous three tax years that do not exceed \$25 million. This amount is indexed for inflation starting in 2019. This limit applies regardless of whether the production or purchase of property for resale is a significant source of income. It also applies to C corporations involved in farming. Companies that meet the gross receipts test are not required to account for inventories under Section 471.</p> <p>Exempts from the UNICAP rules any producer or reseller that meets the \$25 million gross receipts test.</p> <p>Excludes small construction contracts from the requirement to use the percentage-of-completion method of accounting under Section 460 if they meet two conditions: (1) the contracts are expected to be completed within two years at the time they are entered into; and (2) the contracts are performed by a company that meets the \$25 million gross receipts test in the year when the contract is signed.</p> <p>(Section 13102 of the P.L. 115-97)</p>

Cost Recovery and Accounting Methods

Cost Recovery

Expensing	Assets such as equipment and buildings are depreciated over time. Bonus depreciation for equipment allows an immediate deduction of 50% for equipment placed in service in 2017, 40% in 2018, and 30% in 2019. Long-lived property is not eligible. The phase down is delayed for certain property, including property with a long production period. IRC Section 168(k)	Full and immediate expensing (100% bonus depreciation) for equipment through 2022; percentage reduced by 20% per year for four years starting 2023. Phase down is delayed for property with a long production period. Provision expires 12/31/26 (Section 13201 of P.L. 115-97)
Luxury automobile depreciation limitation	The maximum allowable depreciation on luxury passenger automobiles is limited. IRC Sections 168(k)(2)(F) and 280F	The allowable depreciation limits for luxury passenger automobiles are increased. (Section 13202 of P.L. 115-97)
Recovery period for farm equipment	Farm equipment is generally depreciated using the 150% declining balance method. IRC Sections 168(b) and 168(g)	Repeals the requirement to use the 150% declining balance method for farm equipment and shortens the recovery period of 7-year property to five years for property placed in service after December 31, 2017. (Section 13203 of P.L. 115-97)
Recovery period for real property	Under the Modified Accelerated Cost Recovery System (MACRS) the recovery period for nonresidential real property is 39 years, and 27.5 years for residential real property. Under the Alternative Depreciation System (ADS) the recovery period is 40 years for nonresidential and residential real property. IRC Sections 168	Maintains 2017 MACRS recovery periods for nonresidential and residential real property. For businesses that elect out of 30% interest expense deduction limitation, the ADS recovery periods are 30 years for residential real property and 40 years for nonresidential real property. (Section 13204 of P.L. 115-97)
Cost recovery for farming equipment	Business property is generally depreciated using the modified accelerated cost recovery system (MACRS). Certain property is required to use the alternative depreciation system (ADS) if it meets specific criteria. IRC Section 168	Requires a farming business electing out of the limitation on the deduction for interest to use ADS to depreciate any property with a recovery period of 10 years or more. (Section 13205 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Research expenditures	<p>Under Section 174, a business has three choices for recovering its qualified expenditures for qualified research. One is to deduct as a current expense some or all of its qualified spending in a tax year. A second option is to capitalize that spending and recover it over the useful life of any asset resulting from the research; this life cannot be less than five years. Finally, a business may elect to amortize its research expenditures over 10 years. Research expenditures not deductible under Section 174 must be capitalized under Sections 263(a) or 263A.</p> <p>The following expenses qualify for the Section 174 deduction: (1) wages and salaries of employees directly engaged in qualified research, (2) the cost of operating and maintaining research facilities (e.g., utilities and depreciation), and (3) expenditures for materials and supplies used in qualified research. No deduction is allowed for expenditures on land and depreciable or depletable property used in such research.</p> <p>IRC Section 174</p>	<p>Requires “specified research or experimental expenditures” related to domestic research to be capitalized and amortized over five years, beginning with the midpoint of the tax year when the expenditures were incurred or paid. The recovery period rises to 15 years for qualified expenditures related to foreign research.</p> <p>Repeals the option to amortize qualified research expenditures over 10 years and the option to deduct those expenditures in full as a current expense.</p> <p>“Specified research and experimental expenditures” are the expenses eligible for the Section 174 deduction under 2017 law, as well as depreciable or depletable property used in connection with qualified research.</p> <p>The new provision applies to amounts paid or incurred in taxable years beginning after December 31, 2021.</p> <p>(Section 13206 of P.L. 115-97)</p>
Citrus plants lost by casualty	<p>The uniform capitalization (UNICAP) rules address the method for determining costs that taxpayers are required to capitalize or treat as inventory. They generally apply to property produced in a trade or business or acquired for resale. One exception is for edible plants lost or damaged by reason of a casualty or similar event. The exception may apply to (1) the taxpayer’s cost of replanting such plants and (2) costs paid or incurred by other persons if the taxpayer has more than a 50% equity interest in the plants at all times during the year and the other person owns any of the remaining interest and materially participates in the planting or similar activities.</p> <p>IRC Section 263A</p>	<p>Expands the existing edible plants exception for costs paid or incurred after December 22, 2017, for citrus plants lost due to a casualty. Under the provision, the existing exception also applies to persons other than the taxpayer if: (1) the taxpayer has an equity interest of at least 50% in the replanted plants at all times during the year and the other person owns any of the remaining interest, or (2) the other person acquired the taxpayer’s entire equity interest in the land on which the plants were located and the replanting is on such land.</p> <p>Expires 12/22/2027</p> <p>(Section 13207 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Accounting Methods</i>		
Taxable year of inclusion	For accrual method taxpayers, income is generally required to be included for tax purposes in the year in which the “all events test” is met (generally when the right to receive such income is fixed and the amount can be determined with reasonable accuracy). Exceptions exist that permit deferred recognition. IRC Sections 451	Generally provides for accrual method taxpayers that the all events test will not be treated as met any later than when an item is taken into account on applicable financial statements. (Section 13221 of P.L. 115-97)
<i>Business-Related Exclusions and Deductions</i>		
Deduction for interest paid	Deduction for net interest limited to 50% of adjusted taxable income (income before taxes, interest deductions, and depreciation, amortization, or depletion deductions) for firms with a debt-equity ratio above 1.5. Interest above limitation may be carried forward indefinitely. IRC Section 163(j)	Generally limits deductible interest to 30% of adjusted taxable income for businesses with gross receipts greater than \$25 million. For years beginning after December 31, 2021, adjusted taxable income does not allow a deduction for depreciation, amortization, and depletion. The provision also has an exception for floor plan financing. Certain businesses can elect out of this limit. (Section 13301 of P.L. 115-97)
Modification of net operating loss deduction	Net operating losses (NOLs) are generally allowed to be claimed against the prior 2 years income (carryback) or the subsequent 20 years income (carry forward). IRC Section 172	Generally limits NOLs to 80% of taxable income, with the remainder carried forward indefinitely. Only farm and certain insurance companies retain option to carryback NOLs. (Section 13302 of P.L. 115-97)
Like-kind exchanges	Like-kind exchanges allow for the deferral of taxes when eligible personal and real property used for business purposes is sold and the proceeds are reinvested in a similar type of property. IRC Section 1031	Like-kind exchanges are limited to only real property. (Section 13303 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Employer deduction for certain fringe benefits	<p>Employers can deduct expenses associated with entertainment, amusement, or recreational activities, if the activity is directly related to the active conduct of the employer's trade or business or a facility (e.g., an airplane) used in connection with such activity. Deductions for entertainment expenses are generally limited to 50% of otherwise deductible amounts.</p> <p>Entertainment expenses may be deductible if employees report such benefits as wages or other non-employee recipients include the benefits in gross income.</p> <p>Generally, gross income includes the value of employer-provided fringe benefits. Certain fringe benefits are excluded for employment tax purposes, such as transportation benefits (e.g., parking, transit passes, vanpool benefits, and bicycle commuting reimbursements) and meals that are provided for the convenience of the employer.</p> <p>Deductions for food or beverages are also generally limited to 50% of expenses (with certain exceptions). Meals provided for the convenience of the employer can be excluded from an employee's gross income.</p> <p>IRC Section 274</p>	<p>Disallows employer deductions for (1) activities generally considered to be entertainment, amusement, or recreation; (2) membership dues for clubs organized for business, pleasure, recreation, or other social purposes; or (3) a facility used in connection with the above items, even if the activity is related to the active conduct of trade or business.</p> <p>Generally disallows deductions for expenses associated with transportation fringe benefits or expenses incurred providing transportation for commuting (except as necessary for employee safety).</p> <p>The deduction for 50% of meals expenses associated with operating a trade or business (e.g., meals consumed on work travel) is generally retained. For 2018 through 2025, the 50% limit is expanded to include employer expenses associated with providing meals to employees through an eating facility meeting de minimis fringe requirements for the convenience of the employer.</p> <p>(Section 13304 of P.L. 115-97)</p>
Domestic production activities deduction	<p>The domestic production activities deduction allows a deduction equal to 9% of the lesser of taxable income derived from qualified production activities, or taxable income. Qualified production activities include manufacturing, mining, electricity and water production, film production, and domestic construction, among other activities. For oil- and gas-related activities, the deduction is limited to 6%.</p> <p>IRC Section 199</p>	<p>Repeals the deduction for income attributable to domestic production activities.</p> <p>(Section 13305 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Deduction for fines and penalties paid to a government	No deduction is allowed for fines or penalties paid to a government for violating a law. IRC Section 162(f)	Expands the provision relating to the non-deductibility of fines and penalties to expressly deny deductibility for amounts paid or incurred to or at the direction of a government or certain non-governmental entities in relation to the violation of any law or the investigation or inquiry into the potential violation of any law. Government agencies (or similar entities) are required to report to the IRS and the taxpayer the amount of each settlement agreement or order (of at least \$600 or other amount as specified by the Secretary of the Treasury). Adds Section 6050X to the IRC (Section 13306 of P.L. 115-97)
Deduction for settlements subject to a nondisclosure agreement in connection with sexual harassment	Taxpayers are generally allowed a deduction for ordinary and necessary expenses associated with their trade or business. Deductions are disallowed in certain instances. For example, no deduction is allowed for fines or penalties paid to a government for violating a law. IRC Section 162(q)	Provides that no deduction is allowed for settlements payments, or attorney fees related to sexual harassment or abuse if the settlement or payments are subject to a nondisclosure agreement. (Section 13307 of P.L. 115-97)
Deduction for local lobbying expenses	Expenses for lobbying and political activities generally are not deductible. There are exceptions for local legislation and de minimis (\$2,000 or less) expenditures. IRC Section 162(e)	Repeals the exception allowing a deduction for local lobbying expenses. (Section 13308 of P.L. 115-97)
Carried interest	Gains in partnership interest derived from the performance of investment services (carried interest) treated as long-term capital gains if held for at least one year. IRC Sections 83 and 1061	Requires carried interest to be held for three years in order to be treated as a long-term capital gain. Adds Section 1062 to the IRC (Section 13309 of P.L. 115-97)
Deduction for employee achievement awards	Employers can deduct the cost of certain employee achievement awards, with this deduction subject to limitations. Deductible awards are excludible from employee income. Employee achievement awards are tangible personal property given in recognition of length of service or safety achievement. IRC Section 74(c) and 274(j)	Provides that employee achievement awards do not include cash, gift cards, vacations, meals, event tickets, stocks or securities, or other similar items. (Section 13310 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Deduction for living expenses of members of Congress	Members of Congress are allowed to deduct up to \$3,000 for meals and lodging expenses incurred while on official business in the District of Columbia. IRC Section 162(a)	Repeals the deduction for living expenses of Members of Congress. (Section 13311 of P.L. 115-97)
Treatment of contributions to capital of corporations	Contributions to the capital of corporations are generally not included in the gross income of the corporation, and thus not treated as taxable income. IRC Section 118	The following contributions are not considered contributions to capital: (1) any contribution in aid of construction or any other contribution as a customer or potential customer, and (2) any contribution by any governmental entity or civic group (other than a contribution made by a shareholder as such). (Section 13312 of P.L. 115-97)
Capital gains from the sale of a publically traded security	The capital gain realized from the sale of a publically traded security may be rolled over without being subject to tax if the proceeds are used to purchase an interest in a specialized small business investment company. IRC Section 1044	Repeals IRC Section 1044. (Section 13313 of P.L. 115-97)
Property treated as a capital asset	Certain self-created items, such as a copyright, are excluded from the definition of capital asset. IRC Section 1221	The following are excluded from the definition of capital asset: patent, invention, model or design (whether or not patented), secret formula or process. (Section 13314 of P.L. 115-97)
<i>Business Credits</i>		
Orphan drug credit	A company may claim a tax credit equal to 50% of its qualified spending for the clinical testing of orphan drugs. An orphan drug is defined as a drug designed to treat a disease or condition that affects fewer than 200,000 persons in the United States, or that affects more than 200,000 persons but for which there is no reasonable expectation that a company could recover its costs of developing the drug from sales in the United States. Expenditures used to claim the orphan drug credit cannot also be used to claim the Section 41 research tax credit. IRC Section 45C	Reduces the credit rate to 25% for qualified expenses paid or incurred in 2018 and thereafter. (Section 13401 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Rehabilitation tax credit	<p>Certified historic structures are eligible for a tax credit equal to 20% of qualified rehabilitation expenditures. Qualified non-historic rehabilitated buildings are eligible for a tax credit equal to 10% of qualified rehabilitation expenditures. Tax credits are claimed in the year the building is placed in service.</p> <p>IRC Section 47</p>	<p>Retains the 20% credit for historic structures, but requires credit to be claimed over five years. Repeals the 10% credit for non-historic buildings.</p> <p>(Section 13402 of P.L. 115-97)</p>
Employer credit for paid family and medical leave	<p>No credit under current law</p>	<p>Provides a tax credit for employers paying wages to employees on family and medical leave. If the employer is paying wages of 50% of wages normally paid to an employee not on leave, the credit is 12.5% of wages paid. The credit is increased by 0.25 percentage points (up to 25%) for each percentage point the ratio of leave wages to wages normally paid exceeds 50%. Employers may claim the credit for up to 12 weeks of paid leave per employee. Leave required by state or local law is not taken into account for purposes of the credit.</p> <p>Eligible employers are those that allow all full-time employees at least two weeks of paid family and medical leave (with leave time pro-rated for part-time employees) and provide family and medical leave separate from vacation or personal leave.</p> <p>Adds Section 45S to the IRC</p> <p>Provision expires 12/31/2019</p> <p>(Section 13403 of P.L. 115-97)</p>
Tax credit bonds	<p>Tax credit bonds are state and local debt issuances that typically must be designated for a specific purpose such as for financing public school construction and renovation or for economic development. In lieu of the exclusion of interest income provided under the IRC to holders of tax-exempt bonds, tax credit bond holders are provided a tax credit or direct payment proportional to the bond's face value. Most tax credit bonds were not eligible for new issuances in 2017, due either to the expiration of issuing authority or to full subscription of the issuing limit. Bonds that are no longer issued may still be held by the public.</p> <p>IRC Sections 54 and 6431</p>	<p>Repeals all authority to issue tax credit bonds after December 31, 2017.</p> <p>(Section 13404 of P.L. 115-97)</p>

Provisions Related to Specific Entities and Industries

Partnership Provisions

Gain on the sale of a partnership interest	<p>When a foreign person receives income that is effectively connected to a U.S. trade or business, that income is generally subject to tax. There has been uncertainty about the circumstances under which the sale of a foreign-owned partnership interest would generate gain effectively connected to the United States.</p> <p>IRC Sections 864 and 1446</p>	<p>Provides that a gain or loss stemming from the sale or exchange of a partnership interest is considered to be effectively connected to a U.S. trade or business to the extent that the amount does not exceed the partner's distributive share of gain or loss that would have been effectively connected had the partnership sold all of its assets at fair market value as of the date of the sale or exchange. Generally requires the transferee or partnership to withhold and remit 10% of any gain on the sale or exchange.</p> <p>(Section 13501 of P.L. 115-97)</p>
Definition of substantial built-in loss for transfers of partnership interests	<p>When a partnership interest is transferred, the partnership adjusts the basis of its property if it either (1) made a one-time election to make basis adjustments or (2) has a substantial built-in loss immediately after the transfer. A substantial built-in loss occurs if the partnership's adjusted basis in its property exceeds the property's fair market value by more than \$250,000.</p> <p>IRC Section 743</p>	<p>Expands the definition of substantial built-in loss so that such loss also occurs if the transferee partner would have been allocated a loss of more than \$250,000 had the partnership's assets been hypothetically sold at fair market value immediately after the transfer.</p> <p>(Section 13502 of P.L. 115-97)</p>
Charitable contributions and foreign taxes and partner's share of loss	<p>A partner's distributive share of a partnership loss is allowed only to the extent of the adjusted basis of his partnership interest at the end of the year in which the loss occurred. If the loss exceeds the adjusted basis, then the excess may be deducted at the end of the year in which the excess is repaid to the partnership.</p> <p>IRC Section 704</p>	<p>Requires that, when determining the partnership loss, the partner's distributive share of the partnership's charitable contributions and foreign taxes be taken into account. Provides a special rule for charitable contributions of appreciated property.</p> <p>(Section 13503 of P.L. 115-97)</p>
Technical termination of partnerships	<p>A partnership is considered to be terminated if there is a sale or exchange of 50% or more of the total interest in the partnership capital and profits within a 12-month period.</p> <p>IRC Section 708(b)(1)(B)</p>	<p>The technical termination rule under IRC Section 708(b)(1)(B) is repealed.</p> <p>(Section 13504 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Insurance Reforms</i>		
Net operating losses of life insurance companies	Life insurance companies' net operating losses (NOLs) are generally allowed to be claimed against the prior three years income (carryback) or the subsequent 15 years income (carry forward). IRC Sections 810	Generally limits NOLs to 80% of taxable income, with the remainder carried forward indefinitely. (Section 13511 of P.L. 115-97)
Small life insurance company deduction	Small life insurance companies are allowed a deduction of 60% of tentative taxable income subject to several limitations. IRC Section 806	Repeals the small life insurance company deduction. (Section 13512 of P.L. 115-97)
Adjustment for change in computing reserves	Income or losses realized when an insurance company changes its method used to compute required reserves are generally recognized over 10 years. IRC Section 807(f)	Generally requires the income or loss to be recognized ratably over four years. (Section 13513 of P.L. 115-97)
Special rule for distributions to shareholders from pre-1984 policyholders surplus account	Certain surplus accounts established prior to 1984 are allowed a deferral of taxes due, until the proceeds were disbursed. IRC Section 815	Repeals Section 815 and requires tax due on existing surplus accounts to be paid ratably over eight years. (Section 13514 of P.L. 115-97)
Proration rules for property and casualty insurance companies	Property and casualty insurance companies are required to reduce their deductible reserves for losses by 15% of certain tax favored items: tax exempt interest, deductible dividends, and unrealized appreciation in life insurance, endowment and annuity contracts. IRC Sections 832(b)(5)	Increases the percentage reduction to 25%. (Sections 13515 and 13523 of P.L. 115-97)
Special estimated tax payments	Insurance companies are required to make special estimated tax payments equal to the tax benefit from discounted reserves for unpaid losses. IRC Section 847	Repeals Section 847. (Section 13516 of P.L. 115-97)
Computation of life insurance reserves	Net increases in reserves are a deductible expense for life insurance companies. Methods for computing required reserves are generally prescribed by the National Association of Insurance Commissioners (NAIC). IRC Section 807	Life insurance reserves will be the greater of net surrender value or 92.81% of the NAIC required reserves, among other changes. (Section 13517 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Rules for life insurance proration for purposes of determining the dividends received deduction	Life insurance companies are required to reduce dividends received and reserve deductions to account for the portion used to fund reserves. The proration between the company's share and the policyholder's share is determined using formulas based on net investment income. IRC Section 812	Sets the company's share as 70% and the policyholder's share as 30%. (Section 13518 of P.L. 115-97)
Capitalization of certain policy acquisition expenses	Life insurance companies are required to capitalize certain specified net premiums and realize the income over 10 years using set rates per type of contract. IRC Section 848	Increases the rates by roughly 20% and extends the amortization period for certain policies to 15 years. (Section 13519 of P.L. 115-97)
Tax reporting for life settlement transactions	Life insurance death benefits paid to the insured are generally excluded from federal income taxes. This exclusion is generally limited, if the contract is sold or transferred with any excess treated as ordinary income. IRC Section 101	Places reporting requirements on the purchase of certain existing life insurance contracts and on the payor for payments of death benefits. The provision also provides rules for reporting the basis of certain contracts and the transfer of an interest in certain policies. Adds Section 6050Y to the IRC (Section 13520 of P.L. 115-97)
Tax basis of life insurance contracts	The basis of a life insurance or annuity contract is generally allowed to be reduced by the cost of the insurance. IRC Section 1016	States that in determining the basis of a life insurance or annuity contract, no adjustment is made for mortality, expense, or other reasonable charges incurred under the contract (known as "cost of insurance") for contracts after August 25, 2009. (Section 13521 of P.L. 115-97)
Exception to transfer for valuable consideration rules	Death benefits received by a buyer of a life insurance contract are generally not included as taxable income. IRC Section 101	Modifies the transfer of value rules for reportable policy sales such that some of the death benefits received by a buyer would be included as taxable income. (Section 13522 of P.L. 115-97)
Property and casualty insurance company discounting rules	The discount rate used to discount unpaid losses is based on the average of the federal mid-term rates over a 60-month period. IRC Sections 832(b)(5) and 846	Sets the discount rate using the corporate yield curve over a 60-month period. (Section 13523 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
<u>Banks and Financial Instruments</u>		
Deduction for FDIC premiums	Federal Deposit Insurance Corporation (FDIC) premiums are considered as ordinary and necessary expenses and therefore deductible. IRC Section 162	The deduction for FDIC premiums is limited based on the consolidated assets of the institution. No deduction is allowed if assets are \$50 billion or more. If assets are between \$10 billion and \$50 billion, the deduction is reduced (as a percentage) by the ratio of assets in excess of \$10 billion to \$40 billion. No limit applies if assets are \$10 billion or less. (Section 13531 of P.L. 115-97)
Advanced refunding bonds	Advanced refunding bonds are bonds that are sold to refund (or retire) outstanding bonds that have not yet reached full maturity. Generally, an issuer will use proceeds from an advanced refunding bond with a lower interest rate to pay off an outstanding bond with a higher interest rate. Bonds with a governmental purpose (for which interest income is excluded from federal income taxation) may generally be advance refunded once. Private activity bonds (for which interest income is also excluded from federal income taxation) typically may not be advance refunded. IRC Section 149	Repeals the federal income exclusion of interest income earned from an advanced refunding bond for bonds issued after December 31, 2017. (Section 13532 of P.L. 115-97)
<u>S Corporations</u>		
Small business trusts qualifying beneficiaries	A nonresident alien may not be a beneficiary of an electing small business trust (ESBT). IRC Section 1361	A nonresident alien individual may be a potential current beneficiary of an ESBT. (Section 13541 of P.L. 115-97)
Small business trusts charitable contribution deduction	If an electing small business trust (ESBT) is a shareholder of an S corporation, the treatment of a charitable contribution passed through the S corporation is determined by the rules applicable to trusts, not the rules applicable to individuals. Trusts are allowed a charitable contribution without limit, whereas an individual is subject to a limit equal to a percentage of adjusted gross income. IRC Sections 641, 642, and 170	The charitable contribution deduction of an ESBT is determined by the rules applicable to individuals. (Section 13542 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
S corporations conversions to C corporations	<p>Taxpayers who change their method of accounting must generally make certain adjustments in order to prevent amounts from being duplicated or omitted due to the change.</p> <p>When an S corporation converts to a C corporation, distributions of cash by the C corporation to its shareholders during a post-termination transition period (generally one year after the conversion) are, to the extent of the amount in the accumulated adjustments account, tax-free to the shareholders and reduce the stock's basis.</p> <p>IRC Sections 481 and 1371</p>	<p>Makes two modifications to existing law for existing S corporations that convert to C corporations so long as: (1) the entity revokes its S corporation status on or before December 22, 2019, and (2) the entity has the same owners, and in identical proportion, on the date of revocation as on December 22, 2017. For such entities, any required change-in-accounting adjustment attributable to the conversion is taken into account ratably over a 6-year period. Additionally, for any distributions of cash after the post-transition period, the accumulated adjustments account must be allocated to the distribution and the distribution must be chargeable to accumulated earnings and profits (E&P) in the same ratio as the account bears to the E&P.</p> <p>(Section 13543 of P.L. 115-97)</p>

Employment

Compensation

Limitation on excessive employee remuneration

Employers who are publicly traded corporations can deduct not more than \$1 million per year as compensation for covered employees. Covered employees are the chief executive officer and the 4-highest paid employees. Certain types of compensation are excluded when determining if the \$1 million limit applies, including certain commission and performance-based compensation, as well as payments to tax-favored retirement plans or amounts that are excluded from the executive's gross income (employer provided health benefits and other fringe benefits, for example).

IRC Section 162(m)

Exclusions for commission-based and performance-based compensation are repealed. The definition of covered employee is modified to include the principal financial officer, as well as the principal executive officer and the other three most highly compensated employees, as well as any individual who was a covered employee for any year beginning after 2017. Applies the limitation to brokers and dealers. A transition rule is provided.

(Section 13601 of P.L. 115-97)

Excise tax on excess executive compensation paid by tax-exempt organizations

No current provision. Compensation paid by tax-exempt organizations must generally be considered to be reasonable.

Imposes a new 21% excise tax on excess tax-exempt organization executive compensation (compensation in excess of \$1 million per year) of the five highest paid employees. Exceptions are provided for non-highly compensated employees and employees providing certain medical services.

Adds Section 4960 to the IRC

(Section 13602 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Deferral for certain equity grants	<p>Generally, the value of property, including employer stock, transferred to an employee for the performance of services is included in gross income in the tax year the property becomes substantially vested.</p> <p>IRC Sections 83, 3401, and 6051</p>	<p>Certain employees of private companies (generally, employees other than executives or highly-compensated officers) who are granted stock options or restricted stock units (RSUs) may be able to elect to defer recognition of income for up to five years. The value of stock transferred may no longer be deferred if any stock of the employer becomes tradable on an established security market, among other reasons. Qualified stock includes that issued by companies where 80% of employees are granted stock options. A deferral election applies only for income tax purposes. The application of Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) are not affected.</p> <p>(Section 13603 of P.L. 115-97)</p>
Excise tax on stock compensation in an inversion	<p>Stock compensation to insiders in a corporate inversion is subject to a 15% excise tax.</p> <p>IRC Section 4985</p>	<p>Sets the excise tax rate at 20%.</p> <p>(Section 13604 of P.L. 115-97)</p>
<i>Retirement Plans</i>		
Recharacterization of IRA contributions and conversions	<p>There are two basic types of individual retirement accounts (IRAs): traditional IRAs and Roth IRAs: the former allow a deduction up front and taxation when funds are withdrawn (or in the case of a nondeductible traditional IRA a deferral of tax on earnings), while the latter exempts earnings. The timing of income tax inclusion differs for these two types of IRAs. Taxpayers may convert and reconvert between the two types to reduce their tax liability. For example, if a Roth is converted to a traditional and then reconverted to a Roth, deductions can be increased and income decreased by choosing assets based on their gains and losses in value.</p> <p>IRC Section 408A</p>	<p>Repeals the special rule permitting recharacterization of prior Roth conversion contributions. Other recharacterizations are still permitted.</p> <p>(Section 13611 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Length of service awards for public safety volunteers	Plans paying length of service awards of up to \$3,000 to certain volunteers, including firefighters, emergency medical, and ambulance service volunteers, are not subject to the requirements for deferred compensation plans and the awards are excluded from gross income until paid or made available. Such awards also are generally not subject to payroll taxes. IRC Section 457(e)	Increases the limit on the length of service award treatment from \$3,000 to \$6,000 and allows for a cost-of-living adjustment over time. (Section 13612 of P.L. 115-97)
Plan loan offset rollover period	Defined contribution retirement plans may permit loans. If loans are not repaid when the plan terminates or employment terminates, the account balance may be used to repay the loan. The amount repaid may be subject to any tax imposed on early distributions. Plan loan offset amounts can be rolled over into an eligible retirement plan within 60 days. IRC Section 402	Employees have until the tax filing due date to roll over any plan loan offsets (amount of accrued retirement plan benefits used to repay a loan from the plan) that result from either the termination of the retirement plan or severance of employment. (Section 13613 of P.L. 115-97)
<i>Exempt Organizations</i>		
Excise tax on net investment income of college and university endowments	Generally, private colleges and universities qualify for tax-exempt status as public charities. Net investment income of such institutions is not generally subject to tax. No provision in current law.	Imposes an excise tax of 1.4% on investment income of certain private colleges and universities. Institutions subject to the tax are ones that have at least 500 students (with more than 50% located in the United States) and assets (other than assets directly related to the tax-exempt purpose) of \$500,000 per student. Adds Section 4968 to the IRC (Section 13701 of P.L. 115-97)
Unrelated business taxable income	Tax-exempt organizations having income from a trade or business that is regularly carried on, but not substantially related to the purpose for which the organization is tax exempt, may be subject to tax on the unrelated business taxable income (UBTI). UBTI for organizations regularly carrying on two or more unrelated businesses is generally aggregated across such businesses, and any deductions applied to the aggregated income. IRC Section 512	Tax-exempt organizations with more than one unrelated business are required to calculate UBTI separately for each unrelated trade or business. Unused deductions may be carried forward to offset future tax liability. (Section 13702 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Unrelated business taxable income increased by certain fringe benefits	In calculating UBTI, ordinary and necessary business expenses are generally tax deductible IRC Section 512(a)	UBTI will be increased by the amount of certain nondeductible fringe benefit expenses paid by an exempt organization. Fringe benefits for which a deduction is not allowed include transportation or parking benefits, and on-premises athletic facility benefits. (Section 13703 of P.L. 115-97)
Charitable deduction for gifts in exchange for the right to purchase tickets to college athletic events	80% of charitable contributions made to a college or university in exchange for the right to purchase tickets to athletic events are generally deductible. The cost of tickets is not deductible. IRC Section 170(l)	No deduction is allowed for charitable contributions made in exchange for college event ticket purchase or seating rights. (Section 13704 of P.L. 115-97)
Substantiation requirements for donee-reported charitable contributions	To claim a charitable deduction, donors must maintain written records on the contribution. For contributions of \$250 or more to be deductible, the donation must be substantiated with contemporaneous written acknowledgement from the donee organization. An exception may be available if the donee files a return with the IRS reporting the information to be included in an acknowledgement. IRC Section 170	The substantiation exception for charitable contributions reported by a donee organization is repealed. Generally, any contribution of \$250 or more is only deductible if the donation was substantiated with a contemporaneous written acknowledgement. (Section 13705 of P.L. 115-97)

Other Provisions

Craft Beverage Modernization and Tax Reform

Exemption of the aging period for beer, wine, and spirits from UNICAP rules related to interest

The uniform capitalization (UNICAP) rules require some costs that would otherwise be immediately deductible (such as interest and overhead) to be added to inventory or to the cost of property and deducted in the future when goods are sold or assets depreciated. In the case of interest costs, the rules apply only if the asset is long-lived or has a production period over two years or a production period over one year and a cost or more than \$1 million. The production period includes any customary aging period.
IRC Section 263A

Exempts the aging periods for beer, wine, and distilled spirits from the production period for the UNICAP interest capitalization rules, thus leading to shorter production periods.
Provision expires 12/31/19
(Section 13801 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Excise tax rate on beer	<p>The excise tax rate on beer producers is \$18 per barrel (31 gallons). Small brewers that domestically produced no more than two million barrels annually are subject to a rate of \$7 per barrel on the first 60,000 barrels.</p> <p>IRC Section 5051</p>	<p>For small brewers (producing no more than two million barrels), the excise tax rates are: \$3.50 per barrel on the first 60,000 barrels and \$16 per barrel on the remaining production. Beer importers and large producers meeting certain requirements may also be eligible for the reduced rate of taxation. For all other producers or importers, the excise tax rates are \$16 per barrel on the first 6,000,000 barrels.</p> <p>Provision expires 12/31/19 (Section 13802 of P.L. 115-97)</p>
Excise tax rules concerning the transfer of beer between bonded facilities	<p>The tax on beer is due when the beer is removed from the brewery for sale. Beer can be transferred between breweries that are commonly owned (and released from customs) without paying the tax (although tax would be paid on the eventual sale).</p> <p>IRC Section 5414</p>	<p>The provision also allows transfer without payment of tax to an unrelated brewer if the transferee accepts responsibility for paying the tax.</p> <p>Provision expires 12/31/19 (Section 13803 of P.L. 115-97)</p>
Credit against excise tax on certain wine	<p>Excise taxes are imposed at different rates on wine, depending on the wine's alcohol content and carbonation levels. Still wines are taxed at \$1.07 per wine gallon (w.g.) if they were 14% alcohol or less, \$1.57/w.g. if they were 14% to 21% alcohol, and \$3.15 per w.g. if they were 21% to 24% alcohol. Naturally sparkling wines are taxed at \$3.40 per w.g. and artificially carbonated wines are taxed at \$3.30 per w.g.</p> <p>Up to a \$0.90 credit against excise tax liability (\$0.056 per w.g. for hard cider) may be available for the first 100,000 w.g. removed by a small domestic winery producing not more than 150,000 w.g. per year. The per w.g. tax credit rate is phased out on production in excess of 150,000 w.g. for wineries producing not more than 250,000 w.g. per year. This small winery credit does not apply to sparkling wine.</p> <p>IRC Section 5041</p>	<p>The credit for small domestic wineries is modified to allow the credit to be claimed by domestic and foreign producers, regardless of the gallons of wine produced. The credit is also made available to sparkling wine producers.</p> <p>In general, a \$1.00 credit against excise tax liability may be available for the first 30,000 w.g. removed annually by any eligible wine producer or importer. The credit is reduced to \$0.90 on wine gallons 30,001 to 100,000, and \$0.535 on wine gallons 100,001 through 620,000. This credit is not phased out based on production like the credit under permanent law.</p> <p>For hard cider, the credit rates, above, are adjusted to \$0.062 per gallon, \$0.056 per gallon, and \$0.033 per gallon, respectively.</p> <p>Provision expires 12/31/19 (Section 13804 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Alcohol content level for application of wine excise tax rates	Still wines are taxed at a rate of \$1.07 per w.g. if they are 14% alcohol or less, \$1.57/w.g. if they are 14% to 21% alcohol, and \$3.15 per w.g. if they are 21% to 24% alcohol. IRC Section 5041	The lowest rate of excise tax on still wine (\$1.07 per w.g.) applies to wines with 16% alcohol or less. Wines with an alcohol content >16% are taxed at the same rate as they were before the act (before accounting for other provisions, such as the modified credit against wine excise tax liability). Provision expires 12/31/19 (Section 13805 of P.L. 115-97)
Definition of mead and low alcohol by volume wine	Mead is taxed according to wine excise tax rates depending on its alcohol and carbonation content. Naturally sparkling wines are taxed at \$3.40 per w.g. and artificially carbonated wines taxed at \$3.30 per w.g. IRC Section 5041	Mead and certain sparkling wines are to be taxed at the lowest rate applicable to still wine of \$1.07 per wine gallon. Mead contains not more than 0.64 grams of carbon dioxide per hundred milliliters of wine, which is derived solely from honey and water, contains no fruit product or fruit flavoring, and contains less than 8.5% alcohol. The sparkling wines eligible to be taxed at the lowest rate contain no more than 0.64 grams of carbon dioxide per hundred milliliters of wine, which are derived primarily from grapes or grape juice concentrate and water, which contain no fruit flavoring other than grape, and which contain less than 8.5% alcohol. Provision expires 12/31/19 (Section 13806 of P.L. 115-97)
Excise tax on certain distilled spirits	Producers and importers of distilled spirits are taxed at a rate of \$13.50 per proof gallon (ppg) of production. IRC Section 5001	The rate of tax is lowered to \$2.70 ppg on the first 100,000 proof gallons, \$13.34 ppg for proof gallons in excess of that amount but below 22,130,000 proof gallons, and \$13.50 ppg for amounts thereafter. The provision contains rules so as to prevent members of the same controlled group from receiving the lower rate on more than 100,000 proof gallons of distilled spirits. Provision expires 12/31/19 (Section 13807 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Transfer of distilled spirits in bottles	<p>Distilled spirits are taxed when removed from the distillery, or, in the case of an imported product, from customs custody or bonded premises. Bulk distilled spirits may be transferred in bond between bonded premises without being taxed, but may not be transferred in containers smaller than one gallon.</p> <p>IRC Section 5212</p>	<p>Allows transfer of spirits in approved containers other than bulk containers without payment of tax.</p> <p>Provision expires 12/31/19</p> <p>(Section 13808 of P.L. 115-97)</p>
<i>Miscellaneous Provisions</i>		
Tax treatment of Alaska Native Corporations and Settlement Trusts	<p>Alaska Native Corporations generally are required to include in gross income certain payments described in the Alaska Native Claims Settlement Act (ANCSA).</p> <p>IRC Section 646</p>	<p>Allows (1) an Alaska Native Corporation to exclude from its gross income certain payments described in ANCSA so long as the payments are assigned in writing to a Settlement Trust and not received prior to such assignment, (2) a Native Corporation to elect annually to deduct contributions made to a Settlement Trust, and (3) requires any Native Corporation which has made an election to deduct contributions to a Settlement Trust as described above to furnish a statement to the Settlement Trust.</p> <p>Add Sections 139G and 247 to the IRC</p> <p>(Section 13821 of P.L. 115-97)</p>
Excise taxes on domestic air transportation	<p>An aircraft management services company manages aircraft owned by other corporations or individuals, and provides administrative and support services (such as scheduling, flight planning, and weather forecasting), aircraft maintenance services, the provision of pilots and crew, and compliance with regulatory standards. Aircraft owners generally pay management companies a monthly fee to cover fixed expenses and a variable fee to cover the cost of using the aircraft (such as the provision of pilots, crew, and fuel).</p> <p>There has been uncertainty as to whether amounts paid to aircraft management service companies are subject to the air transportation tax under IRC Section 4261.</p> <p>IRC Section 4261</p>	<p>Fixed payments are exempt from the air transportation taxes and variable fees are exempt if they involve the use of the aircraft owners own aircraft (but not if on a charter or leased aircraft).</p> <p>(Section 13822 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Qualified opportunity zones	No current provision. In general, capital gains are taxed when realized.	<p>Allows a temporary deferral of capital gains taxation if reinvested in a qualified opportunity fund and the permanent exclusion of capital gains from investments in a qualified opportunity fund. The designation of census tracts as opportunity zones is made by a state's Governor with the number of tracts capped by statute.</p> <p>No election for deferral of gain allowed after 12/31/2026.</p> <p>Adds IRC Sections 1400Z-1 and 1400Z-2 (Section 13823 of P.L. 115-97)</p>

International Tax Provisions

Outbound Transactions

Establishment of Participation Exemption System for Taxation of Foreign Income

Deduction for dividends received by domestic corporations from certain foreign corporations

The United States imposes taxes on a worldwide basis so that income earned in other countries is subject to U.S. tax. Domestic shareholders of foreign corporations are, however, not subject to tax on earnings until they are repatriated, that is, paid as dividends to the U.S. owner. The deferral of tax on foreign source income does not apply to certain passive or easily mobile income of U.S. controlled foreign corporations (called Subpart F income), which is taxed as earned, whether or not repatriated. Income from branches is taxed currently and losses are recognized. A controlled foreign corporation (CFC) is a corporation that is at least 50% owned by U.S. corporations that each own at least 10% of the shares. The anti-deferral rules that tax this income currently are called CFC rules. There are other anti-deferral rules, most importantly rules relating to passive foreign investment companies (PFICs) that are not CFCs and whose income is primarily passive. Foreign source income subject to U.S. tax is eligible for a credit for foreign taxes paid up to the amount of the U.S. tax due. This limit is calculated on an overall basis so that taxes paid in high tax countries can be used to offset U.S. tax in low tax countries. The limit is, however, computed separately for passive income and other income.

Moves toward a territorial (source-based rather than worldwide) profits tax. It allows a deduction for the foreign derived dividends of corporations that own at least 10% of the shares of a foreign corporation. Subpart F income continues to be taxed. The deduction does not apply to dividends from PFICs that are not CFCs. No foreign tax credit is allowed for amounts paid on the income generating the dividend. The deduction is also not allowed for hybrid dividends which have received a deduction or other relief for foreign taxes. The shares must be held for a year to be eligible.

Adds Section 245A to the IRC
(Sections 14101 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Sales or transfers involving certain foreign corporations	<p>A number of rules govern the treatment of the transfers of assets in foreign corporations. When a 10% shareholder in a CFC sells shares, any gain is treated as a dividend. The basis of stock in CFCs is increased (so any future gain is reduced) when any income is taxed. Basis is reduced for any income excluded. If the CFC sells stock in another foreign corporation, the gain is treated as a dividend by the CFC and is Subpart F income. While general rules allow tax-free corporate organizations and reorganizations that involve the transfer of property, there are provisions to prevent the transferring of assets outside of the United States in a tax-free organization or reorganization and then selling the property, so that gain is generally recognized on these transfers. Losses from the transfer of branch assets are recognized. Assets transferred to be used in an active trade or business are, however, exempt.</p> <p>IRC Sections 367, 961, 964, and 1248</p>	<p>A number of changes are made to make rules relating to the transfer of assets consistent with the new exemption (deduction) of dividends. Any gain recognized as a dividend on the sale by a 10% shareholder in a CFC is eligible for the dividend deduction. For a 10% shareholder, the basis is reduced for purposes of determining a loss by the excluded dividends. Income that was formerly taxed as Subpart F income arising from the sales by a CFC of stock in another foreign corporation is eligible for the dividend deduction. Losses on the transfer of branch assets are recognized up to the amount of dividends deducted. The exception from recognition of gain for an active trade or business is repealed.</p> <p>Adds Section 91 to the IRC (Section 14102 of P.L. 115-97)</p>
Treatment of deferred foreign income upon transition to a participation exemption system	<p>Because of deferral, unrepatriated income has accumulated abroad. A holiday in 2004 allowed firms to bring back deferred amounts at a lower tax rate on a voluntary basis.</p> <p>IRC Section 965</p> <p>Anti-inversion provisions place restrictions on a firm that reorganizes to move its headquarters to another country. If the former U.S. shareholders own at least 60% of the stock of the new firm and the firm does not have substantial business activities in the new headquarters country, the firm is an expatriated entity. If the former U.S. shareholders own less than 80% of the new firm, taxes are imposed on asset transfers. If the U.S. shareholders own at least 80%, the firm is treated as a U.S. firm.</p> <p>IRC Sections 78, 904, 907, 7874</p>	<p>Accumulated deferred post-1986 foreign source income of a 10% shareholder or non-CFC PFIC will be deemed to be repatriated and taxed at an 8% rate for illiquid assets and a 15.5% rate for liquid assets. Taxes will be paid over an eight-year period and foreign taxes will be allowed as credits in proportion to the lowering of the rates compared to 21%. Tax is imposed on deemed repatriations at 35% if a firm becomes an expatriated entity within 10 years. This recapture tax does not apply to entities that continue to be treated as U.S. firms. No foreign tax credit is allowed for the additional tax.</p> <p>(Section 14103 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Rules Related to Passive and Mobile Income</i>		
<u>Taxation of Foreign-Derived Intangible Income and Global Intangible Low-Taxed Income</u>		
Global Intangible Low-Taxed Income (GILTI)	No provision in current law.	<p>Corporations include in income their foreign source income in excess of 10% of their tangible assets net of interest (focusing on intangible income by excluding a deemed normal return to tangible investments). This income is termed global intangible low-taxed income (GILTI). A deduction is allowed for 50% of this income for tax years beginning after December 31, 2017, and before January 1, 2026, with a subsequent deduction of 37.5%. At a 21% corporate tax rate, these deductions result in a tax rate of 10.5% and 13.125%, respectively. Foreign taxes are allowed to be creditable but only 80% can be credited. As a result, the lowest foreign tax rate at which no U.S. tax is due is 13.125% initially (80% of 13.125% is 10.5%) and then 16.406%. Since the credit is applied on a global basis, this minimum rate would be on global income. The sum GILTI and FDII (see below) cannot exceed taxable income considered without regard to GILTI and FDII.</p> <p>Adds Sections 250 and 951A to the IRC (Sections 14201 and 14202 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Deduction for Foreign Derived Intangible Income (FDII)	No provision in current law.	<p>A deduction is allowed for foreign-derived intangible income (FDII) arising from a trade or business within the United States. The deduction is 37.5% for tax years beginning after December 31, 2017, and before January 1, 2026, with the deduction subsequently reverting to 21.875%. These deductions result in effective rates of 13.125% and 16.406%, respectively. Foreign-derived intangible income is determined by multiplying intangible income of the firm (income minus certain excepted income minus deductions minus 10% of tangible assets) by the share of deductible income from sales of property or services to foreigners to be used abroad to the total deductible income of the firm. Deductible income is gross income minus deductions minus certain exceptions. The exceptions include Subpart F income, GILTI, financial services income, dividends from CFCs, and domestic oil and gas income.</p> <p>Adds Section 250 to the IRC (Section 14202 of P.L. 115-97)</p>
<u>Other Modifications of Subpart F Provisions</u>		
Foreign base company oil-related income	<p>One of the components of Subpart F income (certain passive and easily mobile income of CFCs that is taxed currently) is foreign base company oil-related income. This income is derived from processing, transporting, or selling oil and gas and from certain related services. The CFC is not required to own the oil or gas.</p> <p>IRC Section 954(a)</p>	<p>Eliminates foreign base company oil-related income from Subpart F. (Section 14211 of P.L. 115-97)</p>
Inclusion of prior Subpart F for shipping income	<p>Foreign base company shipping income (income associated with international transport by aircraft or vessel) has undergone several treatments under Subpart F. It is currently excluded but between 1975 and 1986 it was included but reduced by the extent the income was reinvested in the business, and in 1986 it was included without a reinvestment exception. If those reinvested funds are repatriated, that income is Subpart F income.</p> <p>IRC Section 955</p>	<p>Repeals the inclusion based on withdrawal of previously excluded subpart F shipping income from qualified investment. (Section 14212 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Stock attribution rules for determining CFC status	<p>In determining whether a foreign corporation is a CFC (50% owned by U.S. persons who each own at least 10%), direct, indirect, and constructive ownership rules apply for determining CFC status (although only direct and indirect ownership applies for determining the share of Subpart F income). Current law, however, does not apply the constructive attribution rules so that a U.S. person is attributed stock owned by a foreign person even though they are related.</p> <p>IRC Sections 318, 951(b), and 958</p>	<p>Applies the stock attribution rules to stock owned by foreign persons for determining status as a CFC, for related parties. Thus stock owned in a foreign corporation by a foreign person that is related to a U.S. person can now be attributed to the U.S. person under the general rules.</p> <p>(Section 14213 of P.L. 115-97)</p>
Definition of United States shareholder	<p>Ownership share in a foreign corporation for applying Subpart F (10% ownership) is based on the share of the voting power of all classes of stock</p> <p>IRC Section 951</p>	<p>Bases the ownership share on at least 10% of the voting power or 10% of the value of all classes of stock.</p> <p>(Section 14214 of P.L. 115-97)</p>
30-day holding requirement for Subpart F	<p>Subpart F applies only if the foreign corporation has been a CFC for at least 30 days out of the tax year.</p> <p>IRC Section 951</p>	<p>Eliminates the 30-day requirement.</p> <p>(Section 14215 of P.L. 115-97)</p>
<u>Prevention of Base Erosion</u>		
Income shifting through intangible property transfers	<p>Determining the value of intangibles that are transferred between related international parties has effects on whether a transfer gives rise to income in the United States. These outcomes are affected by transfer pricing rules that affect intercompany allocations and by rules that exclude transfer of intangible property from gain recognition for outbound reorganizations. These rules in turn rest on the definition of intangible property that lists items such as patents, inventions, formula, processes design, pattern, know-how, copyrights, compositions, and other specified items. A number of methodological issues relating to valuation also arise.</p> <p>IRC Sections 367, 482, and 936</p>	<p>Adds goodwill, going concern value, or workforce in place to the list of intangible property. Also includes any other item the value of which is not attributable to tangible property or services of any individual. It specifies that the Secretary of the Treasury has the authority to require aggregation of intangible assets and to use realistic alternative principles for valuation purposes.</p> <p>(Section 14221 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
Related party amounts paid or accrued in hybrid transactions or with hybrid entities	Hybrid entities and instruments can confer tax advantages on related parties if they are treated differently in different jurisdictions. An example of a hybrid instrument is one where a royalty or interest payment (which is deductible in the United States) is not included in income in the jurisdiction where the interest or royalty is received. A hybrid entity is one that is recognized as a separate entity in one jurisdiction but not the other, which affects whether they include payments in income.	Disallows a deduction by a related party for an interest or royalty payment to a recipient in a foreign country if that payment is not taxed (or is included in income and then deducted) in the foreign country. Adds Section 267A to the IRC (Section 14222 of P.L. 115-97)
Individual tax on dividends from inverted companies	Dividends (like capital gains) are allowed lower tax rates than the rates applied to ordinary income. The rates are 0%, 15%, and 20% depending on the rate bracket that ordinary income falls into. Certain dividends received from foreign firms (those that do not have tax treaties and PFICs) are not eligible for these lower rates. IRC Section 1(h)(11)C(iii)	Adds to the list of dividends from foreign corporations that are not eligible for lower rates those paid by companies that inverted after the date of enactment, except for those that are treated as U.S. corporations. (Section 14223 of P.L. 115-97)
<u>Modifications Related to Foreign Tax Credit System</u>		
Repeal of certain foreign tax credits	Credits for taxes paid to foreign countries are allowed against U.S. tax due, for dividends when paid and for automatic inclusions such as Subpart F and branch and other income. Because tax on foreign source income was deferred, for 10% owners receiving dividends, foreign taxes paid are based on the share of tax on accumulated earnings that was the same proportion as the share of dividends to earnings. These are termed indirect credits. Section 960 extends this treatment to Subpart F income. IRC Sections 902 and 960	Repeals the Section 902 indirect foreign tax credits for dividends (which are now exempt). Since taxes will be paid separately on accumulated earnings, determination of Section 960 credits for Subpart F is on a current year basis. (Section 14301 of P.L. 115-97)

Topic	2017 Tax Law	P.L. 115-97
Foreign tax credit baskets	<p>Foreign tax credits are limited to the U.S. tax due on foreign source income. In determining the limit on the foreign credit, income and credits are aggregated together, permitting cross-crediting. Thus, taxes in a country with higher taxes than the United States can be used to offset U.S. taxes due in low or no tax countries. Foreign tax credit limits are, however, applied to two separate baskets: a passive basket and a general basket. Also foreign income of 10% shareholders of foreign firms is effectively in a separate basket because the credits and income must be connected.</p> <p>IRC Section 904</p>	<p>Provides for a separate foreign tax credit limitation basket for foreign branch income.</p> <p>(Section 14302 of P.L. 115-97)</p>
Inventory source rules	<p>Since the amount of foreign tax credits are limited to the U.S. tax on foreign source income, for firms that have excess credits, an increase in the amount of foreign source income increases the amount of foreign tax credits they can use. Current rules for the allocation of income from the sale of inventory property manufactured by the taxpayer and sold abroad allow half the source of profits in the United States and half where the title passes, which can be arranged to be in a foreign country, classifying it as foreign source. This rule is also known as the title passage rule.</p> <p>IRC Section 863(b)</p>	<p>Makes the source of income from sales of inventory determined solely on basis of production activities, so that if a good is produced in the United States, no share will be treated as foreign source income.</p> <p>(Section 14303 of P.L. 115-97)</p>
Recapture of overall domestic losses	<p>Overall domestic losses incurred after taxable years beginning after December 31, 2006, and carried forward can be used to offset no more than 50% of domestic taxable income (which is then considered foreign source) for purposes of sourcing for the foreign tax credit limit.</p> <p>IRC Section 864</p>	<p>Allows the losses arising before a taxable year beginning before January 1, 2018, to offset 100% of domestic taxable income for tax years beginning before January 1, 2028.</p> <p>(Section 14304 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Inbound Transactions</i>		
Base erosion and anti-abuse tax (BEAT)	No provision in current law.	<p>Imposes a minimum tax which is equal to 10% of the sum of taxable income and base erosion payments on corporations with average annual gross receipts of at least \$500 million over the past three tax years and with deductions attributable to outbound payments exceeding a specified percentage of the taxpayer's overall deductions. The rate is 5% for payments in 2018, and 12.5% for taxable years beginning after December 31, 2025. (Taxpayers that are members of an affiliated group that includes a bank or registered securities dealer are subject to an additional increase of one percentage point in the tax rates.) Base erosion payments include payments to related foreign parties for which a deduction is allowable under IRC Chapter 1, the purchase of depreciable or amortizable property, certain reinsurance payments, and payments to inverted firms or foreign persons who are a member of an affiliated firm that includes the inverted firm that became inverted after November 9, 2017 (but not firms that continue to be treated as U.S. firms). Cost of goods sold would not be included and cost of services would not be included if determined under the services cost method under the transfer pricing rules in Section 482. Disallowed interest under section 163(j) would be first allocated to unrelated parties. A related person is a person who owns at least 25% of the taxpayer or parties controlled by the same interests. The constructive ownership rules treat as controlling 100% of the firm with 10% rather than 50% ownership. The research credit and 20% of three credits (including the low income housing credit and certain energy credits) are allowed to reduce the BEAT tax.</p> <p>Adds Section 59A to the IRC (Section 14401 of P.L. 115-97)</p>

Topic	2017 Tax Law	P.L. 115-97
<i>Other Provisions</i>		
Insurance business exception to passive foreign investment company rules	Under the passive foreign investment company (PFIC) anti-deferral regime, passive income is taxed currently or an interest charge imposed if deferred. One exception to this treatment is income derived in the active conduct of an insurance business by a foreign company that meets the criteria to be a qualifying insurance corporation. In determining whether the exception applies, the IRS considers whether risks assumed by the foreign company are insurance risks, whether the risks are limited, and the status of the company. IRC Section 1297	Replaces the test based on predominant activity with a test based on the company's insurance liabilities (the test based on insurance company status is retained). Under the new test, income is exempt from the PFIC rules if the insurance liabilities of the foreign corporation constitute more than 25% of the firm's total assets. (Section 14501 of P.L. 115-97)
Interest expense apportionment	In determining the foreign tax credit limit, interest expense is allocated between U.S. and foreign sources based on the shares of assets. Firms can value assets using the fair market value or the tax book value. The larger the share of interest allocated to foreign sources, the smaller amount of foreign tax credits allowed for firms in an excess credit position. IRC Section 864(e)	Prohibits the allocation of interest based on the fair market value of assets and requires allocation based on the adjusted tax basis of assets. (Section 14502 of P.L. 115-97)

Source: CRS analysis of the 2017 Internal Revenue Code and. Inflation adjustments under 2017 law for 2018 are found in Internal Revenue Service, *Revenue Procedure 2017-58*.

Notes: This table provides a basic description of the tax provision in P.L. 115-97. The descriptions explain the law in plain language, and any deviations from the statutory text are not intended to be legal interpretations of such text. The table includes primary citations to the Internal Revenue Code (IRC) for each provision, but other IRC provisions and sources of law may be relevant. This table does not include provisions contained in Title II of P.L. 115-97.

Appendix. Tax Brackets and Rates, Historical Tax Rates

On October, 19, 2017, the Internal Revenue Service published inflation-adjusted individual income tax brackets and rates for tax year 2018. The rates reflected current law and amendments to the Internal Revenue Code as of the publishing date. As P.L. 115-97 made considerable changes to the individual income tax code, the previously released individual income brackets and rates no longer reflect current law. Tables A-1 through A-8 display current individual income tax brackets and rates as well as the previously released IRS schedules.

Table A-1. Married Individuals Filing Joint Returns and Surviving Spouses for 2018, Current Law

If taxable income is:	The tax is:
Not over \$19,050	10% of taxable income.
Over \$19,050 but not over \$77,400	\$1,905 plus 12% of the excess over \$19,050.
Over \$77,400 but not over \$165,000	\$8,907 plus 22% of the excess over \$77,400.
Over \$165,000 but not over \$315,000	\$28,179 plus 24% of the excess over \$165,000.
Over \$315,000 but not over \$400,000	\$64,179 plus 32% of the excess over \$315,000.
Over \$400,000 but not over \$600,000	\$91,379 plus 35% of the excess over \$400,000.
Over \$600,000	\$161,379 plus 37% of the excess over \$600,000.

Source: CRS analysis of P.L. 115-97.

Table A-2. Married Individuals Filing Joint Returns and Surviving Spouses for 2018, Before P.L. 115-97

If taxable income is:	The tax is:
Not over \$19,050	10% of the taxable income
Over \$19,050 but not over \$77,400	\$1,905 plus 15% of the excess over \$19,050
Over \$77,400 but not over \$156,150	\$10,657.50 plus 25% of the excess over \$77,400
Over \$156,150 but not over \$237,950	\$30,345 plus 28% of the excess over \$156,150
Over \$237,950 but not over \$424,950	\$53,249 plus 33% of the excess over \$237,950
Over \$424,950 but not over \$480,050	\$114,959 plus 35% of the excess over \$424,950
Over \$480,050	\$134,244 plus 39.6% of the excess over \$480,050

Source: Internal Revenue Service, *Rev. Proc. 2017-58*, <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>.

Notes: Before P.L. 115-97, inflation adjustments for taxable income brackets were calculated using the Consumer Price Index. Under current law, inflation adjustments will be calculated using the Chained Consumer Price Index.

Table A-3. Heads of Households for 2018, Current Law

If taxable income is:	The tax is:
Not over \$13,600	10% of taxable income.
Over \$13,600 but not over \$51,800	\$1,360 plus 12% of the excess over \$13,600.
Over \$51,800 but not over \$82,500	\$5,944 plus 22% of the excess over \$51,800.
Over \$82,500 but not over \$157,500	\$12,698 plus 24% of the excess over \$82,500.

If taxable income is:	The tax is:
Over \$157,500 but not over \$200,000	\$30,698 plus 32% of the excess over \$157,500.
Over \$200,000 but not over \$500,000	\$44,298 plus 35% of the excess over \$200,000.
Over \$500,000	\$149,298 plus 37% of the excess over \$500,000.

Source: CRS analysis of P.L. 115-97.

Table A-4. Heads of Households for 2018, Before P.L. 115-97

If taxable income is:	The tax is:
Not over \$13,600	10% of the taxable income
Over \$13,600 but not over \$51,850	\$1,360 plus 15% of the excess over \$13,600
Over \$51,850 but not over \$133,850	\$7,097.50 plus 25% of the excess over \$51,850
Over \$133,850 but not over \$216,700	\$27,597.50 plus 28% of the excess over \$133,850
Over \$216,700 but not over \$424,950	\$50,795.50 plus 33% of the excess over \$216,700
Over \$424,950 but not over \$453,350	\$119,518 plus 35% of the excess over \$424,950
Over \$453,350	\$129,458 plus 39.6% of the excess over \$453,350

Source: Internal Revenue Service, *Rev. Proc. 2017-58*, <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>.

Notes: Before P.L. 115-97, inflation adjustments for taxable income brackets were calculated using the Consumer Price Index. Under current law, inflation adjustments will be calculated using the Chained Consumer Price Index.

Table A-5. Unmarried Individuals Other than Surviving Spouses and Heads of Households for 2018, Current Law

If taxable income is:	The tax is:
Not over \$9,525	10% of taxable income.
Over \$9,525 but not over \$38,700	\$952.50 plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$82,500	\$4,453.50 plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500	\$14,089.50 plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000	\$32,089.50 plus 32% of the excess over \$157,500.
Over \$200,000 but not over \$500,000	\$45,689.50 plus 35% of the excess over \$200,000.
Over \$500,000	\$150,689.50 plus 37% of the excess over \$500,000.

Source: CRS analysis of P.L. 115-97.

Table A-6. Unmarried Individuals Other than Surviving Spouses and Heads of Households for 2018, Before P.L. 115-97

If taxable income is:	The tax is:
Not over \$9,525	10% of the taxable income
Over \$9,525 but not over \$38,700	\$952.50 plus 15% of the excess over \$9,525
Over \$38,700 but not over \$93,700	\$5,328.75 plus 25% of the excess over \$38,700
Over \$93,700 but not over \$195,450	\$19,078.75 plus 28% of the excess over \$93,700
Over \$195,450 but not over \$424,950	\$47,568.75 plus 33% of the excess over \$195,450
Over \$424,950 but not over \$426,700	\$123,303.75 plus 35% of the excess over \$424,950
Over \$426,700	\$123,916.25 plus 39.6% of the excess over \$426,700

Source: Internal Revenue Service, *Rev. Proc. 2017-58*, <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>.

Notes: Before P.L. 115-97, inflation adjustments for taxable income brackets were calculated using the Consumer Price Index. Under current law, inflation adjustments will be calculated using the Chained Consumer Price Index.

Table A-7. Married Individuals Filing Separate Returns for 2018, Current Law

If taxable income is:	The tax is:
Not over \$9,525	10% of taxable income.
Over \$9,525 but not over \$38,700	\$952.50 plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$82,500	\$4,453.50 plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500	\$14,089.50 plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000	\$32,089.50 plus 32% of the excess over \$157,500.
Over \$200,000 but not over \$300,000	\$45,689.50 plus 35% of the excess over \$200,000.
Over \$300,000	\$80,689.50 plus 37% of the excess over \$300,000.

Source: CRS analysis of P.L. 115-97.

Table A-8. Married Individuals Filing Separate Returns for 2018, Before P.L. 115-97

If taxable income is:	The tax is:
Not over \$9,525	10% of the taxable income
Over \$9,525 but not over \$38,700	\$952.50 plus 15% of the excess over \$9,525
Over \$38,700 but not over \$78,075	\$5,328.75 plus 25% of the excess over \$38,700
Over \$78,075 but not over \$118,975	\$15,172.50 plus 28% of the excess over \$78,075
Over \$118,975 but not over \$212,475	\$26,624.50 plus 33% of the excess over \$118,975
Over \$212,475 but not over \$240,025	\$57,479.50 plus 35% of the excess over \$212,475
Over \$240,025	\$67,122 plus 39.6% of the excess over \$240,025

Source: Internal Revenue Service, *Rev. Proc. 2017-58*, <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>.

Notes: Before P.L. 115-97, inflation adjustments for taxable income brackets were calculated using the Consumer Price Index. Under current law, inflation adjustments will be calculated using the Chained Consumer Price Index.

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