



# DECODING TAX REFORM

## Advising the Advisor

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### Introduction

This week, both the Senate and House voted to go to conference to hash out the differences between their tax bills. Republican tax writers have already begun negotiations, and could vote on a final tax bill by the end of next week. Congress also passed a two-week stopgap funding bill to avoid a government shutdown, keeping the government open until December 22<sup>nd</sup> and giving Republicans time to complete tax reform.

Republicans still have a number of critical issues to resolve, and polls indicate that the tax bills are broadly unpopular with the American public. Yet while policy and/or political factors could still upend a tax deal, Republicans have met their aggressive deadlines to date, and remain highly motivated to pass a tax reform bill despite any obstacles. The expectation in Washington is that a tax bill will be signed into law by the end of the year.

We will continue to keep you informed of the latest developments. Below we describe the current status of our core issues, as well as the latest news around the critical issues that still must be resolved.

## Life Insurance Provisions – House and Senate Tax Bills

### COLI/BOLI

- Neither the House, nor the Senate bills included the pro-rata rule from the Camp draft that would have negatively impacted the COLI/BOLI marketplace.

### NQDC

- Both House and Senate have removed the deferred compensation provisions that would have virtually eliminated the market for NQDC plans from the tax bill. We will remain vigilant through the end of this process.

### Estate Tax

- House
  - Immediately doubles the estate tax, gift, and GST exemptions, and completely repeals the estate tax and GST beginning January 1, 2025. Cuts top rate for gift tax from 40% to 35% starting in 2025.
- Senate
  - Doubles the estate tax, gift, and GST exemptions, but sunsets them on December 31, 2025. On January 1, 2026, the exemptions will return to current exemption levels, but they will be indexed for inflation. In other words, the exemptions wouldn't be \$5.5 million/\$11 million in 2026, but will be higher based on annual inflation adjustments from 2018-2025.

### Insurance Carrier Reserves

- Senator Tim Scott's (R-SC) amendment is likely to be in a final tax bill. As the JCT describes it, the Scott Amendment makes changes to the computation of life reserves, modifies company proration rules when determining DRD, and makes changes to the capitalization of certain policy acquisition expenses.

## Corporate AMT

The Senate bill retains the corporate AMT, but there are a number of indications that the corporate AMT will be removed from any final tax bill. ICYMI: [View today's Update on Corporate AMT in Tax Reform Bill](#)

## Key Issues to Be Resolved in Conference

### Corporate Rate:

Republicans have held fast to a 20% C Rate throughout the legislative process to date, and Republican leaders on both sides of Capitol Hill continue to stress its fundamental importance. Yet every 1% increase in the C Rate would generate \$100 billion in revenue, and a 22% C Rate has been tossed around this week as a source of much-needed revenue.

- [Corporate rate cut in tax bill could change as GOP hunts for votes](#)
- [GOP leaders consider shrinking size of planned corporate tax cut, sources say](#)
- [Aide tries to refocus tax debate after Trump's corporate rate remark](#)
- [Portman Says He's 'Pretty Confident' on 20%](#)

### State and Local Taxes (SALT):

House Members in high-cost states continue to push for more relief on State and Local taxes, and securing votes with revisions here could force changes elsewhere.

- [Sen. Cornyn signals GOP could tweak state and local deductions in final tax bill](#)
- [Sen. Pat Toomey: State and local tax deduction changes likely still to come](#)
- [House GOP exploring tax plan changes to help California, other high-tax states](#)

### Individual AMT:

The Senate tax bill partially retained the individual AMT, increasing the exemption amounts and extending the exemption phaseout threshold. As with the retention of the corporate AMT, repeal of the individual AMT has been seen as a central element of tax reform—the House bill repeals both AMTs—and there is a strong desire among Republicans repeal it.

Yet repealing the individual AMT is expensive, and would require difficult choices elsewhere.

- [Brady Wants to Keep Alternative Minimum Tax Out of Bill](#)
- [The Senate Would Keep The Individual AMT, But Turn It Into A Very Different Tax](#)

### **Passthrough Taxation:**

There are significant differences in the House and Senate bills when it comes to the tax treatment of small businesses, as well as a \$120 billion difference in the costs of the two bill's provisions. We have received a lot of questions from members on this issue – for more information, [read our latest piece](#) on the current House and Senate passthrough provisions.

### **Health Care:**

The repeal of the individual mandate is a significant revenue raiser in the Senate bill, and the House supports the provision. Yet including health care reform in a tax bill is unpopular with the American public, and Senator Collins (R-ME) could be a No vote if her concerns aren't resolved on this issue.

- [Collins' Obamacare Deal Faces Moment of Truth](#)
- [Obamacare rule repeal: Public strongly objects to changing ACA with tax bill, as ads target House members](#)

## **News You Can Use**



- [House Republicans Draft Letter Protesting FIFO](#)
- [Experts are starting to find massive errors in the GOP tax bill after it went through Congress at lightning speed](#)
- [Congressional lawmakers feeling outside heat as tax bill nears finish](#)



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