DECODING TAX REFORM

Advising the Advisor

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Don't Forget

Keep an eye out for our Special Edition *Washington Report Marketplace*, and tune in Tuesday, December 5 at 11am Eastern for the next installment in our webinar series on this topic.

Senate Passes Tax Reform Bill – House-Senate Conference Expected to Begin

Senate Republicans passed their tax reform bill early Saturday morning on a 51-49 vote. Senator Bob Corker (R-TN) was the lone Republican opposing the bill.

The House and Senate are expected to begin the Conference process to hash out their differences, with House Majority Whip Steve Scalise (R-LA) saying the House will formally vote to go to conference on Monday.

Senate leaders sidestepped a number of landmines to get 51 votes, and a number of challenges remain in conference. Yet while deadlines could slip and major changes could happen, Republicans have hit every mark in their ambitious timeline since Ways and

Means Chairman Kevin Brady (R-TX) first introduced tax reform text a month ago, and they remain highly motivated to pass a tax bill despite any obstacles.

A lot changed in the final forty-eight hours of Senate floor consideration. Some amendments were handwritten on the floor. We continue to digest the whole bill and are working with our partners to analyze the impact of all the changes for you and your clients.

Be sure to look for our latest *Washington Report Marketplace* breaking down the modified Senate bill and House bill. **Block your calendar now** for our Decoding Tax Reform Webinar on Tuesday, December 5 at 11am ET.

House and Senate Tax Bills – Life Insurance Provisions

On a positive note, the final Senate bill included Tim Scott's (R-SC) amendment addressing the life insurance carrier reserve issue—providing an imperfect but essential resolution.

The Senate tax bill did retain the Corporate AMT at the last minute, which if enacted into law with other tax changes in the bill could have serious implications for COLI and BOLI. Indications are that this may have been simply a placeholder to advance the bill, and the pressure to repeal the Corporate AMT in any tax bill emerging from conference will be strong. We are very engaged with our industry and broader trade association partners to resolve this issue, and are deploying key AALU Ambassadors in a targeted manner on this and other key priorities as outlined below until the process is completed, and the bill signed into law.

Otherwise our core issues remained the same from the Senate Finance Committee mark-up.

Current status in House and Senate tax bills:

COLI/BOLI

- Neither the House, nor the Senate bills included the pro-rata interest disallowance provision 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 to secure that as a final outcome.

Estate Tax

- House
  - Immediately doubles the estate tax and GST exemptions, and completely repeals the estate tax and GST beginning January 1, 2024.
- Senate
  - Doubles the estate tax, gift, and GST exemptions (? IS GST DOUBLED?), but sunsets them after eight years after 2025, indexed for inflation.

Key Changes to Senate Bill

The final Senate tax bill contained a variety of changes from the Senate Finance Mark. Key changes are highlighted below – the revenue figures are estimates from the Joint Committee on Taxation. We will provide a WRM this week with a detailed analysis of the final Senate bill.

Major Additions:

- State and Local Taxes (SALT) – The final bill allows for a deduction for property taxes up to $10,000 – matching the House provision {-$148.4 billion over 10 years}
- Small Business Taxes – The final bill raised the deduction for Passthrough entities from 17.4% to 23% {-$114 billion over 10 years}
- Business Expensing – The final Senate bill extends the 5-year immediate expensing provision, phasing it out over 10 years. The expensing rate would be reduced by 20% a year—going from 100% in Year 1-Year 5 to 0% in Year 10. {-$34 billion over 10 years}

- Medical Expense Deduction – The final bill lowers the adjusted gross income threshold for the deduction of medical and dental expenses from more than 10% of AGI to more than 7.5% of AGI for 2017 and 2018 {-$4.5 billion}
- IC-DISC – The final Senate bill restores the IC-DISC tax incentive for small and medium sized manufacturers selling goods overseas. {-$5.3 billion over 10 years}
- Retirement Plan Contribution Limits and Rules – The final Senate bill maintains existing contribution limits, reversing some restrictions on these plans in the Senate Finance Committee mark. {-$1.7 billion over 10 years}

Revenue Raisers:

- Corporate AMT – The final bill retains the current corporate AMT, as opposed to full repeal {$40.3 billion over 10 years}
- Individual AMT – The final bill makes a number of modifications to the individual AMT to provide reductions, though the full impact is unclear, as opposed to full repeal {$132.9 over 10 years}
- Repatriation – The final bill raises the rate to 14.5% for offshore cash and 7.5% for non-cash {$113.3 billion over 10 years}

News You Can Use

- Senate Passes Tax Bill That Includes Scott Life Amendments
- Buried in the Tax Bills, Multiple Unintended Consequences
- How McConnell Got a Win on Taxes
- How Tax Bill Emerged from a Late Night of Deal Making

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