



Proposed TAX REFORM Crop Insurance Workshop

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TAX REFORM—What are the Key Goals, Changes, and Implications?

GOALS

1. Grow U.S. Economy (create jobs and bring back dollars currently kept off-shore)
2. Simplify a burdensome tax code (fair and simply to understand)
3. Provide tax relief to middle income families (keep more of your income)
4. Lower the business tax rate (one of the highest in the world).
5. Increase tax revenues (reduce debt).

CHANGES

What is Proposed??? Goals are Consistent -"Put America first"

President Trump

House Ways and Means Committee

TAX RELIEF and SIMPLIFICATION

Double the standard deduction

- \$24,000 for married taxpayers filing jointly
- \$12,000 for single filers

Creates a larger "ZERO TAX BRACKET".

Figure 1: Simplification of Family Tax Benefits

Current Law	Blueprint
Basic Standard Deduction	Large Standard Deduction
Additional Standard Deduction	
Personal Exemption to Taxpayer and Spouse	
Child Tax Credit	Larger Child and Dependent Tax Credit
Personal Exemption for Children and Dependents	

Source: A Better Way--Our Vision for a Confident America, better.gov.com, June 24, 2016.

INDIVIDUAL TAX RATES

- ▶ Currently there are 7 tax brackets. Plan is to consolidate the 7 into 3 brackets.
- ▶ Proposed brackets are 12%, 25%, and 35%.

Figure 2: Individual Income Tax Brackets

Current Law	Blueprint
10%	0%/12%
25%	
25%	25%
28%	
33%	33%
35%	
39.6%	

Source: A Better Way--Our Vision for a Confident America, better.gop.com, June 24, 2016.

INDIVIDUAL TAX RATES (Cont'd)

- ▶ Families in 10% bracket currently are expected to be better off due to larger standard deduction and larger child care tax credit.
- ▶ An additional top rate to highest income taxpayers may apply so as to be as progressive as the existing tax code.

Figure 3: Simple, Fair "Postcard" Tax Filing

1	Wage and compensation income	1	
2	Add 1/2 of investment income	2	
3	Subtract contributions to specified savings plans	3	
4	Subtract standard deduction OR	4	
5	Subtract mortgage interest deduction	5	
6	Subtract charitable contribution deduction	6	
7	Taxable income	7	
8	Preliminary tax (from tax table)	8	
9	Subtract child credit	9	
10	Subtract earned income credit	10	
11	Subtract higher education credit	11	
12	Total tax	12	
13	Subtract taxes withheld	13	
14	Refund due / taxes owed	14	

Source: A Better Way--Our Vision for a Confident America, better.gop.com, June 24, 2016.

INDIVIDUAL TAX RATES (Cont'd)

- ▶ Also may use inflation measures (supposedly more accurate) to index the tax brackets and other tax parameters.

ENHANCED CHILD TAX CREDIT and MIDDLE CLASS TAX RELIEF

- ▶ Repeals the current personal exemption but increases Child Tax Credit.
- ▶ Will increase income levels at which Child Tax Credit begins to phase out.
- ▶ Provide a non-refundable credit for non-child dependents to defray cost of caring for other dependents (caring for a parent).

INDIVIDUAL ALTERNATIVE MINIMUM TAX (AMT)

- ▶ Nonpartisan Joint Committee on Taxation and the IRS have both advocated repealing AMT.
- ▶ No longer serves its intended purpose and creates significant complexity.

ITEMIZED DEDUCTIONS

- ▶ Eliminates most itemized deductions
- ▶ Retains tax incentives for home mortgage and charitable contribution.
- ▶ Repeal the 3.8% Obamacare tax affecting small business and investment income.

ESTATE TAX AFFECTING INDIVIDUALS

- ▶ Repeals estate tax and the generation-skipping transfer tax (eliminates).
- ▶ Unanswered question/issue—what basis is used for transferred assets???
 - Fair market value at time of death (stepped up basis)
OR
 - Carryover basis from decedent.
- ▶ Gift Tax issue has not been addressed.

SMALL BUSINESS COMPETITIVENESS AND GROWTH

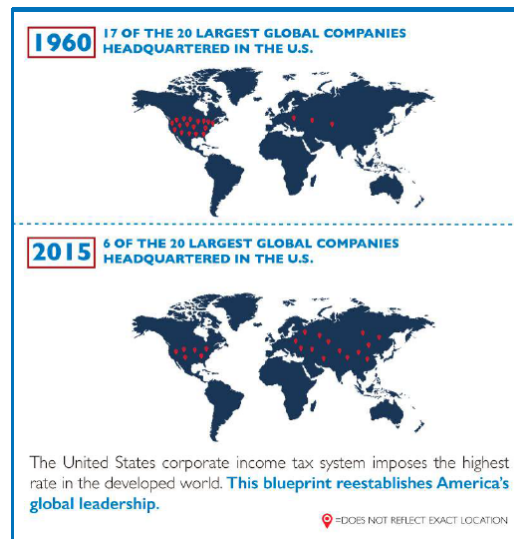
TAX RATE IS DESIGNED TO:

- ▶ Enhance competition
- ▶ More jobs and higher wages
- ▶ Maximum tax rate for sole proprietorships, partnerships, and S corporations would be 25%.

TAX RATE STRUCTURE for CORPORATIONS

- ▶ Reduce corporate tax rate to 20%. Currently 35%. One of highest in the Global economy.

Figure 4



Source: A Better Way--Our Vision for a Confident America, better.gop.com, June 24, 2016.

TAX RATE STRUCTURE for CORPORATIONS (cont'd)

- ▶ Eliminate the corporate AMT.
- ▶ JCT may consider methods to reduce double taxation of corporate earnings.
- ▶ One time tax on dollars held overseas. Spur more investment in U.S. and more jobs and higher wages repatriates businesses. Which has the potential of increasing tax revenue. (Estimates of cash held overseas exceeds \$2 trillion.)
- ▶ Eliminates tax breaks for special interests.

CONCLUSIONS

- ▶ Many items and issues that need to be resolved in a non-partisan approach.
- ▶ Possibly those facing election in 2018 may be more amenable to correcting the problems and issues associated with the current law.
- ▶ Interesting comparison is the number of pages the tax code encompasses:
 - 26,000 pages in 1986----70,000 pages in 2016. There are 5 pages alone to determine if you qualify as a married couple. Anticipated the number of pages related to the tax code would be 1,000 or less if tax reform is passed.

CONCLUSIONS (cont'd)

- ▶ One page form to complete you federal income tax for a given year.
- ▶ No doubt tax accountants and tax preparers are concerned.
- ▶ Capital expensing and "bonus" year depreciation appears to be continued with minor modifications.
- ▶ Sunset legislation??? As occurred with 2001 law.

RECOMMENDED RESOURCES ON TAX REFORM

- ▶ Dr. JC. Hobbs, Extension Tax Specialist, Department of Agricultural Economics, Oklahoma State University, Stillwater, OK.
- ▶ Dr. Ruby Ward, Agricultural & Business Economist, Department of Agricultural Economics, Utah State University, Logan, UT.
- ▶ Mr. Jeff Tranel, Agricultural & Business Economist, Colorado State University, Pueblo, CO.
- ▶ Better.gop.com—A Better Way-Our Vision for a Confident America, published June 24, 2016.

QUESTIONS?

