



**Insight**

# Unified Framework for Fixing Our Broken Tax Code

GORDON GRAY | SEPTEMBER 27, 2017

Today, the “Big Six” released a “Unified Framework for Fixing Our Broken Tax Code,” which lays out the key elements of a tax reform proposal that Congress will debate this fall. The proposal details changes to both the nation’s individual and business tax laws, and reforms the taxation of both domestic and international income.

## **Individual Tax Reforms**

### Tax Rates

The Framework would collapse the current-law rate structure of seven rates into three: 12 percent, 25 percent and 35 percent. The Framework holds out the possibility of including an additional top-income rate for high-income taxpayers.

### Standard Deduction

The Framework would nearly double the standard deduction for individuals and married couples to \$12,000 and \$24,000, respectively. It would also eliminate personal exemptions. Individuals and married couples, who, under current law are at the upper bound of the 10-percent income tax bracket, would face slightly lower individual income tax liabilities, because the tradeoffs between the changes provide a net tax benefit for these hypothetical taxpayers.

### Additional Individual Income Tax Reforms

The Framework would increase the Child Tax Credit, while providing a \$500 credit for non-child dependents.

The Framework will also eliminate the AMT and the estate tax.

### Base Broadening

The Framework will eliminate all personal exemptions and itemized deductions, while retaining tax incentives for charitable giving and mortgage interest.

## **Business Tax Reforms**

### Tax Rates

The Framework would lower both the pass-through and C corporation tax rate to 25 percent and 20 percent, respectively. Including the additional layer of tax on shareholders, this rate structure will move closer to effective parity between pass-through businesses and C corporations.

### Expensing

The Framework will allow business to expense new investments on depreciable investments other than structures for at least five years. The tax-writing committees may expand this provision.

### Additional Provisions

The Framework will retain the R&D tax credit as well as the Low-Income Housing Tax Credit.

### Base Broadening

The Framework will eliminate many business tax credits and deductions, such as Section 199, and will impose a limitation on the deductibility of business interest.

### International Provisions

The Framework will move the U.S. business tax code from a worldwide system to a territorial system, with a 100-percent dividend exemption system. The reform will require base-erosion rules to preserve the integrity of the U.S. tax base, and will incorporate a deemed repatriation of accumulated foreign earnings. Liquid assets will be taxed at a higher rate than illiquid assets under the deemed repatriation, which will be allowed to be paid over a number of years.