



The
TAX CUTS & JOBS
ACT

**COMMUNICATIONS AND
POLICY DETAILS**

Introduction

How Tax Reform Helps Middle-Class Americans Throughout Their Lives..... 1
How Tax Reform Will Help Main Street Job Creators Nationwide..... 2
How Tax Reform Will Unleash U.S. Competitiveness and Create American Jobs..... 3
Taxpayer Examples: How the Tax Cuts and Jobs Act Helps Americans of all Walks of Life..... 4
Tax Reform Basics: Common Tax Terms and Definitions..... 6

Relief, Simplicity, and Fairness for Individuals and Families

Protecting More of Americans’ Paychecks from Taxes..... 8
Lowering Tax Rates for Every American..... 9
Helping Families with the Cost of Raising Children and Caring for Loved Ones..... 10
Repealing the Alternative Minimum Tax for All Taxpayers..... 11
Modifying the State and Local Tax Deduction..... 11
Improving the Charitable Deduction and Increasing Giving..... 12
Repealing the “Death Tax” and the Generation-Skipping Tax..... 13
Streamlining Complex Education Provisions..... 14
Maintaining Tax Relief on Income from Selling a Home..... 15
Preserving the Mortgage Interest Deduction..... 15

Creating Jobs, Growing Paychecks, and Enhancing American Competitiveness

Lowering Tax Rates on “Pass-Through” Income for Main Street Job Creators..... 18
Making American Businesses More Competitive with a 20% Corporate Tax Rate to
Increase Wages and Bring Back American Jobs..... 19
Full and Immediate Expensing for Business Equipment..... 19
Increasing Investment and Job Creation in America with a 21st Century International Tax System..... 20
Protecting the U.S. Tax Base & Promoting American Job Creation..... 21
Reforming Interest Deductibility to Stabilize and Strengthen our Economy..... 22
Encouraging “Made in America” Research & Development..... 23
Retaining the Low-Income Housing Tax Credit..... 23
Providing a Pro-Growth Approach for American Energy Production..... 24
Promoting a Healthier and Stronger Commercial Real Estate Market..... 25
Retaining Like-Kind Exchanges for Real Property..... 25
Reforming the Treatment of Net Operating Losses..... 26
Helping State and Local Governments Finance Important Public Projects..... 27
Modernizing Protections for Tax-Exempt Entities..... 27

Appendix

How Lower Tax Rates, Flatter Tax Brackets, and a Larger Standard Deduction Help All Americans..... 29

"Today marks the beginning of the end of our nation's broken tax code. The Tax Cuts and Jobs Act will deliver real tax relief to Americans across the country – especially low- and middle-income Americans who have been struggling for far too long to earn a raise and get ahead.

Our legislation is focused entirely on growing our economy, bringing jobs back to our local communities, increasing paychecks for our workers, and making sure Americans are able to keep more of the money they earn.

For families, we're lowering rates, eliminating costly deductions that drive up taxes, and significantly increasing the standard deduction to protect more of each paycheck from taxes. We're boosting family-focused tax benefits like the Child Tax Credit to help families keep up with the rising costs of child care, higher education, and looking after their loved ones. And we're eliminating taxes that punish hardworking families like the Alternative Minimum Tax.

Our legislation also delivers unprecedented simplicity that will make it easier and more affordable for families across our country to file their taxes each April. For the first time in history 9 out of 10 of Americans will be able to file their taxes on a form as simple as a postcard.

And we're making America competitive again so our workers can compete – and win – anywhere in the world, especially here at home. By delivering tax relief to businesses of all sizes, the Tax Cuts and Jobs Act makes it easier for entrepreneurs to achieve the American Dream – to start a business and create jobs in our local communities, and it entices employers to bring their headquarters and jobs back home.

We made a promise to deliver tax reform that creates more jobs, fairer taxes, and bigger paychecks. After years of work, the Tax Cuts and Jobs Act is our answer."

Chairman Kevin Brady

How Tax Reform Helps Middle-Class Americans Throughout Their Lives

The *Tax Cuts and Jobs Act* is focused on improving the lives of all Americans – especially the middle-class – by **delivering more jobs, fairer taxes, and bigger paychecks**. Here's how the *Tax Cuts and Jobs Act* will help middle-class Americans and their families throughout their lives:

Starting a Career

- **Unleashing job creation:** The lowest tax rates in modern history for American businesses of all sizes will help them grow our economy and create more job opportunities for hardworking Americans throughout the nation.
- **Zero, 12%, 25%, 35%, and 39.6%:** A simpler, fairer tax code with five tax brackets instead of seven will better reward Americans' hard work and allow them to keep more of their paychecks. And this simpler, fairer, and flatter tax code will be especially helpful for low- and middle-income Americans.
- **Doubling the standard deduction:** Protects more of every paycheck from taxes and helps make the tax code so straightforward that 9 out of 10 Americans will be able to file on a form as simple as a postcard.

Buying a Home

- **Protecting the mortgage interest deduction:** Ensures that middle-class Americans will preserve access to tax relief to help them achieve the American dream of homeownership.

Raising a Family

- **Establishing a New "Family Credit":** This new Family Credit includes an expanded Child Tax Credit that is increased from \$1,000 to \$1,600 per child to help parents with the cost of raising children, and it provides a credit of \$300 for each parent and non-child dependent to help all families with their everyday expenses.
- **Preserving the Child and Dependent Care Tax Credit:** Will help families care for their children and older dependents such as a disabled grandparent who may need additional support.
- **Maintaining higher education tax benefits:** Helps families save for and better afford tuition and education expenses.

Starting a New Business

- **25%:** Main Street job creators will no longer be taxed at individual rates as high as 40%. Instead, small businesses will be taxed at no more than 25%, allowing Americans to keep more of their money to grow a new start-up, support their families, and create jobs.

Giving Back

- **Preserving a tax benefit for charitable contributions:** Encourages and rewards Americans who give back to their local church, charity, or community organization.

Preparing for Retirement

- **Rewarding saving and investment:** Provides tax relief to help more families plan, save, and invest for a more comfortable and secure retirement.

For Your Children and Grandchildren

- **Repealing the Death Tax:** Americans will no longer face double – or even triple – taxation on family assets or family-owned business when they pass down their life's work to the next generation.

How Tax Reform Will Help Main Street Job Creators Nationwide

With mind-numbing complexity, today's broken tax code can make it incredibly difficult for our nation's small- and medium-sized businesses to succeed, grow, and create jobs in our communities. Here's how the *Tax Cuts and Jobs Act* will lift these burdens off our Main Street job creators and the millions of Americans they employ:

More Jobs

- **25%:** The hard-earned business income of our Main Street job creators will be taxed at no more than 25% – the lowest tax rate on small business income since before World War II. With this tax relief, they will be able to keep more of their earnings to grow their business, hire more people, and give their workers a raise.
- **Zero, 12%, 25%, 35%, and 39.6%:** Lower individual tax rates for small business owners, their workers, and their families will give all Americans the freedom to keep more of their paychecks to use on what is important to them.

Fairer Taxes

- **Eliminating the Alternative Minimum Tax (AMT):** Delivers simplicity, fairness, and certainty to millions of families and job creators who will no longer have to deal with the AMT – a feature of today's broken tax code that forces many taxpayers and businesses to calculate their taxes twice every year.
- **Delivering Immediate Relief from the Death Tax:** Helps family-owned businesses and family farms continue into the future by ensuring they will no longer face double or even triple taxation when small business owners pass down their life's work to the next generation.

Bigger Paychecks

- **Unprecedented expensing of business investment:** Helps unleash the growth of jobs, productivity, and paychecks by allowing small businesses to deduct more of the cost of new equipment that improves operations and enhances the skills of their workers.
- **Preserving deductibility of interest expense:** Small businesses will be able to write off the interest on loans that help these Main Street entrepreneurs start a business, hire workers, and increase paychecks.

How Tax Reform Will Unleash U.S. Competitiveness and Create American Jobs

Today's outdated and uncompetitive U.S. tax code forces American businesses and workers to compete with one hand tied behind their backs. This hurts our economy and drives good-paying American jobs overseas. Here's how the *Tax Cuts and Jobs Act* will unleash American competitiveness and make our nation a 21st century magnet for job creation, investment, and innovation:

Helping Americans Compete and Win Globally

- **Delivering a competitive corporate tax rate:** A corporate tax rate of 20% – below many of America's major global competitors – will help our businesses compete around the world and create good-paying jobs here at home.
- **Modernizing our tax system for the 21st century:** America's global businesses will no longer be held back by an outdated "worldwide" tax system that results in burdensome double taxation for many of our nation's job creators.

Growing Jobs and Paychecks Here at Home

- **Encouraging our job creators to bring home profits now stranded abroad:** Our modernized tax code will make it easier and far less costly for American businesses to bring home earnings from overseas to invest in growing jobs and paychecks in our communities. At the same time, these bold reforms will encourage businesses headquartered in other countries to grow their operations and supply chains here in America, providing even more job opportunities for our workers.
- **Stopping jobs from moving overseas:** The Tax Cuts and Jobs Act includes tough but fair rules to end special interest tax incentives that now reward companies for shifting jobs, profits, and manufacturing plants overseas. This will help our workers prosper and our economy grow.

Launching a New Era of American Innovation

- **Unleashing business investment nationwide:** American businesses large and small will be able to fully write off purchases of equipment they can use to improve their competitiveness, expand operations, and increase the productivity of their workers.
- **Rewarding "Made in America" research and development (R&D):** Preserving the R&D tax credit will encourage more businesses to invest and innovate here in America, creating jobs and helping our nation lead the way on the next generation of cutting-edge products and services.

Taxpayer Examples: How the *Tax Cuts and Jobs Act* Helps Americans of all Walks of Life

Family of Four Making \$59,000 Per Year

- ▶ Steve and Melinda have two children in middle school and are living secure middle-class life – but budgets are tight. With tax reform, they'll get some much-needed breathing room financially.
- ▶ As a result of lower tax rates, a significantly larger standard deduction, and an enhanced Child Tax Credit and new Family Credit, Steve and Melinda will pay **over \$1,182 less in taxes** than last year, reducing their total tax bill from \$1,582 to only \$400. That's more money they can use for whatever is important to them, whether it's paying bills, purchasing a new refrigerator, or putting away savings for the future.

Single Mother Making \$30,000 Per Year

- ▶ Cindy has a fulfilling job and a promising career path as an assistant manager at a local restaurant. She works hard to support herself and her 11-year-old daughter, but most days Cindy feels like she's barely getting by much less getting ahead. With the *Tax Cuts and Jobs Act*, relief is in sight.
- ▶ Come Tax Day, Cindy will receive a tax refund of over \$1,000 as a result of the bill's lower tax rates, larger Child Tax Credit, and Family Credit. This is **over \$700 larger than the refund she receives today**, offering a more meaningful reward for her hard work as she raises her daughter and pursues her own professional aspirations.

Firefighter Making \$48,000 Per Year

- ▶ Alan is a young firefighter in the community he has called home his entire life. He enjoys the job and has chosen it as his profession just like his father and grandfather did before him. The *Tax Cuts and Jobs Act* will allow him to see even greater reward for his hard and selfless work.
- ▶ Under this legislation, Alan will pay a top marginal tax rate of just 12% instead of the 25% top rate he pays today. Additionally, he'll see nearly double the amount of his paycheck protected from taxes because the bill significantly increases the individual standard deduction from \$6,350 today to \$12,000. In the end, Alan will see his total tax bill go down from \$5,173 currently to just \$3,872 – **a total tax cut of \$1,301**.

New Homeowners Making \$115,000 Per Year in a High Tax State

- ▶ John and Rebecca got married this past summer and just bought their first home. Today, they make a combined income of \$115,000. They will pay \$8,400 in mortgage interest and \$6,900 in state and local property taxes. John and Rebecca would like to have children, but they're not sure if now is the right time financially. Under the *Tax Cuts and Jobs Act*, they'll receive more support now and into the future.
- ▶ The bill reduces their tax bill from \$12,180 to \$11,050 – **a total tax cut of \$1,130**. This results from lower tax rates, a significantly larger standard deduction, and the addition of the new Family Credit. With these benefits, John and Rebecca will also see tax relief for both their mortgage interest and state and local property taxes – all without having to itemize deductions.
- ▶ Finally, if John and Rebecca do have a child, they would be able to claim an increased Child Tax Credit of \$1,600 – up from just \$1,000 today – reducing their taxes even further so they can keep more money to support their new family.

Local Small Business Making \$500,000 in Income

- ▶ When Glenda was a teenager she started her own little lawn care business, mowing the yards of her neighbors during the spring and summer months. Sixteen years later, “Glenda’s Gardening and Landscape” has 41 workers, serves three counties in the area, and is expected to earn \$500,000 in net income this year. Under today’s broken tax code, where small business income is taxed at individual rates, Glenda and her husband will personally be taxed on everything earned by the company. That means paying taxes at individual wage rates, with an income tax bill of about \$128,000.
- ▶ With the *Tax Cuts and Jobs Act*, Glenda, her family, and her business will see some much-needed tax relief. Her net business income will be taxed at a low maximum rate of 25%, which in combination with no Alternative Minimum Tax (AMT) will **reduce her tax bill by about \$25,000**. This will allow her to use this hard-earned money to grow the business further, create more jobs, and give her loyal workers a raise.

Main Street Startup Company Making \$62,000 in Income

- ▶ Tom always dreamed of opening his own bakery. Two years ago, he went for it and opened up “Tom’s Treats.” Business has been slow but steady and this year he expects the bakery to earn roughly \$62,000 in net income.
- ▶ Under today’s tax code, he will pay \$8,638 in taxes. But, with the *Tax Cuts and Jobs Act*, Tom will see his tax bill go down to \$5,631 – **a tax cut of \$3,007** as a result of the bill’s tax relief for small businesses that file as individuals. That’s a significant and sustained boost to help Tom through the ups and downs of owning a business, managing a payroll, and making his own American dream a reality.

Tax Reform Basics: Common Tax Terms and Definitions

SIMPLE, FAIR "POSTCARD" TAX FILING

1	Wage and compensation income	1	<input type="text"/>
2	Subtract contributions to specified savings plans	2	<input type="text"/>
A 3	Subtract standard deduction OR	3	<input type="text"/>
4	Subtract mortgage interest deduction	4	<input type="text"/>
5 B	Subtract real property tax deduction	5	<input type="text"/>
6	Subtract charitable contribution deduction	6	<input type="text"/>
7	Taxable income	C 7	<input type="text"/>
8	Preliminary tax (from tax table)	8	<input type="text"/>
9	Add tax on investment income	9	<input type="text"/>
10	Subtract family and child credits	10	<input type="text"/>
11	Subtract earned income credit	11	<input type="text"/>
12 D	Subtract higher education credit	12	<input type="text"/>
13	Total tax	13	<input type="text"/>
14	Subtract taxes withheld	14	<input type="text"/>
15	Refund due / taxes owed	E 15	<input type="text"/>

FAIRANDSIMPLE.GOP

Deduction: Reduces the amount of income that is subject to tax and is applied to pre-tax income.

- A Standard Deduction:** A portion of income that is not subject to taxes. Note: If a person takes the standard deduction, he or she may not itemize.
 - B Itemized Deduction:** Certain expenses that may be deducted from a person's taxable income in lieu of a standard deduction. Unlike the standard deduction, not every person has the option to itemize deductions.
 - C Taxable income:** Equals a taxpayer's wage and compensation income after subtracting deductions.
 - D Credit:** Reduces the overall amount of taxes that a taxpayer owes and is applied after taxable income is calculated.
- Preliminary tax (from table):** The total income tax applied by the tax code's income tax rates and brackets.
- E Refund due / taxes owed:** The total amount a taxpayer receives in a refund or owes in taxes after applying all deductions, credits, and taxes.

The **TAX CUTS & JOBS ACT**

**Relief, Simplicity, and
Fairness for Individuals
and Families**

Protecting More of Americans' Paychecks from Taxes

The *Tax Cuts and Jobs Act* consolidates the three basic tax benefits of today's tax code into one **simpler and significantly larger standard deduction** for all Americans.

This makes the tax code much simpler for low- and middle-income Americans while also protecting more of their hard-earned paychecks from taxes.

Policy Specifics

- As shown in the table below, today's tax code includes three basic tax benefits – each with their own rules, eligibility criteria, and calculations – that are designed to help taxpayers by protecting a minimum level of their income from federal taxation.
- As the table below also displays, the *Tax Cuts and Jobs Act* consolidates these three overlapping benefits into one simpler and larger standard deduction – which is roughly double the size of the current standard deduction:

Current Tax Code	The <i>Tax Cuts and Jobs Act</i>
<p>Basic Standard Deduction: \$6,350 for single individuals \$12,700 for married couples \$9,350 for heads of household</p>	<p>Larger Standard Deduction*: \$12,000 for single individuals \$18,000 for heads of household \$24,000 for married couples</p>
<p>Additional Standard Deduction: \$1,250 for individuals who are elderly or blind</p>	
<p>Personal Exemption(s): \$4,050 each for taxpayer, spouse, and dependent</p>	

*THESE AMOUNTS WILL BE ADJUSTED ANNUALLY FOR INFLATION

- With this reform, the *Tax Cuts and Jobs Act* makes the tax code dramatically simpler for all Americans, especially low- and middle-income families. So simple, in fact, that 9 out of 10 Americans will receive a greater tax benefit from taking the standard deduction on their tax returns than they otherwise could receive by itemizing deductions.
- This means the vast majority of American households will be able to file their taxes without the aggravation of itemizing.
- When combined with the enhanced child tax credit delivered by the *Tax Cuts and Jobs Act*, this legislation will preserve and expand the amount of tax relief Americans now receive from the three basic benefits provided under current law.

How This Policy Helps the American People

Doubling the standard deduction protects more of every paycheck from taxes and helps make the tax code so straightforward that 9 out of 10 Americans will be able to file on a form as simple as a postcard.

Lowering Tax Rates for Every American

The *Tax Cuts and Jobs Act* will simplify, flatten, and lower tax rates to deliver tax relief to every American.

This starts by consolidating the seven income tax brackets of today's tax code into five: zero, 12%, 25%, 35%, and 39.6%.

These reforms – when combined with roughly doubling the standard deduction – will provide tax relief at every income level and allow all Americans to keep more of the money they earn at work.

Policy Specifics

- The table below displays how, compared to the current tax code, the *Tax Cuts and Jobs Act* consolidates tax brackets and reduces tax rates.
- These reduced rates provide significant marriage penalty relief, eliminating a marriage penalty entirely at every bracket but one.
- Additionally, the significantly larger standard deduction, lower tax rates, and higher bracket break points provided by the *Tax Cuts and Jobs Act* combine to reduce tax liability for taxpayers at every income level, even where the top marginal tax rate may be higher than under current law.
- **NOTE:** Assuming no itemized deductions, a married couple with no children making \$400,000 – currently in today's 33% tax bracket – **would pay \$8,296 less** in taxes under this legislation even though their income would be subject to a top marginal income tax rate of 35%. An additional detailed example can be found in the Appendix.

Current Brackets		Current Rates	Tax Cuts and Jobs Act	Tax Cuts and Jobs Act Brackets		
Single	\$0 to \$9,325	10%	Zero	\$0 to \$12,000	Single	
Married	\$0 to \$18,650			\$0 to \$24,000	Married	
HOH	\$0 to \$13,350			\$0 to \$18,000	HOH	
Single	\$9,325 to \$37,950	15%	12%	Up to \$45,000	Single	
Married	\$18,650 to \$75,900			Up to \$90,000	Married	
HOH	\$13,350 to \$50,800			Up to \$67,500	HOH	
Single	\$37,950 to \$91,900	25%	25%	\$45,000 to \$200,000	Single	
Married	\$75,900 to \$153,100			\$90,000 to \$260,000	Married	
HOH	\$50,800 to \$131,200	28%	25%	\$67,500 to \$200,000	HOH	
Single	\$91,900 to \$191,650			SEE NOTE ABOVE ON HOW AMERICANS IN THIS BRACKET WILL RECEIVE A TAX CUT	\$200,000 to \$500,000	Single
Married	\$153,100 to \$233,350				35%	\$260,000 to \$1,000,000
HOH	\$131,200 to \$212,500	\$200,000 to \$500,000	HOH			
Single	\$191,650 to \$416,700	33%	35%	\$200,000 to \$500,000	Single	
Married	\$233,350 to \$416,700					
HOH	\$212,500 to \$416,700					
Single	\$416,700 to \$418,400	35%	39.6%	Over \$500,000	Single	
Married	\$416,700 to \$470,700					
HOH	\$416,700 to \$444,550					
Single	Over \$418,400	39.6%	39.6%	Over \$1,000,000	Married	
Married	Over \$470,700					
HOH	Over \$444,550					

How This Policy Helps the American People

This simpler, fairer tax code will allow all Americans to keep more of their hard-earned money to save, invest, and spend as they see fit.

Helping Families with the Cost of Raising Children and Caring for Loved Ones

The *Tax Cuts and Jobs Act* will modernize and increase the child tax credit by delivering one simpler and larger tax benefit that more Americans can use to help with the cost of raising a family.

The legislation establishes a new “Family Credit,” which includes expanding the Child Tax Credit from \$1,000 to \$1,600 to help parents with the cost of raising children, and providing a credit of \$300 for each parent and non-child dependent to help all families with their everyday expenses.

The bill also preserves the Child and Dependent Care Tax Credit to help families care for their children and older dependents, such as a disabled grandparent who may need additional support.

Finally, by taking action to reduce waste and fraud from improper claims of the Child Tax Credit, the *Tax Cuts and Jobs Act* will better safeguard taxpayer dollars and strengthen the integrity of this key tax benefit for hardworking Americans.

Policy Specifics

- The *Tax Cuts and Jobs Act* establishes a new Family Credit that enhances and consolidates various tax credits associated with caring for dependents. This would credit taxpayers with \$1,600 for each child and at least \$300 for other dependents in the taxpayer’s household.
- It would allow for the credit to be refundable up to \$1,000 (children only) as under current law, but would index that \$1,000 amount for inflation. Over time, the \$1,000 amount would catch up to the larger \$1,600 amount.
- As part of the new Family Credit, the *Tax Cuts and Jobs Act* also provides for the first time a fair, flat credit for other family members – another \$300 for each non-child, non-dependent adult in a household. This new credit will allow families to more of their hard-earned income and provides the flexibility for them to use it in the way best for them.
- Our proposal also helps more Americans access this tax benefit by increasing the income levels at which this important combined benefit can be claimed, and eliminating the marriage penalty within the credit.
- Under the *Tax Cuts and Jobs Act*, the combined child tax credit and other family credits will begin to phase out for married couples at an adjusted gross income of \$230,000, up from \$110,000 today. The phase-out for other filers would rise from \$75,000 to \$115,000.
- Finally, by requiring that at least one parent have a valid Social Security Number and granting the IRS math-error authority to correct erroneous credit claims, our proposal also will eliminate billions of dollars in fraud in this credit today.

How This Policy Helps the American People

With the cost of raising children going up every year, an enhanced Child Tax Credit will deliver greater support to help low- and middle-income parents provide for their kids and care for their loved ones.

Repealing the Alternative Minimum Tax for All Taxpayers

The Alternative Minimum Tax (AMT) in today's broken tax code is, in effect, a second tax system that forces millions of families and businesses to spend additional time and money calculating their taxes twice every year.

After calculating their regular income tax, taxpayers must then calculate their AMT and pay the higher of the two.

The *Tax Cuts and Jobs Act* repeals the AMT to make America's tax code simpler, fairer, and less burdensome for all Americans.

Policy Specifics

- The Alternative Minimum tax now requires families and individuals to compute both their regular income tax and their AMT, and then pay the greater of the two.
- The AMT is one of the most far-reaching complexities of today's broken U.S. tax code. According to analysis from the Tax Policy Center, it will affect over 5 million taxpayers in 2017, and these individuals and families will pay more than \$37 billion in additional taxes due to the AMT.
- The Tax Policy Center has also noted that the AMT is "more likely to hit taxpayers with large families, those who are married, and those who live in high-tax states."
- The *Tax Cuts and Jobs Act* permanently repeals the AMT for both individuals and businesses, making the tax code simpler, fairer, and less burdensome for millions of individuals and job creators.
- Repealing the AMT ensures that American families will never again be forced to do their taxes twice – and eliminates a second calculation that by 2018 would result in an average tax increase of \$7,500 per return.

How This Policy Helps the American People

Repealing the AMT will save millions of Americans the time, money, and hassle of having to calculate their taxes twice every year.

Modifying the State and Local Tax Deduction

The *Tax Cuts and Jobs Act* modifies the state and local tax deduction – which is now claimed by about 30 percent of Americans – to provide fairer taxes and lower tax rates for all Americans.

Specifically, the bill repeals the itemized deduction for state and local income taxes and sales taxes, and preserves this deduction for state and local property taxes.

Modifying the deduction in this way preserves important property tax relief for individuals and families, makes the tax code simpler and fairer, and reduces the tax burden for Americans of all walks of life – no matter which state they call home.

Policy Specifics

- The *Tax Cuts and Jobs Act* repeals the itemized deduction for state and local income taxes and sales taxes, and preserves the itemized deduction for state and local property taxes.
- Modifying the State and Local Tax Deduction in this manner helps contribute to a simpler, fairer tax code that has lower federal income tax rates for all Americans – regardless of where they live or whether they itemize deductions.
- Additionally, it continues to provide important property tax relief for Americans who now face a high property tax burden.
- Finally, the additional tax relief provisions of the *Tax Cuts and Jobs Act* ensure that the vast majority of all taxpayers see a net reduction in their total tax liability, even with a repeal of the itemized deduction for state and local income taxes and sales taxes.
- By lowering tax rates, nearly doubling the standard deduction, repealing the AMT, increasing the Child Tax Credit, and providing a new Family Credit, the *Tax Cuts and Jobs Act* will more than offset the loss of this one itemized deduction that is now claimed by only 1/3 of taxpayers.
- This effectively forces the other 70 percent of American taxpayer to subsidize this tax expenditure for the minority of Americans who claim it.

How This Policy Helps the American People

Modifying the state and local tax deduction will bring greater simplicity and fairness to our tax code and help lower tax rates for Americans of all walks of life – no matter which state they call home.

Improving the Charitable Deduction and Increasing Giving

The *Tax Cuts and Jobs Act* preserves a tax benefit for charitable contributions to encourage and reward Americans who give back to their local church, charity, or community organization.

Additionally, our proposal will help unlock more charitable giving by raising the existing limitation on the deduction for charitable contributions from 50 percent of income to 60 percent of income.

Finally, by promoting an overall stronger economy – which is by far the biggest driver of charitable giving – the *Tax Cuts and Jobs Act* will grow Americans' paychecks, helping them earn and keep more money to donate to causes they believe in.

Policy Specifics

- The *Tax Cuts and Jobs Act* preserves and improves the existing itemized deduction for charitable contributions by increasing the limitation on charitable cash gifts.
- Today, deductions for cash gifts are now limited to 50 percent of a taxpayer's adjusted gross income (AGI). Under our legislation, this limit is increased to 60 percent of a taxpayer's AGI, increasing the tax incentive for Americans to donate to the charity of their choice.

- Finally, because the *Tax Cuts and Jobs Act* will promote a stronger and healthier American economy – which data show is far the most important driver of charitable giving – this legislation will grow Americans paychecks and increase opportunities for them to give back to their communities.

How This Policy Helps the American People

- **Preserving and improving a tax benefit for charitable contributions will encourage giving and reward Americans who donate to their local church, charity, or community organization.**

Repealing the “Death Tax” and the Generation-Skipping Tax

Under today’s broken tax code, the Death Tax and generation-skipping tax can each impose a tax of up to 40% on family-owned businesses, family farms, and family assets when the primary owner passes away.

When combined, these taxes can be as high as 64% and are often imposed as a second or even third layer of tax when families pass down their life’s work to the next generation.

The *Tax Cuts and Jobs Act* will deliver immediate relief from the Death Tax and generation skipping tax, and fully repeal these crushing burdens after six years.

This will provide real fairness and peace of mind to hardworking Americans and ensure they no longer have to fear Washington hitting them with a tax bill so large that their family business cannot survive from one generation to the next.

Policy Specifics

- Under current law, when a taxpayer spends a lifetime growing a family business or saving his or her earnings – all of which are taxed many times over by income and payroll taxes – those businesses and savings can be taxed once more at death.
- This “Death Tax” (formally known as the estate tax) can be up to 40% of the total value of a taxpayer’s estate or business after he or she passes away.
- The *Tax Cuts and Jobs Act* doubles the amount of estate property that is exempt from the Death Tax, and then fully repeals the Death Tax after six years.
- This means family-owned farms and small businesses can pass from generation to generation without a grieving child having to worry about coming up with the cash necessary to pay that tax, or without a parent having to engage in costly and complicated estate-planning techniques to minimize the Death Tax.
- The *Tax Cuts and Jobs Act* also repeals the generation-skipping tax, which adds yet another 40 percent tax – essentially a third layer of tax – on estates and gifts that are handed down to individuals more than one generation away from the donor or decedent, such as a grandfather and his granddaughter.
- With the repeal of the estate tax, beneficiaries would receive a step up in basis in estate values.

How This Policy Helps the American People

Permanently repealing the “Death Tax” and generation-skipping transfer tax means that Americans will no longer face unfair double – or even triple – taxation on family assets or family-owned businesses when they pass down their life’s work to the next generation.

Streamlining Complex Education Provisions

Today’s broken tax code contains roughly a dozen tax benefits related to education, each with their own rules, requirements, and calculations.

Families must now wade through roughly 100 pages of instructions to understand which of these benefits may be available to help them with the cost of sending their kids to college.

The *Tax Cuts and Jobs Act* will strengthen and streamline these benefits to make it easier for Americans to access education tax relief that is available to them.

Additionally, the bill modernizes these benefits so families can use them to pay for the costs of apprenticeships.

Policy Specifics

- The *Tax Cuts and Jobs Act* preserves and enhances the American Opportunity Tax Credit (AOTC), the primary tax benefit that families use to help afford college costs.
- Although the AOTC has historically only been available for the first four years of college, the *Tax Cuts and Jobs Act* folds some benefits of the Lifetime Learning Credit into the AOTC, allowing a partial the AOTC to apply for a fifth year of post-secondary education for the first time.
- The *Tax Cuts and Jobs Act* also combines savings vehicles for education into one set of simpler, enhanced “529 account” rules. These rules would allow taxpayers to use 529 accounts to help afford rising school costs before college, provide more flexibility, and eliminate the need to save in two separate kinds of accounts.
- While expanding these benefits, the *Tax Cuts and Jobs Act* would also simplify the code by eliminating the exclusion for qualified tuition reductions, education savings bonds, and the limited current law student loan interest deduction.

How This Policy Helps the American People

Strengthening and streamlining tax benefits for higher education will help families save for and better afford tuition and education expenses.

Maintaining Tax Relief on Income from Selling a Home

With all the time, money, and effort it takes to own a home, Americans want to know that their investments in a house will pay off if they decide to sell.

The *Tax Cuts and Jobs Act* will help Americans by preserving a provision that allows up to \$500,000 of gain from selling your primary home to be excluded from federal taxes (up to \$250,000 for single filers). And by promoting a healthier and stronger American economy for the long-term, the *Tax Cuts and Jobs Act* will help home values and potential gains grow now and into the future.

Policy Specifics

- The *Tax Cuts and Jobs Act* will continue to allow homeowners to exclude from taxable income any gains they have from the sale of a primary residence if the taxpayers lived in the residence for at least five of the last eight years.
- Under current law, homeowners must have lived in a primary residence for at least two of the last five years in order to qualify for this tax-free treatment.
- This tax-free treatment would be allowed only once every five years.
- This tax-free treatment would phase out to the extent a taxpayer's adjusted gross income, averaged over a three-year period and determined without regard to the gain from a sale of a home, exceeds \$500,000 (or half that for single filers).

How This Policy Helps the American People

This tax relief for homeowners will allow Americans to get back more of what they have invested in maintaining and improving their house over the years.

Preserving the Mortgage Interest Deduction

For so many Americans, buying a home is often the largest investment – and perhaps most important – investment they will make in their lifetime.

The *Tax Cuts and Jobs Act* will continue to support the American dream of homeownership by preserving the Mortgage Interest Deduction.

This ensures that hardworking families can continue to access this important tax relief as they buy, own, and maintain their home.

Policy Specifics

- Increasing the standard deduction means a simpler, fairer, and flatter tax code in which fewer taxpayers need to go through the trouble of determining whether they should itemize.
- Under the *Tax Cuts and Jobs Act*, taxpayers will still be able to deduct mortgage interest in excess of the standard deduction, in combination with other remaining itemized deductions, including charitable contributions and property taxes.

- The mortgage interest deduction would be available for interest paid on new mortgages for up to \$500,000 in home acquisition indebtedness on principal residences.
- For existing mortgages, the plan allows for current law deduction on indebtedness of up to \$1,000,000 and up to \$100,000 in home equity to help taxpayers who may have relied on the current mortgage-interest deduction.

How This Policy Helps the American People

Preserving the home mortgage – and the deduction for state and local property taxes – will help more Americans of all income levels achieve the American dream of homeownership.

The **TAX CUTS & JOBS ACT**

**Creating Jobs, Growing
Paychecks, and
Increasing American
Competitiveness**

Lowering Tax Rates on “Pass-Through” Income for Main Street Job Creators

Under today’s broken tax code, small businesses are taxed at the same individual rates as wages, making it more difficult for our Main Street job creators to grow and create jobs.

The *Tax Cuts and Jobs Act* delivers a new, low tax rate for small businesses of no more than 25 percent – **the lowest rate on small business income since before World War II.**

Additionally, for the first time in history, the legislation distinguishes wage income from pass-through business income. This means, for example, that the small business income of “Tom’s Bike Shop” will no longer be subject to the same tax rates as the personal wage income of NFL Quarterback Tom Brady.

With this fairer and less costly tax system for our Main Street job creators, they will be able to keep more of their earnings to grow their businesses, hire more workers, and increase paychecks.

Importantly, the *Tax Cuts and Jobs Act* also includes straightforward safeguards to help ensure that this tax relief goes to the local job creators it is designed for and cannot be used as a tool for tax avoidance.

Policy Specifics

- Today, the vast majority of businesses in the United States are operated as “pass-through” businesses such as sole proprietorships, partnerships, S corporations, or limited liability companies.
- Income from these businesses is taxed today at the individual owner level, at rates that can be higher than 40 percent.
- *Tax Cuts and Jobs Act* separates pass-through business income from ordinary wage income, taxing business income at a maximum rate of 25 percent.
- Active business owners can choose between a simple formula and a more complex business capital formula to separate compensation income from non-compensation business income.
- Professional service businesses, such as accounting and law firms, are subject to a stricter facts-and-circumstances test that presumes most of their income is wages.

How This Policy Helps the American People

With a tax rate of no more than 25% on pass-through business income, our Main Street job creators will finally have a fair tax code that works with them as they start up, grow, and create jobs in our communities.

Making American Businesses More Competitive with a 20% Corporate Tax Rate to Increase Wages and Bring Back American Jobs

Today, America's businesses are subject to the highest statutory corporate income tax rate in the industrialized world.

Now at 35 percent, the U.S. corporate tax rate is at least 10 to 15 points higher than many of our largest international competitors – a major reason why so many American businesses and jobs are moving overseas.

The *Tax Cuts and Jobs Act* dramatically reduces the corporate tax rate to 20 percent, the largest reduction of the U.S. corporate tax rate in our nation's history.

With this lower tax rate, America's job creators will be able to compete and win anywhere in the world while creating more jobs and increasing paychecks here at home.

Policy Specifics

- Under our proposal, the corporate tax rate would be reduced to a flat rate of 20 percent, which is down from a statutory rate of 35 percent and represents the largest corporate tax rate cut in U.S. history.
- More importantly, this lower U.S. corporate tax rate is below average amongst America's most prominent international competitors.
- In fact, the average corporate income tax rate among nations in the Organisation for Economic Co-operation and Development is 22.5 percent.

How This Policy Helps the American People

A corporate tax rate of 20% will help our businesses and workers succeed worldwide and create more good-paying jobs here at home.

Full and Immediate Expensing for Business Equipment

American job creators currently face dozens of complex depreciation rules that make it more difficult and expensive to recover the cost of capital investments.

The *Tax Cuts and Jobs Act* will eliminate this complexity and help unleash business investment by allowing businesses to fully deduct purchases of new equipment within the first year.

By offering full expensing for five years, our tax reform legislation will make it easier and more affordable for job creators to purchase tools their workers can use to do their jobs more efficiently and effectively. This increased productivity will help American workers earn a larger paycheck while also our businesses innovate, expand, and create jobs.

Policy Specifics

- The *Tax Cuts and Jobs Act* would allow all businesses for a five-year period to fully and immediately expense the cost of property and equipment that is currently eligible for bonus depreciation. This will apply to purchases of used property as well as new property.
- Full and immediate expensing would apply to property and equipment acquired and placed in service after September 27, 2017, which would provide an immediate benefit to businesses and the U.S. economy.
- The *Tax Cuts and Jobs Act* will also maintain the current cost recovery rules for real property and self-created and purchased intangibles.

How This Policy Helps the American People

Full and immediate expensing will unleash the growth of jobs, productivity, and paychecks throughout the United States.

Increasing Investment and Job Creation in America with a 21st Century International Tax System

Unlike the vast majority of our international competitors, America still taxes the income of our global businesses on a “worldwide basis” – meaning they must pay U.S. tax on every dollar they earn, no matter where they earn it. And these taxes come on top of what our businesses have already paid overseas.

This burdensome and antiquated “worldwide” taxation reduces the competitiveness of our businesses globally and has resulted in trillions of dollars of U.S. business income becoming “locked out” of the United States – discouraging investment and job creation here at home.

The *Tax Cuts and Jobs Act* will end this outdated approach by moving the United States to a modern, “territorial” tax system that aligns closer with the tax systems of our international competitors.

This will eliminate the double taxation on American businesses, level the playing field for our workers, and finally allow U.S. companies to bring home foreign profits to invest in our communities.

Policy Specifics

- The *Tax Cuts and Jobs Act* ends America’s outdated and burdensome approach of taxing our businesses on a “worldwide” basis, which now imposes double taxation on our job creators and has resulted in trillions of dollars of foreign earnings by U.S. businesses becoming “stranded” overseas.
- The bill moves the United States to a modern and competitive “territorial” tax system that eliminates this double taxation and its resulting “lock-out” effect by exempting the foreign earnings for American businesses from U.S. taxation.

- Imposes a modest tax on the over \$2 trillion of existing foreign earnings – 12 percent on cash and similar liquid assets and 5 percent on illiquid assets – currently sitting offshore, allowing those earnings to be brought back to the United States affordably.

How This Policy Helps the American People

With *Tax Cuts and Jobs Act*, the United States will finally have a modern, competitive tax system that levels the global playing field and increases job creation here at home.

Protecting the U.S. Tax Base & Promoting American Job Creation

Today's broken tax code provides tax incentives for U.S. companies to shift profits, intellectual property (IP), and manufacturing plants abroad – in essence, rewarding businesses for outsourcing production, instead of growing jobs and operations here at home.

At the same time, our broken tax code favors multinational businesses – particularly foreign-owned multinationals serving the U.S. market – allowing them to import deductions to reduce U.S. tax by exporting profits, jobs, and operations to low-tax jurisdictions abroad.

Not only does this hurt the competitiveness of American businesses and workers, it makes our local companies more attractive targets for foreign takeover.

The *Tax Cuts and Jobs Act* includes tough but fair rules that will end these unfair tax advantages, level the playing field for our businesses and workers, and make our nation one of the most attractive places in the world for businesses to invest, hire, and grow.

Policy Specifics

- Eliminates tax incentives for companies to locate IP, risks, and related manufacturing jobs overseas by taxing U.S. companies on half of their foreign subsidiaries' low-taxed excess returns.
 - Defines excess returns as any income in excess of a routine return on the business's foreign investments in depreciable property.
 - Routine return is a proxy for income that is attributable to the foreign jurisdiction for real business activities separate and apart from income generated by risks and IP that U.S. companies may have chosen to assign to that jurisdiction for tax – not business – reasons.
 - Allows a foreign tax credit to mitigate double taxation and limit the provision to profits shifted to tax havens.
 - Applies on a global basis to take into account the globally integrated nature of modern U.S. companies.
- Eliminates existing tax incentives for companies to move income-generating IP, risks and related manufacturing jobs overseas by recapturing tax benefits claimed for payments from U.S. companies to their foreign affiliates.
 - Applies equally to U.S.- and foreign-parented businesses to create a level playing field.
 - Reinforces the arm's length standard by removing the incentive to artificially inflate outbound related-party payments.

- Eliminates existing tax incentives to import interest deductions into the U.S. tax base by limiting those deductions to the U.S. share of global interest expense.
 - Applies equally to U.S. and foreign businesses to create a level playing field.

How This Policy Helps the American People

These tough but fair rules will protect American workers and help re-establish our nation as a global magnet for job creation, investment, and innovation.

Reforming Interest Deductibility to Stabilize and Strengthen our Economy

Through the combination of limiting interest expense for corporations and providing unlimited expensing for businesses of all sizes, the *Tax Cuts and Jobs Act* will bring greater stability and strength to our economy.

This will reduce incentives for corporations to take on irresponsible levels of debt while rewarding job creators large and small as they make capital investments to grow jobs and paychecks for American workers.

Importantly, the bill also provides for a thoughtful and deliberate transition period, helping our businesses move seamlessly to a 21st century tax system that grows our economy and improves the lives of all Americans.

Policy Specifics

- Interest expense would be limited to 30% of adjusted taxable income plus interest income.
- Banks would be protected because the concept is on net interest.
- Small businesses are provided an exception to the disallowance rule because of their inability to access capital markets. Businesses with gross receipts of \$25 million or less would not be subject to the new interest rules.
- Regulated utilities and real estate also receive an exception from these rules that disallow interest deductibility. However, both would be disallowed from using full expensing and their assets would be moved back to a slower depreciation schedule under the Modified Accelerated Cost Recovery System.
- The elimination of interest deductibility in this context would equalize the marginal tax treatment of debt and equity financed investment and would therefore reduce tax-induced distortions which now bias investment financing decisions against equity in favor of debt.

How This Policy Helps the American People

This responsible, pro-growth solution will bring stability to our economy, stimulate investment, and support the creation of good-paying jobs throughout the country.

Encouraging “Made in America” Research & Development

Research and development is essential to a dynamic and growing American economy where our businesses and workers have an opportunity to develop new breakthrough products and take them to market around the world.

By preserving the research and development tax credit, the *Tax Cuts and Jobs Act* will help our businesses and workers develop cutting-edge “Made in America” products and services that raise the bar globally for quality and innovation.

And when our “Made in America” products win around the world, that grows our economy and creates more good-paying jobs here at home.

Policy Specifics

- The *Tax Cuts and Jobs Act* maintains the R&D Tax Credit, which allows for a credit on corporate income taxes worth up to 20 percent of qualified research expenses.
- The R&D Tax Credit was first enacted in Reagan tax cut of 1981 through the support of Congressman Jack Kemp and Senator William Roth. It had been a temporary tax measure until 2015 when it was made permanent by the PATH Act.

How This Policy Helps the American People

Preserving the R&D tax credit will encourage more businesses to invest and innovate here in America, creating jobs and helping our nation lead the way on the next generation of cutting-edge products and services.

Retaining the Low-Income Housing Tax Credit

By preserving the Low-Income Housing Tax Credit, the *Tax Cuts and Jobs Act* will encourage businesses to invest in developing and maintaining affordable housing for low-income Americans – helping more workers, seniors, and families find a safe and comfortable place to call home.

In addition, this important provision will also help create jobs and increase paychecks for American workers by promoting new investment and economic development in our communities.

Policy Specifics

- The *Tax Cuts and Jobs Act* maintains the Low-Income Housing Tax Credit, which provides credits to developers for their costs associated with building and maintaining rental housing units for individuals whose incomes fall below average incomes in any given area.
- The Low-Income Housing Tax Credit was created in the Reagan Tax Reform Act of 1986.

How This Policy Helps the American People

Retaining the low-income housing tax credit will help stimulate business investment in affordable housing so more families, individuals, and seniors can find a safe and comfortable place to call home.

Providing a Pro-Growth Approach for American Energy Production

Our nation's energy innovators have led the way in unleashing a 21st century energy renaissance in America that has created millions of jobs, reduced U.S. dependence on foreign oil, and strengthened our economy.

With lower tax rates for all businesses and provisions that increase free-market competition in U.S. energy production, the *Tax Cuts and Jobs Act* will continue to support an all-of-the-above energy agenda that levels the playing field while continuing to increase American energy security and economic growth.

Policy Specifics

- The *Tax Cuts and Jobs Act* preserves the current law phase-out of temporary energy credits for wind and solar established by the 2015 PATH Act.
- The bill provides the same extension and phase down for the Section 48 Investment Tax Credit (ITC) for other energy technologies.
- Additionally, the bill:
 - Maintains the scheduled expiration of Section 45 Production Tax Credit for wind energy, with curtailment of future credit streams.
 - Retains capped and fully subscribed credits, with modifications to facilitate advanced nuclear PTC.
 - Repeals oil recovery project and marginal well credits.
 - Sunsets the permanent element of Section 48 ITC for solar, fuel cells, and geothermal
- These provisions deliver a responsible glide-path to move closer to a free-market energy agenda.

How This Policy Helps the American People

The *Tax Cuts and Jobs Act* provides a pro-growth approach to American energy production that strengthens free market competition, increases innovation and investment, and supports job creation throughout the country.

Promoting a Healthier and Stronger Commercial Real Estate Market

The *Tax Cuts and Jobs Act* recognizes the unique structure of commercial real estate businesses – many of which are organized as “pass-through” businesses – and takes action to help them grow and create jobs.

Among other important provisions, this includes:

- Creating a separate, low tax rate of no more than 25 percent for pass through businesses income.
- Preserving the deductibility of interest expense for real estate businesses.

By delivering a modern, pro-growth tax code that promotes investment and development in crucial sectors throughout our economy – including real estate – *Tax Cuts and Jobs Act* will create more jobs and grow paychecks for workers and families nationwide.

Policy Specifics

- The *Tax Cuts and Jobs Act* lowers the top corporate rate to 20 percent and the top pass-through business rate to 25 percent, down from 35 percent and roughly 40 percent respectively.
- The *Tax Cuts and Jobs Act* also provides full and immediate expensing of business property (other than real property and structures). The depreciable life of commercial real property is shortened from 39 years to 30 years—a move that more accurately matches economic depreciation.
- The legislation also retains rules for allowing deferral of gain on like-kind exchanges of real property.

How This Policy Helps the American People

This modern, pro-growth approach on the tax treatment of commercial real estate will promote a stronger and more stable real estate market that supports job creation and business investment throughout the country.

Retaining Like-Kind Exchanges for Real Property

The *Tax Cuts and Jobs Act* retains like-kind exchanges for real property but repeals these rules for personal property – a reform that contributes to lower tax rates for all American businesses and an overall simpler and fairer tax code that supports economic growth.

To continue to promote investment in business property and equipment, the *Tax Cuts and Jobs Act* will provide full and immediate expensing of these capital assets.

Ultimately, by delivering a simpler tax system with lower rates and unlimited expensing for all businesses, the *Tax Cuts and Jobs Act* will promote a stronger economy and encourage more capital investment.

Policy Specifics

- *Tax Cuts and Jobs Act* retains like-kind exchanges for real property, such as land and structures, and the bill repeals rules for allowing deferral of gain on like-kind exchanges of business and investment property.
- The provision would be effective for transfers after 2017, with transition rules that would permit the completion of certain like-kind exchanges in process that has completed the first exchange before December 31, 2017.
- In addition, the *Tax Cuts and Jobs Act* provides full and immediate expensing of business property (other than real property), which is economically similar to the like-kind exchange because a business receives a full write-off for reinvested capital.
- Importantly, the *Tax Cuts and Jobs Act* also lowers the top corporate rate to 20 percent and the top pass-through business rate to 25 percent, down from 35 percent and roughly 40 percent respectively.

How This Policy Helps the American People

Repealing certain like-kind exchanges and providing all of our job creators with full expensing for business property will help deliver a competitive tax system that supports investment, job creation, and economic growth.

Reforming the Treatment of Net Operating Losses

The *Tax Cuts and Jobs Act* will modernize current tax rules related to net operating losses (NOLs) as part of the legislation's overall focus on delivering a simpler, fairer, and more pro-growth American tax system.

This includes simplifying these rules to include an indefinite carryforward that is index for inflation to better reflect the real return on capital investments.

And, in combination with dramatically lower business tax rates and unlimited capital expensing for all U.S. job creators, these modernized NOL rules offer an important source of tax relief for businesses, reduce compliance costs, and help promote a stronger American economy for the long term.

Policy Specifics

- The *Tax Cuts and Jobs Act* modifies current NOL rules and allows for indefinite carryforward of NOLs, while generally disallowing carrybacks of NOLs.
- Additionally, the deduction allowed with respect to an NOL carryforward in any year is limited to 90 percent of the business's net taxable income for such year.
- The value of NOLs that are carried forward would be preserved through applying an interest factor that compensates for inflation and provides a real return on capital.
- In limited situations, a one year carryback would be allowed for NOLs attributed to certain disaster losses for certain small businesses and farms.
- Because NOLs no longer expire, U.S. businesses will generally no longer need to track their NOLs on a separate year basis.

How This Policy Helps the American People

These modest changes to NOL rules help lower tax rates for all U.S. job creators and simplify the tax code so our businesses can spend less time and money on tax compliance.

Helping State and Local Governments Finance Important Public Projects

The *Tax Cuts and Jobs Act* preserves the tax-preferred treatment of public-purpose bonds issued by state and local governments.

At the same time, the legislation delivers greater accountability for taxpayers by repealing the tax-preferred status of “private activity bonds.”

In this way, the *Tax Cuts and Jobs Act* will continue to help state and local governments as they finance important public projects through public purpose bonds. Taxpayers will not be forced to subsidize private activity bonds that directly benefit private individuals and entities rather than hardworking American families.

Policy Specifics

- Generally maintains the current-law exclusion for interest on public-purpose bonds issued by state and local governments.
- Reduces tax rates and creates stronger economic growth by repealing the exclusion for new issuances of “private activity bonds” (“PABs”) – i.e., bonds that directly benefit private individuals or entities – and for certain duplicative bonds that would finance the same activity as existing bonds where the bonds overlap by more than 90 days.

How This Policy Helps the American People

These reforms preserve important sources of financing for public works projects. They also protect taxpayers from having to subsidize bonds that directly benefit special interest entities and initiatives – like wineries, golf courses, and office buildings for investment bankers, as they have been used in the past.

Modernizing Protections for Tax-Exempt Entities

Tax-exempt entities such as charities, foundations, and other non-profit organizations play an important role in American life – providing needed assistance and support to millions of families and communities nationwide.

Today, some provisions for tax-exempt entities are outdated and require modernization to truly support the missions of these organizations without providing them undo or unnecessary tax benefits.

The *Tax Cuts and Jobs Act* modernizes these provisions to better ensure that organizations seeking to promote social welfare are not hampered by burdensome and outdated tax provisions.

The bill also improves integrity, accountability, and transparency by closing loopholes that now allow some tax-exempt entities to accumulate excess cash through operations not related to their tax-exempt purpose.

Policy Specifics

- The *Tax Cuts and Jobs Act* streamlines the separate 1% and 2% tax rates paid by private foundations on their investment income, which would eliminate the disincentive they face in years of unusual need for charitable giving. The new single rate is 1.4%.
- Applies that same 1.4% net investment tax to private universities that have at least 500 students and at least \$100,000 in asset endowment per student.
- Closes a loophole that certain tax-exempt entities had argued exempted them from tax when engaging in businesses not related to their tax-exempt purposes.
- The *Tax Cuts and Jobs Act* also taxes profits that research institutions earn from research results that they do not make available to the public.
- Allows private foundations to wholly own for-profit businesses when received by gift or bequest so that the profits of such businesses can be dedicated to funding the private foundation's charitable mission.
- Ensures that "art museums" that claim the status of a private operating foundation are not really just art collectors' private galleries, newly requiring that such museums be open to the public at least 1,000 hours each year.
- Ensures that donor-advised funds make certain disclosures about their annual donations and policies about inactive funds.

How This Policy Helps the American People

Modernizing rules related to tax-exempt entities will help honest non-profit organizations better serve our communities, prevent waste and abuse of taxpayer dollars, and protect the First Amendment rights of all tax-exempt entities to speak on matters of public importance.

APPENDIX

How Lower Tax Rates, Flatter Tax Brackets, and a Larger Standard Deduction Help All Americans

Consider John and Jane Smith, a married couple with no children who make a combined \$50,000 per year. Today, this amount of income, less the current law standard deduction, would put John and Jane in the 15% tax bracket. Many Americans would assume that because the couple's total income falls within this bracket, they are taxed at a single 15% rate on every dollar they earn. In reality, the Smiths' income under current law falls into two brackets – the 10% bracket and the 15% bracket.

Why? Because the tax brackets of America's income tax system determine the "marginal" tax rate paid on each additional dollar of income, all the way up to the highest dollar a taxpayer earns. So if your total taxable income now puts you into today's highest tax bracket (39.6%), your income is actually taxed at seven different levels as it progresses up the seven different brackets of our current tax code.

How it Works: Brackets and the Standard Deduction

Continuing the example of John and Jane Smith, calculating their taxes on \$50,000 of personal income is more or less a two-part process.

First, assuming the Smiths do not itemize deductions, they can now claim today's standard deduction of \$12,700 for married couples filing jointly. They can also claim a personal exemption of \$4,050 each (\$8,100 total). Together, these two separate tax benefits combine to protect \$20,800 of their income from taxes. This reduces their total taxable income from \$50,000 to only \$29,200, as shown below:

Applying Today's Standard Deduction & Personal Exemption

Total income: \$50,000
Subtract standard deduction: $\$50,000 - \$12,700 = \$37,300$
Subtract personal exemptions: $\$37,300 - \$8,100 = \$29,200$
Total taxable income: **\$29,200**

Second, applying today's tax rates and brackets, here's what John and Jane owe on their total taxable income of \$29,200:

Total Taxable Income: \$29,200

Current Tax Brackets for Married Couples Filing Jointly	Current Rates	Current Taxes Owed
\$0 to \$18,650	10%	$\$18,650 \times 10\% = \$1,865$
\$18,650 to \$75,900	15%	$(\$29,200 - \$18,650) \times 15\% = \$1,582.50$
Total Income Taxes Owed		$\\$1,865 + \\$1,582.50 = \\$3,447.50$

With today's bracket "break points" – which determine what amount of a taxpayer's income falls into each bracket – John and Jane owe 10% tax on their first \$18,650 of income, plus 15% tax on the amount of income over \$18,650. In the end, they owe a total of $\$1,865 + \$1,582.50 = \$3,447.50$.

Current Law vs. The *Tax Cuts and Jobs Act*

Following the same two-part process above, now compare how the *Tax Cuts and Jobs Act* – with its larger standard deduction, lower rates, and flatter tax brackets – allows John and Jane to keep more of their hard-earned income and reduces complexity in calculating their taxes.

LARGER STANDARD DEDUCTION

Current Tax Code

Tax Cuts and Jobs Act

Today's Standard Deduction + Personal Exemptions	Significantly Larger Standard Deduction
Total Income: \$50,000	Total Income: \$50,000
Subtract Standard Deduction: \$50,000 – \$12,700 = \$37,300	Subtract Standard Deduction: \$50,000 – \$24,000 = \$26,000
Subtract Personal Exemptions: \$37,300 – \$8,100 = \$29,200	Total Taxable Income: \$26,000
Total Taxable Income: \$29,200	

By roughly doubling the standard deduction from \$12,700 to \$24,000, the *Tax Cuts and Jobs Act* protects over \$3,000 more of John and Jane's income from taxes than today's standard deduction and personal exemption combined. So, instead of being taxed on \$29,200 of income as they are today, the Smiths' total taxable income is only \$26,000.

LOWER TAX RATES AND FLATTER BRACKETS

Now notice how the lower tax rates and flatter tax brackets provided by the *Tax Cuts and Jobs Act* will deliver even more tax relief to John and Jane:

Current Tax Code

Tax Cuts and Jobs Act

Current Tax code: Taxable Income of \$29,200			<i>Tax Cuts and Jobs Act</i> : Taxable Income of \$26,000		
Brackets	Rates	Taxes Owed	Taxes Owed	Rates	Brackets
\$0 to \$18,650	10%	\$1,865	ZERO	ZERO	First \$24,000
\$18,650 to \$75,900	15%	\$1,582.50	\$3,120	12%	Up to \$90,000
Total Taxes Owed = \$3,447.50			Total Taxes Owed = \$3,120		

Under the *Tax Cuts and Jobs Act*, the Smiths' income taxes are reduced by \$327.50 – allowing them to keep this hard-earned money to save or spend however they see fit.