ZIONS BANK
PUBLIC POLICY SNAPSHOT

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At a Glance: Tax Reform

The President signed the Tax Cuts and Jobs Act into law at the end of 2017. This event not only solidified the first major legislative victory for the new administration, but it marked the first time in more than 30 years that major reforms to the U.S. tax code have been enacted. The legislation will reduce tax revenue by nearly $1.5 trillion over the next decade by making substantial cuts to the U.S. corporate rate, lowering rates for most individuals and families, and increasing the child tax credit, among other things. According to the Tax Policy Center, after-tax income will increase by an average of 2.2 percent for taxpayers in 2018 (Figure 1). While the majority of taxpayers are set to benefit under the new tax plan, changes to the code are all about of trade-offs. Let's take a look at the major provisions.

For Individuals and Families:

The new tax plan will retain seven tax brackets, but with modified income segments (Figures 2 and 3).

The Standard Deduction will be doubled. This will greatly reduce the need to itemize and negate some of the impact from expiring or reduced exemptions. The deduction for single filers goes from **$6,300 to $12,000**, and for married filing jointly from **$12,700 to $24,000.**

The Child Tax Credit will be doubled from $1,000 to $2,000, and the refundable portion will be increased from $1,100 to $1,400.

The health care mandate is eliminated. The tax penalty for not having health insurance will no longer apply starting in 2019.

Medical expenses greater than 7.5 percent of adjusted gross income can be deducted. The previous floor was set at 10 percent. This will allow more taxpayers to cover large medical expenses.

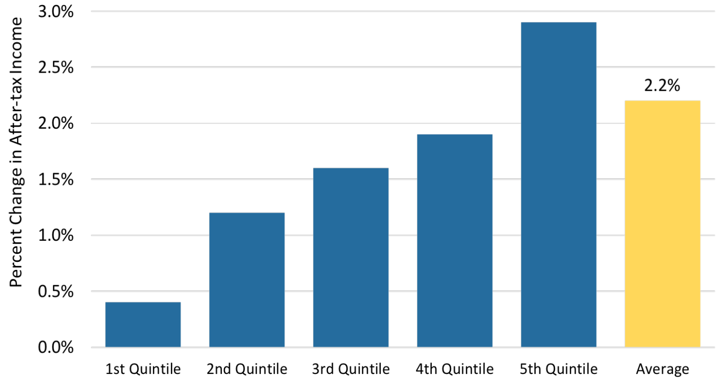
The mortgage interest rate deduction cap will be reduced from $1 million to $750,000. This will largely affect expensive costal cities, and higher-income households. Most taxpayers will find it more advantageous to use the newly-doubled standard deduction.

Deductions for home equity loans will be limited to those loans directly used for the improvement of the home. This applies to all new and existing loans.

The deduction for state and local taxes will be capped at $10,000. The deduction was previously uncapped, and benefited highly-taxed, and high-earning localities.

Figure 1: Average Tax Benefit is Projected to be 2.2 Percent

Tax Benefit By Income Level (Quintile), 2018



Source: Urban-Brookings Tax Policy Center Microsimulation Model

Figure 2: Single Tax Filer Brackets

2018 TAX RATE	2018 THRESHOLDS	OLD TAX RATE	OLD THRESHOLDS
10%	$0 to $9,525	**10%**	$0 to $9,325
12%	$9,526 to $38,700	**15%**	$9,326 to $37,950
22%	$38,701 to $82,500	**25%**	$37,951 to $91,900
24%	$82,501 to $157,500	**28%**	$91,901 to $191,650
32%	$157,501 to $200,000	**33%**	$191,651 to $416,700
35%	$200,001 to $500,000	**35%**	$416,701 to $418,400
37%	More than $500,000	**39.6%**	More than $418,400

Figure 3: Married Filing Jointly Brackets

2018 TAX RATE	2018 THRESHOLDS	OLD TAX RATE	OLD THRESHOLDS
10%	$0 to $19,050	**10%**	$0 to $18,650
12%	$19,051 to $77,400	**15%**	$18,651 to $75,900
22%	$77,401 to $165,000	**25%**	$75,901 to $153,100
24%	$165,001 to $315,000	**28%**	$153,101 to $233,350
32%	$315,001 to $400,000	**33%**	$233,351 to $416,700
35%	$400,001 to $600,000	**35%**	$416,701 to $470,700
37%	More than $600,000	**39.6%**	More than $470,700

For Businesses:

Businesses will arguably benefit the most under the new tax plan. Reforming the corporate tax rate has been a leading issue for the President and the new administration and this bill delivers on that promise.

While some have criticized the Tax Cuts and Jobs Act for benefiting corporations more than individuals, there have been signs that the corporate changes are helping workers. Since the signing of the legislation, numerous companies such as Walmart, Comcast, AT&T, and many others have announced employee bonuses and, in some cases, increased wages.

The top corporate rate will fall from 35 percent to 21 percent (Figure 4). At 35 percent, the U.S. had the highest corporate tax rate of developed economies (Figure 5) and many cited the high rate as a detriment to U.S. competitiveness abroad.

The new tax plan changes the way U.S. multinational corporations are taxed on their foreign profits. It has been previously estimated that nearly $2.6 trillion in corporate profits have been sitting in foreign bank accounts (Figure 6); now, many companies will pay a one-time 15.5 percent repatriation tax to bring that money home.

Small businesses organized as pass-through entities will be able to take a 20 percent deduction on their business income. Roughly 95 percent of all businesses in the U.S. are classified as a pass-through.

Section 179 expensing will increase from $500,000 to $1 million. Section 179 of the tax code was designed to encourage businesses to invest in equipment, machinery, computers, software and other large-expenditure items, by allowing them to deduct the expenses from their income.

The Bonus Depreciation deduction limit will be raised from 50 percent of qualifying purchases to 100 percent.

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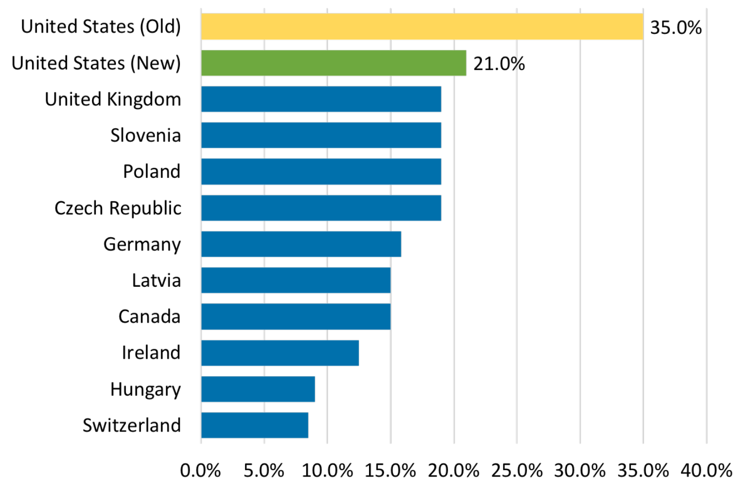
Figure 4: Tax Rates Will Decline for Most Corporations

2018 CORPORATE TAX RATE	OLD TAX RATE	OLD THRESHOLDS
21%	15%	$0 to $50,000
	25%	$50,000 to $75,000
	34%	$75,000 to $100,000
	39%	$100,000 to $335,000
	34%	$335,000 to $10,000,000
	35%	$10,000,000 to $15,000,000
	38%	$15,000,000 to $18,333,333
	35%	$18,333,333 +

Source: Urban -Brookings Tax Policy Institute

Figure 5: U.S. Corporate Tax Rate vs Lowest 10 OECD Economies



Source: Organization for Economic Co-operation and Development

Figure 6: Reforms Could Unlock Up to $2.6 Trillion in Profits Held Abroad

Source: Institute on Taxation and Economic Policy

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