

Tax Reform

**Updated 12/20/17, 5:00pm (EST).*

NACD Position

NACD applauds the Congress for successfully passing the largest tax overhaul in 31 years and for recognizing how important it is to protect and enhance the role of small businesses in our nation's economy.

NACD priorities have included efforts to:

- * Protect pass-through entities from higher effective rates by reforming both the individual and the corporate tax codes;
- * Protect small businesses from estate tax burdens;
- * Simplify overall administration to reduce compliance costs for small businesses;
- * Preserve the Last-In, First-Out (LIFO) inventory accounting method; and
- * Oppose the proposed Border Adjustment Tax (BAT) and any such excise tax on imports by multinational companies.

Overview

On Wednesday, December 20, Congress passed the largest overhaul of our nation's federal tax code since 1986. Before the final passage, both the U.S. House of Representatives and the U.S. Senate conferees signed off on a conference report resolving the differences between both versions of the "Tax Cuts and Jobs Act." The final 503-page piece of legislation reflects the many efforts made by both chambers to reach a final compromise. Price tagged at \$1.5 trillion, the measure passed the full House and the full Senate and now makes its way to President Trump's desk for his signature.

NACD commends Congress for protecting pass-throughs from high taxes by reforming both the individual and corporate rates; doubling the estate tax exemption; eliminating the proposed BAT tax and the 20% excise tax on imports by multinational companies; and excluding LIFO repeal from the final bill. NACD members who import products from all over the world would have been directly impacted by BAT and the 20% excise tax on imports. Larger distributors, who have more domestic relationships, would have had a distinct advantage over smaller chemical distributors under these proposals, thus reducing competition in the chemical distribution market. Additionally, NACD members depend on the LIFO method — we are pleased it was not used as a bargaining chip and that it remains protected.

Throughout the tax reform debate, we tracked the details in both the House and Senate proposals. Now with final legislation, following are the new provisions in relation to current law.

Individual

Provision	Current Law	Final Bill																																																																
<p>Individual Income Tax Rates and Brackets</p> <p>*HoH=head of household</p>	<p>* Seven-bracket progressive rate income tax with top marginal rate of 39/6 percent.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Rate</th> <th style="text-align: center;">Single</th> <th style="text-align: center;">HoH</th> <th style="text-align: center;">Joint</th> </tr> </thead> <tbody> <tr> <td>10%></td> <td style="text-align: center;">\$0</td> <td style="text-align: center;">\$0</td> <td style="text-align: center;">\$0</td> </tr> <tr> <td>15%></td> <td style="text-align: center;">\$9,525</td> <td style="text-align: center;">\$13,600</td> <td style="text-align: center;">\$19,050</td> </tr> <tr> <td>25%></td> <td style="text-align: center;">\$38,700</td> <td style="text-align: center;">\$51,800</td> <td style="text-align: center;">\$77,400</td> </tr> <tr> <td>28%></td> <td style="text-align: center;">\$93,700</td> <td style="text-align: center;">\$133,850</td> <td style="text-align: center;">\$156,150</td> </tr> <tr> <td>33%></td> <td style="text-align: center;">\$195,450</td> <td style="text-align: center;">\$216,700</td> <td style="text-align: center;">\$237,950</td> </tr> <tr> <td>35%></td> <td style="text-align: center;">\$424,950</td> <td style="text-align: center;">\$424,950</td> <td style="text-align: center;">\$424,950</td> </tr> <tr> <td>39.6%></td> <td style="text-align: center;">\$426,700</td> <td style="text-align: center;">\$453,350</td> <td style="text-align: center;">\$480,050</td> </tr> </tbody> </table>	Rate	Single	HoH	Joint	10%>	\$0	\$0	\$0	15%>	\$9,525	\$13,600	\$19,050	25%>	\$38,700	\$51,800	\$77,400	28%>	\$93,700	\$133,850	\$156,150	33%>	\$195,450	\$216,700	\$237,950	35%>	\$424,950	\$424,950	\$424,950	39.6%>	\$426,700	\$453,350	\$480,050	<p>* Keeps original seven brackets at reduced rates with top rate at 37 percent. Provisions set to expire in 2025.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Rate</th> <th style="text-align: center;">Single</th> <th style="text-align: center;">HoH</th> <th style="text-align: center;">Joint</th> </tr> </thead> <tbody> <tr> <td>10%></td> <td style="text-align: center;">\$0</td> <td style="text-align: center;">\$0</td> <td style="text-align: center;">\$0</td> </tr> <tr> <td>12%></td> <td style="text-align: center;">\$9,525</td> <td style="text-align: center;">\$13,600</td> <td style="text-align: center;">\$19,050</td> </tr> <tr> <td>22%></td> <td style="text-align: center;">\$38,700</td> <td style="text-align: center;">\$51,800</td> <td style="text-align: center;">\$77,400</td> </tr> <tr> <td>24%></td> <td style="text-align: center;">\$82,500</td> <td style="text-align: center;">\$82,500</td> <td style="text-align: center;">\$165,000</td> </tr> <tr> <td>32%></td> <td style="text-align: center;">\$157,500</td> <td style="text-align: center;">\$157,500</td> <td style="text-align: center;">\$315,000</td> </tr> <tr> <td>35%></td> <td style="text-align: center;">\$200,000</td> <td style="text-align: center;">\$200,000</td> <td style="text-align: center;">\$400,000</td> </tr> <tr> <td>37%></td> <td style="text-align: center;">\$500,000</td> <td style="text-align: center;">\$500,000</td> <td style="text-align: center;">\$600,000</td> </tr> </tbody> </table>	Rate	Single	HoH	Joint	10%>	\$0	\$0	\$0	12%>	\$9,525	\$13,600	\$19,050	22%>	\$38,700	\$51,800	\$77,400	24%>	\$82,500	\$82,500	\$165,000	32%>	\$157,500	\$157,500	\$315,000	35%>	\$200,000	\$200,000	\$400,000	37%>	\$500,000	\$500,000	\$600,000
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Alternative Minimum Tax (AMT)	A two-rate AMT with an \$86,200 exemption and a \$164,100 exemption phaseout for joint filers.	Increases the exemption to \$500,000 (singles) and raises the phaseout threshold to \$1 million for joint filers.																																																																
Child and Family Tax Credits	Taxpayers may claim a \$1,000 credit for each qualifying child under 17. It is phased out at \$75,000 of adjusted gross income (singles) and \$110,000 (married).	A \$2,000 increase, \$1,400 refundable. All dependents ineligible for child tax credit are eligible for a new \$500/person family tax credit. Capped at \$400,000 (\$200,000 for single filers).																																																																
Estate Tax	Estates passed on to heirs now face a top tax rate of 40 percent, with exemptions this year of up to \$5.49 million for couples.	Keeps estate tax but doubles the current exemption levels in 2018.																																																																

Business

Provision	Current Law	Final Bill
Corporate Tax Rate	Top 35% now applies to taxable income over \$10 million/year. There are three tax brackets--- 15%, 25%, and 34%.	Sets a single-rate at 21%, starting in 2018.
Pass-Through Income	Business income for partnerships, S corporations, and sole proprietors subject to individual income tax rates/brackets.	<p>A 20% deduction for pass-through income. Limited to the greater of:</p> <ul style="list-style-type: none"> - 50% of wage income <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> - 25% of wage income plus 2.5 percent of the cost of tangible depreciable property for qualifying businesses. <p>Caps and exclusions: Income below \$315,000 (joint), and phase out over \$100,000.</p>
AMT	A 20% tax rate.	Corporate AMT repealed.
Cash Accounting	Business with less than \$5 million in income eligible for cash method of accounting.	Increases eligibility to businesses to \$25 million in income.
Tax Treatment of Interests	Full deduction for interest paid, no cap.	Caps net interest deduction at 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) for four years. 30% of earnings before interest and taxes (EBIT) forward on.
International Income	A worldwide system of taxation.	Moves to a territorial system with anti-abuse rules and a base erosion anti-abuse tax (BEAT) at a standard rate of 5% of modified taxable income over an amount equal to regular tax liability for year one. Then 10% through year 2025 and 12.5% thereafter.

Looking Back

The Republican push for tax reform, which proceeded at a much slower rate than the White House initially promised, quickly picked up speed in the final months of 2017. The White House in February said that a bill would be passed and signed into law before Congress' August recess, then shifted the target to the end of 2017. President Trump called on Congress to pass tax reform by Thanksgiving with a signed bill by Christmas. From the beginning, both Democrats and Republicans shared but one thing, their desire to overhaul the tax code. Democrats remained staunch on limiting any tax hikes, and Republicans showed their desperation for a win before the 2018 midterms and Doug Jones' Alabama Senate win after failing to repeal the Affordable Care Act (ACA).

Throughout the process, fiscal hawk concerns, ACA repeal, protecting the middle class, and small business taxation were just some of the challenging topics dividing not only Republicans and Democrats but the GOP itself. Senate Majority Leader Mitch McConnell referred to negotiations as "a challenging exercise like trying to solve a Rubik's cube," and everyone knew Congress faced a huge uphill battle as they started to iron out major differences between the Senate and House versions. First the full House voted 227-203, and then the full Senate passed theirs on a 51-48 vote. However, because several provisions of the bill ran afoul of Senate rules, the Senate had to remove those provisions, approve the bill, and send it back to the House for another vote. Finally, the long and arduous process cleared way for this year's biggest legislative win.