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HOW WOULD THE "UNIFIED FRAMEWORK" CHANGE CURRENT TAX LAWS ON PASSTHROUGH ENTITIES?

By: HELEN A. FLOROS, CPA

The Republican administration's proposed tax plan called the "Unified Framework for Fixing Our Broken Tax Code", dated September 27, 2017, intends to reform both the individual and corporate tax system with the hope of simplifying the income tax system; ending "wasteful" tax breaks; and eliminating "loopholes."

Income generated by businesses housed in "passthrough" entities would be affected by provisions of the proposed reform. Passthroughs are entities like partnerships, S corporations and sole proprietorships whose income "passes through" to the owner's individual tax return. That income has always been taxed at the individual's tax rate. Current individual rates range from 0% to 39.6%.

Changes that may affect domestic passthroughs are as follows:

- The "Unified Framework" would apply a maximum 25% tax rate on passthrough income. This is higher than the proposed maximum corporate rate of 20%.
- For at least the next 5 years, businesses would be able to expense immediately the cost of new depreciable assets (other than structures) made after September 27, 2017.
- Corporate and Individual Alternative Minimum Tax (AMT) would be eliminated.
- The domestic production deduction would be eliminated. Currently there is a 9% deduction for qualified production activities in the U.S.

The Framework is not a complete tax plan or bill. Now that Congress has passed a budget, the next step is for tax-writing committees to make a bill out of the Framework. Although there are too many unknowns to begin planning at this point, the above possible changes are worth keeping an eye on if you are a partner, shareholder or a sole proprietor of a passthrough.

If you have questions about a business or tax issue, please contact your Account Manager or Helen Floros, CPA, at (314) 205-2510 or via email at hfloros@connerash.com.