TaxNewsFlash

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President signs tax bill into law

The president today signed into law H.R. 1 (originally known as the "Tax Cuts and Jobs Act"). The new law represents the culmination of a lengthy pursuit of business tax reform over the course of more than 20 years.

The legislation includes substantial changes to the taxation of individuals, corporate and unincorporated businesses in all industries (including multi-national enterprises), and other taxpayers. Overall, it provides a net tax reduction of approximately $1.456 trillion over the 10-year "budget window" (according to estimates provided by the Joint Committee on Taxation that do not take into account macroeconomic/dynamic effects).

Read text of **H.R. 1** [PDF 491 KB]

Highlights of provisions

Highlights include:

- A permanent reduction in the statutory C corporation tax rate to 21%, repeal of the corporate alternative minimum tax (AMT), expensing of capital investment, limitation of the deduction for interest expense, and a multitude of other changes to the corporate tax rules

- Fundamental changes to the taxation of multinational entities, including a shift from the current system of worldwide taxation with deferral to a hybrid territorial system, featuring a participation exemption regime with current taxation of certain foreign income, a minimum tax on low-taxed foreign earnings, and new measures to deter base erosion and promote U.S. production

- Significant changes relevant to the taxation of tax-exempt organizations, insurance businesses, financial institutions, regulated investment companies (RICs), and real estate investment trusts (REITs)

- A temporary new deduction for certain individuals, trusts, and estates with respect to qualifying income of passthrough entities and sole proprietorships

- Temporary reductions in the individual income tax rates, accompanied by new limits on itemized deductions (such as the deduction for state and local taxes), other temporary changes to the individual income tax rules, and a more restrictive permanent cost-of-living bracket adjustment

- Permanent repeal, in effect, of the individual mandate in the Patient Protection and Affordable Care Act

Effective dates

Most of the provisions of the new law, including the rate reductions, generally are effective in 2018 (i.e., in a little over a week).

Several provisions, however, are effective on the date of enactment. These include, for example, provisions relating to:

- Treatment of S corporation conversions into C corporations
- Certain retirement plan and casualty loss relief
- Rollovers from 529 accounts to ABLE accounts
- Increasing the excise tax on stock compensation in inversions
- The excise tax treatment of aircraft management services
- Deductions for certain settlements subject to nondisclosure agreements
- Expansion of non-deductibility of certain fines and penalties
- Repeal of deduction for local lobbying expenses

KPMG observation

For such a substantial revision of the tax code, this legislation has moved very quickly through Congress, with little time for public analysis and comment. It is to be expected that the text will leave many important questions unanswered, to be addressed in future corrective legislation.

KPMG will be releasing a report with analysis and observations on the new law soon.

Direct comments, including requests for subscriptions, to Washington National Tax. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

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