KEY PROVISIONS IN H.R. 1 (FORMERLY KNOWN AS THE TAX CUTS AND JOBS ACT[1])

as passed by the House and Senate on December 20, 2017

Sections

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
BUSINESS TAX PROVISIONS		
TAXATION OF PASS-THROUGH ENTITIES	Business income that individuals receive through partnerships, S corporations, and sole proprietorships generally "passes through" to the individual, i.e., there is no separate or different tax rate applied to such business income. **(§ 1)**	**Deduction for Certain Pass-Through Income:** Beginning in 2018, an individual taxpayer generally may, solely for income tax purposes, deduct the "combined qualified business income amount" from partnerships, S corporations, or sole proprietorships in an amount up to 20% of the taxpayer's taxable income (after the deduction of any net capital gain). This deduction may not, however, exceed the taxpayer's taxable income (reduced by any net capital gain). Qualified business income for a taxable year means the net amount of domestic qualified items of income, gain, deduction, and loss with respect to the taxpayer's qualified businesses. However, this calculation takes the items into account only to the extent they are included or allowed in the determination of income. Qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer. Similarly, qualified business income does not include any guaranteed payment to a partner for services rendered with respect to the trade or

[1]Because of Senate procedural rules, the "short title" of the bill was removed prior to passage.

[2]All revenue numbers are based on the estimates released by the Joint Committee on Taxation.

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
		business. Qualified business income or loss does not include certain investment-related income, gains, deductions, or losses. The combined qualified business income amount is the sum of the deductible amounts for each trade or business of the taxpayer. The deductible amount for a trade or business is the lesser of: (1) 20% of the taxpayer's qualified business income with respect to such trade or business or (2) the greater of (a) 50% of the W-2 wages paid with respect to the qualified trade or business, or (b) the sum of 25% of the W-2 wages with respect to the qualified trade or business plus 2.5% of the unadjusted basis, immediately after acquisition, of all "qualified property." • Under a special rule, the W-2 wage/qualified property limit described in "(2)" above does not apply in the case of a taxpayer with taxable income (calculated without regard to this section) not exceeding \$315,000 (indexed) for married individuals filing jointly or \$157,500 (indexed) for other individuals. Above those income levels, the inapplicability of the W-2 wage/qualified property limit phases out between taxable income of \$315,000 and \$415,000 for joint returns and between \$157,500 and \$207,500 for others. • W-2 wages are the wages, elective deferrals, and section 457 deferred compensation paid by the person with respect to non-owner employees. [Note that other employer contributions to retirement plans (e.g., matching contributions) do not count as W-2 wages.] • "Qualified property" is tangible property of a character subject to depreciation that is held by, and available for use in, the qualified trade or business at the close of the taxable year. In addition, the property must be used in the production of qualified business income and the "depreciable period" for the property must not have ended before the close of the taxable year. • The "depreciable period" starts when the property is first placed in service by the taxpayer and ends on the later of (a) 10 years later, or (b) the last day of the last full year in the applicable recovery period that applies to the property under Code § 168 (without regard to the Alternative Depreciation System (ADS) of § 168(g)). In addition, 20% of the aggregate amount of qualified REIT dividends and qualified publicly traded partnership income are also included in combined qualified business income. Additional special rules also apply to trades or businesses in Puerto Rico,

Provision	Tax Code, Prior to H.R. 1	H.R. 1
		specified agricultural or horticultural cooperatives, and qualified cooperative dividends. A "qualified trade or business" is any trade or business other than the trade or business of being an employee or a "specified service trade or business," which is defined to include: • Any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees or owners, and • Any trade or business which involves the performance of services that consist of investing and investment management, trading, or dealing in securities (as defined in § 475(c)(2)), partnership interests, or commodities (as defined in § 475(e)(2)). However, a specified service business will be treated as a qualified trade or business if the taxpayer's taxable income (calculated without regard to this deduction) does not exceed $315,000 (indexed) for married individuals filing jointly ($157,500 (indexed) for other individuals), phased out in the same manner described above for purposes of the W-2/qualified property rules. The deduction is not allowed in computing adjusted gross income, but is allowed as a deduction reducing taxable income for both non-itemizers and itemizers. Finally, trusts and estates are eligible for the 20% deduction. This provision is effective beginning after December 31, 2017, but, as with other changes to the individual income tax rates, sunsets after 2025. *Note*: It appears, although not clearly, that the calculation of business income which determines the 20% deduction does not take into account deductions taken by a business owner for retirement contributions for a partner or sole proprietor. If this is correct, then there is no material disincentive for a business owner of a partnership or sole proprietorship to establish and maintain a retirement plan. It is less clear, however, that the same result is true for an S corporation and, in fact under the provision, there may be some disincentive to make retirement plan contributions for S corporation owners. **The**

Provision	Tax Code, Prior to H.R. 1	H.R. 1
		magnitude of this disincentive, if any, likely varies significantly by taxpayer. This issue may be in need of further clarification in the regulatory process. **(§ 11011)** *This provision reduces revenues by $414.5 billion over 10 years.*
Corporate Tax Rates	Current law provides for four corporate income tax brackets: 15%, 25%, 34%, and 35%. The 35% rate applies to taxable income over $10,000,000. Additional tax is imposed on income over certain thresholds, and certain personal service corporations pay the 35% rate on all of their taxable income. **(§ 11)**	The corporate income tax brackets are replaced with a single flat tax rate of 21% in 2018. The maximum corporate tax rate on net capital gain is repealed. Clarification is provided for taxpayers subject to the normalization method of accounting (e.g., regulated public utilities). **(§ 13001)** The 80% dividends received deduction (DRD) is lowered to 65%, and the 70% DRD is lowered to 50%, preserving the current law effective tax rates on income from such dividends. **(§ 13002)** These provisions are effective for taxable years beginning after December 31, 2017. *These provisions reduce revenues by $1.35 trillion over 10 years.*
Corporate Alternative Minimum Tax (AMT)	An AMT is imposed on corporations on tentative minimum tax liability in excess of regular tax liability. **(§ 55)**	The corporate AMT is repealed beginning in 2018. The Act contains rules for the application of a corporation's AMT credit accumulated in prior years. **(§ 12001)** This provision is effective for table years beginning after December 31, 2017. *This provision reduces revenues by $40.3 billion over 10 years.*
Limits on Annual Deduction of Losses by Active Participants in Trades or Businesses	The passive loss rules limit deductions and credits for passive investors in trade or business activities. The passive loss rules apply to individuals, estates and trusts, and closely-held corporations. **(§ 469)**	In general, taxpayers (other than a C corporation) are prohibited from deducting certain "excess business losses" incurred in an active trade or business from their unrelated wage income or portfolio income (e.g., interest and dividends). Excess business losses for a taxable year are the excess of aggregate deductions of the taxpayer attributable to trades or businesses of the taxpayer over the sum of aggregate gross income or gain of the taxpayer which is attributable to such trades or businesses, plus $500,000 for joint filers ($250,000 for other individuals). The $250,000 and $500,000 thresholds will be indexed for inflation.

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		Excess business losses may be carried forward and treated as net operating loss (NOL) carryforward in subsequent taxable years. (As described below, NOL carryovers are allowed for a taxable year only up to 80% of taxable income.) In the case of a partnership or S corporation, the changes apply at the partner or shareholder level. Each partner's or shareholder's allocable share of the items of income, gain, deduction, or loss of the partnership or S corporation for any taxable year from trades or businesses attributable to the partnership or S corporation is taken into account by the partner or shareholder in applying this subsection to the taxable year of such partner or shareholder with or within which the taxable year of the partnership or S corporation ends. For an S corporation, an allocable share is the shareholder's pro rata share of an item. The provision applies after application of the passive loss rules. **(§ 11012)** These provisions apply to existing investments and are effective for taxable years beginning after December 31, 2017 and sunset after 2025. *These provisions raise $149.7 billion over 10 years.*
Limitation on Business Interest Expense Deductions	Business interest is generally deductible in the taxable year in which the interest is paid or accrued, subject to certain limitations. In addition, the Code limits the ability of a corporation to deduct disqualified interest if two threshold tests are met. Amounts disallowed may be carried forward indefinitely, and any excess limitation may be carried forward for three years. **(§ 163(j))**	For most businesses (regardless of whether organized as a C corporation or pass-through), there is no deduction for net business interest expense in excess of 30% of the business's "adjusted taxable income." For this purpose, adjusted taxable income would be computed as follows: • For taxable years beginning after December 31, 2017 and before 2022, adjusted taxable income is computed by adding back in (1) net operating losses, (2) any deduction allowed under the new 20% deduction for certain pass-through businesses, and (3) deductions allowable for depreciation, amortization, or depletion. • Thereafter, adjusted taxable income will be computed without adding back in deductions for depreciation, amortization, and depletion, Any interest not allowed as a deduction may be carried forward indefinitely.

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		For partners and S corporation shareholders, the provision applies at the partnership or S corporation level under specified allocation rules. *Small Business Exception:* Businesses with average gross receipts of less than $25 million (indexed) for the previous three taxable years are not subject to the business interest deduction limitation. *Exception for Electing Real Property Trades or Business:* A "real property trade or business" (as defined in the current passive loss rules) may make an irrevocable election out of the business interest deduction limitation. A real property trade or business making such an election would be subject to a new Alternative Depreciation System (ADS) (described below under the Depreciation of Real Estate heading). However, a real property trade or business may be eligible for bonus depreciation (expensing) on eligible shorter-lived property. The legislative history confirms that the cross-reference to the definition of "real property trade or business" in the passive loss rules does not mean that any of the other elements of the passive loss rules are made applicable by the cross reference, and it further clarifies that the operation or management of a lodging facility is a real property trade or business. A Senate floor colloquy further confirms that "the operation or management of residential rental property housing the elderly, such as an assisted living residential facility, memory care residence, or a continuing care retirement community, are not excluded from the definition of a 'real property trade or business' merely because they provide necessary supplemental assistive services that meet the needs of aging seniors." Exceptions are also provided for certain electing farming businesses and certain utilities. **(§§ 13301, 13204, and 13201)** These provisions are effective for taxable years beginning after December 31, 2017 and apply to existing debt. *These provisions raise $253.4 billion over 10 years.*
Small Business Expensing	A small business taxpayer may elect to immediately expense the cost of depreciable tangible personal property that is purchased for use in the active conduct of a trade or	The maximum amount a small business taxpayer may expense is permanently increased to $1 million and the phase-out threshold amount is increased to $2.5 million. The definition of qualified property is also expanded to include: (1) improvements to

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
	business, rather than to recover such costs through depreciation deductions. Qualified property also includes qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. Expensing is limited to $500,000 per year and eligibility is phased out if property placed in service in the year exceeds $2 million. **(§ 179)**	nonresidential real property placed in service after the date such property was first placed in service (roofs; heating, ventilation, and air conditioning property; fire protection and alarm systems; and security systems) and (2) certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging. **(§ 13101)** These provisions are effective for taxable years beginning after December 31, 2017. *These provisions reduce revenues by $25.9 billion over 10 years.*
Bonus Depreciation (Expensing)	Bonus depreciation under Code § 168(k) allows an enhanced first year deduction for the first tax year in which eligible property is placed in service, followed by depreciation under the normal schedules in following years with respect to the original cost basis of the property reduced by the bonus depreciation amount. Eligible property placed in service between January 1, 2015, and December 31, 2017, is eligible for the 50% rate. Assets placed in service during 2018 will be eligible for a 40% bonus rate, and assets placed in service during 2019 will be eligible for a 30% rate. With limited exceptions, bonus depreciation is not scheduled to be available for property placed in service after December 31, 2019. **(§ 168(k))**	Taxpayers may fully and immediately deduct 100% of the cost of qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023 (with an additional year for certain qualified property with a longer production period). Property placed in service in subsequent years would be eligible for bonus depreciation at the following rates: 80% in 2023; 60% in 2024; 40% in 2025; 20% in 2026; and 0% in 2027 and beyond. Similar phase-downs would apply for certain types of longer-life property. The property that is eligible for this immediate expensing is expanded by repealing the requirement that the original use of the property begin with the taxpayer (i.e., used property). Instead, the property is eligible for the additional depreciation if it is the taxpayer's first use. Qualified property may also include certain shorter-lived property (e.g. certain land improvements like parking lots and tangible personal property) used in a real property trade or business even if such trade or business elects not to be subject to the limitation on the business interest deduction. Transition treatment is provided for property acquired before September 28, 2017 and placed in service after September 27, 2017. **(§ 13201)** These provisions are generally effective for property acquired and placed in service after September 27, 2017. *These provisions reduce revenues by $86.3 billion over 10 years.*

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
Depreciation of Real Estate	Taxpayers generally must capitalize the cost of property used in a trade or business or held for the production of income and recover such cost over time through annual deductions for depreciation or amortization. The recovery periods for most real property are 39 years for nonresidential real property and 27.5 years for residential rental property using the straight line depreciation method. Qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property are depreciated over a 15-year period. **(§ 168)**	*Special Rule for Real Property Trades or Businesses Electing Out of the New Business Interest Deduction Limitation*: If the taxpayer elects to utilize the irrevocable real property trade or business exception to the new limitations on the deduction of business interest, then the taxpayer is required to use a new Alternative Depreciation System (ADS) with respect to nonresidential real property, residential rental property, and qualified improvement property held by the electing real property trade or business. The ADS provides a 40-year depreciation recovery period for nonresidential real property, a 30-year period of residential rental property, and a 20-year period for "qualified improvement property." These rules would apply to taxable years beginning after December 31, 2017. A 15-year recovery period continues to apply to qualified leasehold improvement, qualified restaurant, and qualified retail improvement property (now collectively called "qualified improvement property"). In some cases the new definition of "qualified improvement property" may be not be subject to certain limitations that previously applied. These provisions are generally effective for property acquired and placed in service after September 27, 2017. **(§ 13204)** *This provision reduces revenues by $4.9 billion over 10 years.*
Like-Kind Exchanges	Under Code § 1031, no gain or loss is recognized if property held for productive use in a trade or business or for investment is exchanged for property of a "like kind" which is to be held for productive use in a trade or business or for investment. Section 1031 does not apply to certain exchanges involving livestock or foreign property. **(§ 1031)**	Effective for transfers after 2017, deferral of gain on like-kind exchanges is only allowed for like-kind exchanges with respect to real property. Real property held primarily for sale would not be eligible. A transition rule is provided to allow like-kind exchanges of personal property to be completed if the taxpayer has either disposed of the relinquished property or acquired the replacement property on or before December 31, 2017. The legislative history confirms that real property eligible for like-kind exchange treatment under current law will continue to be eligible (e.g., confirming that improved real estate and unimproved real estate are generally considered property of a like kind). **(§ 13303)** *This provision raises $31 billion over 10 years.*
Net Operating Losses (NOLs)	In general, a business that has a net operating loss (NOL), meaning its deductions for a year exceed its gross income for the year, may carry the NOL back two years and carry it forward up to 20 years to offset taxable	The general corporate NOL rules are modified to limit the deduction to 80% of taxable income, determined without regard to the deduction. Carryovers will be adjusted to reflect this limit but may be carried forward indefinitely. The carryback rules generally are repealed, with some exceptions for farming and small businesses. **(§ 13302)**

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	income in those years. Different carryback periods apply with respect to NOLs arising in different circumstances. **(§ 172)** Life insurance companies generally may deduct in the current year operations loss carryovers and carrybacks, in lieu of the deduction for NOLs allowed to other corporations. A life insurance company is permitted to treat a loss from operations for any taxable year as an operations loss carryback to each of the three taxable years preceding the loss year and an operations loss carryover to each of the 15 taxable years following the loss year. **(§§ 805(a)(5) and 810)**	The loss limitation change generally is effective for losses arising in taxable years beginning after December 31, 2017. The carryback and carryforward changes are effective for NOLs arising in taxable years ending after December 31, 2017. *This provision raises $201.1 billion over 10 years.*
Partnership Interests / Carried Interest	Gain on the sale or exchange of a capital asset is eligible for favorable long-term capital gains tax rates if the asset has been held for more than one year. **(§ 1231)**	A three-year holding period requirement is imposed to qualify for the long-term capital gains rate with respect to certain "applicable partnership interests" received in connection with the performance of services. To the extent provided by the Secretary of the Treasury, this rule will not apply to income or gain attributable to any asset not held for portfolio investment on behalf of third parties. Applicable partnership interests are limited to partnership interests in a trade or business which consist, in whole or in part, of raising or returning capital, or developing securities, commodities, real estate held for rental or investment, options, or derivative contracts. The rule would not apply to partnership interests held by corporations. **(§ 13309)** This provision is effective for taxable years beginning after December 31, 2017. *This provision raises $1.1 billion over 10 years.*
Rehabilitation Credit for Old or Historic Buildings	A two-tier tax credit for rehabilitation expenses is available as follows: • A 10% tax credit is provided for qualified rehabilitation expenditures	For taxable years after 2017, the 10% tax credit provided for qualified rehabilitation expenditures with respect to old buildings (i.e., generally pre-1936 buildings) is repealed. For amounts paid or incurred after December 31, 2017, the 20% credit is claimed ratably

Provision	Tax Code, Prior to H.R. 1	H.R. 1
	with respect to old buildings (i.e., generally pre-1936 buildings). • A 20% tax credit is provided for qualified rehabilitation expenditures with respect to a certified historic structure. To claim the credits, the property must be substantially rehabilitated. During a 24-month period selected by the taxpayer, rehabilitation expenditures must exceed the greater of the adjusted basis of the building and its structural components or $5,000. For phased rehabilitations, a 60-month period is substituted if certain conditions are met. **(§ 47)**	over a five-year period beginning in the taxable year in which the structure is placed in service. The Act provides a transition rule (for both pre-1936 buildings and certified historic structures) with respect to any building owned or leased by the taxpayer at all times on or after December 31, 2017 where within 180 days of enactment, a qualifying taxpayer begins the 24-month (or 60-month) rehabilitation measuring period, and the amendments made by the Act apply to expenditures paid or incurred after the end of the taxable year in which the 24-month (or 60-month) period ends. **(§ 13402)** *This provision raises $3.1 billion over 10 years.*
Credit for Clinical Testing Expenses for Orphan Drugs, Etc.	A 50% business tax credit is available with respect to qualified clinical testing expenses incurred in testing certain drugs for rare diseases or conditions. **(§ 45C)**	The credit rate is reduced to 25% of qualified clinical testing expenses, and new reporting requirements are imposed. **(§ 13401)** The provision applies to amounts paid or incurred in taxable years beginning after December 31, 2017. *This provision raises $32.5 billion over 10 years.*
Amortization of Research and Experimentation Expenditures	Certain research and experimental expenditures may currently be deducted. **(§ 174)**	Certain research or experimental expenditures paid or incurred in taxable years after 2021 are required to be capitalized and amortized over a five-year period (15 years in the case of expenditures attributable to research conducted outside the United States). The Act also specifies certain rules on accounting method changes. **(§ 13206)** This provision is effective for taxable years beginning after December 31, 2021. *This provision raises $119.7 billion over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1

INDIVIDUAL TAX RATES, DEDUCTIONS, AND CREDITS

INDIVIDUAL INCOME TAX RATES

Tax Code, Prior to H.R. 1

Tax rates are based on income after deductions. There are seven income tax brackets, with a top marginal tax rate of 39.6%. The income thresholds for each bracket are adjusted for inflation based on the CPI-U (described below). Prior to the changes made by the Act, the income thresholds applicable to each bracket would have been the following for 2018:

Rate	Taxable Income	
	Joint Return	Individual
)%	$0 - $19,050	$0 - $9,525
5%	$19,051 - $77,400	$9,526 - $38,7(
5%	$77,401 - $156,150	$38,701 - $93,7
3%	$156,151 - $237,950	$93,701 - $195,4
3%	$237,951 - $424,950	$195,451 - $424,
5%	$424,951 - $480,050	$424,951 - $426,
6%	$480,051+	$426,701+

(§ 1)

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The Act retains the seven income tax brackets, but it reduces several of the tax rates and lowers the top marginal tax rate to 37%. The income thresholds for some brackets are modified and the income thresholds for all brackets are adjusted for inflation based on the C-CPI-U (described below). For 2018, the income thresholds are as follows:

Tax Rate	Taxable Income	
	Joint Return	Individual
10%	$0 - $19,050	$0 - $9,525
12%	$19,051 - $77,400	$9,526 - $38,700
22%	$77,401 - $165,000	$38,701 - $82,500
24%	$165,001 - $315,000	$82,501 - $157,500
32%	$315,001 - $400,000	$157,501 - $200,000
35%	$400,001 - $600,000	$200,001 - $500,000
37%	$600,001+	$500,001+

These changes are effective for taxable years beginning after December 31, 2017 and sunset after 2025. **(§ 11001)**

This provision reduces revenues by $1.21 trillion over 10 years.[2]

CHAINED-CPI-U FOR TAX CODE INDEXING – INCLUDING IRA LIMITS

Tax Code, Prior to H.R. 1

In general, the individual income tax bracket thresholds and numerous other Tax Code thresholds are adjusted for inflation based upon annual changes in the Consumer Price Index for all Urban Consumers (CPI-U). **(§ 1(f))**

The CPI-U is published by the Department of Labor (DOL) and measures prices paid on a broad range of products by typical consumers in urban areas.

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The individual income tax bracket thresholds and numerous other Code thresholds are indexed based on changes to the "Chained-CPI-U" (C-CPI-U), which is a slightly different measure of inflation than the CPI-U in that it reflects the ability of consumers to substitute comparable lower-priced goods as prices fluctuate. Due to this difference, the C-CPI-U is likely to result in slightly smaller annual indexing increases each year.

To the extent that individual tax provisions sunsetting after 2025 are indexed for inflation, those provisions are indexed using the C-CPI-U and will continue to do so after they sunset. The Act also applies the C-CPI-U to numerous other Code limitations, including the following:

• Contribution limits on traditional and Roth IRAs	• Income thresholds for Roth IRA contributions
• Income thresholds for traditional IRAs	• Qualified small employer HRAs

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<tr><td>• HSAs and Archer MSAs</td><td>• Qualified transportation fringes</td></tr>
<tr><td>• Health FSAs</td><td>• “Cadillac” high-cost health plan tax</td></tr>
<tr><td>• Interest on education loans</td><td>• Low-Income Housing credits</td></tr>
<tr><td>• ACA premium subsidies</td><td>• Medical expense deduction for eligible long-term care insurance premiums</td></tr>
<tr><td>• Earned Income Tax Credit</td><td>• Adoption credit and adoption assistance programs</td></tr>
<tr><td>• Research and Development Tax Credit</td><td>• American Opportunity Tax Credit</td></tr>
<tr><td>• Saver’s Credit</td><td>• Income from U.S. savings bonds used to pay higher education expenses</td></tr>
<tr><td>• Private activity bonds</td><td>• Expensing of certain depreciable business assets</td></tr>
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The employer-provided retirement plan contribution and benefit limits tied to Code § 415(d) are not affected. (§ 11002)
This provision is effective for taxable years beginning after December 31, 2017 and does not sunset.
This provision raises $133.5 billion over 10 years. </td></tr>
<tr><td>CAPITAL GAINS AND DIVIDENDS</td><td> Capital gains and qualified dividend income are taxed at special tax rates of 0%, 15%, and 20%. Amounts that would otherwise be taxed at the 10% or 15% income rate are taxed at 0%, amounts otherwise taxed from the 15% to 39.6% income rate are taxed at 15%, and at the 39.6% income rate are taxed at 20%. (§ 1(h))
An additional 3.8% tax applies to net investment income, including capital gains and dividends. The 3.8% tax applies to the lesser of net investment income or the taxpayer’s modified adjusted gross income over the threshold ($250,000 in the case of a joint return). (§ 1411) </td><td> The three tax rates applicable to capital gains and qualified dividends remain at 0%, 15%, and 20%. The thresholds for application of these rates, however, are based on the tax bracket income thresholds that would have been in effect in 2018 without regard to the changes made in the Act. Thus, in 2018, the threshold for the 15% rate is $77,200 for joint returns, $51,700 for head of household, and $38,600 for single and married individuals filing separate returns. The threshold for the 20% rate is $479,000 for joint returns, $452,400 for head of household, $425,800 for single returns, and $239,500 for married individuals filing separate returns. Those thresholds will be indexed beginning in 2019 based on C-CPI-U. The 3.8% tax on net investment income is unaltered. (§ 11001)
This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025.
The cost associated with this change is included in the revenue estimate for changes to individual rates. The provisions collectively reduce revenues by $1.21 trillion over 10 years. </td></tr>
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Provision	Tax Code, Prior to H.R. 1	H.R. 1
Standard Deduction	An individual who does not itemize deductions may reduce his or her AGI by the amount of the applicable standard deduction in computing taxable income. For 2018, the standard deduction is $6,500 for single taxpayers and married couples filing separately, $9,550 for a head of household, and $13,000 for joint filers. **(§ 63)**	The standard deduction is increased for 2018 to $12,000 for individuals, $18,000 for a head of household, and $24,000 for married couples filing jointly. The deduction is indexed annually for taxable years beginning after December 31, 2018 using the C-CPI-U (with a base year of 2017). **(§ 11021)** This provision is effective after December 31, 2017 and sunsets after 2025. *This provision reduces revenues by $720.4 billion over 10 years.*
Personal Exemption	Taxpayers generally may reduce their AGI by claiming a personal exemption of $4,150 (in 2018) each for themselves, their spouse, and any dependents. However, the exemption is subject to a phase-out that begins with AGI of $266,700 ($320,000 for married couples filing jointly). It phases out completely at $389,200 ($442,500 for married couples filing jointly). **(§ 151)**	The deduction for personal exemptions is suspended beginning for taxable years after December 31, 2017. This change sunsets after 2025. Additionally, the Act changes the employer wage withholding rules to reflect the fact that taxpayers may not claim personal exemptions for taxable years beginning after December 31, 2017 and before 2026. These changes are effective for taxable years beginning after December 31, 2017, but the Secretary of the Treasury is permitted to administer the withholding rules under present law, and without regard to such changes, in 2018. **(§ 11041)** *This provision raises $1.21 trillion over 10 years.*
Child / Family Tax Credit and SSN Requirement	An individual may claim a $1,000 tax credit (refundable up to $1,000 for taxpayers with earned income over $3,000) for each qualifying child under age 17. The credit is phased out for individuals with income in excess of certain non-indexed thresholds (e.g., the phase-out begins at $110,000 of AGI for married individuals filing joint returns and $75,000 for single individuals). Taxpayers claiming the child tax credit must provide the taxpayer identification number (TIN) of their qualifying child. For this purpose, a TIN is not limited to a Social Security number (SSN). **(§ 24)**	Beginning in 2018, the child tax credit is increased to $2,000 per qualifying child under age 17. The maximum amount refundable is $1,400 per qualifying child, an amount that is rounded to the next lowest multiple of $100 when adjusted for inflation (beginning after 2018). The earned income threshold for receiving a refundable credit is lowered to $2,500. Also beginning in 2018, a $500 nonrefundable "family" credit is available for qualifying dependents who are not qualifying children. For purposes of the family credit, non-U.S. citizens who are residents of Canada or Mexico would not qualify as a dependent (as they would for other purposes under the definition of dependent provided in Code § 152). Both credits begin to phase out for all taxpayers with modified AGI in excess of $400,000 (joint returns) or $200,000 (all other returns). These phase-out thresholds are not indexed for inflation.

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
		Taxpayers claiming the child tax credit are required to include a work-eligible SSN for each qualifying child in order to receive both the refundable and non-refundable portions of the credit. Qualifying children who are ineligible for the child tax credit due to the lack of an SSN may qualify for the non-refundable $500 "family" credit. These provisions are effective for taxable years beginning after December 31, 2017 and sunset after 2025. **(§ 11022)** *The provisions related to increasing the child tax credit and the new family credit reduce revenues by $573.4 billion over 10 years, and the provision related to SSNs raises $29.8 billion over 10 years.*
Individual Alternative Minimum Tax (AMT)	Taxpayers must compute their income for purposes of both the regular income tax and the AMT, and their tax liability is equal to the greater of their regular income tax liability or AMT liability. In computing the AMT, only alternative minimum taxable income (AMTI) above an AMT exemption amount is taken into account (for 2018, $55,400 for single filers and $86,200 for joint filers). This exemption begins to phase out at certain income levels (for 2018, $123,100 for single filers and $164,100 for joint filers). **(§ 55)**	The AMT exemption amount for single filers is increased to $70,300 ($109,400 for joint filers). The AMT exemption begins to phase out at $500,000 ($1,000,000 for joint filers). The exemption and phase-out amounts are indexed beginning after 2018 based on changes to the C-CPI-U (using calendar year 2017 as the base year). **(§ 12003)** These changes are effective for taxable years beginning after December 31, 2017 and sunset after 2025. *This provision reduces revenues by $637.1 billion over 10 years.*
Individual Health Insurance Mandate	The Patient Protection and Affordable Care Act (ACA) imposes a penalty tax on individuals for any calendar month in which they are not covered by health insurance providing "minimum essential coverage." **(§ 5000A)**	The individual mandate penalty is set to zero beginning in 2019. **(§ 11081)** This provision is effective for months beginning after December 31, 2018. *This provision reduces the federal budget deficit by $314.1 billion over 10 years. Note: Eliminating the collection of penalty taxes is expected to significantly reduce federal outlays by reducing the number of individuals who receive government-subsidized health insurance coverage.*
Limitation on	The total amount of otherwise allowable	The overall limitation on itemized deductions is suspended. **(§ 11046)**

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
ITEMIZED DEDUCTIONS	itemized deductions (other than for medical expenses, investment interest, and casualty, theft, or wagering losses) is limited for certain upper-income taxpayers by what is often called the Pease limitation. For 2018, the threshold above which the otherwise allowable total amount of itemized deductions is reduced is $266,700 for single filers ($320,000 for joint filers). **(§ 68)**	This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025. *The revenue estimate for this provision is combined with the revenue estimates for a series of changes affecting the ability of taxpayers to claim itemized deductions. Those provisions collectively raise $668.4 billion over 10 years.*
STATE AND LOCAL TAX DEDUCTION	Individuals may claim itemized deductions for specific state and local taxes (SALT), including taxes on real and personal property and income or general sales taxes. **(§ 164)**	The deduction for state and local taxes is limited to $10,000 ($5,000 if married filing separately). The Act limits this deduction to (1) state and local property taxes (real or personal), and (2) state and local income taxes (or sales taxes in lieu of income taxes). The limit does not apply, however, to real or personal property taxes paid or accrued in carrying on a trade or business. The Act states that any amount paid in 2017 or earlier with respect to taxes imposed for a year after 2017 are treated as paid on the last day of the taxable year to which the tax applies. This prevents taxpayers from claiming an itemized deduction in 2017 on a pre-payment of income tax for future taxable years. **(§ 11042)** This provision generally applies to taxes paid or accrued after December 31, 2017 and before 2026. (The anti-abuse rule applies to taxable years beginning after December 31, 2016.) *The revenue estimate for this provision is combined with the revenue estimates for a series of changes affecting the ability of taxpayers to claim itemized deductions. Those provisions collectively raise $668.4 billion over 10 years.*
MEDICAL EXPENSE DEDUCTION	Individuals are allowed a deduction for unreimbursed medical care expenses to the extent that the expenses exceed 10% of AGI. For 2013-2016, except for purposes of the AMT, taxpayers were allowed to deduct unreimbursed medical care expenses to the extent the expenses exceeded 7.5% of AGI if the taxpayer or the taxpayer's spouse had attained at least age 65 by the end of the	For 2017 and 2018, the medical expense deduction is available to the extent that expenses exceed 7.5% of AGI for all taxpayers, including for purposes of the AMT. After 2018, the 7.5% AGI limit sunsets and the medical expense deduction is available to the extent that medical expenses exceed 10% of AGI for all taxpayers. **(§ 11027)** This provision is effective for taxable years beginning after December 31, 2016. *This provision reduces revenues by $5.2 billion over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
	taxable year. Medical care includes expenses for long-term care services and premiums paid for a qualified long-term care insurance contract. **(§ 213)**	
MORTGAGE INTEREST DEDUCTION: **ACQUISITION INDEBTEDNESS** **AND** **HOME EQUITY INDEBTEDNESS**	Individuals may deduct interest paid on up to $1 million ($500,000 if married filing separately) of *qualified home acquisition indebtedness* with respect to their principal residence and one other residence. From 2007-2016 (due to multiple extensions of the termination date), individuals were also generally allowed to deduct premiums for qualified mortgage insurance as if such premiums were qualified residence interest. Individuals may deduct interest paid on up to $100,000 ($50,000 if married filing separately) of *qualifying home equity indebtedness* with respect to their principal residence and one other residence. **(§ 163(h))**	For homes purchased after December 15, 2017, the deduction for home acquisition indebtedness is limited to interest paid on up to $750,000 ($375,000 if married filing separately) of acquisition indebtedness. Indebtedness incurred on or before December 15, 2017 (and refinancing of that indebtedness) is still eligible for the $1 million limit, and an exception is provided for taxpayers who entered into a written binding contract to purchase a home before December 15, 2017, if certain conditions are met. The deduction for home equity indebtedness is suspended. In addition, the deduction for qualified mortgage insurance is eliminated from the Code and not extended beyond 2016. **(§ 11043)** This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025. In years after 2025, taxpayers may treat up to $1 million of indebtedness as acquisition indebtedness regardless of when such indebtedness was incurred. In years after 2025, taxpayers may also deduct interest paid on up to $100,000 of home equity indebtedness. *The revenue estimate for this provision is combined with the revenue estimates for a series of changes affecting the ability of taxpayers to claim itemized deductions. Those provisions collectively raise $668.4 billion over 10 years.*
CHARITABLE DEDUCTION	Taxpayers are generally allowed to deduct up to 50% of their AGI for charitable contributions. If a taxpayer pays an institution of higher education for the right to buy tickets for a college athletic event, 80% of the amount paid is treated as a charitable contribution. **(§ 170)**	The income-based percentage limit is increased from 50% to 60% of AGI for certain charitable contributions of cash. **(§ 11023)** The deduction for payments made to an institution of higher education for the right to buy tickets for a college athletic event is disallowed. **(§ 13703)** These provisions are effective for taxable years beginning after December 31, 2017. The provision increasing the AGI limit for charitable contributions made in cash sunsets after 2025.

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
		The revenue estimate for the provision increasing the AGI limit for charitable contributions is combined with the revenue estimates for a series of changes affecting the ability of taxpayers to claim itemized deductions. Those provisions collectively raise $668.4 billion over 10 years. *The provision eliminating any deduction for seating rights at college athletic events raises $2 billion over 10 years.*
Personal Casualty Loss Deduction	Individuals may claim an itemized deduction for the cost of casualty losses or theft not compensated by insurance or otherwise to the extent that these costs exceed 10% of AGI. Additionally, casualty losses are only deductible if they exceed $100 per casualty or theft. **(§ 165)**	Subject to current law limitations, the personal casualty loss deduction is further limited to losses incurred in a disaster declared by the President under § 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. This limitation is effective for losses incurred in taxable years beginning after December 31, 2017 and sunsets after 2025. **(§ 11044)** The casualty loss deduction rules are modified for individuals who suffered a loss arising in an area that was designated as a presidentially declared disaster area in 2016. Individuals eligible for this special relief may claim a deduction for those losses without regard to whether net losses satisfy the 10% AGI floor, although in order to be deductible, the losses must exceed $500 per casualty. Additionally, such losses may be claimed in addition to the standard deduction. This provision is effective for losses incurred in any taxable year beginning after December 31, 2015 and before January 1, 2018. **(§ 11028(c))** *The revenue estimate for the general limitation on the deduction for casualty losses is combined with the revenue estimates for a series of changes affecting the ability of taxpayers to claim itemized deductions. Those provisions collectively raise $668.4 billion over 10 years.* *The revenue estimate for the special casualty loss rules for 2016 disaster areas is combined with the revenue estimate for retirement plan tax relief associated with 2016 disasters. Those provisions reduce revenues by $4.6 billion over 10 years.*
Estate and Gift Taxes	An estate tax is imposed on certain transfers made upon an individual's death, whereas a gift tax is imposed on certain transfers made	The estate and gift tax basic exclusion amount (in Code § 2010(c)(3)) is doubled to $10 million after 2017. The basic exclusion amount is indexed for inflation occurring after <u>2011</u> using the C-CPI-U. **(§§ 11061 and 11002(d)(1)(CC))**

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
	by an individual during his or her lifetime. Beneficiaries generally take a stepped-up basis in estate property received. A unified credit is available with respect to taxable transfers by gift and at death. The unified credit offsets the tax on a specified amount of transfers, referred to as the "applicable exclusion amount" or "exemption amount." The applicable exclusion amount is set at $5 million and indexed for inflation ($5.6 million for 2018). Transfers in excess of that amount are generally subject to the top rate of 40%. **(Chs. 11, 12, and 13)**	This provision is effective for estates of decedents dying and gifts made after December 31, 2017 and sunsets after 2025. *This provision reduces revenues by $83 billion over 10 years.*
Retirement Plans, IRAs, and Executive Compensation Provisions		
Recharacterization of Roth Conversions	Individuals may recharacterize a traditional IRA contribution as a Roth IRA contribution, and they may recharacterize a Roth IRA contribution as a traditional IRA contribution. Conversions of a traditional IRA to a Roth IRA may also be recharacterized. The deadline is the due date for the individual's income tax return for that year (including extensions). **(§ 408A(d))** Upon recharacterization, the IRA owner is treated as having made the contribution originally to the second account. In the case that a Roth conversion is recharacterized, the IRA owner is treated as though he never made the conversion. Recharacterizations include net earnings related to a contribution. Distributions from a qualified retirement	Recharacterization is no longer allowed in the case of a qualified rollover contribution, including a conversion, from a non-Roth account or annuity to a Roth IRA. This limitation applies to qualified rollover contributions made from pre-tax accounts under an IRA, qualified retirement plan, 403(b) plan, or 457(b) plan. The ability to recharacterize contributions made to a Roth IRA as contributions to a traditional IRA would not be affected. Similarly, the ability to recharacterize contributions made to a traditional IRA as contributions to a Roth IRA would not be affected; but this would be available only if the individual is eligible to make a Roth IRA contribution for the year. The ability to convert traditional IRAs to Roth IRAs is not affected; however, individuals no longer have the ability to later recharacterize, or "undo," that conversion. **(§ 13611)** This provision is effective for taxable years beginning after December 31, 2017. It appears that recharacterizations in 2018 with respect to conversions in 2017 are not affected, but this is not clear. *This provision raises $500 million over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
	plan, 403(b) plan, or 457(b) plan may be rolled over directly into a Roth IRA. **(§ 408A(e))** In-plan Roth rollovers may not be recharacterized.	
LENGTH OF SERVICE AWARDS FOR PUBLIC SAFETY VOLUNTEERS	Governmental and other tax-exempt employers are subject to restrictions on the deferral of compensation. A length of service award given to a volunteer who provides firefighting and prevention, emergency medical, and ambulance services is not considered to be deferred compensation, but only if the aggregate maximum amount accruing for each year of service is no greater than $3,000. There is no indexing of the limit. **(§ 457(e))**	The annual limit on the accrual of length of service awards is doubled to $6,000. There is also a cost-of-living adjustment in $500 increments based on the rules for increasing plan limits in Code § 415(d). The Act also clarifies the method for valuing a length of service award that is paid as a defined benefit plan. In that case, the limitation applies to the actuarial present value of the aggregate amount of length of service award accruing for any year of service. To calculate the actuarial present value, reasonable actuarial assumptions must be used, assuming payment will be made under the most valuable form of payment under the plan, with payment commencing at the later of the earliest age at which unreduced benefits are payable under the plan or the participant's age at the time of calculation. **(§ 13612)** This provision is effective for taxable years beginning after December 31, 2017. *This provision reduces revenues by $500 million over 10 years.*
TIME ALLOWED TO REPAY OFFSET LOANS	Retirement plan loans are generally accelerated (i.e., immediately due and payable) when the plan terminates or the participant terminates employment. If the loan is not repaid, the plan will "offset" the loan against the participant's account. This loan offset may be rolled over by making an equivalent contribution to an IRA or another qualified plan, but this must be done within 60 days of the date of the offset. **(§ 402(c))**	The period to roll over a loan offset is extended to the individual's due date, including extensions, for the tax return for the year in which the loan is treated as distributed from the plan. To be eligible for this treatment, the loan must have been treated as distributed from the plan solely because of the termination of the plan or the failure of the participant to meet the repayment terms of the loan because of severance of employment. In addition, the loan must have met the requirements of 72(p)(2) (i.e., the general requirements for a non-taxable plan loan). **(§ 13613)** This provision applies to plan loan offset amounts which are treated as distributed in taxable years beginning after December 31, 2017. *This provision has a negligible revenue effect over 10 years.*

Provision	Tax Code, Prior to H.R. 1	H.R. 1
2016 Disaster Area Tax Relief	Distributions from a qualified retirement plan, 403(b) plan, 457(b) plan, or IRA are generally included in income for the year in which the distribution is made. **(§§ 402(a), 403(b), 457(a), and 408(d))** Unless an exception applies, distributions taken from a 401(k) plan, 403(b) plan, or IRA before age 59½ are subject to a 10% early distribution tax penalty. **(§ 72(t))** If eligible, a distribution from a qualified retirement plan, 403(b) plan, 457(b) plan, or IRA may be rolled over tax-free to another eligible retirement plan within 60 days. **(§§ 402(c)(3), 403(b)(8), 457(e)(16), and 408(d)(3))** In-service distributions from a qualified retirement plan, 403(b) plan, or 457(b) plan are generally not permitted, unless a specific exception applies. Congress has provided special relief with respect to loans and distributions from plans for prior hurricanes, including Hurricanes Katrina, Wilma, and Rita in 2005, and Hurricanes Harvey, Irma, and Maria in 2017.	Tax relief is provided for certain retirement plan and IRA distributions taken on or after January 1, 2016, and before January 1, 2018, by individuals: (1) whose principal place of abode was located in a presidentially declared disaster area at any time during 2016, and (2) who sustained an economic loss by reason of the events giving rise to the disaster declaration. This relief is similar to the retirement-related tax relief enacted after Hurricanes Katrina, Wilma, and Rita in 2005, and Hurricanes Harvey, Irma, and Maria in 2017. (Unlike that prior relief, however, the Act does not include retirement plan loan relief, including an increase in the maximum loan amount and a delay in loan repayment dates. In addition, the Act does not include a rule allowing repayment of distributions taken to purchase or build a home that was in the hurricane disaster area.) For distributions treated as a "qualified 2016 disaster distribution," the Act: (1) provides an exception to the 10% early distribution penalty; (2) exempts the distribution from mandatory 20% withholding; (3) permits ratable income inclusion over the three-year period beginning with the year the distribution would otherwise be taxable; and (4) permits contribution of the distribution to a plan or IRA within three years, in which case the contribution is generally treated as a direct trustee-to-trustee transfer within 60 days of the distribution. This special tax treatment is limited to aggregate distributions not in excess of $100,000. The Act includes rules extending the deadline for any retroactive plan amendments made pursuant to the relief. Individuals who are eligible for a qualified 2016 disaster distribution may take a distribution from a retirement plan regardless of whether an in-service distribution is otherwise permissible under the Code. **(§ 11028)** This provision is effective on the date of enactment. *The revenue estimate for this disaster relief is combined with the revenue estimates for special casualty loss rules for individuals suffering a loss arising in an area that was designated as a presidentially declared disaster area in 2016. Those provisions reduce revenues by $4.6 billion over 10 years.*

Provision	Tax Code, Prior to H.R. 1	H.R. 1
Deduction Limit on Compensation Above $1 Million	The compensation deduction for publicly traded companies is limited to $1 million annually for the CEO and individuals whose compensation is required to be reported to shareholders under the Securities Exchange Act by reason of such employee being among the four highest compensated officers for the taxable year (other than the chief executive officer). This deduction limit does not apply to performance-based compensation (including stock options or commissions). Whether someone is in the covered group is determined as of the close of the employer's taxable year. **(§ 162(m))**	To conform with SEC reporting, the covered five individuals are changed to any employee who was the CEO or CFO at any time during the taxable year, in addition to the three highest-compensated officers for the taxable year (other than the CEO or CFO). In addition, a company is subject to the deduction limit if the company is required to file reports under § 15(d) of the Securities Exchange Act, even if the company is not required to register its securities under § 12 of the Securities Exchange Act. The exceptions for commissions and performance-based compensation are removed. An employee is considered a covered employee if he or she was a covered employee for the company or any predecessor in any taxable year after 2016. (The effect of this change will be to restrict the deductibility of deferred compensation paid after an individual is no longer in the covered group.) The restriction applies to payments to other individuals (such as spouses and death beneficiaries) who receive the payment because of a covered employee. The Act contains a transition rule that effectively grandfathers future remuneration paid to employees if (a) the remuneration is paid under a written binding contract in effect on November 2, 2017 and (b) the terms of such contract are not modified in any material respect on or after November 2, 2017. Such contracts would be applied using pre-2018 law. **(§ 13601)** The joint explanatory statement includes additional information on the application of the grandfather rule, which is not contained in the Act's text: (1) The grandfather rule applies to an executive who has a binding contract to participate in a deferred compensation plan in effect before November 2, 2017, even if participation in the plan begins after that date. (2) The fact that a plan is "in existence" on November 2, 2017 is not sufficient for the grandfather rule. (3) A contract that is "renewed" after November 2, 2017 is treated as a new contract. (4) A contract that is terminable or cancelable unconditionally at will by either party to the contract without the consent of the other, or by both parties to the contract, is treated as a new contract entered into on the date any such termination or cancellation, if made, would be effective. This provision is effective for taxable years beginning after December 31, 2017. *This provision raises $9.2 billion over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
COMPENSATION OF TAX-EXEMPT ORGANIZATION EXECUTIVES	Taxable employers are generally allowed a deduction for reasonable compensation expenses, but in some cases, compensation in excess of specific levels is not deductible. These deduction limits generally do not affect tax-exempt organizations. **(No current Code provision)**	An excise tax of 21% is imposed on compensation in excess of $1 million paid by tax-exempt organizations to the five highest compensated employees. The excise tax applies to organizations exempt from tax under section 501(a) (including 501(c) organizations), certain farmers' cooperative organizations, state and local governmental entities that have income exempt from tax under section 115(1), and political organizations described in section 527(e)(1). Certain parachute payments are also subject to the excise tax. The tax would be imposed on the employer, not the individual. In general, remuneration subject to the excise tax means wages for withholding purposes, except for designated Roth contributions to a Roth 401(k) or 403(b). Remuneration also includes any amount that is required to be included in income under Code § 457(f). Remuneration is treated as paid when there is no substantial risk of forfeiture under the rules in Code § 457(f)(3)(B). Remuneration does not include, however, amounts paid to licensed medical professional (including a doctor, nurse, or veterinarian) for the performance of medical or veterinary services. Remuneration for a covered employee includes amounts paid by related persons and governmental entities. In that case, each related employer owes a proportionate share of the excise tax. Any employee in the covered group in 2017 or later would remain in the covered group. An excess parachute payment is the amount by which any parachute payment exceeds the "base amount" for that individual. A parachute payment is a payment in the nature of compensation to (or for the benefit of) a covered employee if the payment is contingent on the employee's separation from employment and the aggregate present value of all such payments equals or exceeds three times the base amount. The base amount is the average annualized compensation includible in the covered employee's gross income for the five taxable years ending before the date of the employee's separation from employment. Parachute payments do not include payments under a qualified retirement plan. Any compensation paid to employees who are not highly compensated employees (within the meaning of Code §414(q)) is not considered a parachute payment. **(§ 13602)** This provision is effective for taxable years beginning after December 31, 2017. *This provision raises $1.8 billion over 10 years.*

PROVISION	**TAX CODE, PRIOR TO H.R. 1**	**H.R. 1**
QUALIFIED EQUITY GRANTS FOR NON-PUBLIC COMPANIES	Generally, an employee must recognize income for the taxable year in which an employee's right to stock is transferable or when there is no longer a substantial risk of forfeiture, whichever is applicable. Employees may decide to make what is called an "83(b) election," which accelerates taxation of stock prior to vesting. If a proper and timely election under Code § 83(b) is made, the amount of compensatory income is capped at the amount equal to the fair market value of the stock as of the date of transfer (less any amount paid for the stock). Section 83(b) elections are not allowed for restricted stock units (RSUs). **(§ 83)**	Employees who are granted stock options or RSUs as compensation for the performance of services may elect to defer recognition of income for up to five years, if the corporation's stock is not publicly traded. To be eligible to be "qualified stock," the stock must be received in connection with the exercise of an option or in settlement of an RSU and the option or RSU must have been granted (a) in connection with the performance of services and (b) in a year in which the corporation was an eligible corporation. Instead of the taxable year that would otherwise apply, qualified stock is taxed in the year in which the earliest occurs: (1) the date the qualified stock is transferrable, (2) the individual becomes an "excluded employee," (3) the date on which any stock of the employer becomes publicly traded, (4) five years after the earlier of the first date the rights of the employee in the stock are transferrable or not subject to a substantial risk of forfeiture, or (5) the date the employee revokes the election. An excluded employee includes a 1% owner at any time during the year or in the prior 10 calendar years, a current or former CEO or CFO (and certain related persons), and one of the highest four paid officers in the current year or in the prior 10 years. The employer must have a written plan under which at least 80% of full-time employees (other than excluded employees) working in the U.S. are granted stock options or RSUs (although the amount granted to each such employee need not be identical). This requirement cannot be met by granting a combination of stock options and RSUs. Notice requirements apply to corporations who provide such grants to employees, and an excise tax applies if the notice is not provided. The Act also includes new wage withholding rules to determine the time and rate of withholding on grants, rules for information reporting, and rules coordinating these grants with rules for incentive stock options, employee stock purchase plans, and deferred compensation (i.e., these grants are not subject to Code § 409A). When an inclusion deferral election is made with respect to stock transferred under an employee stock purchase plan (ESPP), the option is not considered an ESPP, such that when an inclusion deferral election is made in connection with the exercise of both ESPPs and incentive stock options (ISOs), the options are not treated as statutory options but rather as nonqualified stock options for FICA purposes. **(§ 13603)** The provision is generally applicable to options exercised, or RSUs settled, after December 31, 2017. *This provision reduces revenues by $1.2 billion over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
EMPLOYEE BENEFITS PROVISIONS (OTHER THAN RETIREMENT)		
DEDUCTIONS FOR ENTERTAINMENT, AMUSEMENT, AND RECREATION	Taxpayers are permitted to deduct "ordinary and necessary" business expenses. However, any deduction for entertainment, amusement, or recreation is generally disallowed, unless a taxpayer can establish that the item was directly related to (or, in certain cases, associated with) the active conduct of the taxpayer's trade or business. This general disallowance is subject to exceptions described in Code § 274(e). Any deduction for entertainment is also subject to a 50% limitation, unless an exception applies. **(§ 274)**	Any deduction for entertainment, amusement, or recreation activities or facilities is generally disallowed, even if such expenses are directly related to or associated with the active conduct of the taxpayer's trade or business, unless an exception applies. Code § 274(e) includes a list of statutory exceptions that have not been amended by the Act. **(§ 13304)** This provision applies to amounts paid or incurred after December 31, 2017. *The provisions affecting the deductibility of entertainment and meals raise $23.5 billion over 10 years.*
DEDUCTIONS FOR MEALS, FOOD, AND BEVERAGES	The deduction for ordinary and necessary business expenses can include expenses for meals, food, and beverages (e.g., meals with clients, meals provided to employees on the employer's business premises, and meals consumed while on business travel). To the extent that meals constitute entertainment, amusement, or recreation, no deduction is permitted unless a taxpayer can establish that the item was directly related to (or, in certain cases, associated with) the active conduct of the taxpayer's trade or business. This general disallowance is subject to exceptions described in Code § 274(e). Any deduction for meals, whether entertainment or not, is subject to a 50%	Any deduction for meals, food, or beverages is generally disallowed to the extent that such expenses are entertainment, amusement, or recreation, unless an exception applies. Code § 274(e) includes a list of statutory exceptions that have not been amended by the Act. Beginning in 2018, a new 50% limitation is imposed on the deduction for food and beverages that may be excluded from an employee's income as a de minimis fringe benefit, including expenses for the operation of an employee cafeteria located on or near the employer's business premises. De minimis food and beverage expenses also include items such as employer-provided coffee, donuts, and soft drinks. Beginning in 2026, any deduction for employee cafeterias and meals furnished for the convenience of the employer on the business premises of the employer is eliminated. **(§ 13304)** This provision is generally applicable to amounts paid or incurred after December 31, 2017. However, the elimination of any deduction for food and beverages through an eating facility that meets the requirements for de minimis fringe benefits and meals for the convenience of the employer will become effective after December 31, 2025. *The provisions affecting the deductibility of entertainment and meals raise $23.5 billion*

Provision	Tax Code, Prior to H.R. 1	H.R. 1
	limit, unless an exception applies. Food and beverages that may be excluded from an employee's income as a de minimis fringe benefit, including expenses for an employee cafeteria located on or near the employer's business premises, may be fully deducted. **(§ 274)**	*over 10 years.*
Deduction for Qualified Transportation Fringe Benefits	Employers may deduct the cost of qualified transportation fringe benefits, even though such benefits are excluded from an employee's income. Qualified transportation fringe benefits include parking, transit passes, vanpool benefits, and qualified bicycle commuting reimbursements, all of which are subject to dollar limits. **(§§ 132(f) and 162)**	Any deduction for qualified transportation fringe benefits is generally disallowed, except in the case of qualified bicycle commuting reimbursements paid or incurred after December 31, 2017 and before 2026. In addition, except as necessary for ensuring the safety of an employee, any deduction for providing transportation or any payment or reimbursement for commuting to work is disallowed, other than qualified bicycle commuting reimbursements paid or incurred after December 31, 2017 and before 2026. **(§ 13304)** Except for qualified bicycle commuting reimbursement (see below), the exclusion for employees for qualified transportation fringe benefits is not affected. This provision is effective for amounts paid or incurred after December 31, 2017. *This provision, along with the qualified transportation benefit changes for tax-exempt entities, raises $17.7 billion over 10 years.*
Fringe Benefits Provided by Tax-Exempt Entities	Qualified transportation fringe benefits and access to on-premises gyms and athletic facilities, pass from an employer to employees free of tax, regardless of whether the employer is a taxable or tax-exempt entity. Employers subject to income tax may deduct the costs of these fringe benefits; tax-exempt employers need not deduct the costs of these benefits, but employees may exclude the value of the benefits. **(§§ 132, 274, and 512)**	The unrelated business taxable income of a tax-exempt entity is increased by an amount equal to the amount for which a deduction is disallowed under Code § 274 for any qualified transportation fringe benefit (as defined in Code § 132(f)), any parking facility used in connection with qualified parking (as defined in Code section 132(f)(5)(C)), or any on-premise athletic facility (as defined in Code § 132(j)(4)(B)). This change does not apply to the extent that a benefit is directly connected with an unrelated trade or business that is regularly carried on by the organization. **(§ 13703)** This provision is effective for amounts paid or incurred after December 31, 2017. *This provision, along with the elimination of the deduction for certain transportation benefits, raises $17.7 billion over 10 years.*

Provision	Tax Code, Prior to H.R. 1	H.R. 1
Qualified Bicycle Commuting Reimbursement	Employees may exclude from their income qualified bicycle commuting reimbursements of up to $20 per qualifying bicycle commuting month. These amounts are also excluded from wages for employment tax purposes. **(§ 132(f))**	The exclusion for qualified bicycle commuting reimbursements paid by employers to employees is suspended. **(§ 11047)** This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025. *This provision raises less than $50 million over 10 years.*
Employee Achievement Awards	Employee achievement awards for length of service or safety achievements are excluded from employees' income if certain conditions are met, to the extent that the cost (or value, if greater) of the award does not exceed the employer's deduction for the award. The employer's deduction is limited to $400 (or up to $1,600 in the case of certain written nondiscriminatory achievement plans). An "employee achievement award" is an item of tangible personal property which is transferred to an employee as part of a meaningful presentation for length of service achievement or safety achievement and awarded under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation. **(§§ 74(c) and 274(j))**	The exclusion for employee achievement awards for the employee, and the deduction for the employer, does not apply to cash, gift coupons, gift certificates, vacations, meals, lodging, tickets to sporting or theater events, securities, and "other similar items." A deduction/exclusion is still allowed for any other tangible property as well as gift certificates allowing the recipient to select tangible property from a limited array of items pre-selected or pre-approved by the employer. **(§ 13310)** This provision is effective for amounts paid or incurred after December 31, 2017. *This provision raises less than $50 million over 10 years.*
Employer Credit for Paid Family and Medical Leave	The Family and Medical Leave Act (FMLA) entitles certain employees of covered employers to take twelve weeks of unpaid, job-protected leave annually for specified family and medical reasons (e.g., the birth of a child, to care for an employee's spouse, child, or parent who has a serious health condition, or for a serious health condition that makes the employee unable to perform the essential functions of his or her job).	The Act creates a tax credit for employers that pay employees while on family and medical leave, as described by the FMLA. In order to be eligible for the credit, an employer must have a written policy that allows all "qualifying" full-time employees not less than two weeks of annual paid family and medical leave (and a commensurate amount of leave for less-than-full-time employees on a pro rata basis). The leave program must also provide for at least 50% of the wages normally paid to an employee. A "qualifying" employee is an employee who has been employed by the employer for one year or more, and who for the preceding year had compensation not in excess of 60% of the compensation threshold for highly compensated employees ($120,000 in 2018).

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	Current law does not provide a credit to employers for compensation paid to employees while on family and medical leave. **(No current Code provision)**	Vacation leave, personal leave, or other medical or sick leave are not considered family and medical leave. In addition, any leave paid by a state or local government or required by a state or local law is not taken into account in determining the amount of paid family and medical leave provided by the employer. The credit is equal to 12.5% of the amount of wages paid to qualifying employees during any such employee's period of family and medical leave, increased by 0.25% for each percentage point by which the rate of payment for an employee on family and medical leave exceeds 50% of the wages normally paid to the employee (but not to exceed 25% of the wages paid). Additional limitations apply to the credit amount, including that the amount of family and medical leave that may be taken into account with respect to any employee for a taxable year may not exceed 12 weeks. **(§ 13403)** The credit is only available for wages paid in 2018 and 2019. *This provision reduces revenues by $4.3 billion over 10 years.*
QUALIFIED MOVING EXPENSE REIMBURSEMENTS	Qualified moving expense reimbursements that are received by an individual from an employer for the reasonable expenses of moving household goods and personal effects from a former residence to a new residence and for traveling during the move (excluding meals) are excluded for purposes of the employee's income and employment taxes. **(§ 132(g))**	The exclusion for qualified moving expense reimbursements is repealed for taxable years beginning after December 31, 2017 and before 2026, except in the case of members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station (or their spouses or dependents). **(§ 11048)** This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025. *This provision raises $4.8 billion over 10 years.*
QUALIFIED MOVING EXPENSE DEDUCTION	Individuals are permitted to make an above-the-line deduction for moving expenses paid or incurred during the taxable year in connection with commencing work as an employee or as a self-employed individual at a new principal place of work, if certain conditions are met. **(§ 217)**	The deduction for moving expenses is repealed for taxable years beginning after December 31, 2017 and before 2026, except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station (or their spouses or dependents). **(§ 11049)** This provision is effective for taxable years beginning after December 31, 2017 and sunsets after 2025. *This provision raises $7.6 billion over 10 years.*

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
EDUCATION-RELATED PROVISIONS		
529 COLLEGE SAVINGS PLANS	Under a qualified education program (i.e., a 529 plan), an individual may fund higher education expenses by either prepaying tuition or contributing to an account. Although there is no deduction for payments or contributions when made, distributions are tax-free when used for qualified higher education expenses. **(§ 529)**	Annual aggregate distributions made after 2017 from a 529 plan(s) to pay for up to $10,000 of tuition expenses in connection with enrollment at an elementary or secondary school (public, private, or religious) are treated as qualified expenses. **(§ 11032)** This provision is effective beginning after December 31, 2017 and would not sunset. *This provision reduces revenues by $500 million over 10 years.*
529 TO ABLE ROLLOVERS	Amounts distributed from a 529 plan may be rolled over within 60 days to another 529 plan for the benefit of: (1) the designated beneficiary; or (2) another designated beneficiary under a 529 plan who is a member of the family of the designated beneficiary with respect to whom the distribution was made. Amounts distributed from a 529 plan may not be rolled over to an ABLE account. **(§§ 529 and 529A)**	For distributions after the date of enactment and before 2026, savings in a 529 account may be rolled over to an ABLE account of the 529 account's designated beneficiary or a member of the family of the 529 account's designated beneficiary. Such amounts would count toward the annual ABLE account contribution limit. (The annual ABLE account contribution limit for purposes of this provision would not include the increased limit described in the row below.) **(§ 11025)** This provision is effective for distributions after the date of enactment and sunsets after 2025. *This provision reduces revenues by less than $50 million over 10 years.*
INCREASED ABLE CONTRIBUTIONS FOR WORKING BENEFICIARIES	Annual contributions to an ABLE account (not including rollovers from other ABLE accounts) may not exceed the annual federal gift tax exemption amount in effect at the beginning of the calendar year. For 2018, this limit is $15,000. **(§ 529A)**	After the overall contribution limit ($15,000 in 2018) is reached, a working designated beneficiary may contribute an additional amount up to the lesser of (1) the designated beneficiary's compensation for the taxable year, or (2) an amount equal to the Federal Poverty Level for a one-person household ($12,060 for 2018). This additional contribution is not available if any contributions (employee or employer) are made to a defined contribution plan, 403(b) annuity, or 457(b) plan on behalf of the designated beneficiary for the year. The designated beneficiary (or a person acting on behalf of such beneficiary) is required to maintain adequate records for purposes of ensuring compliance with this new contribution limit. **(§ 11024(a))** This provision is effective for taxable years beginning after the date of enactment and

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
		sunsets after 2025. *The revenue estimate for this provision is combined with the revenue estimate for the provision that would permit the designated beneficiary an ABLE account to claim the Saver's Credit. Those provisions collectively reduce revenues by less than $50 million over 10 years.*
SAVER'S CREDIT FOR ABLE CONTRIBUTIONS	A designated beneficiary of an ABLE account may not claim the Saver's Credit for contributions made to an ABLE account. **(§ 25B)**	A designated beneficiary of an ABLE account may claim the Saver's Credit for contributions to his or her ABLE Account. The general Saver's Credit rules would still limit the contributions eligible for the credit to $2,000 ($4,000 joint returns). Moreover, the income limits on eligibility and other eligibility limits on the Saver's Credit would still apply (i.e., the designated beneficiary of the ABLE account would have to be age 18 or older, not a full-time student, and not claimed as a dependent on another person's return). **(§ 11024(b))** This provision is effective for taxable years beginning after the date of enactment and sunsets after 2025. *The revenue estimate for this provision is combined with the revenue estimate for the provision that increases the ABLE contribution limit for working beneficiaries Those provisions collectively reduce revenues by less than $50 million over 10 years.*
DISCHARGE OF STUDENT LOAN INDEBTEDNESS	Student loan debt that is forgiven must be included in income, with the exception of debt forgiven under certain loan repayment programs. **(§ 108)**	For discharges of indebtedness after December 31, 2017 and before 2026, any income resulting from the discharge of student loan debt on account of death or total disability (including with respect to a parent who took out a Federal Plus loan on behalf of a child who has died) that is received in taxable years after 2017 is excluded from taxable income. **(§ 11031)** This provision is effective beginning after December 31, 2017 and sunsets after 2025. *This provision reduces revenues by $100 million over 10 years.*
UNIVERSITY ENDOWMENTS	University endowment funds are not typically subject to taxation. **(No current Code provision)**	For taxable years beginning after 2017, an excise tax of 1.4% is imposed on the net investment income of certain private colleges and universities with 500 or more full-time students (of which more than 50% must be located in the United States) and with assets of at least $500,000 per student (other than those assets used directly in carrying out the institution's exempt purpose). The 1.4% excise tax also applies to the investment income with respect to assets of a private university that are formally held by organizations related to the university, and not merely those that are directly held by the

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		university. The assets of such related organizations are also counted for purposes of determining whether the $500,000 per student threshold is met. The related-party rule generally applies only to assets held for the educational institution and to net investment income that relates to those assets, and such amounts are only taken into account with respect to one educational institution. **(§ 13701)** The Joint Explanatory Statement of the Committee of Conference indicates that the Secretary of the Treasury is to promulgate regulations to carry out the intent of the Act, including regulations that describe: (1) assets that are used directly in carrying out the educational institution's exempt purpose; (2) the computation of net investment income; and (3) assets that are intended or available for the use or benefit of the educational institution. This language, however, is not in the legislative text. This provision is effective for taxable years beginning after December 31, 2017. *This provision raises $1.8 billion over 10 years.*
LIFE INSURANCE COMPANY AND PRODUCT PROVISIONS		
RESERVES	Life insurance company gross income for a taxable year generally includes the net decrease during the year in reserves with respect to insurance and annuity contracts the company has issued or reinsured, and life insurance deductions generally include the net increase in such reserves. The amount of the life insurance reserve for a contract is the greater of its net surrender value (NSV) or the "federally prescribed reserve" determined under Code § 807. The federally prescribed reserve for a contract is based on (1) the "tax reserve method" applicable to the contract, (2) the greater of the "applicable Federal interest rate" or the "prevailing State assumed interest rate," and (3) the prevailing commissioners' standard tables, all as described in Code § 807 and determined at	The Act makes substantial changes to how a life insurance company computes the deduction for the annual increase in its life insurance reserves or the income from a decrease in those reserves. For this purpose, the amount of the life insurance reserve for any contract (other than a variable contract) is the greater of (1) the NSV (as defined under current law), or (2) 92.81% of the amount determined using the "tax reserve method otherwise applicable to the contract." For variable contracts, the reserve is the sum of (a) the greater of the NSV or the portion of the reserve separately accounted for under current-law Code § 817, plus (b) 92.81% of the excess (if any) of the amount using the "tax reserve method otherwise applicable to the contract" over the amount determined under (a). The "tax reserve method" for the various types of contracts generally remains as defined in current law, except the applicable method is determined "as of the date the reserve is determined" rather than as of the date the contract is issued. The tax reserve method for noncancellable A&H insurance contracts (other than QLTC insurance contracts) is modified by replacing the 2-year full preliminary term method with the reserve method prescribed by the NAIC that covers the contract when the reserve is determined. For QLTC insurance contracts, the reserve method prescribed by the NAIC that covers the

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	issuance of the contract. The comparison of the NSV and the reserve is made on a contract-by-contract basis. In the case of noncancellable accident and health (A&H) insurance contracts other than qualified long-term care (QLTC) insurance contracts, the "tax reserve method" is defined in Code § 807(d)(3)(A)(iii) as "a 2-year full preliminary term method." In the case of QLTC insurance contracts, Code § 807(d)(3)(A)(iv) defines the "tax reserve method" generally as the reserve method prescribed by the National Association of Insurance Commissioners (NAIC) that covers the contract on the date of issuance, which generally means a 1-year preliminary term method. The tax reserve for any contract is capped at the statutory reserve, meaning the aggregate amount set forth in the annual statement with respect to certain items enumerated in the Code but not including certain reserves attributable to deferred and uncollected premiums. **(§ 807)**	contract when the reserve is determined is used, effectively continuing use of the 1-year preliminary term method for such contracts pursuant to Code § 807(d)(3)(A)(iv)(I) (as amended). In all cases, no amount may be taken into account more than once in determining any reserve under subchapter L. The reserve also will continue to be subject to the statutory cap as under current law. Life insurance companies are required to report to the IRS the opening and closing balances of their reserves and the method of computing reserves for purposes of determining income. **(§ 13517)** The changes are effective for taxable years beginning after December 31, 2017. A transition rule provides that for the first taxable year beginning after December 31, 2017, the life insurance reserve with respect to any contract at the end of the preceding taxable year is determined as if the amendments had applied to such reserve in the preceding taxable year. A relief provision provides that the effect of the transition on existing life insurance reserves is to be taken into account ratably over the succeeding eight taxable years. *This provision is estimated to raise $15.2 billion over 10 years.*
Deferred Acquisition Cost (DAC) Tax	Life insurance companies must capitalize their "specified policy acquisition expenses." These rules are known as the deferred acquisition cost (DAC) tax. Rather than determining the company's actual policy acquisition expenses, a proxy is used that capitalizes a portion of general business expenses based on the percentage of net premiums received for three categories of "specified insurance contracts." The proxy	The DAC tax rules are modified to extend the amortization period from 10 years to 15 years and to increase the proxy rates for annuities from 1.75% to 2.09%; for group life insurance contracts from 2.05% to 2.45%; and for life insurance and noncancellable A&H insurance contracts from 7.7% to 9.2%. **(§ 13519)** The provision applies to net premiums for taxable years beginning after December 31, 2017. Under a transition rule, specified policy acquisition expenses first required to be capitalized in a taxable year beginning before January 1, 2018, will continue to be allowed as a deduction ratably over the 120-month period beginning with the first month in the second half of such taxable year.

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	rate is 1.75% for annuity contracts, 2.05% for group life insurance contracts, and 7.7% for life insurance and noncancellable A&H insurance contracts. The capitalized expenses are deductible on a ratable basis over 10 years. The DAC tax does not apply to contracts issued to qualified plans and IRAs. **(§ 848)**	*This provision is estimated to raise $7.2 billion over 10 years.*
PRORATION (DRD)	Like other corporations, a life insurance company is allowed a dividends received deduction (DRD). However, for life insurance companies the deduction is limited to the "company's share" of the dividends it receives. The company's share is expressed as a percentage determined under "proration rules" in the Code. The percentage is generally equal to (1) the company's net investment income reduced by "policy interest," i.e., interest amounts credited to reserves and similar items together with a portion of policyholder dividends, divided by (2) the company's total net investment income. For this purpose, net investment income is defined as 95% of gross investment income in the case of a separate account and 90% of gross investment income in the case of a company's general account. Proration also applies to tax-exempt interest and increases in the cash value of life insurance and annuity contracts owned by a life insurance company. Reserve decreases and increases are adjusted for the "policyholders' share" of those items. The policyholders' share is 100% minus the company's share. **(§ 812)**	The company's share of dividends received is set at 70%. The policyholders' share of tax-exempt interest and the increase in the cash values of company owned life insurance and annuity contracts is set at 30%. **(§ 13518)** The provision applies with respect to taxable years beginning after December 31, 2017. *This provision is estimated to raise $600 million over 10 years.*

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
Definition of Life Insurance Contract	Code § 7702 defines the term "life insurance contract" for federal tax purposes. To meet the definition, a contract must satisfy one of two actuarial tests in the statute. Calculations under the tests must be made on the basis of "reasonable mortality charges which meet the requirements (if any) prescribed in regulations and which (except as provided in regulations) do not exceed the mortality charges specified in the prevailing commissioners' standard tables … as of the time the contract is issued." For this purpose, the prevailing tables are defined in Code § 807(d)(5) (regarding life insurance reserves) as the most recent commissioners' standard tables prescribed by the NAIC which are permitted to be used in computing reserves by at least 26 states when the contract was issued. If there are no commissioners' standard tables applicable to any contract when it is issued, the table is determined under IRS regulations (although none have been issued). If with respect to any category of risks there are two or more tables that are prevailing, the table that yields the lowest reserves must be used. Section 5011(c)(2) of the Technical and Miscellaneous Revenue Act of 1988 (TAMRA) provides a special interim rule for mortality charges that is effective pending the issuance of regulations. **(§§ 807(d)(5) and 7702)**	The reasonable mortality rules are modified to conform to the changes to the reserve rules discussed above, which repeal the definition of "prevailing commissioners' standard tables" in Code § 807(d)(5). Specifically, under Code § 7702(c)(3)(B)(i) as revised, determinations under Code § 7702 must be based on "reasonable mortality charges which meet the requirements prescribed in regulations to be promulgated by the Secretary of the Treasury *or* that do not exceed the mortality charges specified in the prevailing commissioners' standard tables." (Emphasis added.) For this purpose, the prevailing tables are defined in new Code § 7702(f)(10) in the same manner as in current law, except that the definition omits the provisions regarding regulations for contracts for which there is no prevailing table and contracts to which multiple tables may be prevailing. The interim rule of TAMRA § 5011(c)(2) is unaffected. **(§ 13517)** These changes apply to taxable years beginning after December 31, 2017. *The revenue estimate for this provision is included in the estimate for the changes to life insurance reserves described above.*

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
Changes in the Method of Computing Reserves	Income or loss resulting from a change in the method of computing reserves by a life insurance company is generally taken into account ratably over a 10-year period. **(§ 807(f))**	The special 10-year period for adjustments to take into account changes in computing reserves by life insurance companies is repealed. Thus, the general rule for adjustments as a result of a change in method of accounting will apply to changes in computing reserves by life insurance companies. This means that reserve adjustments generally will be taken into account over four years rather than 10 years. **(§ 13513)** The provision is effective for tax years beginning after December 31, 2017. *This provision is estimated to raise $1.2 billion over 10 years.*
Operations Losses / Net Operating Losses	In general, a business that has a net operating loss (NOL), meaning its deductions for a year exceed its gross income for the year, may carry the NOL back two years and carry it forward up to 20 years to offset taxable income in those years. Different carryback periods apply with respect to NOLs arising in different circumstances. **(§ 172)** Life insurance companies generally may deduct in the current year "operations loss" carryovers and carrybacks, in lieu of the deduction for NOLs allowed to other corporations. A life insurance company is permitted to treat a loss from operations for any taxable year as an operations loss carryback to each of the three taxable years preceding the loss year and an operations loss carryover to each of the 15 taxable years following the loss year. **(§§ 805(a)(5) and 810)**	The special rules for operations losses of life insurance companies are repealed and such companies are allowed the same NOL deductions as other corporations, revised as described below. **(§ 13511)** The general corporate NOL rules are modified to limit the deduction to 80% of taxable income, determined without regard to the deduction. Carryovers will be adjusted to reflect this limit but may be carried forward indefinitely. The carryback rules generally are repealed, with some exceptions for farming and small businesses. **(§ 13302)** The loss limitation change generally is effective for losses arising in taxable years beginning after December 31, 2017. The carryback and carryforward changes are effective for NOLs arising in taxable years ending after December 31, 2017. *This provision is estimated to raise $201.1 billion over 10 years.*
Small Life Insurance Company Deduction	A life insurance company with less than $500 million of assets may claim a special deduction. The deduction equals 60% of so much of the tentative life insurance company taxable income for such taxable year as does not exceed $3 million, reduced by 15% of the	The special deduction for small life insurance companies is repealed. **(§ 13512)** The repeal applies for taxable years after December 31, 2017. *This provision is estimated to raise $200 million over 10 years.*

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	excess of tentative life insurance company taxable income over $3 million. **(§ 806)**	
LIFE SETTLEMENTS	Under current law, no information reporting is required when the owner of a life insurance contract sells the contract to another person, such as in a life settlement transaction. If the owner transfers the contract for valuable consideration, only the portion of the death benefit equal to the consideration paid for the contract is excludable from gross income. This "transfer for value" rule does not apply if (1) the transferee's basis in the contract is determined by reference to the transferor's basis, or (2) the transfer is to the insured, to a partner of the insured, to a partnership in which the insured is a partner, or to a corporation in which the insured is a shareholder or officer. **(§ 101(a))** In Rev. Rul. 2009-13, the IRS concluded that when a taxpayer sells a life insurance contract that he or she owns, the seller's adjusted basis under Code § 1011 for purposes of determining taxable gain under Code § 1001 will be reduced by previously-imposed cost of insurance (COI) charges. This calculation of "adjusted basis" contrasts with the definition of "investment in the contract" for purposes of Code § 72, which does not reflect any adjustment for COI charges. **(§§ 1011 and 1016(a))**	Reporting is required by every person who acquires, directly or indirectly, a life insurance contract or any interest in such a contract if the acquirer has no substantial family, business, or financial relationship with the insured. Such a transaction is referred to as a "reportable policy sale." The buyer must report information about the purchase to the IRS, to the contract issuer, and to the seller. The issuer must report certain information to the IRS, the purchaser, and the payee of any death benefit under a life insurance contract involved in a reportable policy sale. **(§ 13520)** In addition, the exceptions to the transfer for value rule are modified so that they do not apply in a reportable policy sale, i.e., if the transfer was to a person who has no substantial family, business, or financial relationship with the insured. **(§ 13522)** Finally, Rev. Rul. 2009-13 is effectively reversed. Code § 1016(a)(1) is amended to explicitly provide that for purposes of determining a taxpayer's adjusted basis under Code § 1011, no adjustments are made "for mortality, expense, or other reasonable charges incurred under an annuity or life insurance contract." **(§ 13521)** These changes generally apply after December 31, 2017, but the adjusted basis provision is effective for transactions entered into after August 25, 2009, which is the effective date of Rev. Rul. 2009-13. *These provisions are estimated to raise $200 million over 10 years.*

Provision	**Tax Code, Prior to H.R. 1**	**H.R. 1**
Policyholder Surplus Accounts	Under prior law, federal income tax was deferred on a portion of a life insurance company's gain from operations. The deferred portion was accounted for as part of a "policyholders surplus account" (PSA) and generally taxed only when distributed to stockholders. In 1984, these rules were repealed prospectively but existing PSA balances remained untaxed until distributed. In 2005 and 2006, companies with existing PSA balances were allowed to distribute them tax-free, which most companies did in order to eliminate or significantly reduce their balances. **(§ 815)**	The special rules for PSAs are repealed and any PSA balances in existence as of December 31, 2017, will be taxed ratably over the first eight taxable years beginning after December 31, 2017. **(§ 13514)** *This provision is estimated to raise less than $50 million over 10 years.*
Property and Casualty (P&C) Insurance Company Provisions		
Unpaid Losses	A P&C insurance company's unpaid loss reserves are discounted using a prescribed interest rate which is based on the applicable Federal mid-term rate (mid-term AFR). The discount rate is the average of the mid-term AFRs effective at the beginning of each month over the 60-month period preceding the calendar year for which the determination is made. The period over which unpaid losses are discounted is determined by use of a prescribed loss payment pattern. The prescribed period depends on the line of business, with a maximum period of the accident year plus three, 10, or, for certain long-tail lines, 15 years. The IRS determines a loss payment pattern for each line of business every five years using aggregate industry experience.	Unpaid loss reserves are discounted at an annual rate based on the corporate bond yield curve rather than the mid-term AFR. For this purpose, the yield curve for a month will reflect the average for the preceding 60-month period of monthly yields on investment-grade corporate grade bonds with varying maturities and that are in the three top quality levels available. The present-law maximum period of 15 years for certain long-tail lines of business may be extended for a maximum of 14 more years. The provision of current law that allows a company to elect to use its own historical loss payment pattern is repealed. **(§ 13523)** This provision is effective generally for taxable years beginning after December 31, 2017, with a special transition rule. *This provision is estimated to raise $13.2 billion over 10 years.*

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	A company may elect to use its own historical loss payment pattern with respect to all lines of business. **(§§ 832 and 846)**	
Proration	In calculating the deductible amount of reserves for losses incurred, P&C insurance companies are required to reduce the amount of losses incurred by 15% of (1) the insurer's tax-exempt interest, (2) the deductible portion of dividends received, and (3) the increase for the taxable year in the cash value of life insurance, endowment, or annuity contracts the company owns. **(§ 832(b)(5)(B))**	The 15% reduction under present law is replaced with a reduction equal to 5.25% divided by the top corporate tax rate. Because the top corporate tax rate will be 21%, the percentage reduction is 25%. The proration percentage will be automatically adjusted in the future if the top corporate tax rate is changed, so that the product of the proration percentage and the top corporate tax rate always equals 5.25%. **(§ 13515)** This provision applies to taxable years beginning after December 31, 2017. *This provision is estimated to raise $2.1 billion over 10 years.*
Net Operating Losses	P&C companies are allowed the same deduction for operating losses as other corporations. Thus, NOLs may be carried back two years and carried over for 20 years to offset 100% of taxable income. **(§ 172)**	Although the Act modifies the NOL rules for life insurance companies and corporations generally, it retains current law with respect to NOLs for property and casualty insurers. **(§ 13302)**
Discounted Reserves and Estimated Tax Payments	Insurance companies that are required to discount their reserves may claim an additional deduction that is not to exceed the excess of (1) the amount of the undiscounted unpaid losses over (2) the amount of the related discounted unpaid losses, to the extent that the amount was not deducted in a preceding taxable year. In such cases, the insurer must establish a special loss discount account and make special estimated tax payments. **(§ 847)**	These special rules are repealed for taxable years beginning after December 31, 2017, and existing account balances will be included in income for the first taxable year beginning after 2017. **(§ 13516)** *This provision is estimated to raise less than $50 million over 10 years.*

Provision	Tax Code, Prior to H.R. 1	H.R. 1
Selected International Insurance Provisions		
Insurance Exception to PFIC Rules	U.S. shareholders in a passive foreign investment company (PFIC) are subject to a variety of special rules regarding the timing and amount of income (or deduction) relating to the PFIC. In general terms, a PFIC is any foreign corporation if 75% or more of its gross income consists of passive income or 50% or more of its assets consist of assets that produce passive income. For this purpose, passive income does not include any income derived in the active conduct of an insurance business by a corporation that is predominantly engaged in an insurance business and that would be subject to tax under subchapter L if it were a domestic corporation. **(§§ 1291-1298)**	The requirements for the insurance business exception to the PFIC rules are modified by replacing the test based on whether a corporation is predominantly engaged in an insurance business with a test based on the corporation's insurance liabilities. The statutory language does not specifically mention liabilities relating to annuity contracts, but the conference report states that such liabilities include "loss reserves … for annuity contracts." **(§ 14501)** This provision applies to taxable years beginning after December 31, 2017. *This provision is estimated to raise $1.1 billion over 10 years.*
Reinsurance and Base Erosion	Under current law, domestic insurance companies — including those owned by foreign entities — may deduct premiums they pay for reinsurance of risks originally borne by the domestic company. If the reinsurance transaction involves a transfer of assets from the ceding company to the reinsurer, the potential income tax liabilities relating to interest and earnings on those assets also generally shift to the reinsurer. In cases where the reinsurer is a foreign entity but treated as a controlled foreign corporation (CFC), the premium income the foreign reinsurer receives generally is subject to current U.S. taxation. If the reinsurer is a foreign entity that is not a CFC and is not engaged in a U.S. trade or business, the	An "applicable taxpayer" is required to pay a "base erosion minimum tax." The minimum tax amount is the excess of 10% of "modified taxable income" over the taxpayer's regular tax liability, reduced by certain credits. The minimum tax rate is 5% in the first tax year beginning in 2018, 10% in 2019-2025, and 12.5% starting in 2026. **(§ 14401)** Modified taxable income generally is determined as taxable income without regard to deductions and other tax benefits allocable to "base erosion" payments the taxpayer makes. A base erosion payment is any amount paid or accrued by a taxpayer to a foreign person that is a related party and with respect to which a deduction is allowable under Chapter 1, other than certain payments for services and qualified derivative payments. A base erosion payment expressly includes any premium or other consideration paid or accrued by the taxpayer to a foreign affiliate for any reinsurance payments taken into account under Code sections 803(a)(1)(B) or 832(b)(4)(A). A variety of other complex rules apply in determining whether a payment is a base erosion payment. For purposes of these rules, an applicable taxpayer means any corporation (other than a

PROVISION	TAX CODE, PRIOR TO H.R. 1	H.R. 1
	reinsurer is not subject to U.S. income tax. Reinsurance premiums paid to a foreign reinsurer with respect to U.S. risks generally are subject to a 1% excise tax, subject to waiver by treaty. In addition, the Treasury Department has authority to reallocate items and make adjustments in reinsurance transactions to prevent tax avoidance or evasion. **(§§ 832, 845, and 4371-4374)**	RIC, REIT, or S corporation) with average annual gross receipts of at least $500 million for the three-taxable-year period ending with the preceding taxable year and with a "base erosion percentage" for the taxable year of 3% or higher. The base erosion percentage generally is determined by reference to the taxpayer's "base erosion tax benefits" compared to its general tax deductions, with certain adjustments. Certain aggregation rules apply for purposes of the definition of an applicable taxpayer. The Treasury Department is authorized to issue regulations to prevent avoidance of the new rules and to impose reporting requirements in connection with them. The provision applies to base erosion payments paid or accrued in taxable years beginning after December 31, 2017. *The provision is estimated to raise $149.6 billion over 10 years.*