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TAX REPORT

The Tax Proposals That Are Most Likely to Pass in Washington

While the differences between the two versions stand out, the similarities are an indicator of items that could actually pass

Both the Senate and House tax bill make an important change to the popular exemption of profit on the sale of a home.
PHOTO: ELISE AMENDOLA/ASSOCIATED PRESS

By

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Lawmakers in the House of Representatives and Senate have separate tax-overhaul bills with a multitude of differences, but the similarities between them are a good indicator of what could actually pass.

Right now, the differences stand out most. Republicans in the House, for example, have voted to shrink the mortgage-interest deduction and end the write-off for large medical expenses and teachers' expenses. Senate Republicans want to keep the current deductions for mortgage interest and large medical expenses. And they would expand the write-off for teachers' expenses.

Republicans in both chambers want to cut taxes for pass-through businesses such as partnerships and S corporations, but in very different ways.

There are provisions that appear in both bills, and these are likelier than others to make it to the finish line. There are also a few proposals that were in both bills but have been discarded, and are likely to stay out.

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Here are areas of overlap between the House and Senate tax bills for individual taxpayers.

STANDARD DEDUCTION AND PERSONAL EXEMPTION. Both bills would almost double the deduction taxpayers get if they don't itemize writeoffs on Schedule A. For 2018, this break would rise to $24,400 in the House bill and $24,000 in the Senate bill for married couples, and half that for singles.

Currently about 30% of more than 150 million filers itemize, and the change could reduce the percentage of those who itemize to 10%. This would simplify filing for many people and make enforcement easier for the IRS, but fewer filers could deduct charitable donations.

Both bills would also repeal the personal exemption for each family member, which is $4,150 in 2018.

ESTATE TAX. Both bills would double the current estate-tax exemption of $5 million per person, adjusted for inflation. The change would take effect for 2018, and the exemption would be $11.2 million per individual and $22.4 million per married couple.

ALTERNATIVE MINIMUM TAX. Both bills repeal the AMT, a complex surtax that rescinds or postpones the value of many tax breaks.

STATE AND LOCAL TAXES. Both bills repeal the deduction for state and local income and sales taxes, so expect that to happen.

It is worth noting that they differ on property taxes. The House would allow filers to deduct up to $10,000 of property taxes, while the Senate fully repeals this write-off.

HOME SALES. Both bills make an important change to the popular exemption of profit on the sale of a home, which is $500,000 for married couples and $250,000 for singles.

The new rule would require sellers to live in a house for five of the prior eight years, rather than two out of the prior five years, to get the exemption. The Senate bill also limits deduction for high earners.

RETIREMENT PLANS. Current law allows a saver with a traditional individual retirement account, or IRA, which typically has taxable payouts, to convert some or all assets to a Roth IRA, which typically has tax-free payouts. Taxes are usually due on such transfers.

Current law also allows savers who do this Roth conversion to undo it, as long as the reversal is complete by Oct. 15 in the following year. This option has allowed savers whose assets drop in value after a Roth conversion to get out of owing tax on phantom income.

Both bills would end the ability of savers who do these Roth conversions to reverse them.

Both bills also include a provision that would extend the time for employees who leave a company to repay 401(k) loans. Under current law, workers must repay such loans within 60 days of leaving a firm, or else owe income tax on the loan's balance.

Under the proposal, borrowers would have until they file their federal return to repay the loan.

STOCK OPTIONS. Both bills originally had provisions that effectively killed the use of so-called nonqualified stock options, which many companies award to valued employees. These provisions have been withdrawn from both bills.

MOVING EXPENSES. Both bills also repeal a deduction by taxpayers for certain moving expenses and another break for moving expenses that are reimbursed by employers. There is an exception for Armed Forces members on active duty.

DONATIONS FOR ATHLETIC SEATING. Both bills prohibit charitable deductions for donations made to colleges and universities for the right to purchase tickets to sporting events beginning in 2018. Current law allows such deductions.

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