

# Status: US Tax Reform

From January 20 to September 27, 2017



## 2017 Tax Reform for Economic Growth and American Jobs

*The Biggest Individual And Business Tax Cut In American History*

### *Goals For Tax Reform*

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

### *Individual Reform*

- Tax relief for American families, especially middle-income families:
  - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25% and 35%
  - Doubling the standard deduction
  - Providing tax relief for families with child and dependent care expenses
- Simplification:
  - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
  - Protect the home ownership and charitable gift tax deductions
  - Repeal the Alternative Minimum Tax
  - Repeal the death tax
- Repeal the 3.8% Obamacare tax that hits small businesses and investment income

### *Business Reform*

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars held overseas
- Eliminate tax breaks for special interests

### *Process*

- Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers.

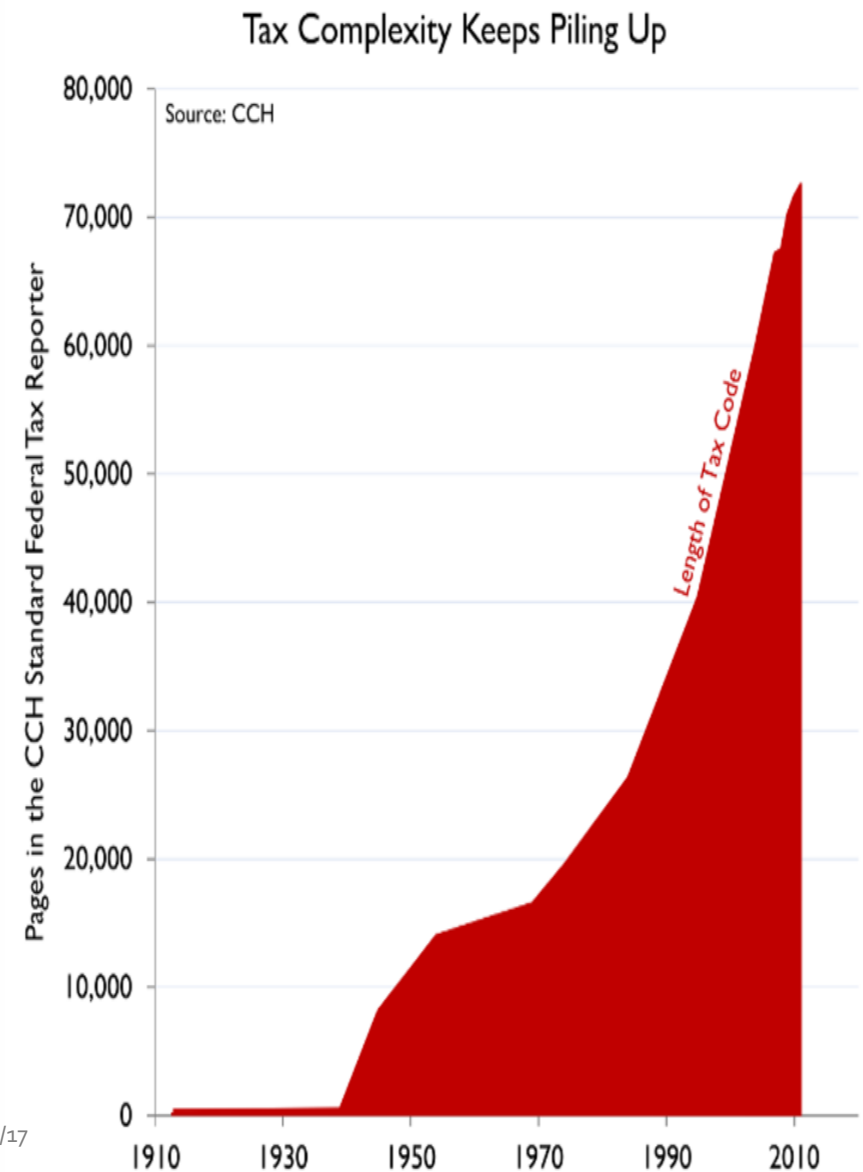
# Current Tax Code

Last major reform 1986

- Internal Revenue Code  
over 2,600 pages
- Regulations, Revenue Rulings  
over 4,000 pages
- + Instructions + Guides +  
Explanations + Case Law

Source: Tax Foundation

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# Reforms or Changes for Individuals

## Reforms

- Simplify (same as 1986)
- Eliminate Tax Breaks for wealthy (1) (2)
- Provide relief to families with child and dependent care expenses
- Repeal AMT
- Repeal Death Tax
- Repeal 3.8% Investment Income Tax

## Change or no change

- Reduce the # of Bracket to 3
- Double the standard deduction
- Maximum Rate of 35% vs 39.6%
- (1) Maintain home ownership tax breaks of mortgage interest and property tax deduction
- (2) Maintain Charitable gift tax deductions.

# Paul Ryan's post card return

Mockup by the House Ways and Means Committee

Problems:

3) Specified savings plans

5) Mortgage interest limits

9-11) Rules for credits

## A BETTER WAY FORWARD ON TAX REFORM

### SIMPLE, FAIR "POSTCARD" TAX FILING

1	Wage and compensation income	1	<input type="text"/>
2	Add 1/2 of investment income	2	<input type="text"/>
3	Subtract contributions to specified savings plans	3	<input type="text"/>
4	Subtract standard deduction OR	4	<input type="text"/>
5	Subtract mortgage interest deduction	5	<input type="text"/>
6	Subtract charitable contribution deduction	6	<input type="text"/>
7	Taxable income	7	<input type="text"/>
8	Preliminary tax (from tax table)	8	<input type="text"/>
9	Subtract child credit	9	<input type="text"/>
10	Subtract earned income credit	10	<input type="text"/>
11	Subtract higher education credit	11	<input type="text"/>
12	Total tax	12	<input type="text"/>
13	Subtract taxes withheld	13	<input type="text"/>
14	<b>Refund due / taxes owed</b>	14	<input type="text"/>

September 21

Senate Budget Committee  
add \$1,500,000,000,000  
(\$1.5 trillion) to deficit in 10 years

# What would you like to see?

We will have to wait and see.

- Residency based taxation
- Access to bank accounts and financial products not curtailed by FACTA
- Same country exception for FACTA
- Treaty reform for Swiss Pensions
- Exemptions and child care credits for non-American children
-

# Typical issues with US tax compliance

Self prepared and professionally prepared \*\*



# Filing Status and Exemptions

Single: does not mean married to a person that is not American

Head of Household: if you have a non-American spouse and US dependents. Special rules apply

Married Filing Separately : default if legally married to a non-American.

Special Exemption for NRA spouses that do not have US source income.

<b>Filing Status</b> Check only one box.	1 <input type="checkbox"/> Single	4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ►
	2 <input type="checkbox"/> Married filing jointly (even if only one had income)	
	3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ►	5 <input type="checkbox"/> Qualifying widow(er) with dependent child

<b>Exemptions</b>	6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, <b>do not</b> check box 6a . . . . .				} Boxes checked on 6a and 6b <input type="text"/>	
	b <input type="checkbox"/> Spouse . . . . .					} No. of children on 6c who: • lived with you <input type="text"/> • did not live with you due to divorce or separation (see instructions) <input type="text"/>
	<b>c Dependents:</b>				} Dependents on 6c not entered above <input type="text"/> Add numbers on lines above ► <input type="text"/>	
	(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you		(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
						<input type="checkbox"/>
				<input type="checkbox"/>		
				<input type="checkbox"/>		
				<input type="checkbox"/>		
d Total number of exemptions claimed . . . . .						

If more than four dependents, see instructions and check here ►

# Foreign Tax Credit Reduction

Failure to reduce foreign tax credit for income excluded under Foreign Earned income exclusion and Foreign Housing deduction

## Form 1116 Foreign Tax Credit Reduction in foreign taxes line 12

Part III Figuring the Credit		
9 Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I	9	25,974.
10 Carryback or carryover (attach detailed computation)	10	3,347.
11 Add lines 9 and 10	11	29,321.
12 Reduction in foreign taxes	12	14,975.
13 Taxes reclassified under high tax kickout	13	
14 Combine lines 11, 12, and 13. This is the total amount of foreign taxes available for credit	14	14,346.
15 Enter the amount from line 7. This is your taxable income or (loss) from sources outside the		



## Example of computation of Reduction in foreign taxes for line 12 Form 1116.

Total Numerator	117,992.	
Denominator:		
Income earned on foreign assignment	204,652.	
2016 income earned in prior years		
Other income earned while on foreign assignment		
Total foreign earned income	204,652.	
Less allocable deductions	204,652.	
Total Denominator	204,652.	
Reduction Ratio: (Total numerator/Total denominator)		.5765495
Current year foreign taxes subject to reduction		
OTHER	25,974.	
Total taxes subject to reduction		25,974.
Current year reduction amount		14,975.
Additional taxes reduction amount		
Total current year reduction amount		14,975.

Numerator is the Excluded income from Form 2555. Denominator is Taxable income from line 7 (Salary and Pension)

# FBAR Form 114 and Form 8938

Maximum balance  
does not mean end of  
the year balance.

Convert to USD using  
end of the year rates

- FBAR instructions. Determine the **maximum** value of each account (in the currency of that account) during the calendar year being reported. The maximum value of an account is a **reasonable approximation** of the greatest value of currency or nonmonetary assets in the account during the calendar year. Periodic **account statements** may be relied on to determine the maximum value of the account, provided that the statements fairly reflect the maximum account value during the calendar year

# Tax Basis in your Pillar II \*\*

Failure to keep a record of the basis in your Pillar II and Pillar 3 pension funds.

Record and basic documentation.

Year	Personal Contribution Reported to IRS as income in CHF	Company Contribution and Gain Reported to IRS as income in CHF	Total Foreign Currency Basis CHF	Average Exchange Rate: 1 USD = X CHF	USD Basis	Cumulative USD Basis
example	5,000	10,000	15,000	1.5100		
2010	5,000	5,000	10,000	1.0850	\$ 9,217	\$ 9,217
2011	5,500	5,500	11,000	0.9230	\$ 11,918	\$ 21,134
2012	6,000	6,200	12,200	0.9760	\$ 12,500	\$ 33,634
2013	6,000	6,300	12,300	0.9640	\$ 12,759	\$ 46,394
2014	6,000	6,400	12,400	0.9520	\$ 13,025	\$ 59,419
2015	6,000	6,500	12,500	1.0010	\$ 12,488	\$ 71,906
2016	6,500	7,000	13,500	1.0250	\$ 13,171	\$ 85,077
2017			-			
2018			-			
2019			-			
2020			-			
Total	41,000	42,900	83,900			

# Real Estate

- Mortgage Interest –limitation \$1,100,000
- Deduction for Home maintenance costs Switzerland vs US
- Code § 121 - Exclusion of gain from sale of principal residence
- Two big issues to understand: FX rate on residence and repayment of the Mortgage