WORLDWIDE ERC®
WEBINARS

December 5, 2017 – 11:00 am (ET)

Today's webinar is sponsored by Worldwide ERC®

WORLDWIDE ERC®
WEBINARS

Worldwide ERC®
Government Affairs Update

Tax Reform

WORLDWIDE ERC® WEBINAR DISCLAIMER

The views, opinions, and information expressed during this webinar are those of the presenter and are not the views or opinions of Worldwide ERC®. Worldwide ERC® makes no representation or warranty with respect to the webinar or any information or materials presented therein. Users of webinar materials should not rely upon or construe the information or resource materials contained in this webinar as legal or other professional advice and should not act or fail to act based on the information in these materials without seeking the services of a competent legal or other professional.

Webinar Instructions

Technical difficulties?

- Dial 866.779.3239, or e-mail questions to support@webex.com

Sound Troubles?

- If your sound quality is poor, check your Wi-Fi strength or connect via cable.
- Call in using the phone number listed under the "Event Info" tab in the upper left-hand corner.

To return to meeting room window:

- If you are in full screen mode, you may return to the meeting room window by clicking the View Meeting Room button located at the bottom left corner of your screen.

Q&A Instructions

- Submit questions through Q&A dialogue box
- Box is located in lower right corner of screen
- Do not use the Chat Box
- Be specific
- You may submit your question at any time

Q&A Dialogue Box:

CRP® Certification

If you are a CRP® seeking CE credit for this webinar, you must utilize the CRP ® Recertification Credit Form, available online at:

http://www.worldwideerc.org/Education/CRP/Pages/crp-recertification-form.aspx

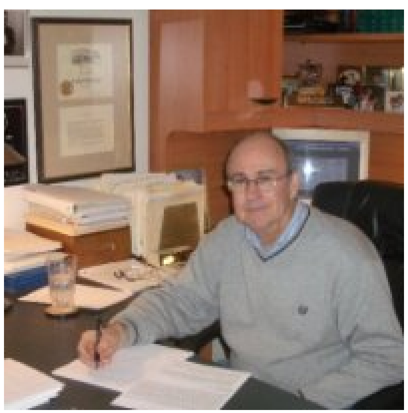
(please note that all (S)CRPs must use this form and pay the $8 admin fee to receive CE credit)

Today's Presenters

Tristan North

Government Affairs Adviser

Worldwide ERC®



Peter K. Scott

Worldwide ERC® Tax Counsel

Peter K. Scott & Associates

Tax Reform

- Tax Reform a central plank of policy platform of then presidential candidate Donald Trump
- Key congressional Republicans have been pursuing tax reform for several years
- Republicans control White House, Senate and House for first time in 8 years
- Effort in beginning to sway some Senate Democrats but turned into Republican only effort
- Many congressional Republicans view tax reform as a must win to demonstrate ability to govern ahead of 2018 midterm elections

House Process

Tax Cut and Jobs Act (H.R. 1)

- Introduced in House on November 2
  - Included moving expense deduction repeal
- House Ways and Means Committee mark up held November 6 to 9 with bill reported favorably by vote of 24 to 16 along party lines
- On November 16, House passed H.R. 1 by vote of 227 to 205 with all Democrats and 13 Republicans voting against it

Senate Process

Tax Cut and Jobs Act (H.R. 1)

- Senate Finance Committee released its own draft
  - Included moving expense deduction repeal
- Committee mark up held November 14 to 16 with draft reportedly favorably by vote of 14 to 12 along party lines
  - Sen. Brown (D-OH) filed amendment to preserve moving deduction but defeated
  - Sen. McCaskill (D-MO) filed amendment preserving deduction and state and local tax deduction but no vote

Senate Process (continued)

- On December 1, Senate considered H.R. 1 with Senate Finance Committee draft as amendment in nature of substitute
- Several changes to Senate passed version and commitments made to wavering Senate Republicans to secure sufficient votes for passage
- On December 2, Senate passed bill by vote of 51 to 49 with all Democrats and Sen. Corker (R-TN) voting against it
- House and Senate are now convening conference committee to work out differences in versions

Efforts to Preserve Moving Expense Deduction

American Moving & Storage Association (AMSA) and Worldwide ERC® fought to preserve deduction

- Commissioned well-respected economists Joseph Cordes and Eugene Steuerle to revise paper on "Tax Treatment of Moving Costs"
  - Released on August 30 to demonstrate benefit of deduction to the economy and mobility of workforce
  - Original paper released January 1993
- In July, submitted comments to Senate Finance Committee on importance of preserving the moving expense deduction

Efforts to Preserve Moving Expense Deduction (continued)

- AMSA took lead on Hill meetings and met with key congressional offices
- In fall 2016, Worldwide ERC® representatives met with offices of Senators Portman (R-OH), Brown (D-OH) and Bennet (D-OH)
- Sent letters to Senate Majority Leader McConnell (R-KY), Speaker of the House Ryan (R-WI), Senate Finance Committee Chairman Hatch (R-UT) and Ways and Means Committee Chairman Brady (R-TX)
- Launched grassroots campaign to ask respective memberships to contact their members of Congress in support of preserving deduction

Tax Reform: What's In It?

- Individual rate changes, lower corporate and pass-through rates
- Larger standard deduction, no personal exemptions
- Inflation adjustments will be lower
- No moving expense deduction or exclusion
- Most deductions for state taxes go away
- Home mortgage interest changes
- Home sale capital gain exclusion reduced
- Alternative minimum tax may stay
- Miscellaneous itemized business deductions and other tax breaks may go away
- Child tax credit increased, may affect gross-ups

Rate Changes

- House Bill:
  - 12% up to $90K (married joint), $45K (indiv.)
  - 25% up to $260K, $200K indiv.
  - 35% up to $1 million, $500K indiv.
  - 39.6% on amounts over those
- Benefit of 12% rate phased out beginning at $1million (indiv), $1.2 million married.
  - Results in top rate of 45.6%

Rate Changes

- Senate Rates:
  - 10%: $19,050 married, $9,525 single
  - 12%: $77,400, $38,700
  - 22%: $140,000, $70,000
  - 24%: $320,000, $160,000
  - 32%: $400,000, $200,000
  - 35%: $1,000,000, $500,000
  - 38.5%: Over $1,000, $500,000
- No high income phase out of lower rates
- But lower rates end after 2025, return to old ones

Rate Changes

- Observations:
  - What will the supplemental rate be? Regs peg it to 3d lowest statutory rate (currently 25%, but 35% under House bill, 22% under Senate bill)
  - Rates generally lower, but some transferees could have higher taxes from loss of deductions, will require case-by-case analysis
  - Rates for computing gross-ups should generally be lower
  - Apparently, additional medicare tax for high income is still in code.

Inflation adjustment changed

- Tax brackets and other code provisions indexed for inflation
- Both House and Senate mandate use of so-called “chained CPI” to make adjustments, rather than the Consumer Price Index
  - Assumes that as inflation increases, consumers will choose less expensive items
  - Results in a lower inflation adjustment
- Means income amounts at which tax brackets start will increase more slowly in future, taxpayers will tend to enter higher rates faster

Other Rates

- Corporate rate goes from 35% to 20% in both bills. (Senate postpones until 2019)
- Lower rates for most business taxpayers who operate in a pass-through (sole proprietors, Sub-S, partnership, LLC)
  - Bills differ greatly, will need reconciliation
  - Severe problem differentiating business income from service income

Standard Deduction, Personal Exemption

- Both bills roughly double standard deduction (24,400/12,200 House, 24,000/12,000 Senate)
- No personal exemptions (4,050 in 2017)
- Result is to reduce # of itemizers, probably by at least 60-70%
- Not clear what result will be for average transferee
  - Large families disadvantaged, but helped by increased child tax credit (discussed later)
  - Jt Tax Committee says under Senate bill, 30.2% of taxpayers see little or no tax change in 2019, 8.1% would have tax increase
  - Tax Policy Center says 9% have 2019 tax increase
  - Those transferees will probably cost more in gross-ups

Moving Expense

- Deduction and Exclusion repealed in both bills (Senate "suspends" until 2026)
  - Company can still deduct moving expenses it pays to or for employees, but can't exclude from employee income
- Effective 1/1/2018
- Unlikely at this point that provision can be saved if tax reform is enacted
- No policy reason for repeal; just revenue raising
- Industry must begin planning for repeal

Moving Expense

- Average company cost for moving HHG of transferee and final move travel is over $14,500. Many MUCH higher
  - Those costs no longer excludable, will require gross-up.
  - Accounting for tax on tax assistance payments, additional gross-up cost at least 10,000 to 20,000, plus state tax
  - Even with lower rates and higher brackets, inclusion will move some transferees to higher brackets, also affect gross-up

Transition Issues

- Payments in 2018 for 2017 expenses will not be excludable unless Congress or Treasury provide transition relief
  - Not clear if there will be relief
  - Make as many payments as possible in 2017
  - If following a “cut-off” method, consider abandoning or moving to later in year in 2017
- Consider making early payment of amounts due for HHG, final moves, in 2017

Effect on Lump Sums

- Under current law, must separately account for HHG and final move to exclude from transferee income, even if using a lump sum
- No longer necessary if no moving expense exclusion
- Use of lump sums likely to increase

State & Local Taxes

- Both bills eliminate any deduction for state or local income and sales taxes
  - Businesses may still deduct
- Both would allow a deduction of up to $10,000 (married) or $5,000 (single) for property taxes
- Will hurt transferees in high-tax jurisdictions, could lead to resistance to relocation to those places

Mortgage Interest Deduction

- House:
  - No deduction for debt exceeding $500,000
  - Limited to primary residence (no second homes)
  - No home equity interest deductible
  - Debt incurred prior to Nov. 2, 2017, or incurred under a binding written contract entered into before that date, grandfathered
- Senate:
  - No change to current limits
  - Two homes still allowed
  - But no home equity indebtedness

Effects

- If House bill prevails
  - Could affect relocation home loans if they are interest-bearing
    - No interest deductible if more than one home
    - No interest deductible on home equity loans (relocation bridge loans)(also Senate bill)
    - No interest deductible on relocation mortgage loan to extent it exceeds $500,000
  - Mortgage subsidy programs could be affected
  - Potential effect on home values

Home Sale Capital Gains

- Both bills:
  - Must own and use home as principal residence for 5 of the 8 years preceding sale to qualify for exclusion (current law is 2 of 5 years preceding sale)
  - If fail to meet by reason of health, employment, or unforeseen circumstances, exclusion is a percentage of 5 years, not 2
    - Example: Transferee owns home for 2 years before transfer. Can exclude 2/5 of gain up to $500K if married (old rule: entire gain up to 500)
  - May use exclusion only once every 5 years
  - House bill: if AGI over $500K (married) or $250K (single), exclusion is phased out by $1 for every dollar over that income
  - Effective date: 1/1/18 (senate has binding contract rule for sales completed after 1/1/18)
- Changes will complicate relocations of homeowners

Alternative Minimum Tax

- House: Repeals AMT
- Senate: Amended bill retains AMT through 2025
  - Exemption amounts rise from $84,500 to $109,400 (married), $54,300 to $70,300 (single)
  - Income at which exemptions begin to phase out rise from $150,000 to $208,400 (married), $112,500 to $156,300 (single)
  - Rates remain 26% and 28%
  - Inflation adjustment uses Chained CPI

Effects

- AMT calculation does not allow State/local tax deduction, std deduction, or personal exemptions.
  – Higher standard deduction won't help avoid AMT
  – AMT income likely to stay about the same
  – Will be higher with no moving expenses allowed
  – Higher exemption amounts may offset to some extent
  – But likely many more transferees will be AMT taxpayers if Senate bill prevails
- Gross-ups may be based on AMT, will be higher

Child Tax Credit

- Current: $1,000 per child. Begins to phase out at AGI of $110,000 (married), $75,000 (single). Ends at $130,000/$95,000
- House and Senate Increase amounts, raise income limits

Child Tax Credit

- House:
  - $1,600 per child
  - $300 for each other dependent
  - Phase-out begins at $230,000 (married), $115,000 (single), ($50 per $1,000 over the threshold)
- Senate:
  - $2,000 per child
  - $500 for each other dependent
  - Phase-out begins at $500,000 for everyone
  - Credit is temporary; expires after 2025

Effects

- Many companies would compensate transferee if addition of taxable relocation would cause loss of child tax credits
  - Not much of a problem under old law; most transferees already over phase-out limit
- Senate phase-out may be high enough that few transferees are affected by added relocation income
- However, House phase-out number may result in more transferees being affected
  - Additional taxable relocation will also be higher from loss of MED
- Result: higher gross-ups to compensate
  - Example: Married couple with 3 children, pre-transfer AGI of $200,000. Taxable relocation of $70,000 increases AGI to $270,000. Couple loses $5,400 in child/dependent credits due to relocation

Other Items

- House bill also eliminates deductions for:
  - Casualty losses (Senate keeps but limits to federally declared disasters)
  - Medical deductions (Senate keeps, and reduces threshold from 10% AGI to 7.5% through 2019)
  - Miscellaneous itemized deductions (also Senate)
  - Tax preparation fees (also Senate)
  - Medical savings accounts (not in Senate bill)
  - Deductions for business entertainment, membership dues, recreation, or any facility associated therewith
- Both bills limit the deductibility of business interest

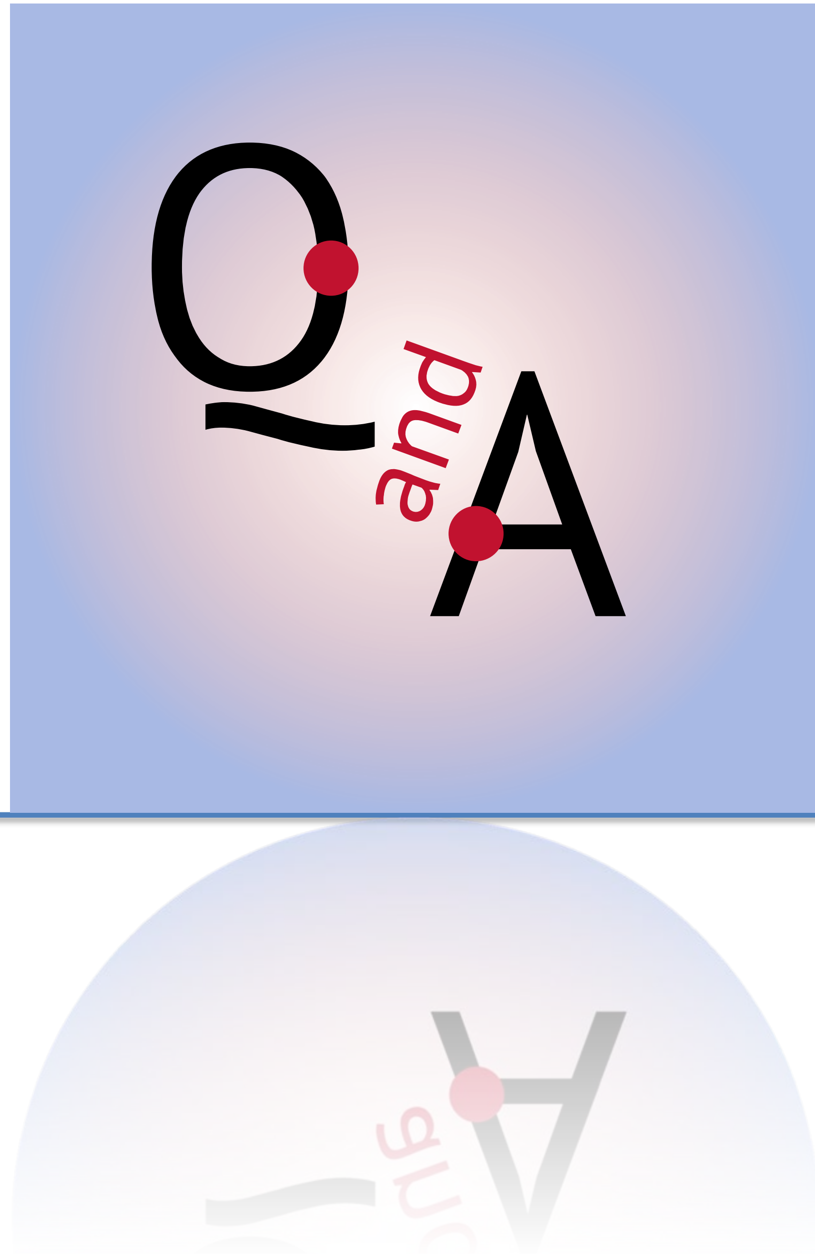
Items Unaffected

- Foreign earned income and housing exclusions
- Retirement contribution limits
- Self-employed health insurance deductions

Conclusion

- New law will significantly affect many aspects of the mobility industry
  - Both policies and processes are affected
- Companies must begin analyzing and planning for change immediately
- Cannot wait for final law to be negotiated

Questions & Answers



Thank you for attending!

Visit the Worldwide ERC® web site at www.worldwideERC.org, or contact Worldwide ERC® for more information on these topics. 703.842.3400