

**CHAIRMAN CAMP RELEASES TAX REFORM DISCUSSION**

*Tax Reform Act of 2014*



On February 26 Representative Dave Camp, chairman of the House Ways and Means Committee, released his much anticipated comprehensive tax-reform proposal entitled the “Tax Reform Act of 2014”. In order to broaden the tax base and lower rates, the discussion draft proposes to lower the highest marginal corporate tax rate to 25% and consolidate the current seven individual income tax rates into three brackets, 10%, 25%, and 35%. For high income taxpayers, the 35% bracket (25% bracket plus 10% surtax) would replace the current 39.6% bracket. The additional 10% surtax would apply to modified adjusted gross income above \$400,000 for single filers and \$450,000 for joint filers. The proposed rates would take effect for tax years after 2014. The proposal also seeks to change the tax rate on long-term capital gains and qualified dividends, and eliminate the alternative minimum tax.

Various Proposed Changes to Individual Tax Rates:

| <b>Tax Rate Feature</b>  | <b>Present 2013 Law</b>   | <b>Chairman Camp’s Proposal</b>   |
|--|---|---|
| Top tax rate on long-term capital gains and qualified dividends  | 20%   | Same as ordinary income rate, with 40% of gains and dividends excluded  |
| Phase-out of the 10% statutory rate bracket.   | No phase-out of the 10% statutory rate bracket  | The 10% rate is phased out for single filers with income above \$250,000 and joint filers with income above \$300,000 (2013 dollars).   |
| Phase-out of personal exemptions and itemized deductions   | Personal exemptions and itemized deductions are phased out for single filers with income above \$250,000 and joint filers with income above \$300,000 (2013 dollars). | Personal exemptions are eliminated. The standard deduction or an equivalent amount of itemized deduction, followed by the child credit, are phased out sequentially starting at the top of the phaseout range for the 10% rate bracket. |
| Surtax on modified AGI (“MAGI”) where MAGI = AGI less charitable contributions and qualified domestic manufacturing income, plus various other sources of income excluded and expenses deducted from AGI under present law, including employer provided health benefits and the self-employed health deduction, 911 income, tax exempt interest, and untaxed social security benefits, and excluded 401(k) contributions | None  | 10% on modified AGI above \$400,000 for single filers and \$450,000 for joint filers  |
| Alternative Minimum Tax  | 26% on alternative minimum taxable income below \$175,000 (in 2012 dollars, indexed to inflation) and 28% on alternative minimum taxable income above that amount     | None  |

Source: Joint Committee on Taxation, Macroeconomic Analysis of the “Tax Reform Act of 2014”



The proposal is a culmination of the work undertaken in 2013, including the efforts of the eleven bipartisan working groups charged with reviewing various areas of the tax code and extensive work by now former chairman of the Senate Finance Committee, Max Baucus. The new chairman of the Senate Finance Committee, Chairman Ron Wyden, is committed to continuing efforts to work toward comprehensive tax reform. Comprehensive tax reform was last achieved in 1986, and any prospect of reform will continue to be a function of debate and compromise.

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