ADVANCING FAITH, FAMILY AND FREEDOM

Values Provisions in the *Tax Cuts and Jobs Act* (H.R. 1)

The *Tax Cuts and Jobs Act* (H.R. 1 "TCJA") conference report resolving differences between the House and Senate bills include several important values provisions that will provide long-needed relief for working families.

Child Tax Credit

<u>Summary:</u>
The Child Tax Credit (CTC) has a positive impact on individual families and the economy as a whole and helps parents bear the costs of raising their children.

<u>Senate:</u>
- $2000 credit per child under 18 (under 17 for 2025)
- Refundable up to $1000
- Requires Social Security Number to claim the refundable part
- Phase-out starts at $500,000 in income for both joint and single filers
- New $500 non-refundable Family Care Credit per dependent
- All changes expire in 2026

<u>House:</u>
- $1600 credit per child under 17
- Refundable up to $1000.
- Requires a Social Security Number to claim any credit
- Phase-out starts at $230,000 for joint filers, $115,000 for single filers
- New $300 non-refundable Family Care Credit per dependent, which expires in 2023

<u>Conference Report:</u>
- Retains the Senate bill's increases of the CTC to $2000, for children under 17
- Makes the CTC refundable up to $1,400
- Requires a social security number
- Provides a $500 dependent care credit
- Remove the CTC marriage penalty for the income phase-out, which was increased to $200,000 for single and $400,000 for married taxpayers.

Marriage Penalties

<u>Summary:</u> Marriage penalties exist in the tax code and also in welfare programs. The penalty generally applies in the tax code when a tax deduction or credit applies to single and married persons based on income, but a married couple is eliminated from receipt of the benefit making less than 200% of an eligible single person's income.

The tax code also incentivizes divorce and penalizes marriage through the alimony deduction. A divorced couple can often achieve a better tax result by receiving a tax break for payments between them than a married couple can. Removing the alimony deduction would restore equitable treatment for divorced and married couples' expenses for child support.

House:

- No marriage penalties for 3 of 4 tax income brackets
- Eliminates marriage penalties for the Child Tax Credit income phase-out
- Retains marriage penalties:
  - in 35% income bracket - $200,000 single, $260,000 married
  - for the Earned Income Tax Credit
- Eliminates alimony deduction

Senate:

- No marriage penalties in 5 of 7 tax income brackets
- Retains marriage penalties for:
  - Child Tax Credit phase-out - $500,000 single/married
  - Earned Income Tax Credit Marriage Penalty Retained
- Retains the alimony deduction

Conference Report:

- No marriage penalties for 5 of 7 tax income brackets.

Tax rate	**Single filer**	**Married filing jointly**	**Maximum Marriage bonus (+) / penalty (-)**
10%	$0 to $9,525	$0 to $19,050	N/A
12%	$9,526 to $38,700	$19,051 to $77,400	$0
22%	$38,701 to $70,000	$77,401 to $165,000	+$500
24%	$70,001 to $160,000	$165,001 to $315,000	$0
32%	$160,001 to $200,000	$315,001 to $400,000	-$400
35%	$200,001 to $500,000	$400,001 to $600,000	$0
37%	$500,001 or more	$600,001 or more	-$8,000

- **Marriage bonus in the 22% bracket.** Married couples filing jointly have a 2% lower rate than single filers for the first $25,000 they make over $140,000. This is a maximum $500 bonus.

- **Small marriage penalty in the 32% bracket.** Married couples filing jointly have an 8% higher income tax rate than single filers for the first $5,000 they make over $315,000. This is a maximum $400 penalty.

- **Large marriage penalty in the 37% bracket.** Married couples filing jointly have a 2% higher income tax rate than single filers for the first $400,000 they make over $600,000. This is a maximum $8,000 penalty.

Additional Marriage Penalty Provisions:

- Removes a marriage penalty for the Alternative Minimum Tax phase-out ($500,000 for single filers and $1 million for married couples filing jointly)
- Retains the marriage penalty for the Alternative Minimum Tax exemption ($70,300 for single filers and $109,400 for married couples filing jointly).
- Removes the marriage penalty the Child Tax Credit phase-out ($200,000 for single filers, $400,000 for married couples filing jointly)
- Removes the alimony deduction, which subsidizes divorce.
- Retains the marriage penalty for the Earned Income Tax Credit
- Retains a marriage penalty for the $10,000 State and local income tax, property tax, and/or sales tax deduction, which is equal in amount for single filers and married couples filing jointly.

529 Education Savings Accounts

Summary: 529 education savings accounts are currently only allowed to be used for higher education related expenses. 529 plan contributions have tax-free earnings and are exempt from the annual federal gift tax if under $14,000 for that year ($28,000 for married couples filing jointly). 529 education savings accounts should be expanded to benefit families, including homeschooling ones, by allowing 529s to be used for expenses related to K-12 education.

House:
- Unborn children allowed as eligible beneficiaries for 529 plans
- Elementary and high school expenses, and apprenticeship programs, of up to $10,000 per year allowed as qualified expenses for 529 plans.
- Homeschooling expenses not allowed for 529 plans.

Senate:
- Elementary and high school expenses of up to $10,000 per year allowed as qualified expenses for 529 plans.
- Allowable expenses include tuition expenses at a private, religious, or public K-12 schools, and homeschoolers' expenses on curriculum materials, books, online educational materials, private tutoring, dual enrollment in college courses, or special education
- Due to the Byrd Rule, the House bill's provision making unborn children eligible beneficiaries for 529 plans was removed.

Conference Report:
- Retains allowance for 529 plans to pay for K-12 expenses for private, religious or public schooling. Due to the Byrd Rule, the language allowing 529 plans to pay for homeschooling expenses was removed.
- Language allowing 529 plans to be opened up for an unborn child was removed due to the Byrd Rule.

- Concerns were also raised about the House bill striking Section 117 related to education tuition and fee expenses. The Conference report maintains this benefit.

Death Tax

Summary: The estate tax, also known as the "death tax," is double taxation that handicaps families, and particularly family-owned businesses, by imposing heavy and burdensome taxes on bequeathed assets. Families often work as a unit to build their small businesses, but when a parent dies with the intention of leaving his or her small business to the children who helped build it, that transfer of assets is often taxed at such high rates that the business cannot continue operating and pay the government, causing the grieving family to close the business's doors.

House:
- Doubles death tax exclusion
- Repeals death tax, starting in 2024

Senate:
- Doubles death tax exclusion in 2018-2025.
- Retains death tax

Conference Report: Follows the Senate bill by doubling the tax exclusion from $5 million to $10 million, indexed for inflation, in 2018-2025.

Standard Deduction and Charitable Giving

Summary: Both the House and the Senate's bills repeal the deduction for personal exemptions, including the taxpayer, the taxpayer's spouse, and any dependents. The legislation consolidates the personal exemption for the taxpayer and taxpayer's spouse into a larger standard deduction. The standard deduction would be substantially increased from $6,300 to $12,000 for individuals and from $12,700 to $24,000 for married couples (and surviving spouses), giving working parents more take-home pay to provide for their families.

Both bills consolidate the personal exemption for children and dependents into the expanded child tax credit and a new family tax credit to care for non-child dependents. This change in the law could harm charitable giving, including to nonprofits and churches, since fewer people will likely itemize.

Conference Report: Maintained the House and Senate standard deduction for single and married filers.

Adoption Tax Credit

Summary: Both the House and the Senate bills retain the adoption tax credit in current law at $13,570 per eligible child (with a phase out for wealthier individuals). According to the U.S. Department of Health and Human Services Administration for Children and Families, in 2015 over 111,000 children were waiting to be adopted. Maintaining the adoption tax credit in current law helps adoptive children find loving families.

Conference Report: Maintains the adoption tax credit.

Non-Profit Political Speech

Summary: The *Tax Cuts and Jobs Act* should roll back the unconstitutional impact of the Johnson Amendment by incorporating the *Free Speech Fairness Act* (FSFA) sponsored by Whip Steve Scalise (R-La.), Rep. Jody Hice (R-Ga.) and Senator James Lankford (R-Okla.) (H.R. 781/S. 264, "FSFA"). FSFA would restore the free speech rights of pastors and 501(c)(3) leaders by allowing them limited campaign speech that:

1) is made in the ordinary course of the 501(c)(3) organization's regular and customary activities, so long as those activities carry out the organization's tax-exempt purpose, and
2) does not incur more than *de minimis* incremental costs.

House:

- Includes the *Free Speech Fairness Act*
- Begins in 2019 and Expires in 2024.

Senate:

- Leaves Johnson Amendment fully in place.

Conference Report: Struck on Byrd Point of Order.