<u>Gottheimer-Lance Tax Cut Plan</u>

<u>Proposed Fix for House-Senate Conference</u>

Cuts Taxes for Individuals, Businesses of All Sizes

Substantially Reduces the Deficit

Saves SALT, Property and Mortgage Interest Deductions

Protects Seniors

This proposal starts with the Senate version of the tax bill approved by the Senate last week and now headed for Conference. It improves on the Senate plan by allowing for significant tax cuts, but goes further to save the State and Local Tax deduction, and reduce the cost of tax reform by more than $100 billion over the ten-year budget window.

1. Save the State and Local Tax Deduction (SALT).

The idea: Keep the State and Local Deduction as it has been since 1913. Allow itemizing tax payers to deduct their state and local income taxes and property taxes at current levels. This will allow for an actual tax cut in SALT states for residents and businesses.

Why? By relying so heavily on revenue derived from repealing the state and local income tax deduction (SALT), and imposing double taxation, the Senate and House bills are imbalanced. They pay for reform on the backs of just a few states that already pay significantly more than other states in federal taxes. According to a major independent analysis, thirty percent of the tax of the Senate bill benefits flow to just two states – Texas and Florida, and four states – New York, New Jersey, California and Maryland have substantial tax increases adding to $16.7 billion. The SALT deduction dates back to 1913 and was premised on states-rights ideals of taxing only after-tax income. Anything else is double taxation.

2. Preserve the Mortgage Interest Deduction.

The idea: Preserve the mortgage interest deduction, consistent with the Senate bill.

Why? Reducing the mortgage interest deduction hurts real estate values, which harms homeowners, and harms the large portion of the economy that is housing related.

3. **Cut Taxes for Individuals**.

The idea: We would retain the same basic rate structure as the Senate bill, including doubling the standard deduction, lowering rates for individuals and reducing the top tax bracket to 38.5%.

4. **Cut Corporate Tax Rate to 20% and Create 23% Deduction for Small Businesses and Pass-Through Businesses, including professional services such as doctors, lawyers and accountants, consistent with the Senate Bill.**

The idea: To help improve global competitiveness, we propose reducing the corporate tax rate from 35% to 20%, as we move to a territorial system, and create a 23% deduction for pass-through businesses, consistent with the Senate bill.

Why? We are strong supporters of tax reform for businesses of all sizes and competitive corporate and pass-through tax rates. We believe in closing loopholes and shelters to achieve rate reductions.

5. **Deficit Reduction of more than $100 billion.**

The idea: Reduce the cost of tax reform and its impact of the deficit.

Why? Every Congressional estimate shows that the proposed tax bills will increase the deficit substantially, increasing the national debt, and ultimately raise the cost of capital. By reducing the cost of the Senate bill, the government will have more flexibility to deal with these issues, as well as future problems that may arise.

6. **Retain Important Deductions and Exemptions including Medical Expense, Student Loan Interest and Private Activity Bonds.**

The idea: Our proposal retains the medical expense and student loan interest deductions and rules that exempt graduate student fellowships from tax. We would also preserve private activity bonds that support building new hospitals and other capital projects that benefit the public. This proposal is consistent with the Senate bill.

Why? These deductions and exemptions are critically important for our students, seniors and those struggling with large medical bills and student loan debt; graduate students who could not otherwise cover the cost of their education, and bonds that fund important capital projects that benefit the public, like hospitals and bridges.

7. **Retain Current Amortization for Capital Investment.**

The idea: We propose maintaining the current expensing provisions of the tax code.

Why? According to the bipartisan Joint Committee on Taxation, accelerating amortization doesn't actually increase capital spending, it only pulls it forward, creating reduced capital spending in the near future.

8. Encourage Charitable Donations & Deployment by Closing the "Private Foundation Loophole."

The idea: Close the loophole for donors to private foundations that limit actual charitable contributions.

Why? We believe the tax code should encourage charitable contributions, so those dollars can be put to work through places of worship and other public charities that help others. As the *Wall Street Journal* recently highlighted, we do not believe that individuals should have tax loopholes or shelters, effectively rewarding them to stick money in a drawer, instead of putting resources to work. The change would not apply to established public charities engaged in education, health care, medical research, the arts, worship, and similar activities that benefit the public and in which the donor has no material ongoing role.

9. Double the Estate Tax Exemption, Protect Family Businesses and Farms.

The idea: Increase the exemption from estate tax, but close a loophole that allows the avoidance of capital gains tax.

Why? To help family businesses, including the family farm, we would double the estate tax exemption as set forth in the Senate bill. We would simultaneously close the zero percent rate on appreciated assets after the first $5 millions of gain. Because such gain would not be recognized until the owners choose to sell them, no successful family farms or other businesses or assets would be required to be sold prematurely to pay taxes, while at the same time, assets that would make sense to sell, won't be locked up pending the death of the owner.

10. Close New Loopholes and Special Interest Tax Handouts.

The idea: Close various special interest loopholes.

Why? A wide variety of narrow special interest provisions were introduced into the tax bills in the past month since the bill was first introduced in the House of Representatives, many in the last few days before the bill was signed at 2 am on Saturday. We believe that at least $50 billion in loopholes, shelters, and special interest handouts could be eliminated without significantly affecting economic growth forecasts.

The Math

The following amounts are based on the best available information from the bipartisan Joint Committee on Taxation (JCT) scores on both the House and Senate bills, as well as estimates of the cost of tax expenditures from JCT and the Treasury Department. They do not represent official "scores" which remain to be determined by JCT.

	($ billions) Comparison to Senate Bill
SALT & Mortgage Interest Deduction, current rates	$ (600)
Retain current accelerated depreciation rates	61
Eliminate zero rate loophole on capital gains of appreciated assets to private foundations	200
Eliminate tax free step up in basis for capital assets on death for gains in excess of $5 million	400
Close recently introduced loopholes and special interest handouts	50
Total *Deficit Reduction*	$111