Chapter 9

Tax Reform: Comparison and California Reaction
Spidell’s Big Blue Answer Book
A thorough and indispensable guide for every California tax question

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— Skylar Dubrow, CPA; Westlake Village, CA

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<thead>
<tr>
<th>Price</th>
<th>Description</th>
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<td>$99 (+ tax and $8.00 shipping)</td>
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TAX REFORM: COMPARISON AND CALIFORNIA REACTION

THE PRESIDENT-ELECT’S TAX PLAN

Donald Trump’s election victory, along with Republican control of both houses of Congress, means that there will likely be big changes in tax law coming soon. Trump will be inaugurated on January 20, 2017, and considering the “100-day rule” (i.e., much of what a president accomplishes is done in the first 100 days), we can expect the tax law changes to be swift. Whether those changes will be effective in the 2017 or 2018 tax years is unknown at this time, but the effective dates of any changes would likely be spread over those two years.

In reviewing Trump’s tax plans, two points should be kept in mind:

• His tax plans are largely broad-brush, with few specifics. The plan is briefly stated on his website, and he didn’t fill in many details in his campaign speeches; and

• The House GOP has its own “A Better Way” tax reform blueprint (see page 9-5). While that blueprint shares some similarities with Trump’s proposals, there are also many differences. Compromise will be likely if a quick consensus cannot be reached.

For more information on the President-elect’s plan, go to:

Website
www.donaldjtrump.com/policies/tax-plan

BASIC INDIVIDUAL TAX CHANGES

Trump’s plan would collapse the current seven tax brackets to three brackets:

<table>
<thead>
<tr>
<th>Proposed Tax Brackets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rate</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>12%</td>
</tr>
<tr>
<td>25%</td>
</tr>
<tr>
<td>33%</td>
</tr>
</tbody>
</table>

Comment

These rates correspond somewhat closely to current rates, with the exceptions of the current 35% and 39.6% rates. For example, the current 25% rate for married filing joint kicks in at taxable income of $75,300, whereas under the Trump plan it would be $75,000. The 33% rate under current law begins at $231,400, versus $225,000 under the Trump plan. However, under current law there’s an in-between rate of 28% that starts at $151,900.
Further changes to basic individual taxation would:

- Eliminate personal and dependent exemptions;
- Eliminate the head of household filing status; and
- Increase the standard deduction to $30,000 for joint filers and $15,000 for single filers.

Comment

The increase in the standard deduction means that many taxpayers who currently itemize would no longer itemize. This is likely to remain true as long as mortgage interest rates are low and taxpayers pay relatively little in home mortgage interest.

Also, the increase in the standard deduction would likely mean that most low- to mid-income taxpayers will have a slightly reduced tax burden. However, with the loss of head of household filing status and the loss of exemptions, a single parent would likely pay more, especially if that single parent has more than one dependent child.

Example of single parent

Bruce is a single parent who has two dependent children. He files as head of household, has salary income of $70,000, and takes the standard deduction.

For 2016, his taxable income is $48,500, consisting of his $70,000 income less three exemptions of $12,150 (3 × $4,050) and less his standard deduction of $9,300. He is in the 15% tax bracket. His tax liability is $6,620.

Under the Trump tax plan, his taxable income is $55,000 consisting of his $70,000 income less his standard deduction of $15,000. He is in the 25% tax bracket. His tax liability is $8,875.

OTHER INDIVIDUAL TAX CHANGES

Other individual tax changes proposed under the Trump tax plan would:

- Cap itemized deductions at $200,000 for joint filers and $100,000 for singles;
- Eliminate the alternative minimum tax; and
- Specifically eliminate the 3.8% net investment income tax. However, under other portions of his platform, Trump intends to repeal the Affordable Care Act (ACA). This would presumably also eliminate the 0.9% Additional Medicare Tax, the penalty for not having insurance, the Premium Tax Credit, and other taxes under the ACA.

The existing capital gains rate structure (maximum rate of 20%) would be retained “with new tax brackets.”

Comment

It is not clear what capital gains rates would be associated with what new tax brackets. Under current law, capital gains are taxed at a 0% rate for taxpayers in the 10% and 15% tax brackets, 15% for the 25%–35% brackets and 20% for taxpayers in the 39.6% tax bracket. Obviously, those tax brackets do not correspond to the tax brackets under Trump’s plan.
CHILD AND ELDER CARE

The Trump plan puts a great deal of emphasis on child care and elder care, proposing to replace the current Child and Dependent Care Credit with a more complex but broader system.

Eligible taxpayers would get an above-line deduction for child care for children under age 13 and for elder care for a dependent parent. The deduction would be available to families who “use” stay-at-home parents or grandparents to provide the child care.

There are several limitations on the deduction:

• No deduction would be available to taxpayers with “total income” over $500,000 for joint filers or $250,000 for single filers;
• The deduction for child care would be limited to four children per taxpayer;
• The deduction for child care would be limited to the “state average for a child of the child’s age”; and
• For elder care, the deduction would be capped at $5,000 per year, indexed for inflation.

For lower-income individuals who would not benefit from the deduction, the plan would offer spending rebates for child care expenses through the Earned Income Tax Credit. The rebate would be equal to 7.65% of “remaining” eligible child care expenses subject to a cap of half of the payroll taxes paid by the taxpayer; in a two-earner household, the cap would be based on the lower-earning parent. This rebate would be available to joint filers earning $62,400 or less, or single taxpayers earning $31,200 or less.

Comment

The child care benefits might significantly offset the increase in tax for single parents noted in the previous discussion and example.

In addition, the plan would create a new Dependent Care Savings Account (DCSA) for the benefit of specified individuals including unborn children. Total annual contributions are limited to $2,000 per year. When established for children, funds remaining in the account when the child reaches age 18 could be used for education expenses.

Comment

Whether there would be a deduction for contributions or whether income in the account would be tax-deferred or tax-free is not clear. The accounts would likely work much like Health Savings Accounts.

To encourage lower-income families to establish DCSAs for their children, the government would provide a 50% match on parental contributions of up to $1,000 per year. Apparently, this government match would be made in the form of a refundable tax credit administered through the Earned Income Tax Credit.

Comment

Eliminating dependent exemptions and the head of household filing status has the potential to eliminate the complex rules that determine who is a dependent and who gets to claim the dependent. However, with the EITC and the child care rules, that difficult determination is still in play. It is not clear at this time whether IRC §152 (Dependent Defined) will be retained along with all of the regulations, rulings, and court cases under that provision.
BUSINESS PROVISIONS

There are several provisions benefitting business taxpayers. Chief among those provisions is that the plan would lower the “business tax rate from 35% to 15%.” Further, this provision provides that “this rate is available to all businesses, both large and small, that want to retain the profits within the business.”

Comment

As broad-brush as many of the plan’s provisions are, this one is causing considerable speculation. The provision is simple when applied to a C corporation. But the phrase “is available” seems to imply that other business entities could elect to be treated like a C corporation. It would seem to mean that a partnership, for example, could elect to pay a 15% tax at the partnership level with the partners paying tax on distributions. Whether any such election would be made on an annual basis or whether the election, once made, is in effect for all future years is not clear at all.

Moreover, the phrase “all businesses” would seem to indicate that even sole proprietors operating Schedule C businesses could take advantage of the 15% rate.

BUSINESS TAX INCENTIVES

The Trump plan would raise the IRC §179 expensing cap from $500,000 (adjusted for inflation) to $1 million. Moreover, businesses engaged in manufacturing in the U.S. could make an election to expense all equipment purchases and lose the deductibility of interest expense. The election could only be revoked within the first three years of making the election.

The plan would eliminate “most corporate tax expenditures,” except for the Research and Development Credit. The phrase “most corporate tax expenditures” is not defined. The plan also would greatly enhance tax benefits for on-site child care expenses and for businesses that pay a portion of an employee’s child care expenses.

DEATH TAXES

The Trump plan states: “The Trump Plan will repeal the death tax, but capital gains held until death and valued over $10 million will be subject to tax to exempt small businesses and family farms.”

Comment

It is impossible to interpret that sentence because of its many grammatical errors. The final clause beginning with “to exempt” implies that that final clause is the result of what precedes it, but there’s nothing in what precedes it that leads to the conclusion of the final clause. And, strictly read, “valued over $10 million” refers to the amount of capital gains, not the value of the estate. So, does that mean that an estate with built-in gain of more than $10 million will be taxed and, if so, at what rate and when?

The most common interpretation is that if an estate has a valuation of more than $10 million, the estate will be taxed on its built-in gains at the capital gains rate of 20%. It appears to be a cliff test. It is assumed that after paying the tax, the heirs will receive the assets at a stepped-up basis.

Another interpretation is that if the estate has a value of more than $10 million, the heirs will pay tax when they sell the assets. This interpretation means that the heirs receive the assets without a stepped-up basis. Apparently, if the estate has a value of under $10 million, the heirs receive the assets with a stepped-up basis.
THE GOP’S “A BETTER WAY” TAX PLAN

In addition to President-elect Trump’s tax plan, House Republicans have produced their own tax blueprint as part of their “A Better Way” plan for the country. We can expect rapid tax law changes in at least those areas where Donald Trump and the House GOP agree.

To read more about the House GOP plan, go to:

Website

GOP TAX REFORM GOALS

The GOP’s plan states that one of its primary goals is simplification of the tax code to the point where most Americans can prepare their own taxes “on a form as simple as a postcard.”

Sample “postcard” tax form

The GOP blueprint contains a simple, 14-line postcard tax form as an example of the sweeping simplification it creates.

TAX RATES FOR INDIVIDUALS

Like Trump’s plan, the GOP plan would consolidate the seven current individual tax brackets into three at 12%, 25%, and 33%. The blueprint does not define at what taxable income level each rate kicks in, but we can expect the tax rates to largely follow current taxable income amounts:

- The 12% rate would replace the current 10% and 15% rates;
- The 25% rate would replace the current 25% and 28% rates; and
- The 33% rate would replace the current 33%, 35%, and 39.6% rates.
According to the GOP plan, because of the increased standard deduction (discussed below), taxpayers who are currently in the 10% bracket “always will pay lower taxes than under current law.”

**REDUCED TAX ON INVESTMENT INCOME**

The GOP blueprint would reduce taxes on investment income by allowing taxpayers to exclude 50% of their net capital gains, dividends, and interest income, leading to effective rates of 6%, 12.5%, and 16.5% on investment income.

**SHIFTING FAMILY TAX DEDUCTIONS**

The tax code currently includes five basic family tax deductions and credits:

- Basic standard deduction;
- Additional standard deduction;
- Personal exemptions for taxpayer and spouse;
- Personal exemptions for dependents; and
- Child Tax Credit.

The GOP plan would consolidate these deductions and credits into a larger standard deduction and an enhanced Child Tax Credit. The stated purpose is to simplify these deductions and credits while achieving the same policy and distributional goals as current law. The GOP proposed standard deductions are:

<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>Married filing joint</td>
<td>$24,000</td>
</tr>
<tr>
<td>Single with child in household</td>
<td>$18,000</td>
</tr>
<tr>
<td>Single</td>
<td>$12,000</td>
</tr>
</tbody>
</table>

The Child Tax Credit is currently $1,000 and phases out for individual taxpayers earning over $75,000 and joint filers earning over $110,000. To the extent the Child Tax Credit exceeds the taxpayer’s tax liability, the taxpayer is eligible for a refundable credit equal to 15% of earned income in excess of $3,000. Taxpayers are not required to provide the child’s Social Security number to claim the refundable portion of the credit, which has led to substantial fraud.

The GOP plan would increase the Child Tax Credit to $1,500 with only the first $1,000 refundable. A new nonrefundable $500 credit would also be allowed for nonchild dependents. Additionally, married couples would not see either of these credits phased out until their earnings reach $150,000. By increasing the phase out threshold to double the individual threshold of $75,000, the GOP’s plan would eliminate the marriage penalty as it applies to the Child Tax Credit.

**TAX BENEFITS FOR HIGHER EDUCATION**

The GOP blueprint would consolidate the different education credits and deductions into a single higher education credit and expand qualified expenditures to include vocational training. The plan also includes savings incentives for §529 plans and other tax relief targeted at helping low- and middle-income taxpayers, but there are no details.
INDIVIDUAL EXCLUSIONS AND DEDUCTIONS

In conjunction with the increased standard deduction, the GOP plan would eliminate all itemized deductions except the home mortgage interest deduction and the charitable contribution deduction.

Even though the GOP plan keeps these two deductions, many taxpayers who currently itemize would not have enough charitable contributions and mortgage interest to overcome the larger standard deduction. For homeowners on the lower end of the tax scale, tax practitioners and real estate professionals may find themselves performing more rent versus buy analyses for their clients.

AFFORDABLE CARE ACT

The GOP has made repeal of the ACA one of its priorities, including repeal of the:

- 3.8% net investment income tax;
- 0.9% additional Medicare surcharge;
- Excise tax on medical devices;
- Tax on Cadillac health plans; and
- Penalties associated with individual and employer mandates.

OTHER INDIVIDUAL PROVISIONS

The GOP plan would also:

- Eliminate the alternative minimum tax (AMT);
- Continue the Earned Income Tax Credit (EITC);
- Continue incentives for retirement savings, such as the current structure for contributions to IRAs, 401(k) plans, and all other retirement savings arrangements; and
- Completely repeal the estate and generation-skipping transfer taxes (aka the “death tax”).

TAX RATES FOR SMALL BUSINESSES

For businesses, the GOP plan would create a new 25% maximum tax rate for small businesses that are organized as sole proprietorships or passthrough entities, which means that small business income would no longer be subject to the proposed top individual tax rate of 33%.

However, similar to S corporations that are required to pay reasonable compensation, the GOP blueprint would treat sole proprietors and partners as having paid themselves reasonable compensation, which would be subject to the individual rates, before the maximum business rate of 25% takes over. How this provision would be implemented or enforced is unclear.

TAX RATES FOR LARGE BUSINESSES

For large businesses, the GOP blueprint would reduce the tax rate for C corporations to a flat 20%. Earnings distributed from C corporations would still be double-taxed, but the burden would be severely diminished with the 50% exclusion on investment income of individuals, discussed earlier.

FULL AND IMMEDIATE WRITE-OFF OF TANGIBLE AND INTANGIBLE ASSETS

In addition to reducing tax rates for businesses, the GOP blueprint would allow businesses the benefit of full and immediate write-offs of investments in both tangible and intangible assets. According to the GOP plan, this approach to cost recovery is equivalent to a 0% tax rate on new investment and would be a move toward taxation based on business cash flow.


INTEREST EXPENSE

Interest expense would be allowed against interest income, but no current deduction would be allowed for net interest expense. This is a trade-off for allowing full and immediate write-offs for investments. The GOP plan states that it will work to develop special rules with respect to interest expense for financial services companies, such as banks, insurance, and leasing, which will take into account the role of interest income and expense in their business models.

NET OPERATING LOSSES

Net operating losses would be allowed to be carried forward indefinitely and would be increased by an interest factor that compensates for inflation and a real return on capital to maintain the value of amounts that are carried forward. NOL carrybacks would not be permitted, and the deduction allowed with respect to an NOL carryforward in any year would be limited to 90% of the net taxable amount for such year determined without regard to the carryforward.

BUSINESS DEDUCTIONS AND CREDITS

Without much detail, the GOP blueprint states that the tax code contains too many special interest deductions and credits that are designed to encourage particular business activity and that those provisions create incentives for businesses to make decisions because of the tax consequences rather than because of the underlying economics. The blueprint states that it feels the special interest provisions are a source of both complexity and controversy because such provisions adversely affect the public’s confidence in the fairness of the tax system.

Even though not many details were provided, the blueprint does single out the domestic production activities deduction of IRC §199 as no longer necessary under the GOP plan. However, the blueprint would continue the Research and Development Credit.

OTHER BUSINESS PROVISIONS

The plan would also:

- Eliminate the corporate alternative minimum tax (AMT); and
- Preserve the last in, first out (LIFO) method of accounting.

PLAN SIMILARITIES

The House GOP’s “A Better Way” plan shares these similarities with the Trump plan:

- A reduction of the top tax rate to 33% with three tax brackets;
- The elimination of the AMT;
- A larger standard deduction;
- A reduction of the corporate tax rate to 20%; and
- Repealing the ACA and, as a result, the tax provisions that go along with it.

The Trump plan is significantly different from the “Better Way” plan in that it would:

- Continue the EITC but look for ways to improve it;
- Eliminate all itemized deductions except for home mortgage interest and charitable contributions;
- Completely repeal the estate tax; and
- Allow interest expense to be deducted by businesses only against interest income.
California conformity

What will happen with California’s tax system if Congress follows the Trump tax plan, the GOP’s “A Better Way” tax plan, or a combination of the two?

In California, we like to make our own decisions, not necessarily following federal tax changes. At first blush, California would likely not conform to a major federal tax overhaul. But there does appear to be some interest in at least partial conformity.

Although the Legislature is talking about circumventing federal policies in the areas of immigration and the environment, comments made by those in the know appear to open the door for at least some tax conformity.

For example, state Finance Director Michael Cohen said that California can’t just go its own way and ignore the federal tax changes. He has stated that state officials must be nimble in reacting to whatever comes out of Washington.

In general, we believe California will conform to some provisions, but conformity would not likely happen right away. So we would potentially have a year or two of big differences, depending on what really happens in Washington.
## Tax Plan Comparison Chart

<table>
<thead>
<tr>
<th></th>
<th>Trump</th>
<th>House GOP</th>
<th>California</th>
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</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
<td></td>
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</tr>
<tr>
<td>Tax rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint &lt; $75,000</td>
<td>12%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Single &lt; $37,500</td>
<td>12%</td>
<td>10% / 15%</td>
<td>California tax rates are not tied to federal rates, and California does not have a reduced capital gain rate</td>
</tr>
<tr>
<td>$75,000–$225,000</td>
<td>25%</td>
<td>25% / 28%</td>
<td></td>
</tr>
<tr>
<td>$37,500–$112,500</td>
<td>25%</td>
<td>25% / 28%</td>
<td>California generally conforms to federal filing statuses. We believe California would not eliminate the head of household filing status</td>
</tr>
<tr>
<td>$225,000–$112,500</td>
<td>33%</td>
<td>33% / 35% / 39.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Filing status</strong></td>
<td>Eliminates head of household and contemplates two filing statuses:</td>
<td>Contemplates three filing statuses:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Married filing joint; and</td>
<td>• Married filing joint;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Single</td>
<td>• Single with child in household; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Single</td>
<td></td>
</tr>
<tr>
<td><strong>Personal and dependent exemptions</strong></td>
<td>Eliminates in lieu of higher standard deduction</td>
<td>Eliminates in lieu of higher standard deduction</td>
<td>California has exemption and dependent credits. These could possibly be reduced or eliminated if done in conjunction with a higher standard deduction</td>
</tr>
<tr>
<td><strong>AMT</strong></td>
<td>Eliminates</td>
<td>Eliminates</td>
<td>We don’t believe California would eliminate the AMT</td>
</tr>
<tr>
<td><strong>Investment income</strong></td>
<td>Maintains capital gain structure with new tax brackets</td>
<td>50% excluded from gross income (presume elimination of capital gain rates as trade-off for 50% exclusion)</td>
<td>We don’t believe California would conform here</td>
</tr>
<tr>
<td><strong>Standard deduction</strong></td>
<td>Increased to:</td>
<td>Increased to:</td>
<td>California could increase the standard deduction, possibly in conjunction with changes in exemption credits</td>
</tr>
<tr>
<td></td>
<td>• $30,000 joint return; and</td>
<td>• $24,000 married filing joint;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $15,000 single</td>
<td>• $18,000 single with child in household; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $12,000 single</td>
<td></td>
</tr>
<tr>
<td><strong>Itemized deductions</strong></td>
<td>Maintains current deductions but caps them at:</td>
<td>Eliminates all itemized deductions except home mortgage interest and charitable contributions</td>
<td>California could cap the itemized deductions. Note that if only mortgage interest and charitable contributions were allowed, Californians would suffer an increase in federal tax due to the loss of the state income tax deduction</td>
</tr>
<tr>
<td></td>
<td>• $200,000 joint return; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $100,000 single</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Tax Plan Comparison Chart (continued)</th>
<th>Trump</th>
<th>House GOP</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals (continued)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Children and dependents</strong></td>
<td>Replaces Child and Dependent Care Credit with broader system;</td>
<td>Increases Child Tax Credit to $1,500 (only $1,000 refundable);</td>
<td>California does not have a child credit. However, if dependent credits were eliminated, the state could enact a child credit</td>
</tr>
<tr>
<td></td>
<td>Creates above-line deduction for child care for children under age 13 and for elderly dependents;</td>
<td>Creates $500 nonrefundable credit for nonchild dependents;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Makes deduction available where stay-at-home parent or grandparent is caregiver;</td>
<td>Increases phase out threshold for joint filers to eliminate marriage penalty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phase out when income is over $250,000 ($500,000 for joint filers);</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limited to four children;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limited to the “state average” for the child’s age; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Elder care deduction capped at $5,000 annually, indexed for inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earned income credits</strong></td>
<td>Modifies and expands</td>
<td>Silent</td>
<td>We believe California could expand the EITC</td>
</tr>
<tr>
<td><strong>Higher education expenses</strong></td>
<td>Mostly silent, but adds Dependent Care Savings Account (DCSA) to help save for education — government-provided matching contributions available for low income taxpayers</td>
<td>Simplifies and consolidates various deductions and credits into a single credit and expands eligible expenditures to include vocational training</td>
<td>California has not conformed in the past</td>
</tr>
<tr>
<td><strong>Retirement savings</strong></td>
<td>Silent</td>
<td>Maintains current tax benefits for contributions to 401(k)s, IRAs, and all other retirement savings arrangements</td>
<td>California automatically conforms to federal law in these areas</td>
</tr>
<tr>
<td><strong>Estate taxes</strong></td>
<td>Repeals (sort of) — exception for capital gains held until death in excess of $10,000,000</td>
<td>Full repeal</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>ACA provisions</strong></td>
<td>Repeal, including: 3.8% NIIT; 0.9% Medicare tax; Cadillac tax; Medical expense excise tax; and Penalties for individual and business mandates</td>
<td>Repeal, including: 3.8% NIIT; 0.9% Medicare tax; Cadillac tax; Medical expense excise tax; and Penalties for individual and business mandates</td>
<td>N/A</td>
</tr>
</tbody>
</table>
## Tax Plan Comparison Chart (continued)

<table>
<thead>
<tr>
<th>Businesses</th>
<th>Trump</th>
<th>House GOP</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax rates (Schedule C and flow-throughs)</strong></td>
<td>15% maximum rate, including flow-throughs and sole proprietors</td>
<td>25% maximum rate, but caveat that flow-throughs and sole proprietors deemed to pay reasonable compensation (prevents partners/sole proprietors from totally avoiding 33% tax rate)</td>
<td>We doubt California would conform to any of the business changes, except as noted</td>
</tr>
<tr>
<td><strong>Tax rates (C corporations)</strong></td>
<td>15% maximum rate</td>
<td>20% flat rate</td>
<td>See above</td>
</tr>
<tr>
<td><strong>AMT</strong></td>
<td>Eliminated</td>
<td>Eliminated</td>
<td>See above</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>• Increased IRC §179 to $1,000,000; and • Available election for manufacturers for immediate expensing of 100% of equipment</td>
<td>100% immediate expensing of all tangible and intangible property (unclear if includes real property and probably does not include land)</td>
<td>See above</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>If manufacturer elects 100% immediate expensing of equipment, then no interest deduction is allowed</td>
<td>Only deductible to the extent of interest income (trade-off for allowing 100% immediate expensing of property)</td>
<td>See above</td>
</tr>
<tr>
<td><strong>NOLs</strong></td>
<td>Silent</td>
<td>• Carry forward indefinitely; • No carryback; • Utilization limited to 90% of net taxable income; and • Annual inflation adjustments</td>
<td>California could eliminate the carryback and California has suspended NOLs in the past</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>Silent</td>
<td>Preserves LIFO inventory method</td>
<td>California conforms to LIFO inventory method</td>
</tr>
<tr>
<td><strong>Other deductions</strong></td>
<td>Eliminates “most corporate tax expenditures,” but does not define what that means</td>
<td>Eliminates most “special interest” deductions. Does not define what “special interest” deductions are, but does single out domestic production activities deduction (DPAD) as an example</td>
<td>We believe California could conform to these provisions</td>
</tr>
<tr>
<td><strong>Credits</strong></td>
<td>Continues R&amp;D credit, but expect elimination of most others</td>
<td>Continues R&amp;D credit, but expect elimination of most others</td>
<td>California will likely retain its own credits</td>
</tr>
<tr>
<td><strong>On-site child care</strong></td>
<td>Enhanced benefits for employers that pay child care expenses for employees</td>
<td>Silent</td>
<td>California let child care credits expire</td>
</tr>
<tr>
<td><strong>Repatriation of corporate profits</strong></td>
<td>10% tax on deemed repatriation of corporate profits</td>
<td>Silent</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Note: Where either plan is silent, it can be assumed that it does not seek to change current law