2017 Tax Reform Bill and Its Effects on Travelers

On 11/2/17 the anticipated Tax Cuts and Jobs Ace (H.R.1) was introduced and the Senate released its version on 11/10/17. Like all bills introduced in Congress, the final product may look nothing like the original. The bill must still pass both chambers, and receive a President's signature. If passed, it will cause sweeping changes in tax returns. Like bulldozing a house, this bill changes almost every assumption American's have about tax policy. The following deductions/credits most commonly used by travelers are to be completely repealed under the proposed Bill.

- Employee Business Expenses
- Lifetime Learning Credit and Tuition/Fees Deduction
- Student Loan Interest (Maintained in Senate Version)
- Personal Exemptions
- State and Local Income Taxes

This bill essentially removes the personal exemption and replaces it with a doubled standard deduction. While at first glance, this seems like an even swap and a simplification of the tax return, it erases significant traditional traveler deductions.

TYPICAL TRAVELER – Conservative hypothetical:

Old Law		New Law	
Standard Deduction	~~6300~~	Standard Deduction	12000
Personal Exemption	4050	Personal Exemption	~~0~~
State and Local Taxes	2000	State and Local Taxes	~~0~~
Charity	2000	Charity	2000
Meals/Mileage and Misc.	5000	Meals/Mileage/Misc.	~~0~~
Total (> than Standard)	**13050**	**Total**	**12000**

<u>LOST OF 1050 IN DEDUCTIONS OR 262.50 INCREASE IN TAXES AT 25% TAX RATE.</u>

TRAVELER WHO OWNS A HOME:

Old Law		New Law	
Standard Deduction	~~6300~~	Standard Deduction	12000
Personal Exemption	4050	Personal Exemption	~~0~~
State and Local Taxes	2000	State and Local Taxes	~~0~~
Real Estate Taxes	2000	Real Estate Taxes	2000
Mortgage Interest	5000	Mortgage Interest	5000
Charity	2000	Charity	2000
Meals/Mileage and Misc.	5000	Meals/Mileage and Misc.	~~0~~
Total (> than Standard)	**20050**	**Total**	**12000**

<u>LOSS OF 8050 IN DEDUCTIONS OR 2012.50 INCREASE IN TAXES.</u>

Examples of lost deductions:

1) Your additional costs of relocating to the assignment (above what you have been reimbursed).
2) Using the standard mileage deduction for other/additional business miles.
3) Renting vehicles while on assignment
4) Uniforms, footwear, licenses, and job physicals
5) Student loan interest is not deductible (under House version)
6) The additional meal per diem amounts (if paid less than the GSA rate)
7) Housing is no longer deductible when you get taxed housing (seasonal assignments with some hospitals)
8) Nothing for grad school, seminars or CEUs

Fiscal Impact on Travelers:

1) Many travelers have student debt in excess of $2500 annually, resulting with $375-625 in additional taxes.
2) Many travelers are working on graduate degrees. The tax benefits for 10K of tuition range from $500-2000.
3) Loss of employee business expenses can result in $262.50-2012.50 increase in taxes
   Total increase in taxes for average traveler approximately > $1000

Then are the secondary changes to consider:

1) Deduction for mortgage interest, or RV interest becomes less beneficial
2) Deductions for charity less beneficial
3) Deduction for real estate taxes less beneficial
4) Travelers from high income tax states no longer benefit from state tax deduction

Conclusions and How to Respond

The proposed legislation will work through its mark-up stages and no one knows what the final product will be. However, this is the framework that is proposed. On the balance, the Bill does simplify tax compliance but at a cost for many individuals and organizations that have relied on a stable tax code and anticipated rewards for activities like charity, home ownership, education and professional development. Lastly, how state revenue agencies will modify their tax code in this legislation is also unknown. HOW TO RESPOND: Contact your Hour Representative and Senators and ask them to keep Employee Business Expenses Deductible. Their contacts can easily be found on their Congressional website.