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Trump Tax Plan and You: WSJ Answers More of Your Questions

The proposed changes aim to eliminate property-tax deductions and many others—but probably not write-offs for Health Savings Accounts and alimony

The tax proposal would eliminate the deduction for property taxes, as well as for state and local taxes. Shown, homes in Glen Ridge, N.J., on April 11. PHOTO: KEVIN HAGEN FOR THE WALL STREET JOURNAL

By

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14 COMMENTS

In the wake of the tax overhaul proposed last month by President Donald Trump and Republican lawmakers, we asked Wall Street Journal readers to send us their questions. Ever since, we have been inundated with queries about everything from medical deductions to small-business operations.

In general, the Trump plan would cut rates sharply on corporations and large so-called pass-through businesses such as partnerships and limited-liability companies, in hopes of stimulating economic growth.

Meanwhile, the proposals would lower rates somewhat for many individuals and broaden the tax base by limiting specific breaks, some of them highly popular.
Because the proposals lack crucial details, it's hard to predict how individuals or families would fare under them—especially if they have children. Lawmakers could take months to hammer out specifics.

The first batch of questions last week focused on the proposals' effects on the national debt, capital-gains tax rates and other issues. This week, we look at property taxes, overseas Americans, alimony and other topics.

Here are our responses to more reader questions, which have been lightly edited for clarity.

Q: I've heard they're eliminating deductions for state and local taxes. Does that include the one for my property taxes?
Yes, the proposal would eliminate deductions for property taxes as well as for state and local income and sales taxes.

But almost as soon as this change was unveiled, lawmakers began to backpedal due to intense opposition from Republicans from high-tax states such as New York and New Jersey.
Possible changes include allowing a deduction for property taxes but not for state or local income taxes; allowing a deduction or credit for either mortgage interest or state and local taxes, but not both; or putting a general cap on itemized deductions on Schedule A.

Q: Under the plan, could I deduct Health Savings Account contributions on my individual return? What about my health-insurance premiums if I have a small business?

People who take deductions for Health Savings Accounts (HSAs) will probably continue to get this break, according to Eddie Adkins, a benefits specialist with Grant Thornton.

One reason: This deduction isn't on Schedule A but rather on the front page of Form 1040 (Line 25). The current overhaul calls for ending all Schedule A deductions except mortgage interest and charitable contributions, but it is silent on most "above the line" write-offs. "Republicans have been fans of HSAs," Mr. Adkins says.

Deductions of health-insurance premiums for many small-business owners also seem protected, or at least not on a hit list.

Under current law, these premiums are deductible from income tax on Line 29 of Form 1040 if a taxpayer has "pass through" income earned by a sole proprietorship, partnership or limited-liability company. They're also deductible for owners of more than 2% of an S corporation.

The write-off, however, can't exceed the taxpayer's net income from the business. And it's prohibited if the taxpayer is eligible for subsidized coverage under an employer's plan, such as one available to a spouse.

Q: I invest in expensive equipment for my business. What would happen to depreciation deductions?

Write-offs for depreciation may become more generous, says Dustin Stamper, a legislative analyst with Grant Thornton.

Under current law, both Section 179 and "bonus" depreciation allow accelerated deductions only up to certain limits. But under the proposal, a business owner might be able to deduct 100% of the cost of equipment in the year it's acquired.

There are catches. If full write-offs of equipment are allowed, then business owners might not get the full interest deductions permitted under current law. And the new rules might expire after five years.

Keep an eye on these provisions, as they could change. Mr. Stamper thinks future write-offs of investments in equipment will be at least as generous as under current law.

Q: I'm an American living abroad. How would my taxes change?

It's unclear. But lawmakers are considering radical changes to how U.S. companies are taxed on foreign earnings, and changes may be afoot for individuals living overseas. Such changes often go hand in hand, according to Charles Bruce, a lawyer with American Citizens Abroad (ACA), an advocacy group.

Many overseas Americans have chafed under stepped-up enforcement of complex U.S. tax rules affecting them in recent years, and record numbers have renounced their U.S. citizenship.

ACA recently issued a side-by-side comparison of current law with the proposed changes, which it says would prevent abusive offshore accounts but ease compliance for those living abroad.

Q: Will my alimony deduction be eliminated?

Probably not. Like deductions for Health Savings Accounts, alimony write-offs are somewhat protected because they aren't on Schedule A.

In addition, alimony deducted by one ex-spouse must be claimed as income by the other. Thus, this write-off "costs" Uncle Sam far less than pure tax breaks, such as the ones for retirement savings or employer-paid health insurance.

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