2017 Tax Reform Bill and Travelers

On 11/2/17 the anticipated Tax Cuts and Jobs Ace (H.R.1) was introduced. A subsequent amendment was approved: https://waysandmeans.house.gov/wp-content/uploads/2017/11/20171106-Amendment-in-the-Nature-of-a-Substitute-to-H.R.-1.pdf The text of the bill, as well as its progress can be found at https://www.congress.gov/bill/115th-congress/house-bill/1/text/?format=xml Additionally, the Senate released its version on 11/10/17 which can be found at the following site: https://www.finance.senate.gov/imo/media/doc/11.9.17%20Chairman's%20Mark.pdf

Like all bills introduced in Congress, the final product may look nothing like the original. The bill must still pass both chambers, (Senate & House of Representatives) and receive a President's signature. It is also important to note that there are no changes until this occurs.

HR1 and the Senate version is sweeping. Like bulldozing a house. The Bill changes almost every assumption American's have had about tax policy for the last 50 years. The proposal seeks to remove many tax incentives for education, advancing one's skills, risk taking, and help for the medically dependent.

The following deductions / credits are to be completely repealed under the proposed bill:

1) Employee Business Expenses
2) Lifetime Learning Credit and Tuition/Fees Deduction
3) Student Loan Interest (Senate Version Keeps)
4) Personal Exemptions
5) State and Local Income Taxes
6) Dependent Care Benefits (daycare credit)
7) Casualty Losses
8) Medical Expenses (Senate Version Keeps)
9) Health Savings and Flex Accounts
10) Gambling Losses
11) Alimony Deductions
12) Moving Expenses AND Reimbursements (reimbursements are normally not taxable) – except for Military
13) Teachers Deduction
14) Claims for paybacks of wages and social security

The following are greatly limited, have higher thresholds for use, or are rendered less beneficial

1) Mortgage Interest
2) Real Estate Taxes
3) Principal Residence Exclusion
4) Charitable Deductions

Before we begin to sling mud, let me just say the most important reform we DO need is a reduction in corporate tax rates. The US has one of the highest corporate rates in the world, encouraging them to flee and set up offices elsewhere, pulling jobs out of the United States. Countries who have low rates have realized more income is to be derived from the individual taxpayers, rather than the corporation. – Keep the jobs in-country and the revenue stays there also. The next time you eat at Burger King, think about this – it's Canadian. The next time you use Medtronic products, you are using Irish products. We do need tax reform in this area.

A change in the concept of itemized deductions:

Under our current tax system (2016), each taxpayer gets one personal exemption worth $4,050 and a standard deduction of $6300 (2016 rates). This doubles for married couples who file joint, with an additional personal exemption for each dependent. Anytime the collective amount of allowed medical expenses, state and local income taxes, real estate taxes, mortgage interest, charity, employee business expenses and gambling losses (these are the most common) exceed $6300 (or $12,600 for married/joint filers), the higher number can be used for the deduction in place of the Standard. For singles, we will use a hypothetical mortgage interest deduction of $5,000, real estate taxes of $2,000 and state income taxes of $2,000 generate an additional $2,700 of deductions since itemizing produces $9,000 in deductions as opposed to $6,300.

The introduced bills propose to scrap the personal exemption and create a higher standard deduction 12,000. Using our example above:

Old law		New Law	
Standard Deduction	~~6300~~	Standard Deduction	12000
Itemized Deductions	9000	Total Allowed Itemized Deductions	5000
Personal Exemption	4050 (per person)	Personal Exemption	~~0~~
Total (> than Standard)	13050	Total (Standard Higher)	12000
Lost Deductions: 1050 or 262.50 increase in taxes after adjusting for 25% tax rate.			
State and local income taxes are scrapped under the new law so itemizing and home ownership no longer produce any significant tax savings.			

*** Center line drawn through amounts shown in article graphs indicates repealed deductions.*

Many travelers who do not own houses still itemize because of their combined unreimbursed deductions for mileage, meals and miscellaneous expenses can range from a small amount to 10,000. Additionally, many have state income taxes totaling 2,000 and often give to charity.

TYPICAL TRAVELER:

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 (> Standard)	13050	Total (Standard Higher)	12000
Lost Deductions: 1050 or 262.50 increase in taxes at 25% tax rate.			
State and local income taxes are scrapped as well as business expenses.			

These are VERY conservative as the average traveler accumulates more deductions than this, but our example shows how the mechanics of the proposed system works. For the traveler that owns their home the impact is even greater.

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 (> Standard)	20050	Total (Standard Higher)	12000
Loss of 8050 in deductions or 2012.50 increase in taxes			

Below are examples for travelers who work seasonal assignments at a facility that provides taxable housing. These are typically found in the southern states of AZ, FL and TX that keep seasonal staff. Another category are the agencies who do crisis staffing only provide housing and not a meal allowance (paying a higher rate instead).

Old Law		New Law	
SEASONAL ASSIGNMENTS WITH TAXABLE HOUSING STIPEND			
Total Itemized Deductions	17050	Standard Deduction	12000
Loss of 5050 in deductions or $1262.50 increase in taxes			
CRISIS STAFFING			
Total Itemized Deductions	16050	Standard Deduction	12000
Loss of 4050 in deductions or $1015.50 increase in taxes			

Financial Impact on Travelers:

1) Many travelers have student debt in excess of 2500 annually, resulting in 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 262-1262 increase in taxes
   Total increase in taxes for average traveler approximately > 1000

Then consider:
1) Deduction for mortgage interest or RV interest less beneficial
2) Deduction for real estate taxes less beneficial
3) Travelers from high income tax states no longer benefit from state tax deduction

Putting it in conversation "ABC":

1) The additional costs of relocating to the assignment (above what has 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 received housing is taxed (seasonal assignments with some hospitals)
8) No deductions for grad school, seminars or CEUs

Impact on Healthcare Staffing Industry

1) Seasonal contracts through in-house staffing agencies are less profitable to the traveler
2) Crisis contracts with provided housing and zero meal allowances are less profitable to the traveler
3) More pressure on agencies to add reimbursements in full as the excess expenses of meals, transportation, licenses, CEUs and uniforms are no longer deductible
4) Less disclosure of reimbursement programs on the travelers returns
5) Independent Contractor status potentially more beneficial – deductions for businesses still in place

Losers in this Bill

1) Crisis Staffing Assignments / Agencies
2) In-house seasonal Staffing Assignments / Agencies
3) Agencies that do not reimburse for travel and licenses. This will be a marketing issue
4) Travelers that own their homes
5) Long Distance Assignments
6) RV'ers
7) Those moving to permanent jobs
8) Students
9) Those with significant medical expenses including assisted living and nursing homes
10) Provides Incentives for increased reimbursements, which in turn lowers wages, which in turn raises risks.

Conclusions and How to Respond

The proposed legislation is working through its mark-up 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 rewards for certain activities like charity, home ownership, education and professional development. Overall, traveling professionals regardless of industry, may perceive their work to be less lucrative which comes into play on the marketing role of the recruiter. Additionally, the bill as proposed will reduce individual audits which will shift more of the reimbursement policy compliance burden to the employer. Lastly, state revenue agencies modifications in response to the legislation is also unknown. HOW TO RESPOND: Contact your House Representative and Senators and ask them to keep Employee Business Expenses Deductible