THE PRESIDENTIAL CANDIDATES’ TAX PLANS

Lucia Smeal
Georgia State University

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THE PRESIDENTIAL CANDIDATES’ TAX PLANS

Lucia N. Smeal
PROPOSED CHANGES FOR INDIVIDUALS
INDIVIDUAL TAX RATES

CLINTON

- Add a 4% “fair share surcharge” on incomes over $5 million, to provide 43.6% top marginal rate
- Minimum tax imposed on individuals with incomes over $1 million (“Buffet rule”)

TRUMP

- Collapse tax rates into three brackets:
  12%, 25%, and 33%:

<table>
<thead>
<tr>
<th>Singles</th>
<th></th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $37,500</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>More than $37,500 but less than $112,500</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>More than $112,500</td>
<td>33%</td>
<td></td>
</tr>
</tbody>
</table>

  | Married Filing Joint |            | Rate |
  | Taxable Income       |            |      |
  | Less than $75,000    | 12%        |
  | More than $75,000 but less than $225,000 | 25% |
  | More than $225,000   | 33%        |
# CURRENT 2016 INDIVIDUAL TAX RATES

## MARRIED INDIVIDUALS FILING JOINT RETURNS

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $18,550</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $18,550 but not over $75,300</td>
<td>$1,855 plus 15% of the excess over $18,550</td>
</tr>
<tr>
<td>Over $75,300 but not over $151,900</td>
<td>$10,367.50 plus 25% of the excess over $75,300</td>
</tr>
<tr>
<td>Over $151,900 but not over $231,450</td>
<td>$29,517.50 plus 28% of the excess over $151,900</td>
</tr>
<tr>
<td>Over $231,450 but not over $413,350</td>
<td>$51,791.50 plus 33% of the excess over $231,450</td>
</tr>
<tr>
<td>Over $413,350 but not over $466,950</td>
<td>$111,818.50 plus 35% of the excess over $413,350</td>
</tr>
<tr>
<td>Over $466,950</td>
<td>$130,578.50 plus 39.6% of the excess over $466,950</td>
</tr>
</tbody>
</table>

## SINGLE INDIVIDUALS

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $9,275</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $9,275 but not over $37,650</td>
<td>$927.50 plus 15% of the excess over $9,275</td>
</tr>
<tr>
<td>Over $37,650 but not over $91,150</td>
<td>$5,183.75 plus 25% of the excess over $37,650</td>
</tr>
<tr>
<td>Over $91,150 but not over $190,150</td>
<td>$18,558.75 plus 28% of the excess over $91,150</td>
</tr>
<tr>
<td>Over $190,150 but not over $413,350</td>
<td>$46,278.75 plus 33% of the excess over $190,150</td>
</tr>
<tr>
<td>Over $413,350 but not over $415,050</td>
<td>$119,934.75 plus 35% of the excess over $413,350</td>
</tr>
<tr>
<td>Over $415,050</td>
<td>$120,529.75 plus 39.6% of the excess over $415,050</td>
</tr>
</tbody>
</table>
**CAPITAL GAINS, INVESTMENT INCOME, AND CARRIED INTERESTS**

**CLINTON**

- Increase the holding period for long-term capital gains to 6 years and phase in long-term rate:
  - 39.6% (held 1-2 years)
  - 36% (held 2-3 years)
  - 32% (held 3-4 years)
  - 28% (held 4-5 years)
  - 24% (held 5-6 years)
  - 20% (held more than 6 years)

- Taxes carried interests as ordinary income
- Include some passthrough income in 3.8% NII tax.

**TRUMP**

- Retains capital gains structure with a maximum rate of 20%:

<table>
<thead>
<tr>
<th>Income</th>
<th>Capital Gains Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $37,500</td>
<td>0%</td>
</tr>
<tr>
<td>More than $37,500 but less than $112,500</td>
<td>15%</td>
</tr>
<tr>
<td>More than $112,500</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income</th>
<th>Capital Gains Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $75,000</td>
<td>0%</td>
</tr>
<tr>
<td>More than $75,000 but less than $225,000</td>
<td>15%</td>
</tr>
<tr>
<td>More than $225,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

- Taxes carried interests as ordinary income
- Repeal 3.8% net investment income tax
STANDARD DEDUCTION AND ITEMIZED DEDUCTIONS

CLINTON

- No change to standard deduction
- Limit the benefit of itemized deductions for high-income taxpayers to 28% (except for charitable contributions).

TRUMP

- Increase standard deduction from $6,300 to $15,000 for singles and from $12,600 to $30,000 for joint returns.
- Cap itemized deductions for high-income taxpayers at $200,000 for joint filers and $100,000 for single filers.
PERSONAL EXEMPTIONS/FILING STATUS

CLINTON

- No provision

TRUMP

- Eliminates personal exemptions and the head-of-household filing status.

ALTERNATIVE MINIMUM TAX

CLINTON

- No provision

TRUMP

- Repeal individual AMT

INCREASE SOCIAL SECURITY WAGE BASE

CLINTON

- No provision

TRUMP

- Increase social security wage base so higher-income taxpayers pay social security tax on more of their compensation. ($250,000) Current wage base is $118,500.
CHILD AND ELDER CARE COSTS

CLINTON

- Double the existing child care tax credit from $1,000 to $2,000 for children age 4 or younger.
- Eliminate $3,000 minimum earnings requirement.
- Increase refundable amount for children under age 5.
- 20% credit for elder care up to $1,200.

TRUMP

- Above-the-line deduction for child care for children under age 13 capped at the state average, and for care of elderly dependents. Note: Deduction allowed even if stay at home parent provides care.
  - Limited to 4 children per family and eldercare deduction limited to $5,000 per year.
  - Not available to taxpayers with incomes over $500,000 for joint returns and $250,000 for singles.
- Spending rebates. Up to $1,200 for childcare expenses of low-income taxpayers provided through the Earned Income Tax Credit (EITC).
- Tax-favored, Dependent Care Savings Accounts limited to $2,000 per year. Government would match 50% of contributions up to $1,000 per year if parents are low-income.
ESTATE AND GIFT TAXES

CLINTON

- Increase estate and gift tax rate to 45%* and reduce the exemption to $3.5 million per person with a $1 million gift tax exemption.
- Limit step-up in basis for inherited assets—tax asset appreciation.
- Eliminate indexing of exemption.

*Current rate 40% with $5,450,000 exemption per person.

TRUMP

- Repeals estate and gift taxes, but requires a carry-over basis for inherited assets, with a $5 million exemption per person.
- Disallows contributions of appreciated assets to a private charity established by the decedent or the decedent’s relatives.
PROPOSED CHANGES FOR BUSINESS
BUSINESS TAX RATES

**CLINTON**

- No rate changes

**TRUMP**

- Reduce the “business tax rate” from 35 percent to 15 percent.
- Passthroughs can elect flat 15% rate or individual income tax rates.
- Tax distributions to “large passthroughs” as dividends.
- Trump plan states that this rate will be available to “all businesses, both big and small, that want to retain the profits within the business.”
CORPORATE ALTERNATIVE MINIMUM TAX

CLINTON

- No provision

TRUMP

- Eliminate the corporate AMT

CORPORATE TAX EXPENDITURES

- Limits deductions for executive compensation and fossil fuels.
- Eliminates most corporate tax breaks except for the Research and Development credit.

LIKE-KIND EXCHANGES

- Limit capital gains deferral to $1 million per taxpayer per year for both real and personal property
- Excludes art and collectibles from eligibility.
- No provision
DEPRECIATION, EXPENSING and CORPORATE INTEREST EXPENSE

CLINTON

➢ Allow $1 million of immediate expensing for small businesses.

TRUMP

➢ Business could elect immediate expensing of all capital investments or the corporate interest deduction.

➢ Election is revocable for three years only, then becomes irrevocable.
SMALL BUSINESS INCENTIVES

CLINTON

➢ Design new standard deduction for small businesses as an alternative to itemizing their business deductions.

➢ Quadruple the deduction for business start-up expenses (from $5,000 to $20,000).

➢ Enable small businesses with gross receipts under $1 million to use "checkbook accounting."

➢ Allows businesses with up to $25 million in gross receipts to use cash method accounting. (Currently $5 million

➢ Expand and make permanent the New Markets Tax Credit.

TRUMP

➢ No specific provisions except business rate changes.
INTERNATIONAL

CLINTON

➢ Exit tax on inverting companies’ accumulated offshore earnings.

➢ Broaden definition of inversions by changing required % of new owners.

➢ Restrict interest deductions for U.S. affiliates of multinational companies to deter “earnings stripping.”

TRUMP

➢ One-time 10 percent tax on deemed repatriated corporate profits now held offshore, payable over 10 years.
EXECUTIVE COMPENSATION

CLINTON

- Revise deduction rules for performance-based compensation of highly-paid executives at public companies.

TRUMP

- No provision

FINANCIAL INSTITUTIONS AND TRANSACTIONS

- Impose “risk fee” on the liabilities of large financial institutions with more than $50 billion in assets.
- Charge a transaction tax on cancelled orders in high-volume trading.

- No provision
FOSSIL FUELS

CLINTON

- Eliminate tax incentives for fossil fuels, including expensing of intangible drilling costs, percentage depletion, and the deduction for domestic manufacturing for production of oil, natural gas and coal.

TRUMP

- No provision
OTHER IMPORTANT DETAILS
HEALTH CARE CREDIT

**CLINTON**
- Expand the small business health care credit.
- Repeal tax on “Cadillac plans”

**TRUMP**
- Repeal the Affordable Care Act

**EMPLOYER-PROVIDED CHILD CARE FACILITIES**
- No provision
- Increase the credit for employer-provided child care facilities from $150,000 to $500,000
- Credits for acquiring, constructing, rehabilitating, or expanding facilities are subject to recapture for 5 years, rather than 10 years.
TAX-FAVORED RETIREMENT ACCOUNTS

**CLINTON**
- Prohibit additional contributions to high-balance, tax-favored retirement accounts

**TRUMP**
- No provision

TAXATION OF DERIVATIVES CONTRACTS

**CLINTON**
- Require that derivative contracts be marked-to-market annually, with resulting gain or loss treated as ordinary income.

**TRUMP**
- No provision
COMMUNITY DEVELOPMENT AND INFRASTRUCTURE

CLINTON

- Provide tax credits for businesses that invest in community development and infrastructure

TRUMP

- No provision

PROFIT-SHARING AND APPRENTICESHIPS

- Provide tax credits for businesses that implement profit-sharing and apprenticeships.

- No provision
GARY JOHNSON, LIBERTARIAN

- Replace all income and payroll taxes with a single consumption tax.

- Similar to Fair Tax national sales tax with a rebate for the amount spent on basic necessities.
JILL STEIN, GREEN PARTY

- Rewrite the entire tax code to be more progressive.
- Make Wall Street, big corporations, and the rich pay their “fair share” of taxes.
- Require full disclosure of corporate subsidies including corporate tax subsidies.
- Remove the cap on social security taxes above a certain level of income.
- End all subsidies for fossil fuels and impose a greenhouse gas fee/tax to charge companies that pollute.
- Prohibit the use of Low Income Housing Tax Credits to increase low income housing in already segregated neighborhoods.
HOUSE GOP PLAN – “A BETTER WAY”
SPEAKER PAUL RYAN (R-WISC.)
INDIVIDUAL TAX CHANGES

- **Tax Rates.** Collapses the current seven tax brackets into three, 12%, 25%, and 33%.

- **Capital Gains, Dividends, and Interest Income.** Provides a 50% exclusion for capital gains, dividends, and interest income, with a maximum 16.5% rate.

- **Standard Deduction Increase.** Increases the standard deduction from $6,300 to $12,000 for singles, from $12,600 to $24,000 for married couples filing jointly, and from $9,300 to $18,000 for heads of household.

- **No Personal Exemption, Refundable Dependent Credit.** Replaces the $4,050 personal exemption with a $500 nonrefundable credit for dependents who are not children.

- **Child Tax Credit.** Increases the Child Tax Credit to $1,500 per child and raises the income phase-out threshold. Limits the refundable amount of the credit to $1,000.

- **Most Itemized Deductions Gone.** Eliminates all itemized deductions except the mortgage interest deduction and the charitable contribution deduction.

- **Health Insurance Exclusion.** Caps exclusion for employer-provided health insurance.

- **AMT.** Eliminates the individual alternative minimum tax.
BUSINESS TAX CHANGES

- **Corporate Tax Rate.** Reduces the corporate income tax rate from 35% to 20%.
- **Tax Rate on Pass-through Income.** Sets a maximum 25% tax rate on income from pass-through entities.
- **No Corporate AMT.** Abolishes the corporate alternative minimum tax.
- **Territorial Tax System.** Changes the U.S. worldwide tax system to a territorial system which only taxes economic activity within a country’s borders. This change would exempt 100 percent of dividends from foreign subsidiaries from U.S. income tax.
- **Low Rate on Repatriation of Foreign Earnings.** Taxes offshore accumulated foreign profits of U.S. multinationals at a rate of 8.75 percent for cash and cash-equivalent profits and 3.5 percent on other profits.
- **Border-Adjustable Income Taxes.** Makes business income taxes border-adjustable by imposing a “destination-based cash flow tax.” No tax on exports but tax on imports, which is similar to what other countries do with the VAT tax.
HOUSE GOP’S DESTINATION-BASED CASH FLOW TAX

- Revises the corporate income tax to be border-adjustable.
- Only revenue raised from business transactions in the U.S. would be taxed.
- The tax is levied based on where the good ends up (destination), rather than where goods are produced (origin).
- Revenue from sales to nonresidents would not be taxable, and the cost of goods purchased from nonresidents would not be deductible.
- **Example:** If a business purchases $100,000 in goods from an overseas supplier, the cost of those goods would not be deductible against the corporate income tax. If the business sells goods to a foreign person, the revenues would not be included in the corporation’s taxable income.
MORE BUSINESS TAX CHANGES

- **Eliminates Depreciation, Allows All Expensing.** Businesses would be allowed to immediately deduct the entire cost of all both tangible and intangible assets rather than be required to depreciate or amortize these expenditures over time.

- **No Net Interest Expense Deduction.** Disallows a current deduction for net interest expense. Allows net interest expense to be carried forward indefinitely and be deducted against net interest income in future years.

- **NOLs.** Restricts net operating losses so they can only offset 90 percent of net taxable income. Eliminates NOL carrybacks but allows an unlimited carryover period and indexes NOLS for inflation.

- **Domestic Production Deduction, Other Incentives.** Eliminates the Sec. 199 domestic production activities deduction and all other business credits, except for the research and development (R&D) credit.
ESTATE AND GIFT TAXES

- Repeals the federal estate, generation-skipping, and gift taxes.
IRS ADMINISTRATION

- Reorganizes the IRS into three major units: families and individuals, businesses, and an independent “small claims court” unit.

- **Families and Individuals Unit.** Customer service to taxpayers.

- **Business Unit.** For businesses of all sizes and types, including specialists with expertise on the issues facing start-up entrepreneurs and small businesses and specialists with expertise on the issues facing large domestic companies and American-based global corporations.

- **New Small Claims Court Unit.** A “small claims court” unit to handle disputes with taxpayers would be created and would be independent of the IRS.
A LOOK AT ONE CONGRESSIONAL VAT PROPOSAL: 
REP. JIM RENACCI (R-OHIO)
SIMPLIFYING AMERICA’S TAX SYSTEM (SATS)

- Reduce individual income tax rates to 10%, 25%, and 35%. (Highest rate applies on income above $750,000 for singles and $1,500,000 for married couples).
- Increase standard deduction so no tax liability for families up to $50,000.
- Eliminates all itemized deductions except two, charitable contributions and mortgage interest up to $500,000 of debt.
- Expands the Earned Income Tax Credit (EITC).
- Eliminates the AMT.
- Replaces corporate income tax with a 7 percent value-added tax (VAT).
- Imposes a one-time tax on accumulated foreign earnings held abroad of 8.75% for profits held as cash and cash-equivalents and 3.5% on other assets.
QUESTIONS?
Grading the Candidates’ Tax Plans: WHAT WILL CLINTON & TRUMP DO FOR YOU?

David L. Sjoquist
### Background Information

#### Federal Expenditures (in billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Debt</td>
<td>$223.2</td>
<td>6%</td>
</tr>
<tr>
<td>Mandatory Expenditures</td>
<td>$2,297.2</td>
<td>62%</td>
</tr>
<tr>
<td>Discretionary Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td>$583.3</td>
<td>16%</td>
</tr>
<tr>
<td>Nondefense</td>
<td>$584.7</td>
<td>16%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$3,688.3</td>
<td>100%</td>
</tr>
</tbody>
</table>

#### Federal Revenue (in billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxes + Miscellaneous</td>
<td>$2,184.6</td>
<td>58%</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>$1,065.3</td>
<td>29%</td>
</tr>
<tr>
<td>Borrowing</td>
<td>$438.4</td>
<td>13%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$3,688.3</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office (FY 2015)
### Revenue Effect – Static Estimate (in billions)

<table>
<thead>
<tr>
<th></th>
<th>10-Year</th>
<th>Annual Avg.</th>
<th>10-Year</th>
<th>Annual Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Clinton</td>
<td>Trump</td>
<td>Clinton</td>
<td>Trump</td>
</tr>
<tr>
<td><strong>Tax Foundation</strong></td>
<td>+$498.0</td>
<td>+$49.8</td>
<td>-$5,906.0*</td>
<td>-$590.6</td>
</tr>
<tr>
<td><strong>Tax Policy Center</strong></td>
<td>+$1,363.8</td>
<td>+$136.4</td>
<td>-$6,150.4</td>
<td>-$615.0</td>
</tr>
</tbody>
</table>

* -$4,368 if pass-through income is not taxed at 15 percent.
### Distributional Analysis

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20</td>
<td>+0.7</td>
<td>+0.8</td>
</tr>
<tr>
<td>20-40</td>
<td>+0.4</td>
<td>+1.2</td>
</tr>
<tr>
<td>40-60</td>
<td>+0.2</td>
<td>+1.8</td>
</tr>
<tr>
<td>60-80</td>
<td>+0.1</td>
<td>+2.2</td>
</tr>
<tr>
<td>80-90</td>
<td>-2.6</td>
<td>+6.6*</td>
</tr>
<tr>
<td>90-100</td>
<td>-7.4</td>
<td>+13.5</td>
</tr>
<tr>
<td>99-100</td>
<td>-7.4</td>
<td>+16.0*</td>
</tr>
</tbody>
</table>

*4.4%, 5.4%, and 10.2% if pass-through businesses are not taxed at 15 percent.
Economic Effects

• Savings

• Investment

• Labor/Work

• Economy (macro effects)
Four Examples

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Current</th>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single parent, one child under 3, $8,000 in earned income</td>
<td>-$3,470</td>
<td>-$4,720</td>
<td>-$3,776</td>
</tr>
<tr>
<td>Single individual, $30,000 in earned income</td>
<td>$2,484</td>
<td>$2,483</td>
<td>$1,800</td>
</tr>
<tr>
<td>Married couple with two children (one under 3), earnings of $61,000, capital gains and dividends of $2,000 each</td>
<td>$1,902</td>
<td>$1,202</td>
<td>-$1,160</td>
</tr>
<tr>
<td>Single individual, $200,000 in earning, $50,000 in itemized deductions</td>
<td>$33,903</td>
<td>$33,903</td>
<td>$35,625</td>
</tr>
</tbody>
</table>

Negative values are rebates.
Taxes as Percent of Taxable Income

Married Filing Jointly

$0  $20,000  $40,000  $60,000  $80,000  $100,000

- Trump Proposal
- Current Tax Rates
Taxes as Percent of Taxable Income

Single Individual

- Trump Proposal
- Current Tax Rates

Income Levels: $0, $100,000, $200,000, $300,000, $400,000, $500,000
Clinton Child Care Proposal

Assume two children under 5, earnings of $15,000

Child Care Credit:
  Current program: credit = $1,800
  Proposed program: credit = $4,000
## Tax Value of Trump “Child Care Deduction”

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>One worker, one child</th>
<th>Married, one worker, one child</th>
<th>One worker, two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000</td>
<td>$765</td>
<td>0</td>
<td>$956</td>
</tr>
<tr>
<td>$30,000</td>
<td>$765</td>
<td>0</td>
<td>$956</td>
</tr>
<tr>
<td>$35,000</td>
<td>$982</td>
<td>$600</td>
<td>$1,747</td>
</tr>
<tr>
<td>$40,000</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,965</td>
</tr>
<tr>
<td>$45,000</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,582</td>
</tr>
</tbody>
</table>
### The BIG Differences

<table>
<thead>
<tr>
<th>Issue</th>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>Small increase</td>
<td>Large decrease</td>
</tr>
<tr>
<td>Tax Rates on High-Income Filers</td>
<td>Large increase</td>
<td>Large decrease</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>Increase</td>
<td>Eliminate</td>
</tr>
<tr>
<td>Taxes on Business</td>
<td>No real change</td>
<td>Large decrease</td>
</tr>
</tbody>
</table>
## The Good, the Bad, and the Ugly

### The Good

<table>
<thead>
<tr>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business simplification</td>
<td>Cut marginal tax rates</td>
</tr>
<tr>
<td>Eliminate subsidies for fossil fuel</td>
<td>Eliminate carried interest</td>
</tr>
<tr>
<td>Eliminate carried interest</td>
<td></td>
</tr>
</tbody>
</table>

### The Bad/Ugly

<table>
<thead>
<tr>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum 30% tax</td>
<td>15% rate on pass-through income</td>
</tr>
<tr>
<td>Holding period for capital gains</td>
<td>State of residence exemptions</td>
</tr>
</tbody>
</table>