Legislative Update

Portland Tax Forum

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pwc

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Agenda

2025 will be a year for major tax legislation

US fiscal concerns could affect 2025 tax policy action

2025 will be a year for major tax legislation

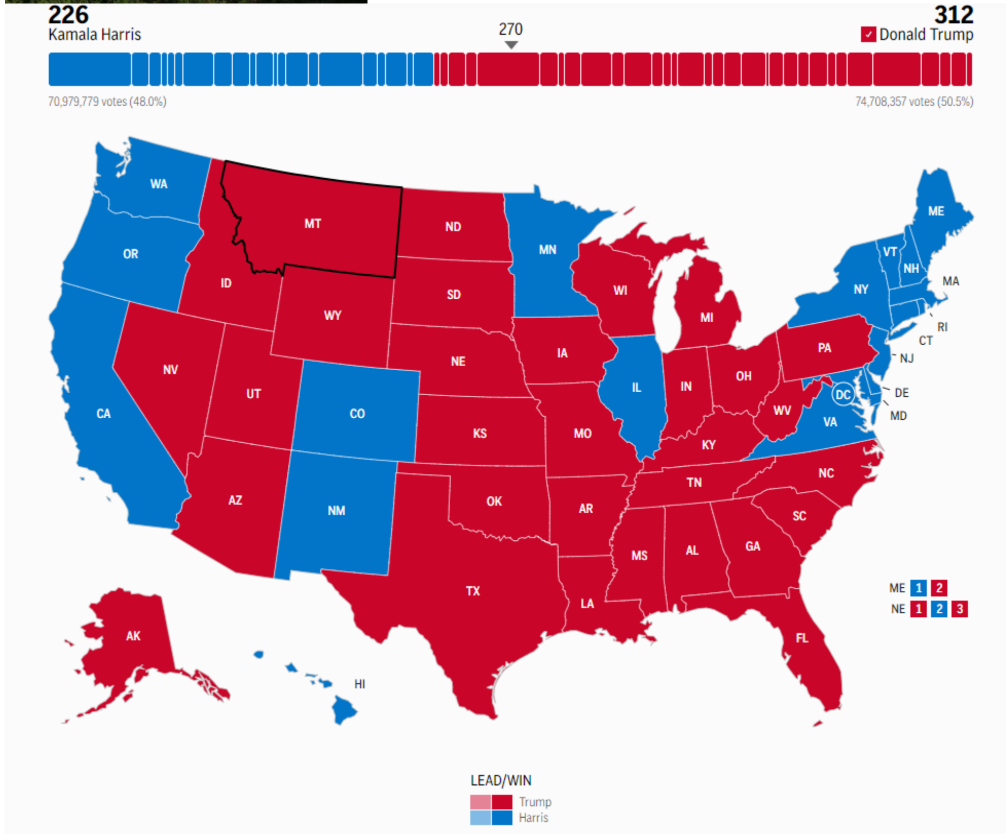
Key Tax Cuts and Jobs Act provisions set to change will drive a need for action before December 31, 2025

Key TCJA individual tax provisions scheduled to expire Dec. 31, 2025, include:		
	From in 2025	To in 2026
All current individual tax rates	37% for top individual ordinary income rate	39.6% for top individual ordinary income tax rate
Pass-through business income deduction	20%	0
Enhanced child tax credit	$2,000	$1,000
Higher standard deductions	From in 2025	To in 2026
Married filing jointly	$30,000	$16,700
Heads of household	$22,000	$12,250
Single filers	$15,000	$8,350
Also in play are current estate and gift tax provisions (e.g., the estate tax unified credit is projected to go from roughly $14 million in 2025 to just over $7 million in 2026), *individual alternative minimum tax provisions, and the $10,000 cap on the deduction for state and local income taxes as well as the current limit on mortgage interest deductions, which are set to sunset Dec. 31, 2025.*		

Key corporate rates scheduled to automatically increase in 2026, include:		
	From in 2025	To in 2026
GILTI hike on a significant portion of foreign earnings	10.5%	13.125%
BEAT minimum tax on US earnings	10%	12.5%
Favorability rate on FDII eligible income	13.125%	16.4%
The look-through treatment for certain controlled foreign corporation income is also set to expire.		

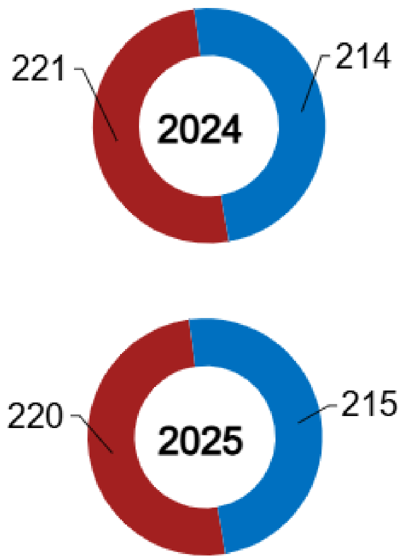
Sources: CBO, Update to the Budget and Economic Outlook,2024 to 2034 June 2024, IRS, Rev. Proc. 2024-40, October 22, 2024.

Republican control of White House and Congress will be key to path taken on 2025 tax legislation

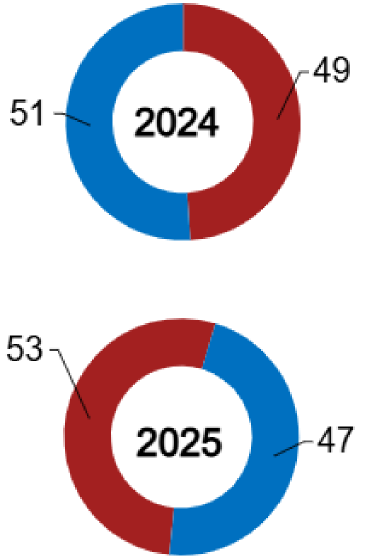


Sources: Associated Press, as of December 2, 2024, 9 AM ET

US House



US Senate



	2024	2025
Republicans	221	220
Democrats	214	215
Net Change*		House Rs -1

25

	2024	2025
Republicans	49	53
Democrats**	51	47
Net Change		Senate Rs +4

* House balance of power includes vacancies under the party that previously held the seat

** Includes two Independents: Senators Bernie Sanders (I-VT) and Senator Angus King (I-ME)

Reconciliation scenarios for a 2025 tax bill are becoming clearer with Republican control of Congress

Expiration
Lawmakers fail to act and the TCJA's provisions expire, letting provisions revert to pre-TCJA levels

Short-term extension
Absent full agreement, lawmakers decide to extend tax breaks by one or two years to give more time for negotiations

- As in 2010, when Bush individual tax cuts were extended for two years after Democrats lost House majority and Republican Senate majority gained seats in midterm elections under President Obama

Long-term extension

- Congress extends tax provisions within budget window under reconciliation procedures (if one party controls like in 2017)
- Or a bipartisan agreement (with a divided Congress, like in 2012) that addresses expiring provisions in a long-term way

Slim Republican majorities will require near-unanimous GOP support to enact a 2025 tax bill using reconciliation procedures

Reconciliation was used to enact the TCJA by a House vote of 224 to 201, with 12 Republicans voting no along with all House Democrats, and a Senate vote of 51 to 48, with one absent GOP Senator

Benefits

- House and Senate joint budget resolution can be approved with simple majority in each chamber
  - **Budget resolution must provide <u>reconciliation instructions</u> setting the amount of deficit financing that tax committees can use for tax bill within the budget window (typically 10 years).**
  - **A $1.5 trillion deficit-financing cap was set in 2017 for the TCJA.**
- Reconciliation bill requires only simple majority vote at every step in the Senate (no filibuster allowed)
- Expedited consideration (time limits for amendments and overall debate)

Limitations

- Legislation that increases the deficit outside of the budget window is subject to automatic sunset or other measures to avoid long-term deficit effect (e.g., TCJA individual provisions were set to sunset 12/31/2025)
- 60-vote Senate super-majority required to waive deficit rule
- Senate rules require reconciliation to be used only to enact measures that have a fiscal effect on the federal budget
- Reconciliation cannot be used to modify the Social Security program

US fiscal concerns and competing issues could affect 2025 tax bill action

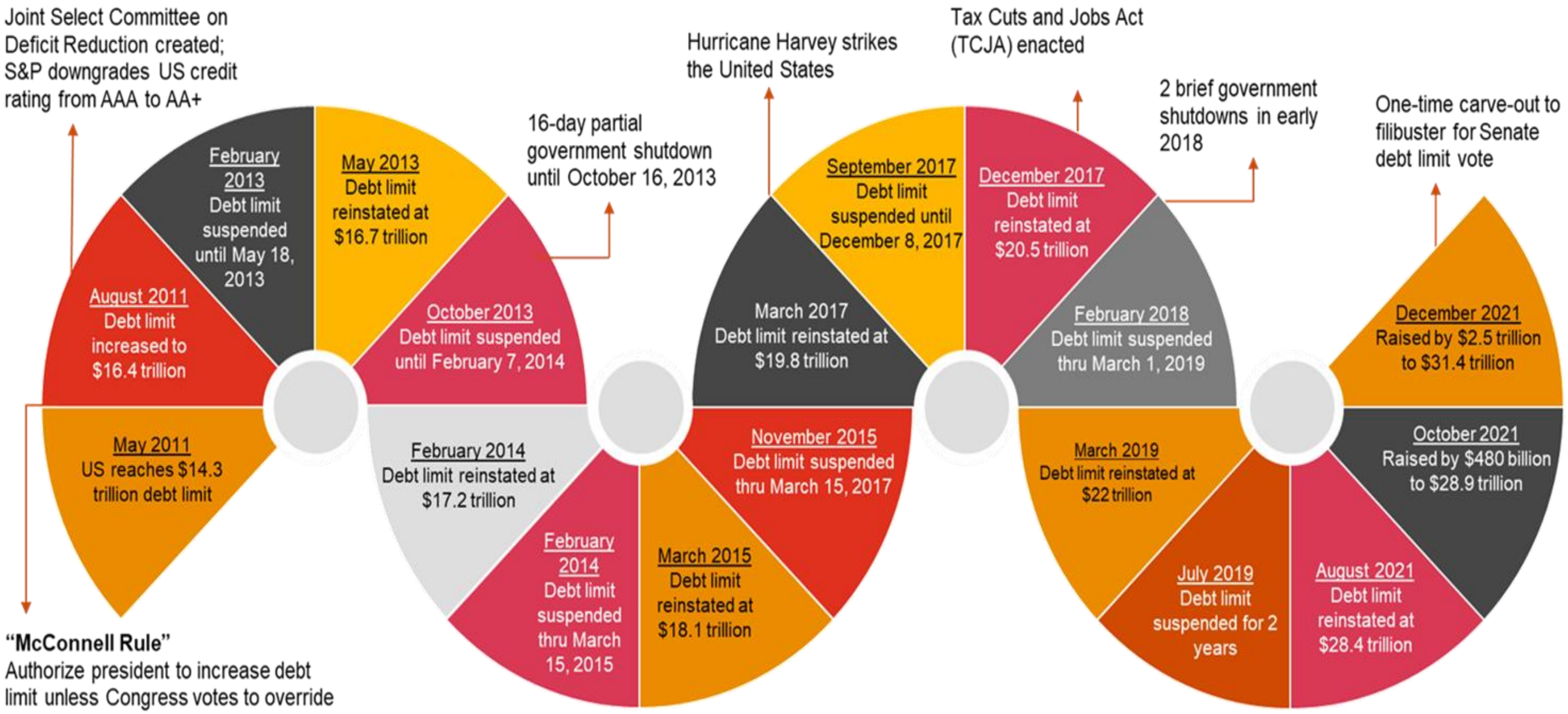
$31.4 T. federal debt limit will confront the next Congress

Current debt limit suspension expires January 1, 2025

- The Fiscal Responsibility Act of 2023 (P.L. 118-5) suspended the previous **$31.4 trillion federal statutory debt limit** through January 1, 2025

- Treasury has debt management authority to avoid default until a TBD "X date" in 2025 is reached and available debt management tools will have been exhausted.

Past debt limit actions



Source: Bipartisan Policy Center

The cost of extending or maintaining certain expiring provisions and potential offsets suggested by some policymakers

Provision	FY2026-2035
Extend all individual income and estate and gift tax provisions of the TCJA	-$3,400 billion
Permanent 100% bonus depreciation	-$350 billion
Permanent full expensing of R&E expenditures	-$290 billion
Permanent EBITDA-based interest limitation	-$70 billion
Maintain FDII/GILTI rates at 13.125%/10.5%, BEAT rate at 10%, credits allowed	-$175 billion
Extend other expiring provisions (incl. meals deduction, WOTC, CFC look-through, IRA, trade)	-$325 billion
Extend expansion of health premium tax credits	-$360 billion
Total cost of maintaining current policy	**-$5,530 billion**
Revenue raising examples for potential consideration	**JCT Estimate FY2023-2032**
Increase corporate income tax rate 1%	+$129 billion
Require half of advertising expenses to be amortized over 10 years	+$154 billion
Increase excise tax on corporate stock repurchases (Treasury FY2024-2033)	+$238 billion
Repeal Inflation Reduction Act incentives (FY2023-2033)	+$652 billion
Carbon tax at $25/mtCO2e, increase 5% annually, adjust for inflation	+$865 billion

Sources: Joint Committee on Taxation, Treasury, PwC calculations, October 18, 2024. Detail may not sum to total due to rounding

President-elect Donald Trump's 2024 tax proposals

Select corporate, international and individual tax proposals from various sources

Corporate and international tax proposals

- Maintain 21% TCJA corporate tax rate
- New 15% corporate rate solely for companies that make products in the United States
- Reinstate 100% bonus depreciation
- Reinstate research expensing
- Tax large university endowments

Trade and tariff proposals

- Impose a 10% to 20% baseline tariff on foreign-made goods
- Impose a 60% tariff on imports from China
- Impose 25% tariffs on imports from Canada and Mexico

Individual tax proposals

- Make expiring TCJA individual income tax provisions permanent
- Make expiring TCJA estate tax provisions permanent
- Eliminate taxes on tip income
- Promote homeownership through tax incentives and support for first-time buyers
- Support unpaid family caregivers through tax credits
- Eliminate tax on Social Security benefits
- Eliminate taxes on overtime pay
- Eliminate taxes on Americans abroad
- Restore federal SALT deduction

Key economic policy officials in a new Trump administration

Cabinet

Treasury Secretary: Scott Bessent

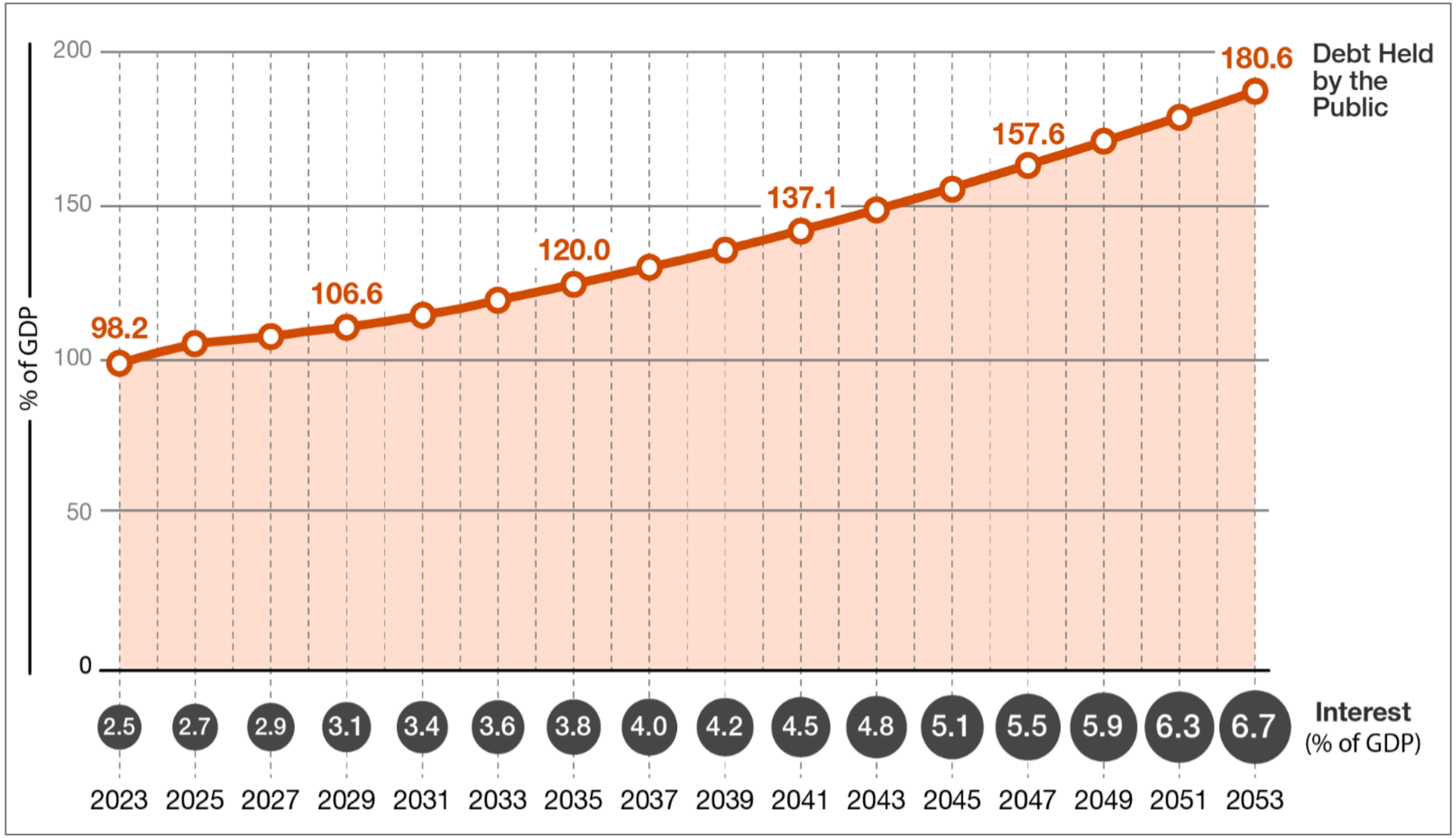
Commerce Secretary: Howard Lutnick

US Trade Representative: Jamieson Greer

White House

- Office of Management and Budget: Russell Vought
- National Economic Council: Kevin Hassett

Rising federal debt and interest costs are expected to affect debate over TCJA provisions expiring in 2025



Source: Congressional Budget Office

The US annual federal budget deficit in 2025 was projected by CBO in June 2024 to exceed $1.9 trillion, and interest costs to service the federal debt will be $1 trillion, more than the annual budget of the Defense Department.

- By contrast, in 2017, when the TCJA was enacted, the US federal deficit was $655.7 billion, and interest costs to service the federal debt that year were $296.3 billion.

2025 will be the "super bowl of tax" and "everything will be on the table," according to Ways and Means Chairman Smith

Ways and Means Committee Republicans have formed tax teams to "avert 2025 tax cliff"

- 10 "Committee Tax Teams," comprised of Ways and Means Republican members, to study certain tax provisions of the 2017 tax reform law (Tax Cuts and Jobs Act, or TCJA) set to expire after 2025 and "identify legislative solutions."
- Each GOP committee tax team is assigned specific areas of tax policy for review and has a chair and vice chair

Only five of the 25 House Ways and Means Republicans who helped write the 2017 Act remain on the committee (in *italics*)

American Manufacturing Chair: *Rep. Buchanan* Rep. Murphy* Rep. Arrington Rep. Tenney Rep. Malliotakis	**Working Families** Chair: Rep. Fitzpatrick Rep. Malliotakis* Rep. Moore Rep. Steel Rep. Carey	**American Workforce** Chair: Rep. LaHood Rep. Carey* Rep. Wenstrup Rep. Smucker Rep. Fitzpatrick	**Main Street** Chair: Rep. Smucker Rep. Steube* Rep. Buchanan Rep. A. Smith Rep. Arrington Rep. Van Duyne	**New Economy** Chair: Rep. *Schweikert* Rep. Van Duyne* Rep. Murphy Rep. Tenney Rep. Steel
Rural America Chair: Rep. *Adrian Smith* Rep. Fischbach* Rep. Feenstra* Rep. Kustoff Rep. Steube	**Community Development** Chair: Rep. *Kelly* Rep. Tenney* Rep. LaHood Rep. Moore Rep. Carey	**Supply Chains** Chair: Rep. Miller Rep. Kustoff* Rep. Wenstrup Rep. Ferguson Rep. Fishbach Rep. Feenstra	**U.S. Innovation** Chair: Rep. Estes Rep. Steel* Rep. Schweikert Rep. Ferguson Rep. Hern Rep. Murphy	**Global Competitiveness** Chair: Rep. Hern Rep. Moore* Rep. Kelly Rep. Estes Rep. Miller Rep. Feenstra

* denotes vice chairs. ***Note***: *Ways and Means Chairman Smith also served on the committee in 2017*

The fiscal policy challenge for extending key TCJA tax provisions

Net budgetary effect of extending certain TCJA provisions (in millions) fiscal years 2025-2034

Highlights and breakdowns

-$2,158,688	Lower individual tax rates	$1,717,454	Repeal of deduction for personal exemptions
-$1,357,130	Individual AMT relief	$1,244,276	Limits on individual itemized deductions, including the following: limitations on mortgage interest deductions and $10,000 cap on deductions for state and local taxes
-$1,251,020	Modified standard deduction	$21,837	Limitation on excess business losses of noncorporate taxpayers
-$747,705	Expanded child tax credit	$29,780	Other revenue gaining individual provisions
-$684,234	20% qualified business income deduction		
-$166,924	Extend higher estate and gift tax exemptions		
-$70,457	Election to invest capital gains in an opportunity zone		
-$13	Other revenue reducing individual provisions		

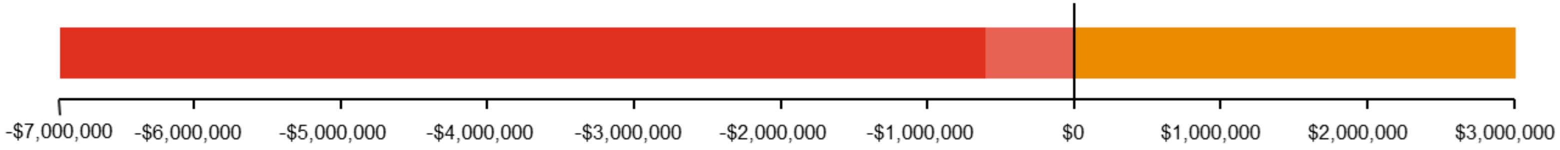
-$550,630	Other revenue reducing provisions	$0	Other revenue gaining provisions

-$3,422,824
Individual and E&G

-$378,459
Extend the 2017 Tax Act's changes to the tax treatment of investment costs

-$141,142
Maintain the 2017 Tax Act's international tax changes related to the GILTI, FDII, and BEAT provisions

-$31,029
Maintain the deductibility of certain employer-provided meals, etc.



-$6,986,801 Revenue reducing + **$3,013,347** Revenue gaining = **-$3,973,454** Total

Note: Provisions to extend research expensing and interest deduction limitations based on EBITDA are projected to reduce federal revenues by roughly $375 billion over the same FY2025-2034 period.
Sources: Congressional Budget Office (CBO); staff of the Joint Committee on Taxation (JCT), and PwC calculations. Estimates are preliminary. Each alternative assumption is assumed to be in place on October 1, 2024.

Senate blocking House-passed tax bill illustrates challenge of coming 2025 tax action

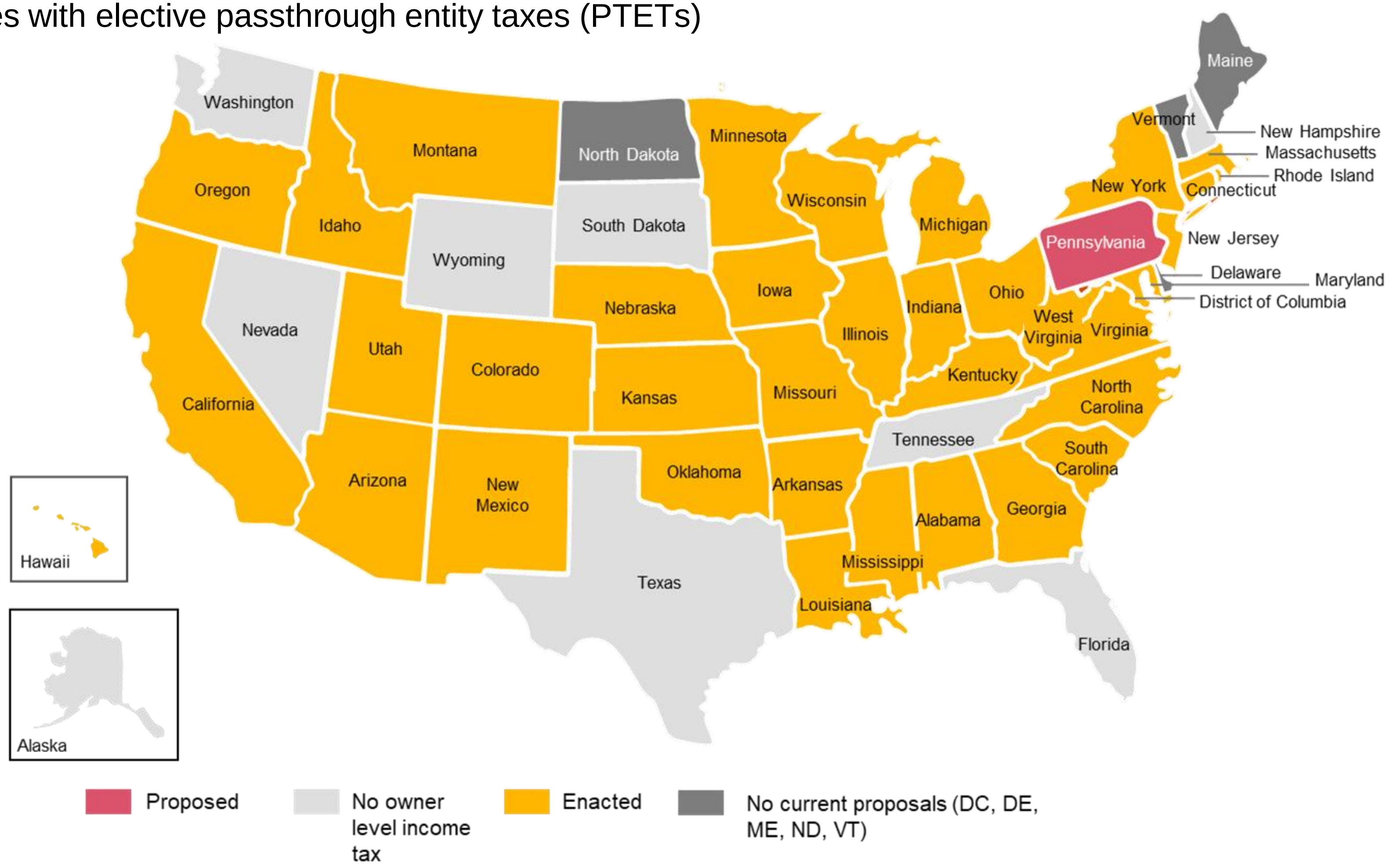
The Senate on August 1, by a vote of 48 to 44, fell short of the 60 votes needed to begin consideration of a $79 billion business and family tax relief bill that the House approved in late January by a vote of 357 to 70.

Key provisions of H.R. 7024 include:

- Current deductibility of domestic Section 174 research expenditures
- Delay of tighter Section 163(j) interest deduction limitations
- Extension of 100% Section 168(k) 'bonus' depreciation
- Enhancements to the $2,000 child tax credit
- Expansion of the Low-Income Housing Tax Credit
- Taiwan double-tax relief agreement
- Tax breaks for disaster relief
- Employee Retention Credit offset

2025 action on expiring TCJA provisions could lead to a broader debate on the federal deduction for state and local taxes

States with elective passthrough entity taxes (PTETs)



- How Congress in 2025 addresses the SALT cap and other expiring TCJA provisions could affect elective pass-through entity taxes (PTETs) that have been enacted since 2017 by many states
- The TCJA $10,000 cap on federal individual itemized deductions for state and local taxes was one of many base-broadening measures used to offset the cost of the 2017 tax reforms.
- Consideration in 2017 was also given to limiting the corporate SALT deduction, but the final SALT cap provision affected only individuals.

OECD Pillars One and Two are the focus of ongoing opposition from House and Senate Republicans

House Ways and Means Committee and Senate Finance Committee Republicans have expressed opposition to the Biden Administration's support of the OECD/G20 Inclusive Framework Agreement on Pillar One reallocation of taxing rights and Pillar Two global minimum effective tax rates proposals.

Ways and Means Chairman Jason Smith (R-MO) has stated that the Defending American Jobs and Investment Act (H.R. 3665) is intended to send "a clear warning" to nations implementing the OECD two-pillar solution and to countries that introduce DSTs

H.R. 3665 would provide for enforcement of remedies against extraterritorial taxes and discriminatory taxes

- Definition of extraterritorial tax appears to focus on the **Pillar Two undertaxed profits rule (UTPR)** and the discriminatory tax focuses on **digital services taxes (DSTs)** and other similar measures

- Would **increase income tax and withholding tax rates, initially by 5 percentage points, increasing up to 20 percentage points**, for certain foreign citizens, certain foreign corporations, and certain foreign partnerships of any foreign country that is listed in a Treasury Department report on extraterritorial taxes and discriminatory taxes.

Changes to IRA energy credits and incentives are expected to be focus of debate but full 'repeal and replace' appears unlikely

Democrats and some Republicans in Congress support keeping the clean energy tax incentives of the Inflation Reduction Act, while rising utilization of the credits has increased the projected cost of incentives from $370 billion to $652 billion through FY 2033

Decarbonizing power generation

Extended and expanded the current system of tax credits through 2024 and then transitions those incentives into 'technology-neutral' credits beginning in 2025. New credits increase support for solar, wind, and nuclear energy as well as other lower-carbon technologies, such as biogas and stand-alone battery storage.

Lower-carbon manufacturing and green jobs

Revived the qualified advanced energy project credit, authorizing the Secretary to allocate an additional $10 billion of tax credits to qualifying projects. The credit was expanded to include projects that reduce GHG emissions at existing industrial facilities by at least 20%. Created a new advanced manufacturing production credit for each eligible component that is produced in the US and sold to an unrelated party. Eligible components include qualified solar and wind components, inverters, battery components and critical minerals.

Tiered credit system

Many new and existing incentives now have a two-tiered system with a 'base rate' and a 'bonus rate' that increase the credit amount by more than double. The bonus rate applies to projects that meet certain wage and apprenticeship requirements. Some of the credits also include additional rate enhancements based on the domestic content of the property as well as where the projects are located (i.e., low-income communities, energy communities, etc.).

Decarbonizing transportation

Extends and expands the tax credits for Electric Vehicles and alternative fuel vehicle refueling property, promoting US jobs with content and assembly requirements for some credits. Extends the income and excise tax credits for biodiesel, renewable diesel, and alternative fuels, and provides new credits for sustainable aviation fuel as well as clean hydrogen.

Building energy efficiency

Extended and expanded the energy efficient commercial buildings deduction, the new energy efficient home credit, and provided enhanced benefits for individuals.

Carbon capture

Enhanced the existing carbon oxide sequestration credit for carbon capture, storage and utilization activities.

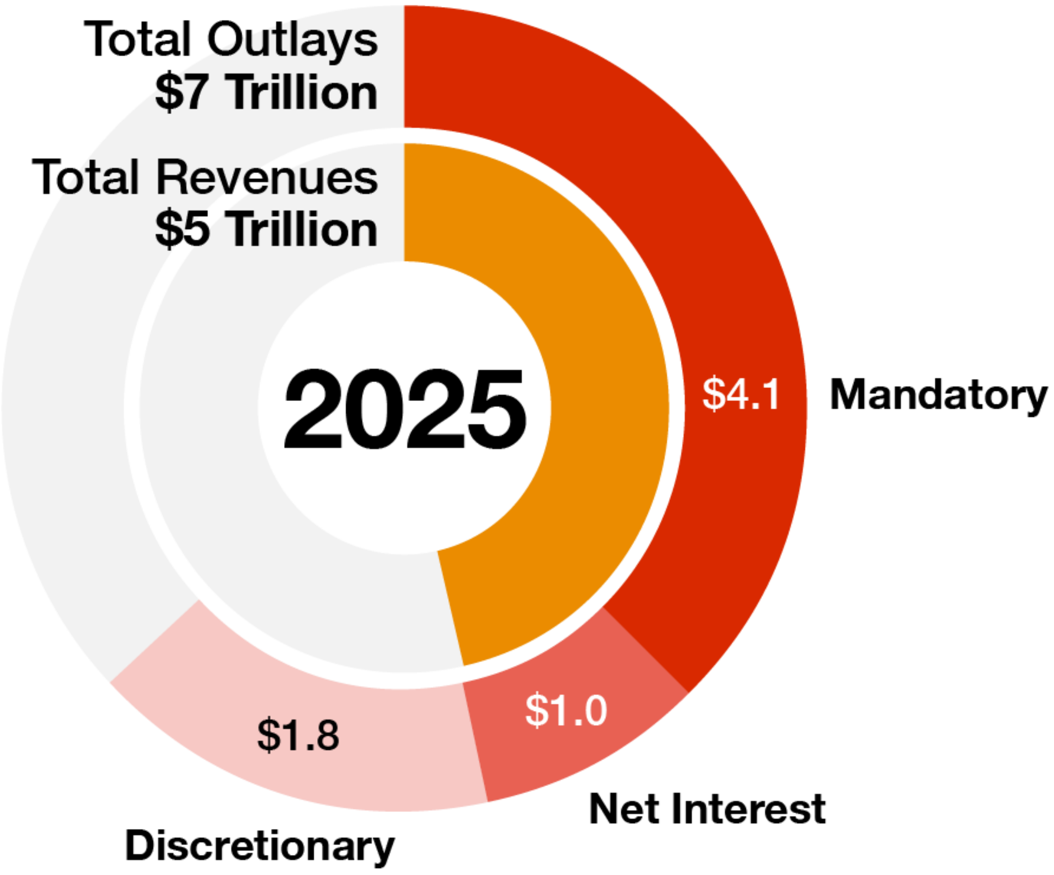
Direct pay & transferability

Tax-exempt organizations, state & local governments, and other 'applicable entities' are eligible to receive cash for some credits by making a direct pay election.

Other entities (e.g. non-applicable entities) have the option of selling some credits for cash to third parties under under transferability rules.

Achieving significant reductions in federal deficits could be difficult without addressing revenues and mandatory spending

- The Congressional Budget Office projects that the **FY 2025 federal deficit will be $1.9 trillion**, equal to 6.5% of GDP
- The projected **FY 2025 federal deficit will be higher than the total projected FY 2025 discretionary spending** for defense and non-defense programs
- CBO projects that **FY 2025 interest payments on the federal debt will exceed $1 trillion annually**, greater than the amount spent on the US Department of Defense each year over the next 10 years.
    - Interest payments are projected to rise to $1.7 trillion by 2034.



Source: Congressional Budget Office, Update to the Budget and Economic Outlook, 2024 to 2034, June 2024. Numbers do not sum due to rounding

What questions do you have?

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