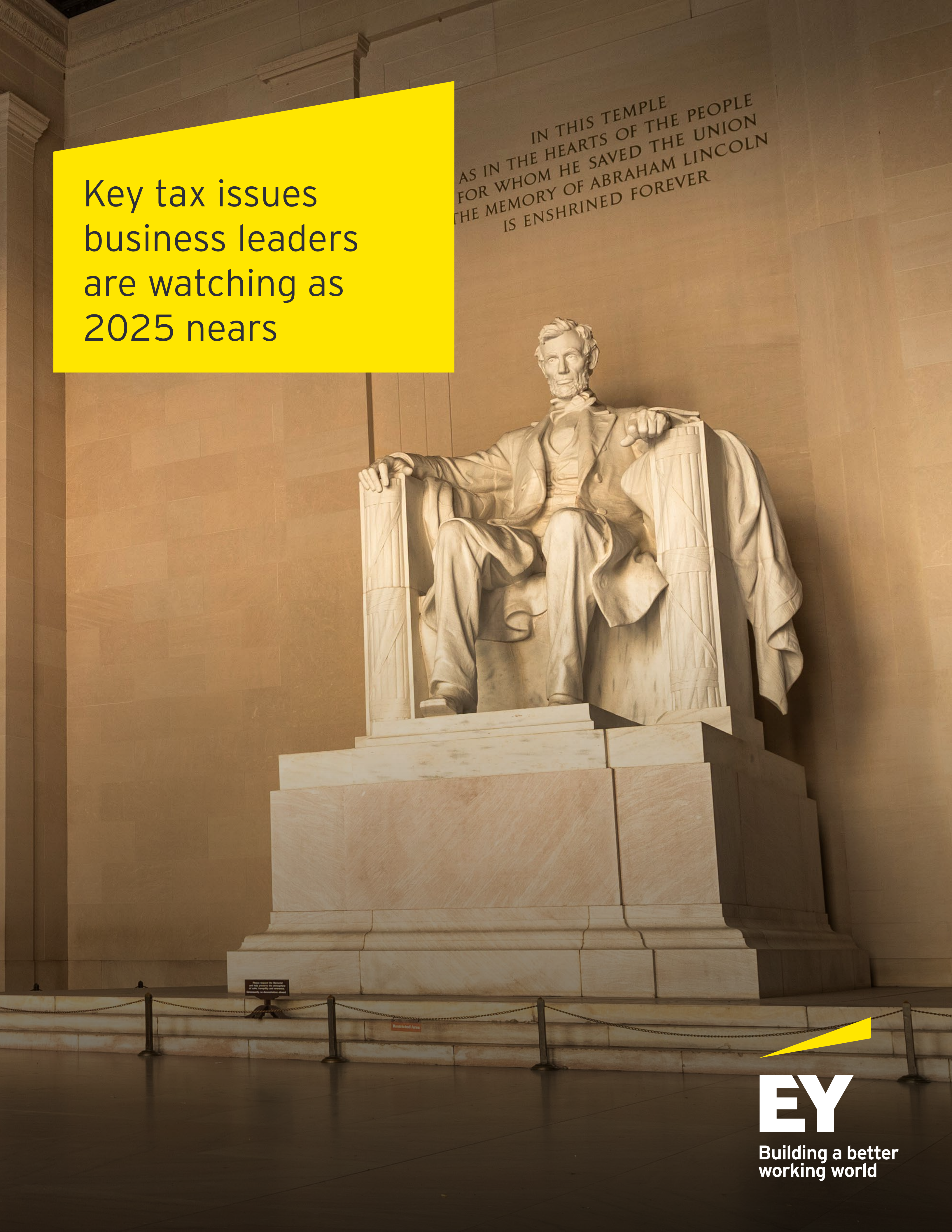
Key tax issues business leaders are watching as 2025 nears



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Introduction

The 2024 presidential race and congressional elections will have major implications for tax policy, especially given the tax cliff at the end of 2025. That is when most provisions of the 2017 Tax Cuts and Jobs Act (TCJA) expire, international TCJA provisions are scheduled to change, and any number of outstanding tax issues could be drawn into the debate.

The 2025 tax debate is likely to be expansive, given the breadth of tax reform in the 2017 TCJA — touching individual, corporate and international taxes. Republicans would likely seek to extend most or all expiring provisions. Democrats would likely seek to extend the expiring TCJA provisions only for those with under $400,000 in annual income. There are growing calls from both sides to pay for some of the cost of extending these provisions, due to increasing federal debt and deficit concerns.

Members of both political parties agree there will be a tax bill in 2025 or early 2026, but there are differences over what provisions will be extended and for what income group, as well as the extent to which the cost is offset and how. While the proposals will differ, it's important to note that tax increases are possible under any of the following three potential election scenarios: (1) a Republican sweep; (2) a Democratic sweep; and (3) divided government, with parties splitting control of the House, Senate and White House.

If either party controls both houses of Congress and the presidency after the elections, they will likely pursue extending the expiring TCJA provisions through a budget reconciliation bill, which allows revenue measures to pass the Senate with a simple majority rather than the 60-vote filibuster threshold for most other legislation.

Under a divided government scenario, there is significant uncertainty as to what combination of extensions and offsets could gain requisite support for enactment. Razor-thin margins are likely, so bipartisan compromise will be required for legislation to pass.

What follows is an overview of where the presidential candidates converge and diverge on five key tax issues.

1 Corporate income tax rate: mostly diverge

The 21% corporate income tax rate does not expire; however, Democrats and some Republicans support raising the rate.

Where they diverge

Former President Donald Trump would like to reduce the corporate income tax rate to 15%, but only for companies that make their products in America.

Vice President Kamala Harris is seeking a 28% corporate income tax rate, which was proposed by both the Biden and Obama administrations. That change would raise $1.35t over 10 years, according to the most recent Treasury Department revenue estimate.

Where they converge

In a break from the past, some House Republicans have expressed support for increasing the corporate income tax rate to cover the cost of other extensions, such as the TCJA provisions. A rate somewhere between 21% and 28% could represent a compromise between the two parties.

Sources of revenue: mostly diverge

The corporate income tax rate is the most high-profile issue in the broader debate over whether TCJA provision extensions should be matched with revenue offsets, but other tax proposals could be considered. Democrats, and even some House Republicans, have indicated that tax cuts should be paid for — they just differ on who should pay.

Where they diverge

Trump and influential Senate Republicans assert that the cost of extending the existing TCJA provisions does not need to be offset because of the economic growth effects of tax cuts.

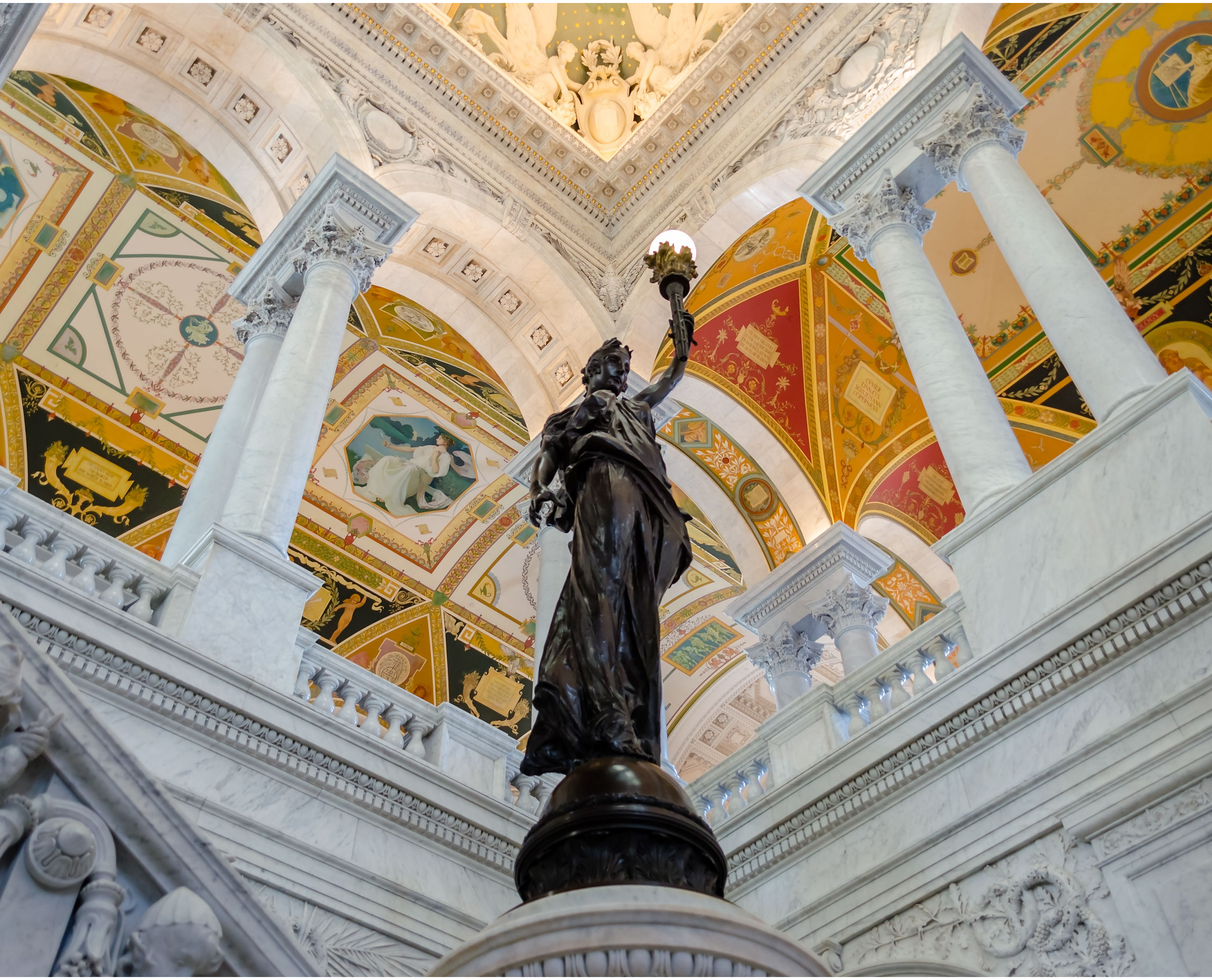
Harris is focused on using tax increases to pay for Democratic policy priorities. Democrats have sought to increase taxes on corporations and high-income individuals for years and have a broad playbook to turn to in past budgets and proposed legislation. In addition to raising the corporate income tax rate, she has put the following on the table:

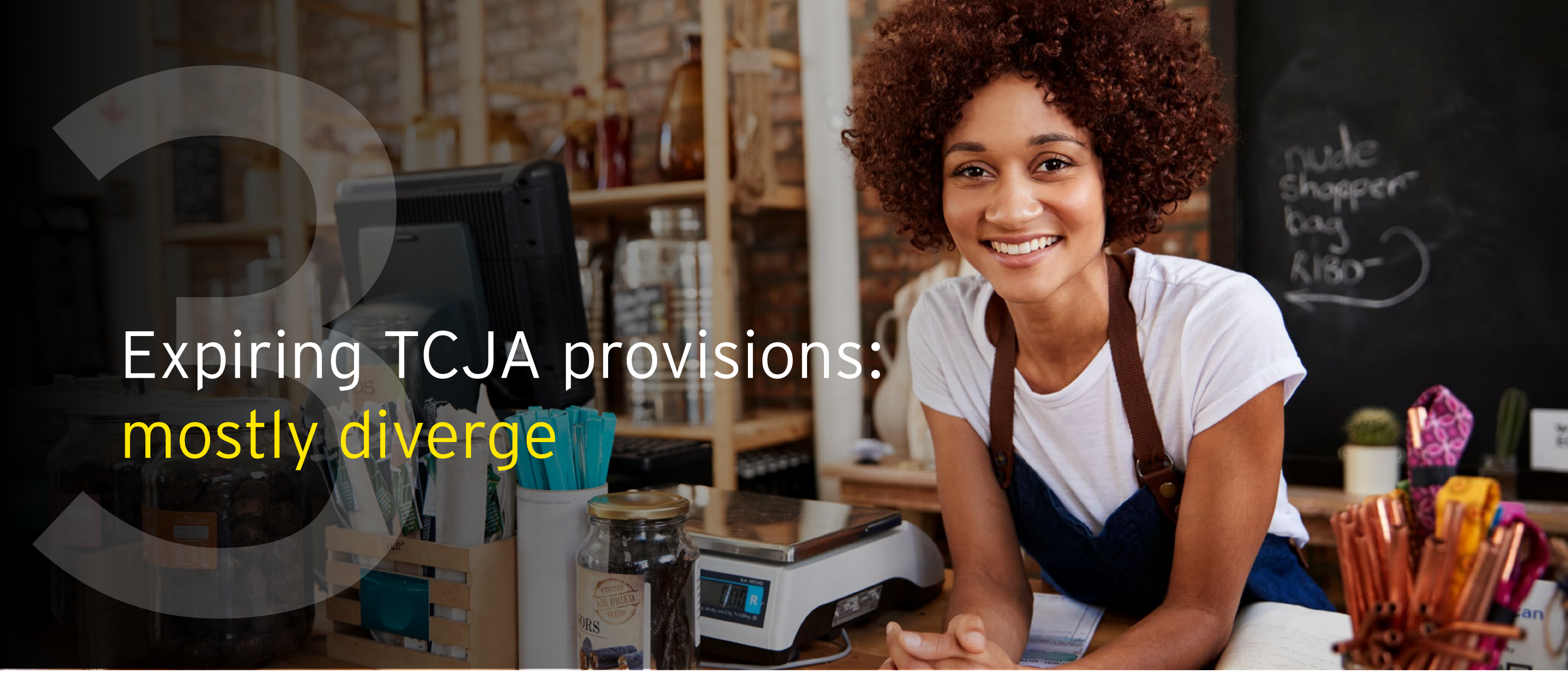
- Increasing the corporate alternative minimum tax (CAMT) from 15% to 21%
- Increasing the stock buyback excise tax from 1% to 4%
- Reinstating the top marginal tax rate of 39.6%
- Imposing a 25% billionaires' tax on total income, including unrealized capital gains, for taxpayers with wealth exceeding $100m
- Applying the net investment income tax (NIIT) to pass-through business income of high-income taxpayers, and increasing the NIIT and additional Medicare tax rate to 5%

- Taxing long-term capital gains and qualified dividends of taxpayers with taxable income of more than $1m at 28%
- Modifying the rules for stepped-up basis: the donor or deceased owner of an appreciated asset would realize a capital gain at the time of the transfer (with $5m exclusion)

Where they converge

Several House Republicans, concerned about the growing US deficit, are open to finding sources of revenue to offset the cost of tax policy changes.





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Expiring TCJA provisions: mostly diverge

Both Trump and Harris have made US economic growth a central message of their campaigns. Each have said they would use tax cuts and incentives for individuals to help grow and strengthen the US economy. Where they differ is on who would benefit from these proposals, which affects how they would approach the expiring TCJA provisions, including specific expiring provisions that have been controversial, such as the $10,000 cap on the deduction for state and local taxes.

Where they diverge

Harris has framed her approach as a plan for an "opportunity economy," focused on bolstering the lower and middle classes and investing in small businesses. She has embraced the Biden administration's pledge not to raise taxes on those making less than $400,000, and in her Democratic National Convention speech, she called for a middle-class tax cut. Her proposals aim to provide new and expanded credits to families, small business startups and first-time homebuyers, paid for with increases on high-net-worth individuals and corporations (which presumably includes allowing the doubled estate tax exemption under the TCJA to expire at the end of 2025).

Trump has focused his messaging on growing the US economy. He would extend the TCJA provisions without revenue offsets, projecting that the economic growth from extending the tax cuts will cover their cost.

He has reportedly expressed interest in a new middle-class tax cut (possibly through a payroll tax cut), an increase in the standard deduction or a rate cut. He has also indicated that he would exempt seniors from paying tax on Social Security and end taxes on overtime pay.

Where they converge

Both candidates have expressed support for expanding the child tax credit and providing tax relief for tip income. Each has also expressed interest in providing the middle class with a tax cut (including, in the case of Harris, extending the expiring TCJA provisions for those with less than $400,000 in income).

Democrats have also expressed support for rolling back TCJA changes to R&D and interest deductibility that took effect after 2021, and the bonus depreciation phasedown that began after 2022. They would reinstate the state and local (SALT) deduction, something for which Trump has also expressed support.

Provision	2021	2022	2023	2024	2025	2026
TCJA "pre-cliffs"						
Interest deduction based on EBITDA*		EBIT				
R&D expensing		Five-year amortization (15-year for foreign R&D)				
100% expensing			Phased down in 20% increments			
TCJA international provisions						
GILTI deduction at 50%						37.5% deduction
FDII deduction at 37.5%						21.875% deduction
BEAT rate: 10% (11% for banks/dealers)						12.5%/13.5% rate
TCJA individual provisions						
Income tax rates 10%, 12%, 22%, 24%, 32%, 35%, 37%						10%, 15%, 25%, 28%, 33%, 35%, 39.6%
Standard deduction $12,000/single, $24,000/married						$6,350/single, $12,700/married
AMT exemption $126,500/ married, $81,300 single						$84,500/married, $54,300/single
Child tax credit: $2,000, refundable to $1,400						$1,000, $1,000 refundability
20% pass-through deduction						No deduction
Estate (currently $13.61m) and gift tax exemptions						$5.49m
SALT deduction cap of $10,000						No SALT cap

In effect   Not in effect

EBITDA = earnings before interest, taxes, depreciation and amortization
EBIT = earnings before interest and taxes
GILTI = global intangible low-taxed income
FDII = foreign-derived intangible income
BEAT = base erosion and anti-abuse tax
AMT = alternative minimum tax

Tariffs: mostly diverge

The executive branch has wide-ranging authority to modify tariff rates and impose trade remedies. Over the past several years, tariffs have increasingly been used to shape US economic policy.

Where they diverge

Trump is expected to continue using tariffs as a tool to help implement Republicans' "America First" economic policy. He has called for across-the-board tariffs between 10% and 20% on all US imports. He has also stated an intention to implement a 60% tariff on goods from certain foreign adversaries.

Harris has not called for additional tariffs and has been critical of Trump's tariff proposals this election cycle, calling his across-the-board tariffs a "Trump sales tax" during the recent debate. The Biden administration did, however, keep most of the Trump tariffs in place and add new ones.

Where they converge

Both Trump and Harris have said they want to ensure that the United States is not subject to "unfair trade practices."

5 International tax: mostly diverge

Changes to several international provisions are already scheduled under the TCJA. Maintaining the current policy on these provisions is estimated to cost approximately $140b over 10 years, according to the Congressional Budget Office.

Where they diverge

Trump is expected to support the international tax changes covered under the TCJA. A Trump administration is not expected to support the United States' continued participation in, and support for, negotiation and implementation of the 15% global minimum tax agreement.

Harris may support Democratic efforts to change the TCJA's international provisions to align with the global minimum tax agreement. Democrats have also proposed making changes to the TCJA's rules governing the GILTI, FDII and BEAT.

Where they converge

No issues have emerged to date.

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