

# Tax Policy Update October 8, 2024

# Today's Presenters

## Washington National Tax

### Our Team



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# Agenda

- I. In Brief: A Year in Review
- II. U.S. Economic Environment
- III. Election 2024: Possible Implications
- IV. Looking Ahead: 2025 & Planning



In Brief: A Year in Review

**Key Proposals,  
Cases, & Other Items  
From 2024**



# 2024 Tax Proposal

- The Tax Relief for American Families & Workers Act of 2024 (“the Bill”)
  - “The Big Three”
    - §174 deductions for R&D expenditures – U.S. sourced SREs only
    - §163(j) allowance for depreciation, amortization, or depletion to calculate limitation
    - 100% bonus deprecation
  - Child Tax Credit expansion
  - Other:
    - §179 expansion
    - Low-Income Housing Tax Credit changes
    - Assistance for disaster-impacted communities
    - U.S.-Taiwan taxation relief

# ERC & “Funding” the Bill

- The bill presented as being “financed” by early termination of Employee Retention Tax Credit (ERTC)
  - Original “moratorium”: September 14, 2023
  - Proposed: January 31, 2024 cutoff date for new claims
  - Controversy about ERTC false claims garners bipartisan support for cutoff
  - Some Republican pushback about ERTC being “legitimate” funding
- Current state:
  - Analyzing risk profiles of current submissions
  - Automatically denying high-risk claims (for example, no wages present)
  - With Bill waning, ERC “cutoff” methodology up in the air

# The Bill's Journey



1/17/24  
Introduced  
in House

1/23/24  
Committee  
&  
Means  
Reported  
(Amended)

1/31/24  
House  
Debate &  
Vote to  
Pass

2/1/24  
Received in  
Senate

2/28/24  
Crapo  
statement—  
won't  
“rubber  
stamp”  
deal, CTC  
main  
concern

3/20/24  
On Senate  
Legislative  
Calendar &  
read

5/9/24  
Attachment  
to FAA  
reauth fails

5/16/24  
Wyden  
quoted as  
working  
with  
Schumer  
on  
standalone  
bill

8/1/24  
Cloture  
motion vote  
failed

# The Bill's Roadblocks & Next Steps

- Crapo vocal opponent to quick passage of the Bill
  - Not included in decisions
  - Pressure to “rubber stamp”
  - Republican concerns with CTC focus on work requirement
- Political considerations in election year
  - Perception of the Bill as a Democratic/Biden victory in election year – “stroking checks”
  - Uncertainty about Congressional outcomes
  - Competing priorities (Ukraine, inflation, border concerns, etc.)
- Next steps: potential options
  - Lame duck passage
  - Individual pieces stripped out (most likely Taiwan & disaster relief provisions)
  - Integrated into broader bill in 2025



# Major Cases of 2024: *Moore* & *Overturn of Chevron*

## *Moore v. United States*

- Challenging constitutionality of Mandatory Repatriation Tax (MRT)
  - Core issue: Does the 16<sup>th</sup> Amendment authorize Congress to tax unrealized income?
  - Extrapolations/theories about whether this could negate the concepts of flow-through entity taxation
- Ruling narrow, against the Moores: “This decision [does not] attempt to resolve the parties’ disagreement over whether realization is a constitutional requirement for an income tax.”

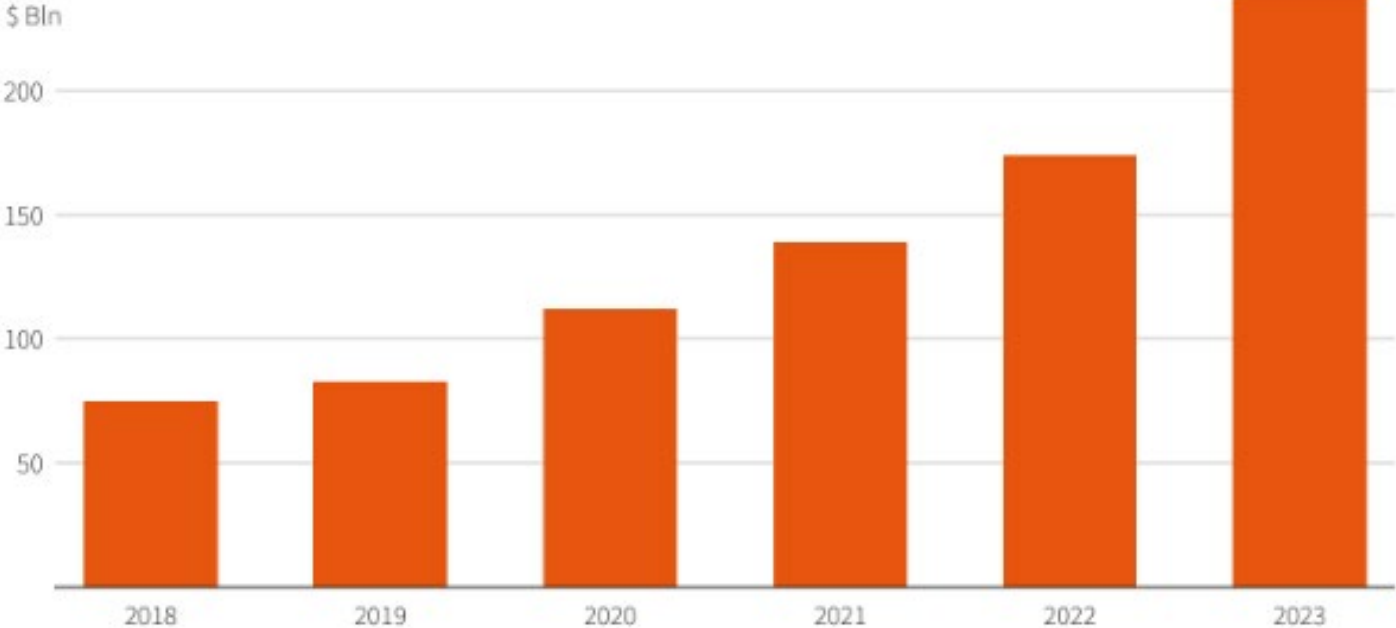
## *Loper Bright Enterprises v. Raimondo*

- Overturn of the “Chevron doctrine”
  - Allowed federal agency’s interpretation of a statute to receive deference from the courts
- Courts now play greater role in interpreting & implementing law
- Potential for more challenges to regulations (although costly & time consuming)

# Effects of IRA

## IRA accelerates clean energy investments

New investment in the manufacture and deployment of clean energy, E.V.s, building electrification and carbon management technology totaled \$239 billion in the U.S. in 2023, up 38% from 2022



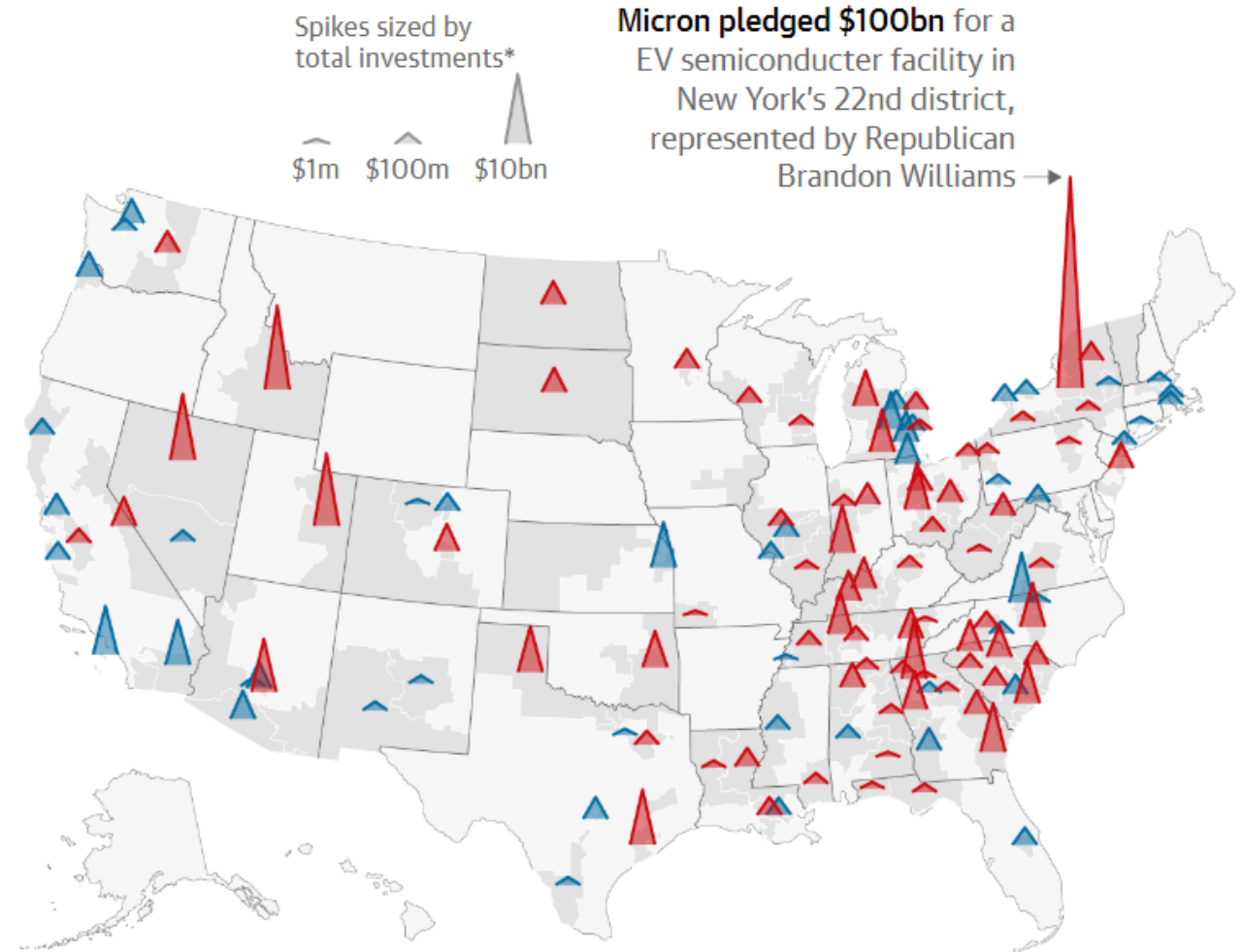
Source: Rhodium Group-MIT/CEEPR Clean Investment Monitor

Source:  
<https://www.reuters.com/sustainability/climate-energy/us-climate-law-has-boosted-solar-batteries-hydrogen-other-initiatives-lag-2024-04-02/>

# Future of the IRA

- Republican-led rhetoric for at least partial IRA repeal to “fund” TCJA extenders & other priorities
  - EVs & related credits focus of this discussion
  - Historical credits (ITCs/PTCs) considered in industry as generally “safe”
- Reality of rhetoric vs. “red” states benefitting from IRA
  - Highlighted in 2024 State of the Union address

## Most private clean energy investments have been in Republican-led districts



US congressional districts

**92 Republican-led**

**61 Democratic-led**

Private clean energy investments

**\$225bn**

**\$38bn**

Jobs pledged

**96,200**

**64,400**

Guardian graphic. Source: Climate Power analysis of public announcements between 16 August 2022 and 25 July 2023. \*Some districts' investment totals were unavailable.

# IRA Update

- Proposed & final regulations, notices, & other guidance continue
- Relevant dates & deadlines for 2025

Credit Section	Description
48E/45Y	New ITC/PTC “replace” current credits, new greenhouse gas emissions requirements
48/45	Reduction in credit possible if elect direct pay & domestic content not met
30D	Credit reduction for EVs PIS in 2024 with foreign entity of concern (FEOC) battery components & 2025 with FEOC critical minerals
25C	Product identification # requirement effective for PIS property in 2025
45L	Different Energy Star Program Requirements for dwelling units acquired after 12/31/24
	*Variety of fuel-related credit changes present as well

# U.S. Economic Environment



# U.S. Deficits & the Debt Burden

- Continued annual deficits
- Deficit as a percentage of GDP 7.0% to remain steady through 2034 but significantly larger than historic 50-year average of 3.7%
- Net interest as a percentage of GDP currently 3.1% to increase to 4.1% by 2034, passing all other outlays except Social Security & Medicare as early as 2025

## The Budget Outlook, by Fiscal Year

	Average, 1974–2023	Percentage of GDP				Billions of dollars			
		Actual, 2023	2024	2025	2034	Actual, 2023	2024	2025	2034
<b>Revenues</b>	<b>17.3</b>	<b>16.5</b>	<b>17.2</b>	<b>17.0</b>	<b>18.0</b>	<b>4,441</b>	<b>4,890</b>	<b>5,038</b>	<b>7,459</b>
Individual income taxes	8.0	8.1	8.6	8.6	9.7	2,176	2,447	2,550	4,021
Payroll taxes	6.0	6.0	5.9	5.8	5.9	1,614	1,678	1,737	2,455
Corporate income taxes	1.8	1.6	1.8	1.6	1.2	420	525	490	507
Other	1.5	0.9	0.8	0.9	1.2	230	239	260	476
<b>Outlays</b>	<b>21.0</b>	<b>22.7</b>	<b>24.2</b>	<b>23.5</b>	<b>24.9</b>	<b>6,123</b>	<b>6,880</b>	<b>6,975</b>	<b>10,305</b>
Mandatory	11.0	13.9	14.7	13.9	15.3	3,747	4,191	4,127	6,336
Social Security	4.4	5.0	5.1	5.2	6.0	1,348	1,452	1,549	2,478
Major health care programs	3.4	5.8	5.8	5.7	6.8	1,556	1,654	1,690	2,821
Medicare	2.1	3.1	3.2	3.1	4.2	832	903	935	1,735
Medicaid, CHIP, and marketplace subsidies	1.3	2.7	2.6	2.5	2.6	724	750	755	1,086
Other mandatory	3.2	3.1	3.8	3.0	2.5	843	1,086	889	1,037
Discretionary	8.0	6.4	6.3	6.2	5.5	1,719	1,797	1,832	2,259
Defense	4.2	3.0	3.0	3.0	2.8	806	849	905	1,144
Nondefense	3.7	3.4	3.3	3.1	2.7	913	948	928	1,115
Net interest	2.1	2.4	3.1	3.4	4.1	658	892	1,016	1,710
<b>Total deficit (-)</b>	<b>-3.7</b>	<b>-6.2</b>	<b>-7.0</b>	<b>-6.5</b>	<b>-6.9</b>	<b>-1,683</b>	<b>-1,990</b>	<b>-1,938</b>	<b>-2,846</b>
Primary deficit (-)	-1.6	-3.8	-3.9	-3.1	-2.7	-1,024	-1,098	-922	-1,136
Debt held by the public at the end of each period	48.3	97.3	99.0	101.6	122.4	26,236	28,178	30,188	50,664

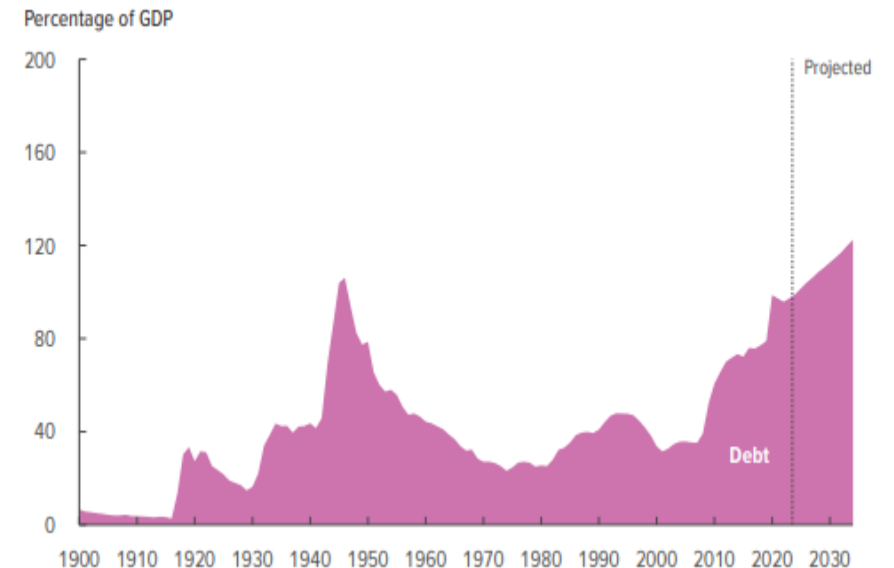
Source: CBO June 2024 Budget & Economic Outlook

# U.S. Deficits & the Debt Burden

- At the beginning of the next presidential term, the National Debt is likely to total about \$28 trillion
- Debt is projected to grow by an additional \$7 trillion over the next presidential term & \$20 trillion through the end of fiscal 2034
- If current policy continues, the debt level, which is now almost 100 percent of GDP, will exceed 200 percent of GDP by 2047

## Federal Debt Held by the Public

Debt held by the public rises in each year, from 99 percent of GDP in 2024 to 122 percent in 2034—higher than at any point in history.



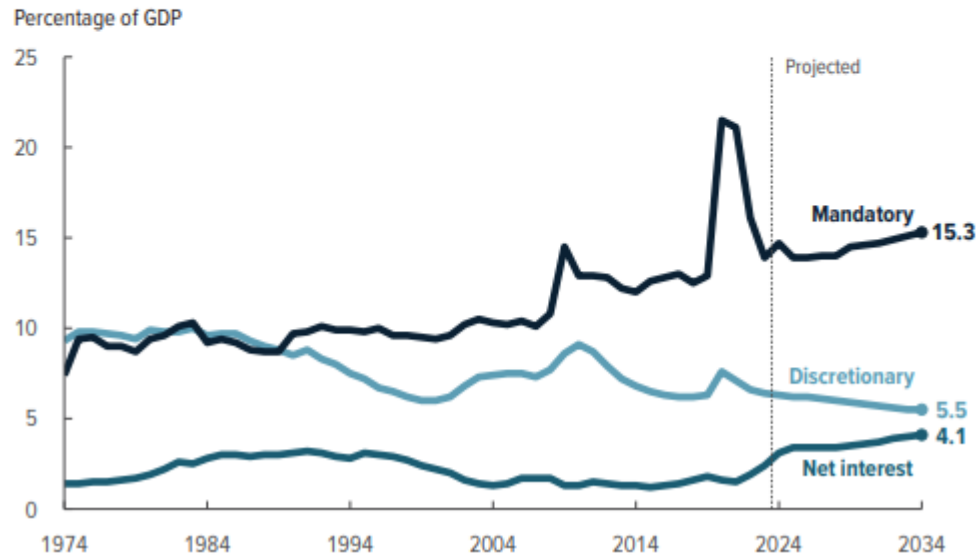
Source: Department of the Treasury, “Financial Report of the United States Government: Fiscal Year 2023,” at 27 (2023)

Source: CBO June 2024 Budget & Economic Outlook

# U.S. Deficits & the Debt Burden

## Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays, discretionary spending as a share of GDP falls to historic lows, and higher interest rates and mounting debt cause net outlays for interest to increase. Beginning in 2025, interest costs are greater in relation to GDP than at any point since at least 1940 (the first year for which the Office of Management and Budget reports such data) and exceed outlays for defense and outlays for nondefense programs and activities.



Source: CBO June 2024 Budget & Economic Outlook

*“We estimate that paying off the debt over the ten-year budget window between FY 2026 and FY 2035 would require cutting spending by about 60 percent — which would lead to \$44 trillion of primary spending cuts and an additional \$7 trillion of resulting interest savings. This would be the equivalent of eliminating Social Security, Medicare, Medicaid, and food stamps or eliminating all spending besides defense and Social Security.”*

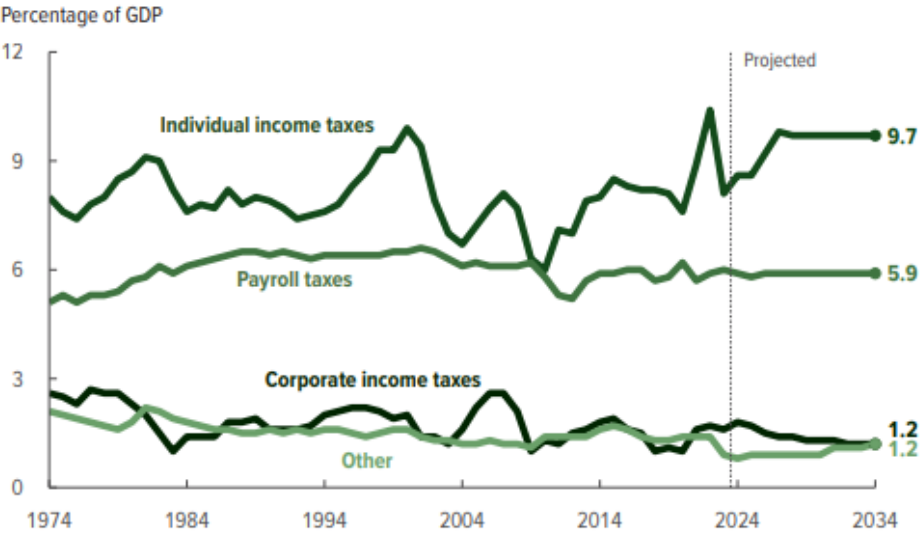
Committee for a Responsible Federal Budget (CRFB) blog – February 28, 2024



# U.S. Deficits & the Debt Burden

## Revenues, by Category

Receipts from individual income taxes fell sharply in 2023, from a historic high in 2022—in part because capital gains from sales of assets were smaller and because the Internal Revenue Service postponed some tax payment deadlines. In CBO’s projections, revenues rise in 2024 as those delayed payments are made. They rise again in 2026 and 2027, following the scheduled expiration of certain provisions of the 2017 tax act. After 2027, revenues change little as a percentage of GDP.



Unlikely to pay off the debt by the end of the next presidential term without large accompanying tax increases.

Revenues	As a percentage of GDP													
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Individual income taxes	8.1	8.6	8.6	9.2	9.8	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.4	9.6
Payroll taxes	6.0	5.9	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate income taxes	1.6	1.8	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.5	1.3
Other <sup>a</sup>	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.1	1.1	1.1	1.2	0.9	1.0
<b>Total</b>	<b>16.5</b>	<b>17.2</b>	<b>17.0</b>	<b>17.5</b>	<b>18.0</b>	<b>17.9</b>	<b>17.9</b>	<b>17.8</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>17.7</b>	<b>17.8</b>
On-budget	12.0	12.8	12.6	13.1	13.7	13.6	13.5	13.5	13.6	13.6	13.6	13.7	13.3	13.5
Off-budget <sup>b</sup>	4.4	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.4

Source: CBO June 2024 Budget & Economic Outlook

# Forward Reflection

What implications can be drawn from existing & proposed legislation viewed in light of the current Budget & Economic Outlook projections?



Election 2024

## Possible Implications



# 2024 Election Preview: House

- Republicans currently hold 8 seat majority
- Solid Seats
  - Republicans 189
  - Democrats 175
- Seats in Play
  - Republicans 32
  - Democrats 39
- 17 Republicans hold seats in districts that voted for Biden in 2020
- Five Democrats hold seats in districts that voted for Trump in 2020
- NY & CA moderates play a role in Republican success
- Republicans would need a 15–20 seat majority to have control over conservative factions which favor deficit control over tax relief

# 2024 Election Preview: Senate

- Democrats currently hold 2 seat majority
  - Republicans only need 1 seat if they also win presidency
- Democrats are defending 23 of the 34 seats up for election
  - Republican seats look relatively safe
  - Manchin (D-WV) retiring, likely to go Republican
  - Possible Republican flips: Stabenow retiring (D-MI), Brown (D-OH), Tester (D-MT), Sinema retiring (I-AZ)
- Parties looking for more substantial majorities to avoid one or two Senators from deciding legislation, *e.g.*, Manchin/Sinema

# Possible Outcomes: Congress

Topic	Divided Government	Republican “Sweep”	Democratic “Sweep”
TCJA & Other 2025 “Extenders”	May depend on individual agendas/congressional “math”	Priority—various strategies possible for funding	Deficit reduction & other priorities, TCJA extenders would be contentious
CTC	Likely amendment in Senate & back to House	Questionable if 2024 proposed changes incorporated into legislation	Depending on majority, pass as proposed or pursue expansion
174 Capitalization, 163(j) Change, 100% bonus	Bipartisan support, but 2025 priorities/funding may impact passage	Bipartisan support, but 2025 priorities/funding may impact passage	Bipartisan support, but 2025 priorities/funding may impact passage

# Presidential Priorities—Predictions

Topic	Republican Nominee	Democratic Nominee
<b>TCJA</b>	TCJA permanence	Extend TCJA provisions for those earning under \$400,000
<b>Tariffs</b>	Tariffs – 10% baseline on all goods, 60% Chinese	Increase Chinese & Mexican tariffs on specific items
<b>2024 Proposal</b>	Business provisions from 2024 bill	CTC permanently refundable & expand (partially within 2024 bill)
<b>Corporate Tax Rate</b>	Corporate tax rate reduction to 20%, 15% for domestic manufacturers	Corporate tax rate raise to 28%
<b>Housing</b>	Developing available land, aid to first-time homebuyers	\$25,000 first-time homebuyer payout, homebuilder incentives
<b>IRA</b>	IRA at least partial repeal	Maintain IRA credits
<b>Aid to Working Class</b>	Tip taxation exemption	Tip exemption, \$50,000 deduction for startup expenses (small business support)
<b>Personal Tax Effects</b>	529 savings expansion	Increase top individual tax rate to 39.6%
<b>Individual Credits</b>	Family caregiver credits	Expand premium tax credits

*\*Note: The Democratic Nominee column reflects those priorities outlined by President Biden prior to his withdrawal from candidacy. To date, these priorities have generally aligned with Democratic rhetoric in the press, so Forvis Mazars has included these as the best predictors of what the Democratic nominee may pursue.*

# Harris' Historical Tax Commentary

- In 2019, as Senator introduced “LIFT the Middle-Class Act”
  - \$6,000 (MFJ) refundable credit to those of certain income levels
- During 2020 presidential campaign, floated the following ideas:
  - 39.6% top individual tax rate, 35% corporate tax rate
  - Ordinary income rates in lieu of capital gain tax rates
  - Increase teacher comp by expanding estate tax
  - Implement a new “financial transfer tax” on certain trades & transactions
- Supporter of IRA-related initiatives
  - *E.g.*, Supporter of \$100M in grants for Energy Department related to EV manufacturing
- During her Vice Presidency, Harris has been supportive of the Biden agenda as outlined by the “Green Book” (commentary on President Biden’s proposed budget)
- Recent proposals: 28% long-term capital gains rate



# Potential Funding Mechanisms for Trump

- Tariffs—policy priority to fund tax priority of Trump's
- IRA related/clean energy credit alteration or repeal
- IRS funding scale back
- SALT cap extension

Looking Ahead

**2025 & Planning**



# Looking Forward to 2025

Immediate focus will be on deadline-driven legislation

- January 1, 2025: debt limit suspension ends
- 2017 individual & estate tax provisions expire on December 31, 2025
  - Extension of temporary individual/estate tax provisions vs. permanent corporate rate decrease
- FY 2025 government spending

# TCJA Expirations & Impact

- With full extension, estimated deficit increase around \$4 Trillion
- Without any extenders, would increase tax individuals & businesses pay
- Example: A taxpayer with income of \$100,000 & a standard deduction, no action to extend TCJA provisions would result in the following according to the Tax Foundation

Filing Position	Tax Impact
Single, No Dependents	\$2,623 increase
Single, 1 Dependent	\$3,870 increase
Married Filing Jointly, No Dependents	\$1,867 increase
Married Filing Jointly, 2 Dependents	\$2,277 increase

# TCJA Expirations & Impact

Topic	Current State	After Sunset
<b>Section 199A – QBI</b>	20% Deduction	No Deduction
<b>Estate &amp; Gift Tax Exemption</b>	\$13.61M/individual, \$27.22M/MFJ couple	Estimated \$6-7M/individual, indexed for inflation
<b>Tax Rate Changes</b>	<ul style="list-style-type: none"> <li>○ Individual Top Rate: 37%</li> <li>○ Corporate Rate: 21%</li> </ul>	<ul style="list-style-type: none"> <li>○ Individual Top Rate: 39.6%</li> <li>○ <i>No change to corporate rate</i></li> </ul>
<b>Personal Exemptions, Deductions, &amp; Limitations</b>	<ul style="list-style-type: none"> <li>○ \$29,200 standard deduction (MFJ)</li> <li>○ \$0 Personal Exemptions</li> <li>○ \$2,000 CTC</li> <li>○ No Pease Limitation</li> </ul>	<ul style="list-style-type: none"> <li>○ Around \$16,600 standard deduction (MFJ)</li> <li>○ \$2,000 (to be indexed for inflation)</li> <li>○ \$1,000 CTC</li> <li>○ Pease Limitation reinstated</li> </ul>
<b>SALT “Cap”</b>	\$10,000 deduction “cap”	Limited by AGI with Pease limitation, but no dollar “cap”
<b>Mortgage Interest Deductibility</b>	\$750,000 threshold (MFJ)	\$1 M threshold (MFJ)
<b>Miscellaneous Itemized Deductions</b>	Nondeductible	Deductible in excess of 2% AGI
<b>AMT</b>	\$133,300 MFJ exemption, phase-out at \$1,218,700 MFJ	\$84,500 MFJ exemption, phase-out at \$160,900 (to be adjusted for inflation)

## Other 2025 Changes: Credits

- The following are currently only available through 2025

Name of Credit	Description	Relevant Proposals	Notes
<b>Employer Paid Family Leave Credit (Section 45S)</b>	% of amount paid to qualifying employees during family or medical leave	Paid Family & Medical Leave Tax Credit Extension & Enhancement Act	
<b>New Markets Tax Credit (NMTC)</b>	39% credit on investment in community development entities	New Markets Tax Credit Extensions Act of 2023	Proposal would: <ul style="list-style-type: none"> <li>• Make NMTC permanent</li> <li>• Adjust NMTC to inflation</li> <li>• Exempt NMTC from AMT</li> </ul>
<b>Worker Opportunity Tax Credit (WOTC)</b>	40% of \$6,000 of wages paid to qualified individual	Improve & Enhance the Work Opportunity Tax Credit Act of 2023	Proposal would: <ul style="list-style-type: none"> <li>• Increase credit to 50%</li> <li>• Add additional credit for EEs with &gt; 400 hours</li> </ul>

# Questions?



# Contact

**Forvis Mazars**

# Thank you!

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