



2025 Kickoff  
**Tax Policy Predictions & Legislative Phaseouts**

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# Presenters

## Washington National Tax Office



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# Agenda

1. Movements in Tax Policy
2. Debt & Deficit
3. Legislative Phaseouts
4. Planning Opportunities



# 01

## Movements in Tax Policy



# Movements in Tax Policy

## President Trump

- Tax related executive orders
  - OECD Global Tax Deal
    - “... commitments made by the prior administration on behalf of the United States with respect to the Global Tax Deal have no force of effect within the United States absent an act by the Congress ...”
    - “... investigate whether any foreign countries are not in compliance with any tax treaty with the United States or have any tax rules in place, or are likely to put tax rules in place, that are extraterritorial or disproportionately affect American companies ... [and develop] a list of options for protective measures ...”
  - Trade Policy
    - “... investigate the feasibility of establishing ... an External Revenue Service (ERS) to collect tariffs, duties, and other foreign trade-related revenues.”
  - Hiring Freeze
    - “... freeze on the hiring of Federal civilian employees ... upon issuance of the OMB plan, [within 90 days] this memorandum shall expire for all executive departments and agencies, with the exception of the Internal Revenue Service (IRS) ... shall remain in effect for the IRS until the Secretary of the Treasury, in consultation with the Director of OMB and the Administrator of USDS (aka DOGE), determines that it is in the national interest to lift the freeze.”



# Movements in Tax Policy

## President Trump

- Regulatory Review
  - “Do not propose or issue any rule ... immediately withdraw any rules that have been sent to the [Office of the Federal Register] but not published ...”
- Energy
  - Revocation of “Executive Order 14082 of September 12, 2022 (Implementation of the Energy and Infrastructure Provisions of the Inflation Reduction Act of 2022)”
  - “All agencies shall immediately pause the disbursement of funds appropriated through the Inflation Reduction Act of 2022 ...”
- Cabinet and Cabinet-Level Appointments
  - Scott Bessent – Secretary of the Treasury
- Sub-Cabinet Appointments
  - Michael Faulkender – Deputy Secretary of the Treasury
  - William “Billy” Long – Commissioner of the IRS
- Previously announced Ken Kies as Assistant Secretary for Tax Policy



# Movements in Tax Policy

## Congress

- Debate: one reconciliation bill vs. two
  - Generally, majorities from each chamber of Congress required to pass legislation
  - Due to Senate filibuster, often 60 votes needed to pass legislation
  - Reconciliation may be used to pass tax legislation
    - Budget resolution is done once a year and resulting bill is not subject to filibuster, *i.e.*, simple majority vote to pass (2 opportunities in 2025: FY25 & FY26)
      - Reconciliation process done by committees to adjust spending or revenue
      - Committee recommendations combined into single omnibus bill
        - Only revenue & spending measures
        - “Byrd Rule”
        - Prevent provisions extraneous to the budget
        - Cannot increase deficits beyond budget window
        - Cannot make changes to Social Security
- TCJA & Inflation Reduction Act of 2022 (IRA) were enacted by reconciliation



# Movements in Tax Policy

## Congress

- Speaker Mike Johnson’s (R-LA) proposed timeline:
  - Budget resolution mark up week of February 3
  - Budget resolution vote week of February 10
  - Senate consideration week of February 17
  - House passes budget resolution week of February 24
  - Republican House & Senate members craft reconciliation package during March
  - Ready for President’s signature before congressional recess on April 10
- Chair of Ways & Means Committee Jason Smith (R-MO) names forthcoming tax bill “The America First Tax Cuts Act”
- Ambitious time frame:
  - Single bill would contain tax, border security, & energy policy
  - FY 2025 appropriations expire March 14
  - Debt limit may need to be addressed
  - California disaster relief?
- Eleven Democrats sent letter to Majority Leader John Thune (R-SD) & Senate Finance Committee Chair Mike Crapo (R-ID)
  - “We stand ready to work with you in good faith to craft legislation that can achieve 60 votes in the Senate.”





# Movements in Tax Policy

## Congress

- Chair of House Budget Committee Jodey Arrington (R-TX) released 10-year plan
  - Balances & reduces deficits by \$14.2 trillion
  - Net interest savings \$2.7 trillion
  - Debt-to-GDP reduction by more than 40%
  - “Dismantling the Inflation Reduction Act”
    - Rescind IRS funds
    - Repeal \$250 billion in grants & tax breaks
  - “Locking in Tax Cuts”
- Chair Jason Smith introduces the *Defending American Jobs and Investment Act*
  - Co-sponsored by Republican members of the Ways & Means Committee
  - “... protects American jobs and economic growth with reciprocal taxes applicable to any foreign country that decides to target Americans with unfair taxes under the OECD’s global minimum tax ...”
  - U.S. income of investors and corporations in foreign countries with “unfair taxes” will be subject to income tax rates that will increase by 5% each year for four years and will remain elevated by 20% while the “unfair taxes” are in effect



# 02

## Debt & Deficit



# Debt & Deficit

## CBO Projections

- Assumes laws as currently on the books
- Deficit 6.6% of GDP in 2024 to remain steady through 2035 but significantly larger than historic 50-year average of 3.8%
  - However, significant dip after 2025 when deficit decreases from 6.2% to 5.5%
- No change in outlays (23.3%) but difference is in revenues primarily driven by individual income tax & payroll tax increases
- In 2025, debt held by the public estimated to be 99.9% of GDP, ballooning to 118.5% by 2035
- In 2024, net interest as percentage of GDP surpassed defense spending
- By 2035, net interest would exceed defense, nondefense discretionary spending, & Medicare
- Some Republicans will prioritize debt & deficit mitigation over tax relief

**The Budget Outlook, by Fiscal Year**

	Average, 1975–2024	Percentage of GDP				Billions of dollars			
		Actual, 2024	2025	2026	2035	Actual, 2024	2025	2026	2035
<b>Revenues</b>	<b>17.3</b>	<b>17.1</b>	<b>17.1</b>	<b>17.8</b>	<b>18.3</b>	<b>4,918</b>	<b>5,163</b>	<b>5,580</b>	<b>8,031</b>
Individual income taxes	8.0	8.4	8.7	9.5	10.0	2,426	2,621	2,968	4,413
Payroll taxes	6.0	5.9	5.8	5.9	5.9	1,709	1,759	1,840	2,605
Corporate income taxes	1.8	1.8	1.7	1.6	1.2	530	524	495	517
Other	1.5	0.9	0.9	0.9	1.1	253	259	277	496
<b>Outlays</b>	<b>21.1</b>	<b>23.7</b>	<b>23.3</b>	<b>23.3</b>	<b>24.4</b>	<b>6,826</b>	<b>7,028</b>	<b>7,294</b>	<b>10,730</b>
Mandatory	11.1	14.3	14.0	14.0	15.1	4,130	4,228	4,386	6,626
Social Security	4.4	5.0	5.2	5.3	6.0	1,454	1,572	1,664	2,624
Major health care programs	3.5	5.8	5.8	5.8	6.7	1,669	1,754	1,832	2,949
Medicare	2.1	3.2	3.1	3.2	4.0	910	942	1,000	1,753
Medicaid, CHIP, and marketplace subsidies	1.3	2.6	2.7	2.7	2.7	759	812	831	1,196
Other mandatory	3.2	3.5	3.0	2.8	2.4	1,006	902	891	1,053
Discretionary	7.9	6.3	6.1	6.1	5.3	1,815	1,848	1,897	2,322
Defense	4.2	3.0	2.9	2.8	2.4	855	859	866	1,053
Nondefense	3.7	3.3	3.3	3.3	2.9	960	989	1,031	1,268
Net interest	2.1	3.1	3.2	3.2	4.1	881	952	1,010	1,783
<b>Total deficit (-)</b>	<b>-3.8</b>	<b>-6.6</b>	<b>-6.2</b>	<b>-5.5</b>	<b>-6.1</b>	<b>-1,907</b>	<b>-1,865</b>	<b>-1,713</b>	<b>-2,699</b>
Primary deficit (-)	-1.7	-3.6	-3.0	-2.2	-2.1	-1,026	-913	-703	-916
Debt held by the public at the end of each period	49.7	97.8	99.9	101.7	118.5	28,199	30,103	31,883	52,056

Source: *cbo.gov*, “The Budget and Economic Outlook: 2025 to 2035,” Jan. 17, 2025

# Debt & Deficit

## Paying for Tax Legislation – Options Provided by CBO

Topic	2025–2034 Revenue Estimate
Eliminate Itemized Deductions	\$3.4T
Limit the Deduction for Charitable Giving	\$347.7B
Establish a New 5% VAT	\$3.38T
Establish a New Payroll Tax	\$1.281.5T to \$2.540T
Increase Earnings Subject to Social Security Tax	\$1.427T
Tax All Foreign Income of U.S. Corporations at 21%	\$340B
Greenhouse Emissions Tax	\$919B
Modify Payments to Medicare Advantage Plans for Health Risk	\$1.049T
Reduce Tax Subsidies for Employment-Based Health Plans	\$965B

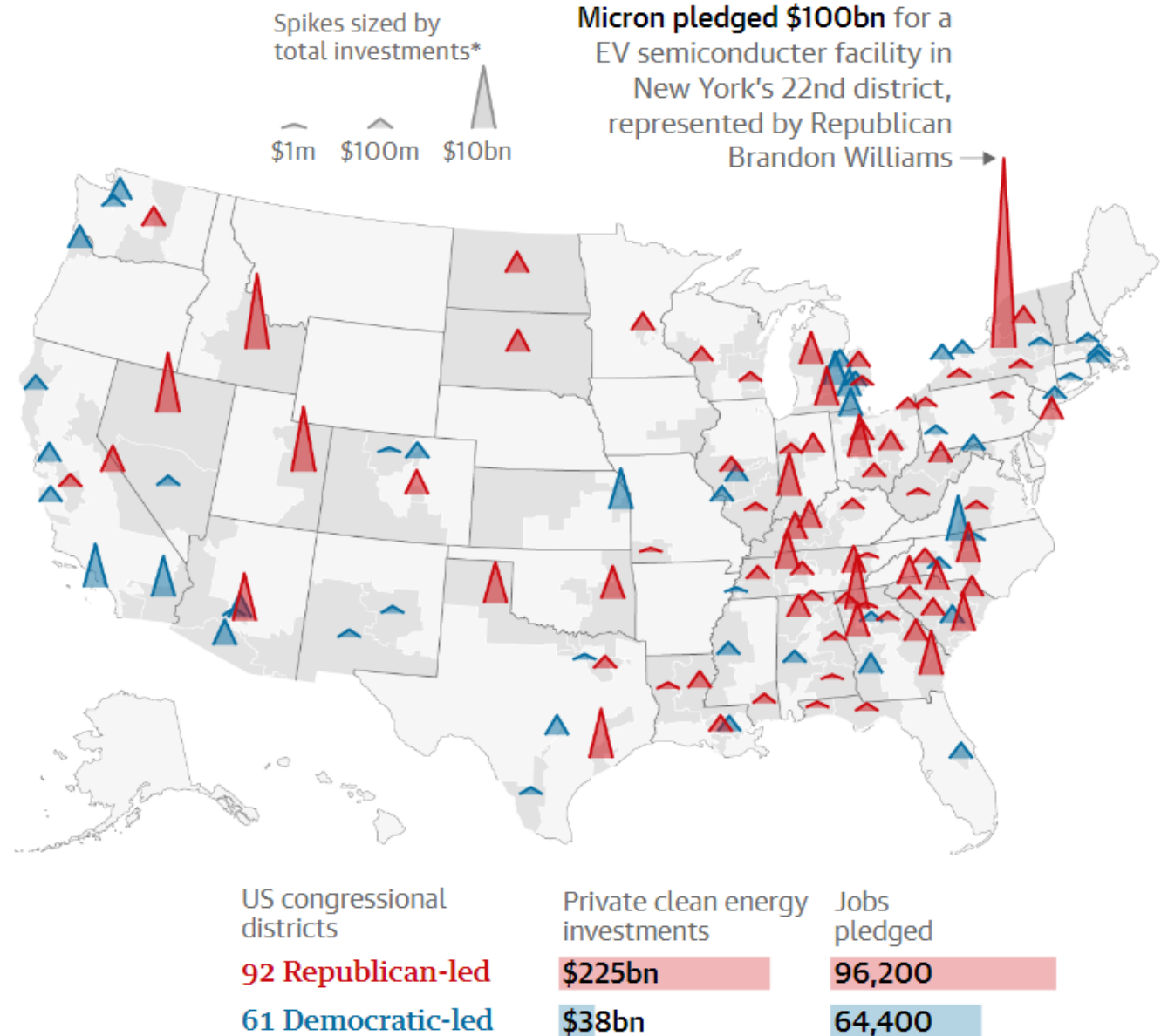
Source: *cbo.gov*, “Options for Reducing the Deficit: 2025 to 2034,” Dec. 12, 2024

# Debt & Deficit

## Paying for Tax Legislation – IRA

- Inflation Reduction Act divestment
  - Clean energy credits, specifically EV credits targeted
    - Some will Republicans oppose
- Rescind IRS funding
- Repeal of CAMT or stock buyback excise tax would have to be replaced with other revenue

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



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

# Debt & Deficit

## Paying for Tax Legislation – Tariffs



- Trump has proposed a 10%–20% baseline tariff, 60% Chinese tariff, & 25% Canada & Mexico tariff
  - President Trump indicated a February 1 start date on Canada & Mexico tariffs
- JCT cannot include in estimates unless enacted by Congress
- Not much vocal support from Congress but if Trump is going to implement regardless, then they might legislate to get revenue offset

# Debt & Deficit

## Paying for Tax Legislation – ERC



- Early termination of the Employee Retention Credit
  - Included in the Tax Relief for American Families & Workers Act of 2024
  - JCT estimated savings to be nearly \$79 billion
  - Estimated 1–1.5 million claims unprocessed
  - Fraudulent claims rampant inducing support for termination
  - Retroactive to January 31, 2024 still on the table
  - Some have balked as a legitimate funding since the credits have far exceeded estimates & weren't originally funded

# Debt & Deficit

## Paying for Tax Legislation – Other



- Use economic growth & dynamic scoring to justify costs
- Crapo & other legislators have alluded to precedent of not paying for continuation of current tax law



# 03

## Legislative Phaseouts



# Legislative Phaseouts

## TCJA Expirations

Topic	Current State (2025)	After Sunset
Section 199A – QBI	20% Deduction	No Deduction
Estate & Gift Tax Exemption	\$13.99M per individual, \$27.98M per couple	Estimated \$6–7M per individual, indexed for inflation
Tax Rate Changes	<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>
Personal Exemptions, Deductions, & Limitations	<ul style="list-style-type: none"> <li>○ \$30,000 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 \$16,700 standard deduction (MFJ)</li> <li>○ \$2,000 (to be indexed for inflation)</li> <li>○ \$1,000 CTC</li> <li>○ Pease Limitation reinstated</li> </ul>
SALT “Cap”	\$10,000 deduction “cap”	Limited by AGI with Pease limitation, but no dollar “cap”
Mortgage Interest Deductibility	\$750,000 threshold (MFJ)	\$1M threshold (MFJ)
Miscellaneous Itemized Deductions	Nondeductible	Deductible in excess of 2% AGI
AMT	\$137,000 (MFJ) exemption, phase-out at \$1,252,700 (MFJ)	\$84,500 MFJ exemption, phase-out at \$160,900 (to be adjusted for inflation)
GILTI	10.5%	13.125%
BEAT	10%	12.5%
FDII	13.125%	16.4%

# Legislative Phaseouts

## Other Expirations

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>

# Legislative Phaseouts

## Business Related

*The following are not set to change with TCJA's sunset, but would require further legislative action for adjustments:*

### §163(j) Interest Limitation Calculation

- Currently no addback to ATI allowed for depreciation, amortization, & depletion
- Possible proposal: use of “EBITDA” calculation for interest limitation
- Option: Real property trade or business election, if available

### §174 R&D costs

- TCJA forced capitalization & amortization of specific research & experimental expenditures (SREEs)
  - 5-year domestic amortization, 15-year foreign amortization
- 2024 bill would have allowed deduction for domestic sourced SREEs but continued amortization for foreign sourced SREEs

### Bonus Depreciation

- Bonus depreciation – set to fully phase out after 12/31/26

# 04

## Planning Opportunities



# Planning Opportunities

## Qualified Business Income Deduction

Current State	After Sunset
20% Deduction	No Deduction

- What is it:
  - Individuals, & certain trusts & estates, get a deduction for qualified business income
    - For example, income from a Schedule C or from a Schedule K-1
- Planning Opportunities:
  - Entity formation: C Corporations vs. Flow-Throughs
  - Investment portfolio – shift target companies
  - Adjust quarterly estimate budget

# Planning Opportunities

## Estate & Gift Tax Exemption

Current State	After Sunset
\$13.99M/individual, \$27.98M/MFJ couple	Estimated \$6-7M/individual, indexed for inflation

- What is it:
  - Lifetime exemption, or “unified credit,” for transfers of property via estate or gift
- Planning Opportunities:
  - Accelerate gifting – charitable, family, friends
  - Trusts
  - Family business succession planning
  - Legal documents likely required – time intensive

# Planning Opportunities

## Tax Rate Changes

Current State	After Sunset
<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>

- Conflicting discussion in the Republican camp about the corporate rate
  - Trump has indicated lowering to 20% or even further to 15% for domestic manufacturers
  - Other discussions indicate potential raise in the rate to help fund other tax & policy priorities



# Planning Opportunities

## Personal Exemptions, Deductions, & Limitations

Current State	After Sunset
<ul style="list-style-type: none"> <li>○ \$30,000 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>○ \$13,000 standard deduction (MFJ)</li> <li>○ \$2,000 (to be indexed for inflation)</li> <li>○ \$1,000 CTC</li> <li>○ Pease Limitation reinstated</li> </ul>

- What is it:

- Although TCJA abolished personal exemptions, it more than doubled the standard deduction & increased the child tax credit
- Pease Limitation: Limitation on the extent itemized deductions can decrease taxable income. Up to 80% reduction of itemized deductions, based on taxpayer's income

- Planning Opportunities:

- Itemized deductions returns as a bigger player
  - Charitable gifting – possibly delay large gifts
  - Medical deductions – ensure recordkeeping
  - Miscellaneous itemized deductions (see below for more)
  - Complicating factor – reintroduction of Pease Limitation
- If divorced, agreements may need to be made for claiming exemptions of dependents

# Planning Opportunities

## SALT Cap

Current State	After Sunset
\$10,000 deduction “cap”	Limited by AGI, but no dollar “cap”

- Many states reacted to the SALT cap by implementing “pass-through entity tax” (PTET) election for flow-through entities
  - Allows for the PTET payments to be deductible on a federal entity return
- While some states have a “sunset” to their PTET program, other states will need to consider the transition (if any) moving forward

# Planning Opportunities

## Mortgage Interest Deductibility

Current State	After Sunset
\$750,000 threshold (MFJ)	\$1M threshold (MFJ)

- What is it:
  - Acquisition indebtedness initiated after 12/15/17 threshold for interest deductibility limitation
  - The U.S. has seen a trend against moving—especially for those that purchased a home at a low interest rate during the COVID era
    - While likely not a huge deciding factor, this change could ease the burden of a higher interest rate on a new home
- Potential strategy: Wait to refinance home

# Planning Opportunities

## Miscellaneous Itemized Deductions

Current State	After Sunset
Nondeductible	Deductible in excess of 2% AGI

- What is it:
  - Expenses such as tax preparation fees, unreimbursed employee expenses, hobby expenses, investment fees
- Potential strategy:
  - Timing consideration of upcoming expenses
  - Consider compensation arrangements
  - Re-analyze hobby versus business designation

# Planning Opportunities

## Alternative Minimum Tax (AMT)

Current State	After Sunset
\$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)

- Potential strategy:
  - Contribute to qualified retirement or HSAs
  - Charitable contributions
  - PTET election & state taxes paid at entity level

# Planning Opportunities

## Credits

### Employer Paid Family & Medical Leave Credit

- What is it:
  - Credit for eligible employers based on wages paid to qualifying employees while they are on family & medical leave between January 1, 2018 through December 31, 2025
- Potential strategy:
  - Not well known that credit is also available to self-employed
  - May be beneficial to amend return(s)

### New Markets Tax Credit

- What is it:
  - 39% tax credit of an investor's qualified equity investments in community development entities
  - Projects must be in low-income communities
- Potential strategy:
  - Look for investment opportunities now

# Planning Opportunities

## Credits

### Worker Opportunity Tax Credit (WOTC)

- What is it:
  - 40% of up to \$6,000 in wages, credit for employers that hire & pays wages to certain individuals
  - First year of employment
  - Member of targeted group (veterans, convicted felons, recipients of state assistance, etc.)
  - Performs at least 400 hours of service for employer
- Potential strategy:
  - Look for opportunities to hire members of a targeted group now

# Planning Opportunities

## Opportunity Zones (End of 2026)

- What is it:
  - Designated economically challenged areas
  - Investors in these areas receive deferral & potential exemption from capital gains taxes
- Potential strategy:
  - Investors need to be aware of the sunset to be planning accordingly if deferred taxes are coming due
  - Although the immediate impact of capital gain deferral is diminishing, the long-term tax-free investment will remain if the investment is made before the sunset





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