



Bipartisan Policy Center

Federal Tax Legislation: Anticipating Monumental Policy in 2025

NCSL Executive Committee Task Force on State and Local Taxation

August 4, 2024

Outline



About the Bipartisan Policy Center



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- What's Expiring



TCJA Extension – Politics

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TCJA Extension – Process

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About the Bipartisan Policy Center

- Former Senators Tom Daschle, Bob Dole, George Mitchell, and Howard Baker founded BPC in 2007.
- By bringing together Republicans and Democrats—and providing them with the space, policy insights, and evidence-based research they need to negotiate in good faith—**we help turn legislators' best ideas into passable, durable laws.**
- BPC also has a 501(c)(4) partner organization, BPC Action, that works every day to build congressional champions for bipartisan legislation.



Bipartisan Policy Center



Policy

What TCJA Did – Individual Taxes

Provision	What It Is	Before TCJA (2017)	After TCJA (2018-2025) <small>(2018 amounts shown here, some have adjusted for inflation since)</small>	Budget Impact (2018-2027)
Individual tax rates	The marginal tax rate levied on individual income	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	10%, 12%, 22%, 24%, 32%, 35%, 37%	-\$1.2 trillion
Standard deduction	An unconditional deduction on taxable income taken by most	\$6,350 (single) \$12,700 (joint)	\$12,000 (single) \$24,000 (joint)	-\$720 billion
Itemized deductions	Conditional deductions taken to reduce taxable income based on certain expenses	Overall limitation, but few/no practical limits on SALT, MID	-\$10,000 cap on SALT deductions -MID limit lowered from \$1M in mortgage debt to \$750K	+\$670 billion
Personal exemptions	An extra reduction in taxable income based on family size	\$4,050 per family member	N/A (suspended)	+\$1.2 trillion
Alternative minimum tax	A 2nd layer of taxation to ensure minimum level of tax paid	Small exemption, larger base	Large exemption, smaller base	-\$640 billion
Child Tax Credit	A per-child tax credit for children under 17	\$1,000 per child	\$2,000 per child	-\$540 billion
Individual health insurance penalty	A tax penalty for failing to obtain/retain health coverage	\$695 per adult \$347.50 per child	\$0 (permanent law)	+\$310 billion
Inflation indexing	Automatic annual changes to the tax code based on inflation	Based on CPI	Based on chained CPI (permanent law)	+\$150 billion
Estate and gift taxes	Taxes levied on estates and gifts, primarily on the wealthy	\$5.5 million exempt (single) \$11.1 million (joint)	\$11.4 million exempt (single) \$22.8 million (joint)	-\$80 billion



What TCJA Did – Business and Int’l Taxes

Provision	What It Is	Before TCJA (2017)	After TCJA (2018-) <small>(All business provisions are permanent law unless specified)</small>	Budget Impact (2018-2027)
Corporate tax rate	The tax rate levied on C corporation profits	Graduated, with a top rate of 35%	21%	-\$1.3 trillion
20% pass-through deduction	A deduction available to most pass-throughs that reduces taxable income	N/A (did not exist)	20% of qualified business income (QBI), subject to limitations based on type of business and income <u>(expires in 2025)</u>	-\$410 billion
Modification of net operating loss rules	Limits on the amount of losses businesses can use to offset income in a given year	-Carry back 2 years, carry forward 20 (C corps) -Indefinite carryforward (pass-throughs)	-Limit to 80% of income, no carrybacks, indefinite carryforward (C corps) -No NOLs for pass-throughs above certain income <u>(expires in 2028)</u>	+\$350 billion
Interest deduction limitations	A limit on the amount of interest on debt that businesses can deduct from their income	Based on ratios of debt to equity and of net interest expense to taxable income	Based primarily on a percentage of taxable income (in 2024, 30% of EBIT)	+\$250 billion
R&D amortization	Deductions for business R&D	Full and immediate expensing	5-year amortization	+\$120 billion
Bonus depreciation	Deductions for machinery/equipment	50%	-100% 2018-2022 -Phases down 2023-2026	-\$90 billion
Int’l tax system	Taxes on foreign profits of U.S.-based businesses	Primarily worldwide system	Primarily territorial system	+\$320 billion



TCJA – What's Permanent and What's Expiring

What's Permanent

- \$0 individual health insurance penalty
- Slower inflation indexing in the tax code
- 21% corporate rate
- Limits on business interest deductions
- R&D amortization
- Loss rules (for C corps)
- New international tax system (though some rates go up in 2026)

What's Expiring

- Lower individual tax rates
- Doubled standard deduction
- Limits on itemized deductions
- Suspension of personal exemptions
- Doubled Child Tax Credit
- Narrower base for alternative minimum tax
- Narrower base for estate tax
- 20% pass-through deduction
- Loss rules (for pass-throughs)
- Bonus depreciation

Politics

What Republicans Are Saying

General Agreements

- TCJA boosted the economy
- Most or all of TCJA should be extended

Outstanding Questions

- Should TCJA extension be partly or fully paid for?
- If Congress is paying for TCJA extension, how should it do so?
- Should policymakers pursue a simpler extension, or broader tax reform?

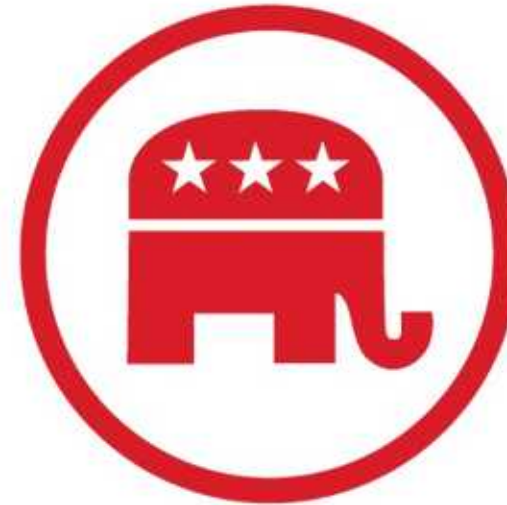


Image Source: Wikimedia Commons

What Democrats Are Saying

General Agreements

- TCJA was skewed to higher-income taxpayers and large corporations
- Extensions should focus on those making <\$400K
- TCJA added too much to debt/deficits; we need additional revenue from higher-income taxpayers and large corporations

Outstanding Questions

- How much of TCJA should be extended?
- Does the \$400,000 pledge apply provision by provision, or to an overall tax package?
- How much energy should be poured into expanding the CTC, vs. a variety of potential expansions to the social safety net?

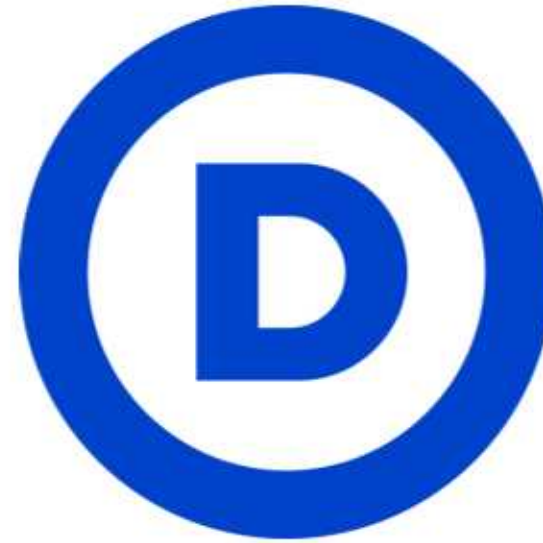


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Where They May End Up

Potential Agreements

- Extending lower rates for people making <\$400K
- Extending the doubled standard deduction
- Extending the \$2,000 per child CTC
- Addressing R&D amortization

Potential Disagreements

- Extending rates for people making >\$400K
- SALT, MID, other itemized deductions
- The future of the 20% pass-through deduction
- The size of the AMT and estate tax base
- Corporate rate
- Offsets/pay-fors

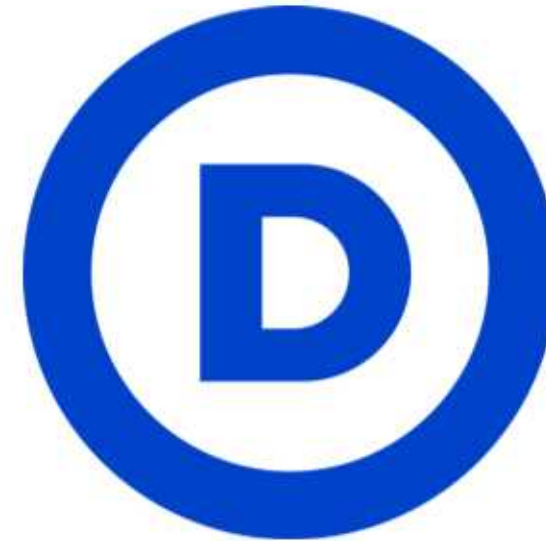
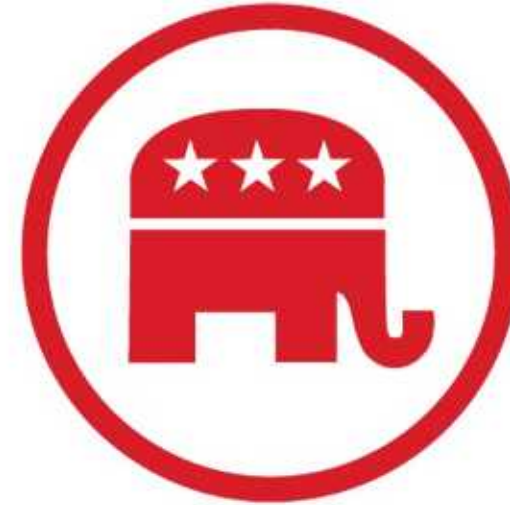


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Process

Political Constraints

Divided Government

- Divided government means a negotiation!
- Several pressing deadlines in front of TCJA extension:
 - End of debt limit suspension (Jan. 2)
 - Start of 119th Congress (Jan. 3)
 - Inauguration of new president (Jan. 20)
 - Penalty on discretionary spending caps if appropriations not enacted (Apr. 30)
 - End of discretionary spending caps (Sept. 30)
 - Open enrollment for health exchanges (affects premium tax credit debate; Nov. 1)

Unified Government/Reconciliation

- Potential for less partisan fighting BUT...
- Reconciliation has its practical limits (Byrd rule) and political limits (see 2017 ACA repeal, 2021/2022 Build Back Better)



Image Source: Wikimedia Commons



Budgetary Constraints

Cost of Extension

- Extension of TCJA + premium tax credits is **\$5 trillion** (~1.6% of GDP) right now; likely rising by more than \$500 billion as the 10-year window shifts from 2025-34 to 2026-35 next year (to \$5.5 trillion)
- Previous largest tax cuts (by nominal \$ amount):
 - 2012 Bush tax cut permanency: \$3.6 trillion over 10 (1.8% of GDP)
 - TCJA: \$1.6 trillion over 10 (0.7% of GDP)
 - 2001 Bush tax cuts: \$1.1 trillion over 10 (0.9% of GDP)
 - 2010 extension + expansion of Bush tax cuts: \$720 billion over 10 (0.5% of GDP)
 - 1981 tax cuts (**reversed in part**): \$710 billion over 10 (3.5% of GDP)
 - 2015 PATH Act: \$520 billion over 10 (0.2% of GDP)
 - 2003 Bush tax cuts: \$320 billion over 10 (0.5% of GDP)

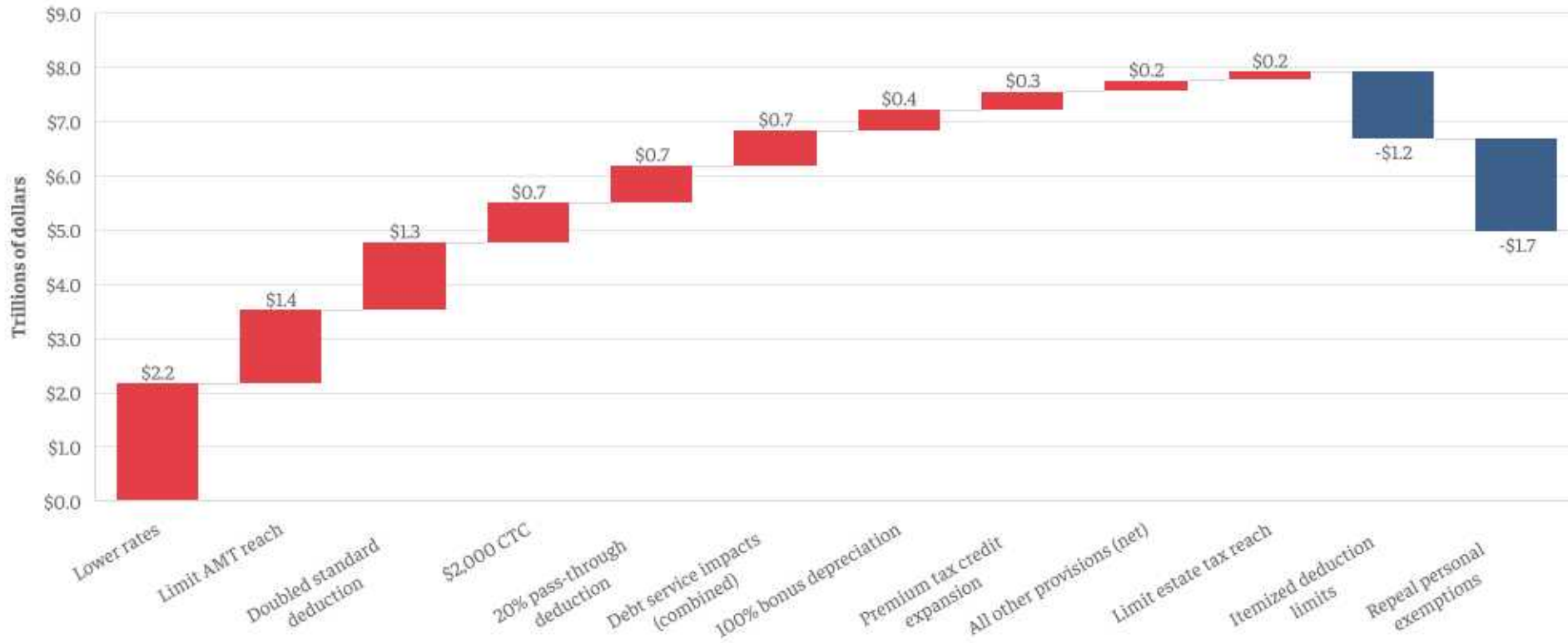
2017 vs. 2025

- Compared to the pre-TCJA budget/economic outlook, heading into 2025 we have:
 - Less revenue (-0.3% of GDP)
 - Higher deficits (+2.0% of GDP)
 - Higher net interest expense (+1.3% of GDP)
 - Higher debt (~20-25% of GDP)
 - Same GDP growth (~1.8% real GDP growth)
 - Much smaller economic benefits from *extension* of TCJA than *enactment*

Budgetary Constraints

Budget Effects From Extending Various Expiring Tax Provisions, FY2025-2034

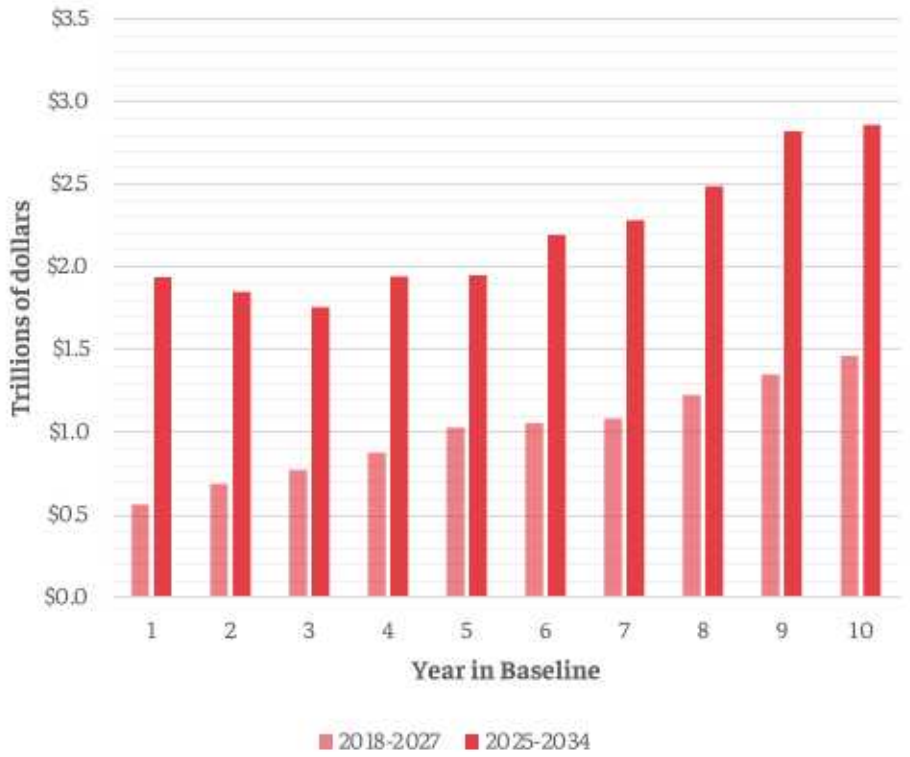
Source: Congressional Budget Office



Budgetary Constraints

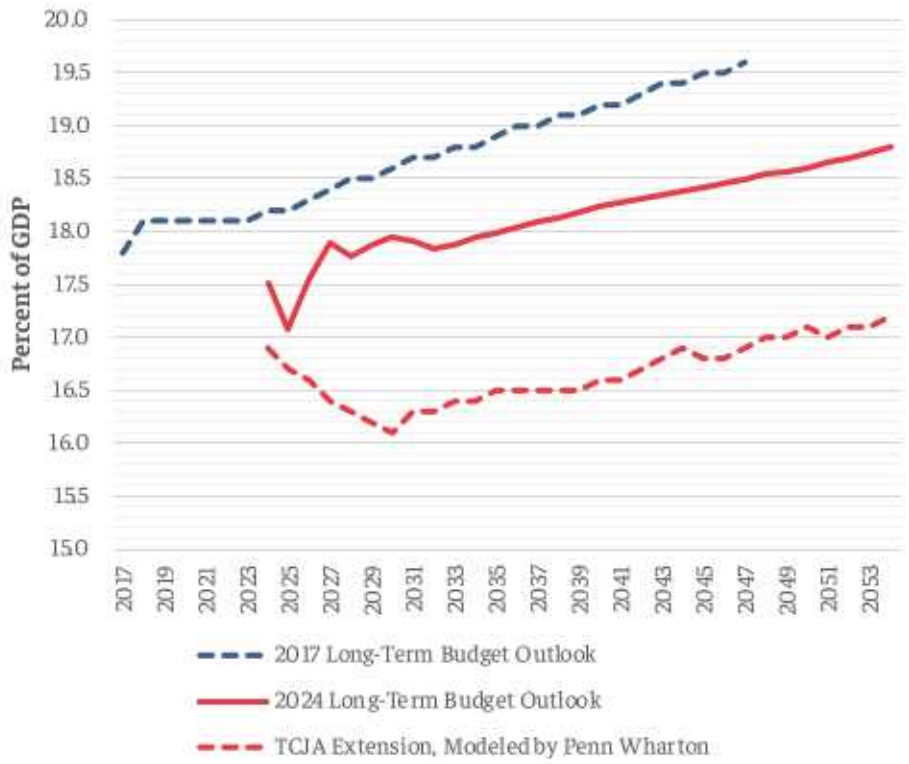
Projected Deficits, FY 2018-2027 vs. FY2025-2034

Source: Congressional Budget Office



Projected Revenue as a % of GDP, FY2017-2054

Sources: Congressional Budget Office, Penn Wharton Budget Model



Process Constraints

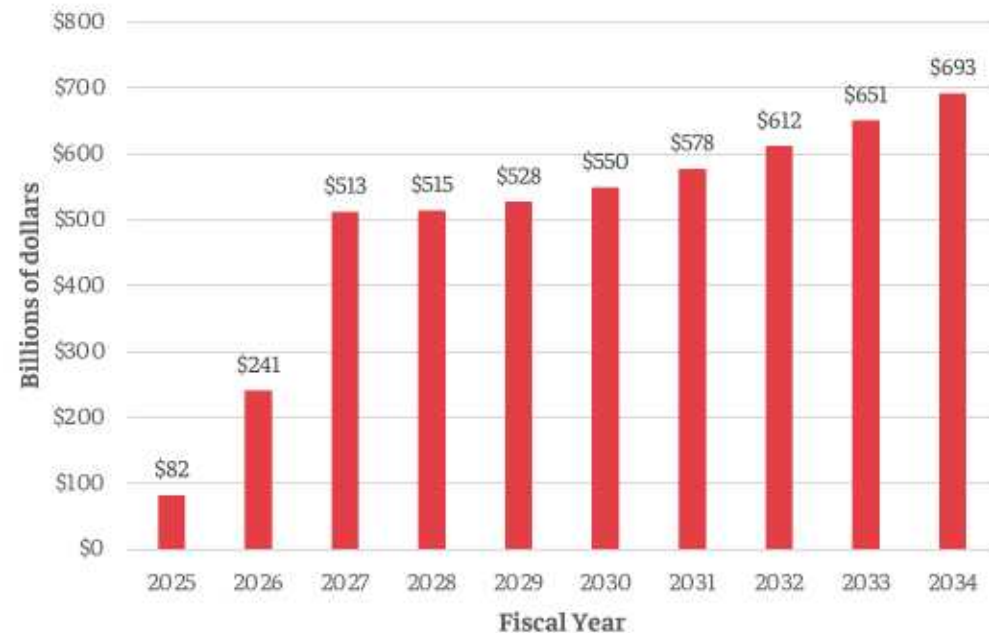
Extension vs. Reform

- Some policymakers may just want to extend all of TCJA but...
- Members of both parties have expressed a desire to explore more comprehensive tax reform:
 - Extending some expiring provisions, letting others expire
 - Re-opening debates on permanent policy enacted in TCJA
 - Re-opening debates from 2021-2024 (American Rescue Plan, Build Back Better, Inflation Reduction Act)
 - Considering new ideas (e.g., Harris 2020 proposals, tax-free tips)

Temporary vs. Permanent

- Limited time and budgetary constraints may lead lawmakers to pursue a 1- or 2-year extension rather than permanent

Impact of TCJA + PTC Extension,
FY2025-2034



Thank you!

Get in touch:
alautz@bipartisanpolicy.org



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