# Federal Tax Legislation in 2025

NCSL Legislative Summit

Louisville, Kentucky, August 2024

# Collision in 2025: Tax, Deficit, Appropriations

**Taxes**

Most provisions of the Tax Cuts and Jobs Act expire at the end of 2025. While there are vast party differences in debate, there are also bipartisan items that were included in a House-passed bill earlier in 2024 – HR 7024. Furthermore, the political realities for both parties are different now than in 2017.

**Deficit**

The Fiscal Responsibility Act (FRA) of 2023 expires at the end of the 2024. The Act had capped spending for Fiscal Years 2024 and 2025. The Act also suspended the debt ceiling. Congress will again need to address the borrowing cap to avoid a default.

**Appropriations**

Again, the FRA has capped the Fiscal Year 2025 appropriations bills for non-defense discretionary spending. This gives little room for adjustments but does provide the possibility of disproportionate cuts and the spending bills could still be leveraged in a broader fiscal debate.

# NCSL Education and Awareness

## Webinars

Today's SALT meeting is just a start and we'll look organize even more discussions as we look to provide timely information to legislators. NCSL looks to have a series of events to look at the most likely components in a bill that will have the most impacts on states. We seek these events to include:

### TCJA 101

Discussion on TCJA and the broad Macro-level impacts of the federal components, such as changes to the standard deduction.

### Child Tax Credit

To be held in conjunction with the the Health and Human Services Committee. Intersects also with an overarching NCSL look at child and dependent care.

### Affordable Housing

To be held in conjunction with the Labor and Economic Development Committee. NCSL hopes to look at both supply side and family-oriented provisions.

### Business Impacts

Items such as bonus depreciation, treatment of research and development, and pass-through business deduction were included in a 2024 bill.

### Deficit Discussion

The TCJA of 2017 had some offsets that reduced the overall cost of the legislation. For 2025, the reality is different with no expected major offsets that make provisions, such as the SALT deduction, expensive.

### Deep Dive into State Impacts

A panel discussion at the NCSL Fiscal Symposium in Nashville to look at the impacts of the federal policies on state initiatives.

## 2024 Test Run - Tax Relief for American Families and Workers Act of 2024 (HR 7024)

Passed House 357-70 in January; Failed 44-48 a Senate Cloture vote on Aug 1.

- Title I – Tax Relief For Working Families
  - Resorted pandemic-level Child Tax Credit levels to $1,800 in 2023, $1,900 in 2024, and $2,000 in 2025, with an inflation adjustment beginning after 2023.
- Title II - American Innovation and Growth
  - This title allows taxpayers to delay the date on which they must begin deducting their domestic research or experimental research costs over a five-year period until 2026. Taxpayers may therefore expense such costs incurred between 2022-2026.
  - The title extends the allowance for depreciation, amortization, or depletion in determining the limitation of the business interest deduction. It also extends 100% bonus depreciation and increases the limitations on expensing of depreciable business assets.
- Title V – More Affordable Housing
  - This title increases the low-income housing tax credit ceiling to 12.5% for calendar years 2023-2025. It also lowers the bond-financing threshold to 30% for projects financed by bonds issued before 2026.

# NCSL Engagement Plan

### Advocacy Principles for State Legislation

- The officers of B&R Committee and SALT Task Force worked to create a top ten principles document highlighting the priorities of state legislatures. Accordingly, NCSL policy changes are being sought to support these principles.

### Legislator Engagement

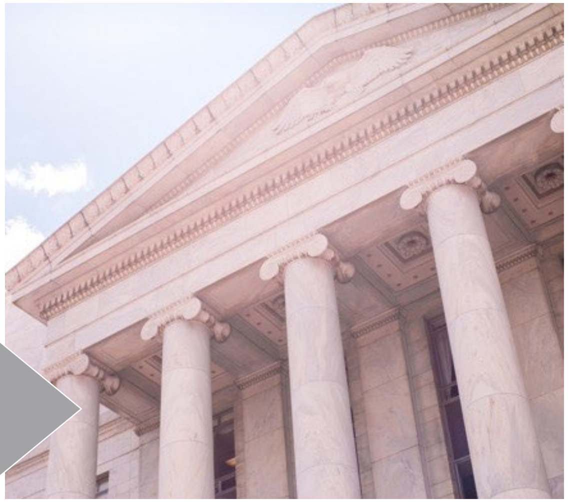
- NCSL will work with state legislators to engage their federal counterparts in D.C.

### Written Statements

- Press Releases, Articles, Op-Eds, Statements for the Record and Letters to Congress are a few of the written tools available to state-fed staff.

### NCSL Staff Advocacy

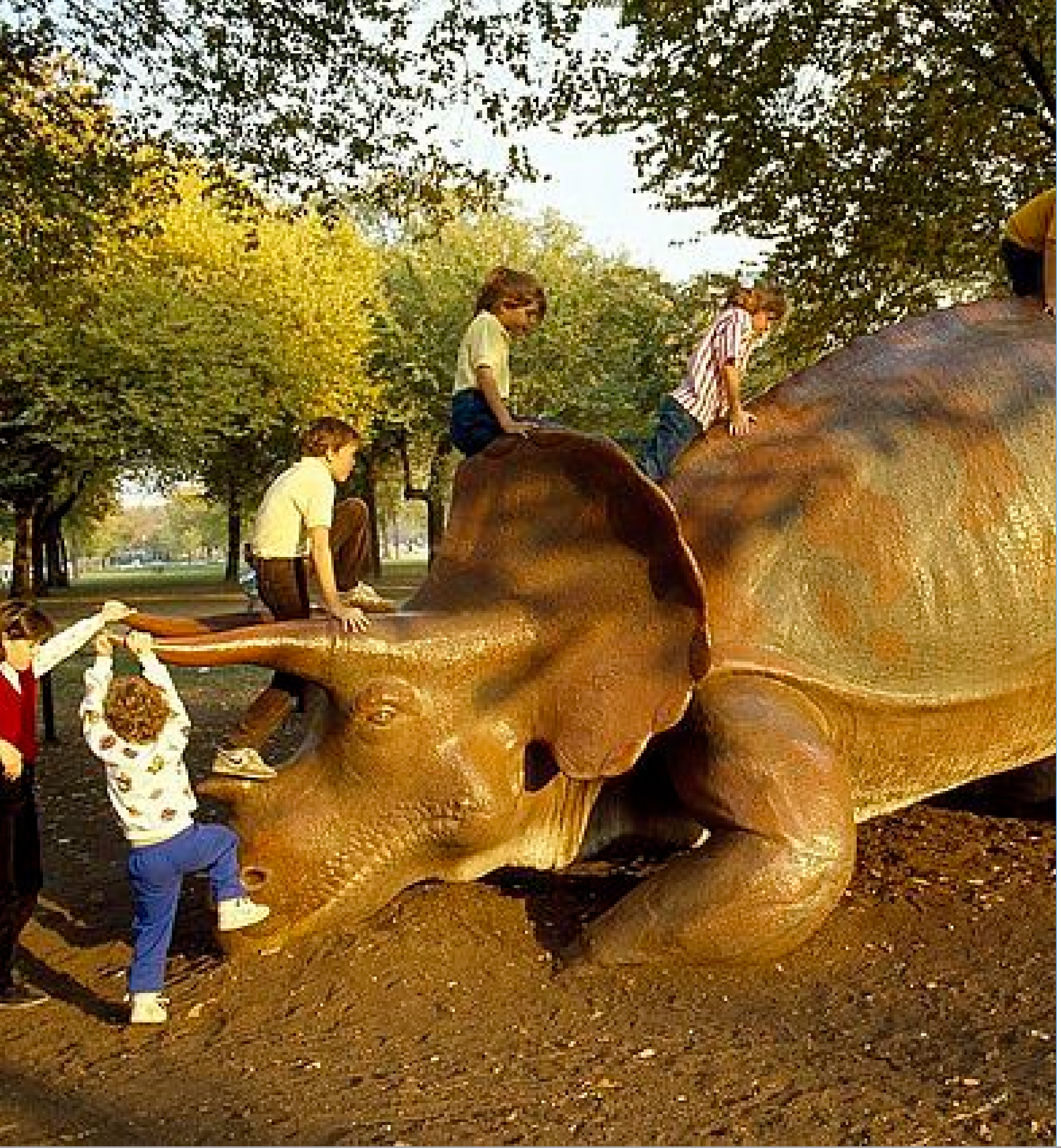
- NCSL's State-Federal Affairs team looks to engage congressional party leadership, committee chairs and ranking members, and key legislators.



## Fiscal Stability and Debt Reduction

NCSL recognizes the fiscal challenges of the federal government and continues to call on both the administration and Congress to consider serious, long-term reforms that will reduce the national debt and put the country on more sustainable fiscal footing. NCSL urges that all options be on the table—discretionary and non-discretionary spending while also ensuring states are not disproportionately or unreasonably burdened by federal deficit reduction, including the preservation of financial commitments to state-federal programs and that any legislation be analyzed thoroughly for its potential impact on state and local governments.

Furthermore, any tax measure must not exacerbate the federal deficit problem and must not widen the gap between the federal government's revenues and its spending obligations. The acceleration of federal debt threatens the ability of the federal government to maintain its financial commitments and will result in higher costs for both the federal and state governments, especially due to the economic turmoil experienced during the threat of a federal default.



## Child Tax Credit

NCSL supports tax credits for taxpayers with dependents under compulsory school age. The Child Tax Credit provides needed support to working families and NCSL supports the inclusion in any federal tax legislation the Child Tax Credit provisions under Article I of the Tax Relief for American Families and Workers Act that has wide bipartisan support.

The Bill: This title modifies the calculation of the refundable portion of the child tax credit to require the multiplication of the credit amount in calendar years 2023-2025 by the number of qualifying children. The maximum refundable amount per child of such credit is increased to $1,800 in 2023, $1,900 in 2024, and $2,000 in 2025, with an inflation adjustment beginning after 2023.

## State and Local Tax Deduction

NCSL seeks strong federal-state partnership and to preserve the ability of state and local governments to adopt fair and effective tax systems.

NCSL urges providing state and local income tax, sales tax and property tax deductions for federal income tax purposes and an increase in the current cap from $10,000 to $20,000 for joint filers while preserving the IRS's determination that pass-through entity tax election is a viable option to allow business owners to be able to deduct state taxes paid over the $10,000 cap.

## State Tax Sovereignty

Again, NCSL seeks to preserve the ability of state and local governments to adopt fair and effective tax systems. This includes authorizing states with sales and use taxes to require interstate sellers to collect and remit those taxes. This ability is supported by court decisions, including Wayfair v. South Dakota. NCSL also supports states and the business community working together to continue to simplify and make more uniform their sales and use taxes to remove any undue burdens and encourages them to consider membership in the Streamlined Sales and Use Tax Agreement.

NCSL opposes any expansion of Public Law 86-272, the Interstate Income Act of 1959, and believes that states have the fundamental right to impose income tax on entities doing business within the state, subject to the limits imposed by the U.S. Constitution. NCSL strongly opposes any action by Congress which expands the prohibition of state taxation, such as H.R. 8021 introduced in the House on April 15, 2024.

## Affordable Housing

NCSL is encouraged by and supportive of public private partnership programs and initiatives that increase the availability of financing for homeownership opportunities. NCSL supports first-time home buyer tax credits to promote homeownership prospects, preserving the mortgage interest deduction, efforts to assist families who lose their sole household due to national economic downturns, and low-income housing tax credits that produce new, affordable housing. NCSL supports the inclusion of the More Affordable Housing provisions under Title V of the Tax Relief for American Families and Workers Act.


## Municipal Bonds

NCSL supports the need to maintain the tax-exempt status of state and local government bonds and lift existing restrictions on state and local government use of tax-exempt bonds.

## Federal Postponement of Tax Deadlines

Hurricanes, wildfires, floods, and other natural disasters impact states across the country and a combined and coordinated federal, state, and local government response brings quick relief to impacted Americans. One such measure is the IRS' ability to extend federal tax deadlines for personal and business federal remittances during the event of an emergency declaration that allows assets destined for tax payments to be diverted to needed disaster response. NCSL recognizes that federal responses to disasters begin with a state's own declaration, however, an unintended consequence exists with the IRS' ability to extend federal deadlines. Currently, an extension is statutorily at the discretion of the Secretary of Treasury and does not require agreement by the impacted state after the state asks for an emergency declaration. As states' tax policy and deadlines are often tied to federal tax policy and deadlines, such a decision can have adverse consequences on states, including hampering a state's ability to pass a budget in a timely manner, as it cannot fully understanding its receipts from the preceding tax year in the event of an extended delay. NCSL asks federal policymakers to pass legislation, after consultation with states, which reduces adverse consequences by allowing states to have greater input in the extension decisions that ultimately strengthens a combined, coordinated response by federal, state and local governments.

## Social Security

NCSL strongly believes that the federal government has an obligation to preserve the financial integrity of the Social Security system and assure the long-term solvency of the program. State legislatures believe Social Security must ensure a safety net for low-income older retirees as well as provide survivor benefits and disability insurance. It is critical that all workers paying into the system have confidence that Social Security will continue to be available to them at retirement or to provide for their survivors after their death. NCSL believes efforts to assure solvency should strengthen the existing program upon which so many beneficiaries and their families rely. In addition to protecting and strengthening Social Security, Congress should continue to encourage private savings and employer-provided pension plans as important components of retirement savings.

## American Innovation and Growth

NCSL encourages the use of smart federal tax policy to promote economic growth and business-friendly climates urges the adoption of legislation under Title II of the Tax Relief for American Families and Workers Act of 2024, including policies that support research and development for section 174, bonus depreciation for section 179 and Pass-Through Business Deduction under section 199A, and allowing depreciation, amortization or depletion expense to be excluded from the calculation of adjusted taxable income in determining the interest expense limitation under 163(j).

## Low-Income Families

NCSL encourages the preservation of federal tax policy that provides support to lower income and working families, such as a generous standard deduction rate proportionate with itemized deduction incentives.

## Earned Income Tax Credit

The Earned Income Tax Credit (EITC) primarily aims to improve the financial position of working families with low incomes. Some business tax credits encourage economic development. Congress and the states should extend the EITC to workers with low incomes who have no dependents regardless of age, including those ages 65 and older, provided they are not dependents themselves. Created in 1975, the EITC has grown into the federal government's largest need-tested antipoverty program that provides cash to workers with low incomes. For large families with income below $20,000, the amount of the credit may exceed $6,700. Many states offer their own add-on EITC versions. The EITC enjoys widespread support. The credit boosts the financial security of working families and increases work incentives. Receipt of the EITC does not carry a stigma in contrast to some means-tested public-benefit programs. However, the current structure of the federal EITC limits its effectiveness to provide financial security and work incentives for childless and older workers. The maximum size of the credit for them is much smaller than that for families with children. Income eligibility limits are several times lower as well. On top of that, eligibility is restricted by age to those between the ages of 25 and 64. In 2021, under the American Rescue Plan, policymakers repealed the age restrictions and increased the amount of the credit almost threefold for childless workers. These modifications expired at the end of 2021. Once again, workers aged 65 and over with low incomes effectively became excluded from the program as it is exceptionally rare for individuals at this age to have a qualifying child.

# Business Meeting: Amendments to Consideration

**a.** Amendment to State and Federal Budgeting: Principles for Fundamental Tax Reform: Under “General” add the bullet “NCSL encourages the use of smart federal tax policy to promote economic growth and business-friendly climates.”

**b.** Amendment to State and Federal Budgeting: Principles for Fundamental Tax Reform: Under “Other” add the bullet “NCSL urges the adoption of legislation under Title II of the Tax Relief for American Families and Workers Act of 2024, including the policies that support research and development for section 174, bonus depreciation for section 179 and Pass-Through Business Deduction under section 199A, and allowing depreciation, amortization or depletion expense to be excluded from the calculation of adjusted taxable income in determining the interest expense limitation under 163(j).

**c.** Amendment to State and Federal Budgeting: Principles for Fundamental Tax Reform: Under “General” amend the sixth bullet to “Preserve the ability of state and local governments to adopt fair and effective tax. This includes authorizing states with sales and use taxes to require interstate sellers to collect and remit those taxes and restoring setting the full state and local income tax, sales tax and property tax deductions for federal income tax purposes to no lower than $10,000 for single filers and $20,000 for joint filers.”

**d.** Amendment to State and Federal Budgeting: Principles for Fundamental Tax Reform: Under “General” add the bullet “Preserve the ability of state governments to utilize pass through entities as a viable option to allow business owners to be able to deduct state taxes paid over the $10,000 cap for single filers and $20,000 for joint filers.”

**e.** Amendment to State and Federal Budgeting: Principles for Fundamental Tax Reform: Under “General” add the bullet “NCSL encourages the preservation of federal tax policy that provides support to lower income and working families, such as a generous standard deduction rate proportionate with itemized deduction incentives.

## Caregiving

America's more than 48 million family caregivers assist their older parents, spouses, siblings, grandparents, and other loved ones so they can live independently in their own homes—where they want to be. Nationally, caregivers provide $600 billion annually in unpaid labor and, on average, spend more than $7,200 per year in out-of-pocket costs, saving taxpayers billions. Caregivers help with a wide range of activities of daily living such as bathing and dressing and instrumental activities of daily living such as paying bills, doing housework and laundry, and managing medications. Family caregivers sometimes provide complex health care, including medical and nursing tasks such as tube feedings and dressing wounds. They also often coordinate health care and facilitate access to services and support. According to a national survey in 2020, 61% of family caregivers are women. The median age of caregivers is 49. They provide, on average, nearly 24 hours of care each week, primarily for older people. About 54% of caregivers caring for a relative or friend are age 50 and older. Those most likely to provide care for five years or longer are caregivers aged 50–64. Federal and state governments should provide tax credits, other financial assistance, or both to caregivers. NCSL advocates that the federal government encourage employers to use existing tax incentives, such as flexible spending accounts for dependent care, to provide dependent- or family-care benefits.

# Thank you for joining today!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