Take-Away: It has been less than two weeks since Mr. Trump became President-elect Trump, but the speculation on the impact of his return to the Presidency on taxes and estate planning has already generated several articles, perspectives, and (no surprise) wild speculation.

Background: With the Republicans in control of the federal government, it will be interesting to see how tax laws are impacted. While many predict that the 2017 Tax Act will be extended, that desire for those low tax rules tends to ignore fiscal pressures of the federal deficit that Congress will have to (or should) face.

Reconciliation: Republicans in Congress are likely to use the process called budget reconciliation, which allows for budget legislation to be passed out of the House and Senate with a simple majority vote. [Aside: I guess majority vote works for Congress, but not when it comes to electing the President. But I digress.] Reconciliation was used to pass the 2017 Tax Act, and President Biden's American Rescue Plan Act in 2021. Reconciliation is a 'fast-track' option to enact tax, spending, and debt limit changes in a budget resolution. It enables those in Congress to specify targets or limits on reductions or increases in the federal deficit within a budget 'window' of 10 years. The so-called *Byrd rule* limits what can be included in a reconciliation bill, disallowing policy changes that do not affect spending or tax revenues and to disallow changes that increase the federal deficit outside of the budget 'window.' The reconciliation process also prohibits any changes to Social Security.

Campaign Promises: In his campaign, Mr. Trump promised $7.8 trillion in tax cuts, but only $4.7 trillion in offsets, which resulted in a deficit increase of $3 trillion. Accordingly, while reconciliation will give Republicans in Congress plenty of leeway to address tax law changes, facing the federal deficit will probably curb much of that enthusiasm.

AICPA: The AIPCPA and CIMA National Tax Conference noted last week that Mr. Trump's campaign proposals would add about $7.75 trillion to the national debt over the next 10 years; $5 trillion of that additional deficit would be if the 2017 Tax Act and its provisions was simply extended. If only the existing federal transfer tax applicable exemption amount was extended, that would cost $126 billion over the next 10 years; while the wealthy might celebrate that extension of the large applicable exemption amount, few voters are ever impacted by the federal transfer tax system.

Tax Foundation: The Tax Foundation notes that if the 2017 Tax Act's temporary provisions were to be made permanent (individual, business, and transfer tax) that would add about $4.25 trillion to the federal deficit from 2025 to 2034. Factoring in the hoped-for economic growth effects of the Act's extension, would drop the cost of that extension to $3.59 trillion. In other words, expected economic gains would offset 16% of the additional deficit if those 2017 tax provisions were simply extended.

Joint Committee: The Joint Committee on Taxation estimates that the budgetary impact of the extension of the 2017 Tax Act would result in a direct revenue loss of $4.0 trillion, plus an additional $605 billion in higher interest costs on the national debt. The Committee's model does not restore the full expensing of research and development (R&D) or the EBITDA-based interest limitation as part of its $4.0 trillion extension cost.

Trump Proposals: Several tax law changes were promoted by Mr. Trump during the campaign. Some of those proposals are address below:

SALT: Mr. Trump proposed lifting the limit on state and local taxes (SALT) deduction. Another option mentioned was to double the SALT limit from $10,000 to $20,000.

Auto Loan Interest: Mr. Trump proposed allowing auto loan interest payments to be deductible.

Corporate Taxes: Mr. Trump proposes lowering the corporate income tax rate to 15%

Caregiver Credit: Mr. Trump also proposed a new tax credit for family caregivers. However, he did not provide any specifics either for the size and scope of this credit, or how other revenues would need to be generated to offset the cost of the new tax credit.

Income Exemptions from Income Tax: Mr. Trump's other campaign proposals are to eliminate income taxes on specific types of income, such as tips, overtime, and Social Security retirement benefits. He also has proposed exempting Americans living abroad from income tax.

Social Security: The reality is that exempting Social Security benefits from income taxes would probably not occur due to the 'hands-off' budget reconciliation rule. Moreover, Social Security is on-track to become insolvent in 9 years, leading potentially to a 23% benefit reduction across-the-board. If the 2017 Tax Act is simply extended by the Republican controlled Congress, then the Social Security trust fund would become depleted in the next 6 years, not 9 years. One wonders just how long Congress can ignore the federal deficit and projected Social Security insolvency without either raising taxes or cutting spending (which is perhaps where Mr. Trump's long-range proposals are headed.)

How to Pay for It? Assuming the Congress engages in the reconciliation process, how might some of the additional deficit caused by the extension of the 2017 Tax Act and Mr. Trump's campaign proposals be paid for?

Tariffs: First is Mr. Trump's proposed universal tariff of 20% combined with the 60% tariff on imports from China. That would raise about $3.8 trillion in tax revenues. It is questionable if Congress will follow Mr. Trump on the imposition of tariffs of this magnitude since they would be the highest protective tariffs imposed since the Great Depression.

Green Energy Credits: Second, a full repeal of the existing 'green energy' tax credits that would raise another $921 billion in tax revenues.

Impact? Taken together, these two revenue-generating steps (tariffs and elimination of green energy credits) would reduce the net budgetary cost of the Trump 2017 Tax Act extension and tariff proposals to about $1.9 trillion from 2025 to 2034. Thus, these moves would add to the federal deficit by $1.9 trillion, which is not too far from the $1.5 trillion in increase in the federal deficit when the Republican-led Congress passed the 2017 Tax Act.

Consumption Tax: One idea that was floated by a couple of Mr. Trump's policy advisors is to pay for the extension of the 2017 Tax Act provision with a consumption tax. A 1.5% broad-based value-added-tax (VAT) would raise $2.3 trillion over the 10-year budget window (more than a 10% universal baseline tariff.) Presumably, a VAT would also not invite foreign retaliation which might easily be the outcome of a 20% across-the-board tariff on all imported goods.

Conclusion: The bottom line is that while the tax laws will be impacted in 2025 by Congress, probably extending many of the 2017 Tax Act provisions for another 10-year period, if the growing federal deficit is to be addressed (since it will not be too much impacted by tax law extensions or tariffs) it will be through aggressive tax-cuts, probably by reducing perceived 'entitlements' and the elimination of industry-favored tax credits.