Quick-Take: There were some conflicting stories coming out of Washington DC last week regarding what to expect when the 'new' Congress convenes early next year to work on the tax legislation in its first 100 days. One story was that while it was expected that most of the 2017 Tax Act would be extended by the Republican-controlled Congress using the reconciliation process, any extension of the Act's taxpayer-friendly provisions might only be for four years. However, several House GOP aides quickly shot down that story on the limited duration of the expected extension of that Tax Act-with a Republican controlled government, the thinking is that any change in the tax laws needs to be permanent.

Federal Deficit: While continuing the taxpayer-friendly provisions the 2017 Tax Act is a priority for the Republicans, the extension of the 2017 Tax Act for another 10 years would add about $4.5 trillion to the existing federal deficit over that 10-year period. Consequently, a *math problem* confronts Congress if it wants to extend the 2017 Tax Act while also making that extension tax-neutral. Hence, Congress will be ravenous for tax revenues.

Then There's Mr. Trump: Added to this *math problem* faced by Congress are some of the tax-cut promises that Mr. Trump made during the campaign. For example, Mr. Trump opposes the Act's $10,000 limit on state and local taxes (the $10,000 SALT limit on deductions) which was a prime revenue-raiser back when the Act was passed. Similarly, while the 2017 Tax Act made the reduction in corporate income tax rates permanent, Mr. Trump also expressed support to make the 20% Small Business Deduction [IRC 199A] permanent, since there are over 30 million small businesses in the county that could benefit from that deduction. Making that small business deduction permanent would also reduce tax revenues. Then we have Mr. Trump's fixation with across-the-board tariffs where most economists believe, if implemented, the U.S. economy will 'tank.' Where does Congress turn for new tax revenues with these headwinds?

Unwritten Rule: As a generalization, in the past Congress has adopted a 'hands-off' practice as it relates to retirement-related revenue raisers solely to offset the cost of other retirement legislation. But that 'hands-off' practice was abandoned starting with the 2019 SECURE Act, when life-expectancy distributions from both inherited traditional and Roth IRAs was changed to a maximum 10-year distribution period (except for *eligible designated beneficiaries*.) Then, with the 2022 SECURE 2.0 Act a more subtle change was made to generate revenues from retirement plan contributions by forcing high-earners to make Roth-only catch-up contributions. While retirement savings were still encouraged, they had to be done with Roth after-tax contributions. Thus, in the past 4 years, we have seen Congress engage in a 'hands-on' practice when it comes to retirement plan contributions as a source of new tax revenue, to presumably pay for the expected loss of revenues with new retirement savings rules. It could be a small step for Congress to extend new retirement savings rules to pay for other nonretirement tax breaks if the 2017 Tax Act is extended.

***Rothification*:** We 'saw this movie' a couple of years ago with the SECURE 2.0 Act. Along with the tax incentives to save for retirement with that Act, we were introduced to *Rothification,* where some retirement plan contributions were forced into Roth contributions, resulting in forced saving with after-tax dollars. The *Rothification* of catch-up contributions for high-earners was a major step to generate additional tax revenues to pay-for some of the revenue losses associated with many of the SECURE Act 2.0 taxpayer-friendlier provisions. *Rothification* reduces revenue losses in earlier years, i.e., the budget window Congress looks at, by replacing pretax/traditional plan or IRA contributions with after-tax Roth contributions, which cost tax revenues not when contributed but only years later when the accumulated retirement funds are distributed taxfree (and those in Congress are long since retired and it will then be someone else's problem to fix.) In short, it will be difficult for a Congress that is ravenous for tax revenues to ignore the nation's second largest tax expenditure (retirement benefits).

Examples: What could *Rothification* look like when Congress reconvenes in search of current tax revenues?

> **Roth 401(k) Contributions:** *Rothification* could be expanded to all 401(k) contributions, not just catch-up 401(k) contributions for high earners.
>
> **Dollar Limit on Pretax 401(k) Contributions:** Congress could shift contributions from pretax/traditional to Roth by reducing the maximum limit on pretax contributions to a 401(k) account or a traditional IRA.
>
> **Redefine 'High Earner:'** Congress could change the definition of a higher-earner to a much lower amount, e.g., $100,000 a year, forcing those into making Roth contributions.
>
> **Dollar Limit on Large Retirement Accumulations:** As was proposed during the Biden administration a couple of years ago, a dollar limit could be imposed on tax-favored retirement accumulations at a very high level (traditional or Roth), especially for a high-balance Roth IRA, with forced distributions of the excess accumulations from the Roth retirement account.

Conclusion: Considering Congress' recent changes to retirement plan contribution and distribution rules under the two SECURE Acts to raise current tax revenues, do not be surprised if Congress once again overcomes its traditional restraint on meddling with retirement accounts to poach on retirement-related revenue raisers to pay for the expected 2025 nonretirement tax cuts that were promised during the recent election cycle.