Tax Law Changes Coming Soon?

Quick-Take: The tax laws will soon be changing. There is even a strong push in Congress to eliminate the federal estate tax and federal generation skipping transfer (GST)) tax.

Update: This past week the Senate's amended 2025 budget resolution was passed by the House of Representatives. Now, the budget will go onto the reconciliation process, which we can expect to lead to some major tax law changes. I promise to refrain from too many *snarky* comments on the way the federal deficit will be portrayed by Congress, assuming the 2017 Tax Act is extended under the current 'agreement.' Just know that the projections are, if the 2017 Tax Act is basically extended as written, that the current federal deficit of $36.5 trillion in 2025 will increase to $50.5 trillion by 2034.

Snarky Comment: The Senate's approach to the budget employs a *current policy baseline* to extend the expiring provisions of the 2017 Tax Act. By doing so, this approach assumes tax provisions currently in effect extend *indefinitely*, in effect ignoring the specified *sunset* date of December 31, 2025, when the 2017 Tax Act was enacted. With this extension, that *does not add any new costs* to the federal deficit- this is a clever use of 'smoke and mirrors' when it comes to describing, and reporting, the impact of the new proposed budget, Tax Act extension, on the existing federal deficit. [For what its worth, House Budget Committee Chair, Jodey Arrington (R-Texas) called the Senate's approach "unserious and disappointing……which sets a dangerous precedent by direct scoring tax policy without including enforceable offsets."]

2017 Tax Act Extension: The House Ways and Means Committee now has the authority to increase the federal deficit by up by another $4.5 trillion. If the provisions of the current 2017 Tax Act are simply extended, that will add $4.2 trillion to the existing federal deficit over the next 10 years.

Potential Changes: Some of the most frequent discussed tax law changes coming out of Congress as the reconciliation debate warms up include:

Death of the Death Tax? A possible *temporary* repeal of the federal estate tax and generation skipping transfer (GST) tax. If the federal estate tax was eliminated that would reduce federal revenues by about $269 billion over the next 10 years.

Death of the Carried Interest Rules? Elimination of the carried interest rule, which many in Congress have criticized as a giant *loophole*. The change would increase the effective tax rates on hedge fund and private equity compensation. Currently hedge fund managers and private equity professionals pay capital gain rates, not ordinary income tax rates, on their 'income.'

Expansion of the SALT Deduction? The state and local tax (SALT) deduction limitation of $10,000 would either be adjusted, e.g., up to $20,000 per tax return, or completely eliminated (doubtful since most high tax states are mostly 'blue' states, so there is little desire to 'help' out their taxpayers.)

Raise Deduction Ceilings? There is much discussion about lifting the limitations on the bonus depreciation and the business interest deductions under IRC 163(j) since they are viewed as retarding the growth of small businesses.

Doubling the Child Tax Credit: This tax credit would be extended, and many in Congress want it doubled.

Comments: It looks like we are going to see an extension of the 2017 Tax Act and most of its provisions. This is in accord with President Trump's agenda, which is to extend and increase tax cuts while lowering existing taxes and increase funding for Homeland Security and the Department of Defense, all the while decreases total federal spending. The adopted spending cuts in Medicaid, Social Security, Natural Resources, and Education will, no doubt, continue to be the headlines in the months to come.

Conclusion: The proposed budget authority for 2025 allocates $1.011.64 billion to net interest paid on the federal deficit. For comparison purposes, the amount allocated to Medicare is $952.24 billion, or for National Defense, $933.48 billion. If high inflation reappears, or sovereign nations start selling their U.S. Treasury bonds, we can expect the amount of interest paid on the federal deficit to increase even more.

If you would like to read additional missives, click here.