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**Vital Briefing**

# Changes on the horizon for U.S. tax policy after Trump's election

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### Key takeaways

Tax proposals of the Trump campaign include:

- Making the expiring provisions of the Tax Cuts and Jobs Act of 2017 permanent, which would prevent certain provisions, including the following, from reverting to their pre-2018 levels:
  - Lower tax rate brackets for individuals;
  - Increased Standard Deduction;
  - Increased Child Tax Credit;
  - Increased estate and gift tax exclusion amount;
  - Increased bonus depreciation;
  - Qualified business income deduction.
- Reducing the corporate tax rate to 20% or 15%.
- Removing the SALT deduction cap.
- Eliminating Inflation Reduction Act energy-related credits.
- No tax on tips.
- No tax on Social Security benefits.
- No tax on overtime.
- No tax on income of police officers, firefighters, or members of the military.
- Tax credit for caregivers taking care of family members.
- Deduction for interest paid on car loans for American-made cars.

Tax policy in the United States is likely to undergo major changes after the election of Donald J. Trump as the next president on November 5. The election campaign included frequent discussions about taxes on both sides. Now that Trump will begin a second term in January, what changes can be expected?

A major item on the horizon is that many provisions of the Tax Cuts and Jobs Act of 2017 (TCJA), a significant tax act passed during Trump's first term, will expire at the end of 2025. Additionally, Trump made a number of promises on the campaign trail related to taxes. Below we discuss the provisions at issue and what is at stake.

## Tax Cuts and Jobs Act Provisions

The TCJA provided a major overhaul of the tax code, with changes relating to individuals, corporations, estates, international taxation, and more. Many of these changes are set to expire at the end of 2025, which would cause significant disruptions if no action is taken.

The Trump campaign stated an intention to make the entire TCJA permanent. However, any extensions will need to be worked out in the House and Senate, which may be divided, so exactly how such a final tax bill would shake out is unknown. The Senate will be controlled by the Republicans. As of this publication, however, control of the House is uncertain. Even if the Republicans were to maintain control of the House, they will not have a filibuster-proof majority in the Senate. Just as many provisions of the original TCJA could not be made permanent because they were not revenue neutral, making the expiring provisions permanent now could run into the same roadblocks.

Some of the provisions of the TCJA that are set to expire include:

*Lower tax rate brackets for individuals* – Under the TCJA, the individual tax rate brackets were reduced slightly to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. If the TCJA provisions expire without intervention, the rate brackets will revert to 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

*Increased Standard Deduction* – Under the TCJA, the Standard Deduction is currently $24,000 for a married couple filing jointly, $18,000 for heads of household, and $12,000 for single filers and married individuals filing separately. Before the TCJA, the amounts were $13,000 for married couples filing jointly, $9,550 for heads of household, and $6,500 for single individuals and married individuals filing separately.

*Increased Child Tax Credit* – Before the TCJA, the maximum amount of the Child Tax Credit was $1,000 per child. The TCJA doubled that amount to $2,000 per child, where it remains today. While the Trump campaign proposed making all TCJA provisions permanent generally, J.D. Vance proposed in an interview increasing the Child Tax Credit to $5,000 per child and

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having it apply to all children, essentially doing away with the income-based limitations. Such a change would be very expensive, and it is not clear if this would be feasible or even if it is supported by the president-elect.

*Increased estate and gift tax exclusion amount* – Currently, every individual taxpayer has a lifetime exclusion for gifts and estate transfers of $10,000,000, adjusted annually for inflation. This means that an individual will not be subject to a tax on gifts or on the individual's estate, unless the amounts so transferred exceed $10,000,000. Spouses can share their exclusions. If the TCJA sunsets without intervention, the lifetime estate and gift tax exclusion will revert to $5,000,000 per individual, adjusted annually for inflation. While this would obviously be a significant change, the number of people affected would not be large – in 2022, the most recent year for which statistics are available, approximately 3,170 estates in the United States were subject to tax; in 2017, before the increase in the exclusion amount, that number was 5,185. Historically, there has never been an occasion when the lifetime estate and gift tax exclusion was allowed to revert to a lower level, and it is expected that the increase under the TCJA will be extended as well.

*Bonus depreciation (IRC §168(k))* – The TCJA increased so-called "bonus depreciation," which allowed corporations to depreciate certain assets substantially in the first year. Before the TCJA, corporations could depreciate these assets by 50% in the first year. The TCJA initially increased that amount to 100%, essentially resulting in a tax deduction for the value of these assets in the year of purchase. This amount has declined annually beginning in 2023, which will result in a complete phase-out by 2027. Currently, the depreciable percentage is 60%. Presumably, those wishing to make the TCJA permanent would want the bonus depreciation to return to 100%, but a compromise somewhere above 50% but below 100% may be more likely.

*Qualified business income deduction (IRC §199A)* – Due to the changes that were made to corporate taxation, the TCJA also included measures meant to similarly reduce taxes for passthrough entities. One such measure was the qualified business income deduction under IRC §199A, which provides a deduction equal to 20% of the "qualified business income" of most passthrough entities. Generally, this provision is not looked on favorably by analysts. It is thought not to have achieved its goal of equalizing the playing field between corporations and passthroughs, but rather to have resulted in an expensive handout to only certain businesses. If the TCJA sunsets, this provision would be eliminated in 2026. Despite the unpopularity of the provision among tax analysts, it has a good deal of political support, which may result in its extension.

*International taxation* – The TCJA also introduced many new international taxation provisions, vastly changing how the foreign earnings of U.S. corporations are taxed. These include the global intangible low-taxed income (GILTI) provisions, the base erosion and anti-abuse tax (BEAT) provisions, and provisions related to foreign-derived intangible income. If changes are not made before the end of 2025, these provisions' deduction amounts will decrease and the applicable rates will increase, but the provisions themselves will remain in place.

## Consequences of Expiration of TCJA Provisions

| | **Current Law (under the TCJA)** | **Pre-TCJA Law (which will become effective in 2026 if TCJA expires)** |
|---|---|---|
| **Individual Income Tax Rates** | 10%, 12%, 22%, 24%, 32%, 35%, 37% | 10%, 15%, 25%, 28%, 33%, 35%, 39.6% |
| **Standard Deduction (married filing jointly) (adjusted annually for inflation)** | $24,000 | $13,000 (in 2017 – would be adjusted for inflation for 2026) |
| **Child Tax Credit (max. amount)** | $2,000 | $1,000 |
| **AMT exemption amount (married filing jointly) (adjusted annually for inflation)** | $109,400 | $84,500 |
| **Estate and gift tax exclusion amount (adjusted annually for inflation)** | $10 million | $5 million |
| **Bonus depreciation (IRC §168(k))** | 60% (originally 100%) | 50% |
| **Qualified business income deduction (IRC §199A)** | Deduction of up to 20% of "qualified business income" from a passthrough entity | No deduction for "qualified business income" |

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## Changes to TCJA Provisions

Although, in general, Trump has stated he would make the TCJA permanent, he has also suggested that he would change some of its provisions:

*Reducing the corporate tax rate even further* –The TCJA did away with the rate structure for corporate tax and replaced it with a flat-rate tax. Previously, the corporate tax rate brackets were 15%, 25%, 34%, and 35%. This structure was replaced with a flat 21% rate. Trump has expressed a desire to reduce the corporate tax rate even further, below the current 21%, to 20% or even 15%.

*Removing the SALT deduction cap* – Trump has indicated a willingness to eliminate the cap on the deduction for state and local taxes (SALT) when extending the TCJA. An important aspect of paying for the TCJA was that it included a limitation on the SALT deduction. Currently, the SALT deduction, which includes state income tax and local property taxes, is capped at $10,000 for married couples filing jointly and single filers. Representatives of areas with high state or property taxes have consistently advocated for eliminating this cap, increasing it, or at a minimum removing the marriage penalty, by allowing a $20,000 deduction for married couples filing jointly. Because the cap increases the federal taxes that affected individuals pay, removing the cap would be costly. It is set to expire at the end of 2025.

*Eliminating IRA credits and IRS funding* – Trump has suggested that he would eliminate many of the provisions of the Inflation Reduction Act of 2022 (IRA), including many of the energy-related tax credits, such as the clean vehicle credit for electric cars. Although Trump himself has not discussed it specifically, many prominent Republicans in Congress have expressed a desire to claw back the additional funding for the IRS provided in the IRA. This past year, the IRS reported that the increased funding not only led to the improvement of customer service functions, but also to the collection of more than $1 billion in taxes due from high wealth individuals, according to IRS Commissioner Danny Werfel. Many analysts conclude that IRS funding pays for itself and then some, so reducing funding for the IRS would likely reduce tax revenue.

## Other Tax Proposals

In addition to these proposals related to existing tax provisions, Trump made many other campaign promises related to taxes. Many of these were only made verbally, and additional details on how these proposals would function have not been provided:

- No tax on tips;
- No tax on Social Security benefits;
- No tax on overtime;
- No tax on income of police officers, firefighters, or members of the military;
- Tax credit for caregivers taking care of family members;
- Deduction for interest paid on car loans for American-made cars.

Implementing these provisions relating to exempting certain types of income from taxation would be both expensive in terms of lost tax revenue and complex in terms of record keeping, reporting, and return preparation. In addition to the lost income tax revenue, Social Security and Medicare receipts would also be reduced. How such exemptions would actually function, and whether they will come to pass, remains to be seen.

Analysts have projected that the tax proposals Trump made on the campaign trail would increase the national debt by as much as $7.75 trillion over the next decade. He has proposed paying for these and other potential expenses through tariffs on imports of 10%-20%, and even higher tariffs on items from China and other specific goods. Some economists have expressed skepticism as to the workability of such a solution, however, as high tariffs are not generally seen as a viable revenue raiser in modern economies. Consequently, it is not clear how the revenue offsets that might be needed to make a permanent extension of the TCJA possible would be achieved, or how the additional proposals Trump made would be paid for.

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