# Tax Legislation – What Now?

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## Overview

Early last week, the House Ways and Means Committee approved legislative language for the tax provisions to be included in the budget reconciliation bill that Congress is assembling. But the combined budget reconciliation bill that it many of those provisions are placed into died in the House Budget Committee on May 16. The tax provisions were 389 pages of the 1,116-page reconciliation bill that contains proposals from 11 House committees.

So, what's the path forward for tax legislation? That's the topic of today's post.

## Tax Legislation

As I noted in a blog post last week, the tax bill ("The One, Big, Beautiful Bill") extends many TCJA provisions that are set to expire at the end of this year. It also contained other proposals of the Trump Administrations. But the "budget hawks" on the House Budget Committee voted with the Democrats to kill the combined bill. The Joint Committee on Taxation estimated the fiscal impact of the tax proposals for the years 2025-2034 to be $3.819 trillion.

**Note:** The tax legislation will become part of a larger bill that is being put together under the budget reconciliation process, which is being used to avoid the Senate's filibuster rules, which require 60 votes to pass legislation. Under the reconciliation rules bills can pass in the Senate with a majority vote. In addition to tax provisions, the budget reconciliation bill is expected to include an increase to the debt ceiling and spending cuts.

## Sticking Points

The points of contention in the Budget Committee were several, including opposition from members from Democrat-run high tax states such as New York. These members didn't like the increase in the state-and-local tax (SALT) deduction to $30,000. A New York committee member wanted that limit increased to $80,000 and wanted to pay for it by imposing a top tax rate of 39.6 percent. His proposal was defeated on a 17 to 25 vote. The $30,000 SALT cap is scored at raising $916 billion from 2025-2034 compared to its elimination if the TCJA is allowed to expire.

Relatedly, the tax bill excludes certain specified service trades or businesses from claiming a SALT deduction at the partnership level (which is currently allowed). That's a controversial provision because it indirectly increases taxes on many service-based businesses and increases the difference in the manner in which C corporations are taxed compared to pass-through entities.

Another contention point is the permanent suspension of personal casualty loss deductions unless they are attributable to a federally declared disaster.

**Necessary to Avoid Tax Hike**

Unless the TCJA provisions are either continued for a period of time or made permanent, the vast majority of taxpayers would face a tax increase for tax years beginning after 2025. The increase would be highest on taxpayers at the lower end of the income scale. Those currently in the 12 percent bracket would face a 25 percent rate increase. Also, the child tax credit would be cut in half as would the standard deduction.

There are also other provisions in the tax bill that would be very beneficial for many taxpayers and the economy in general. Those include the following:

- Expanded ability to use I.R.C. §529 accounts for costs associated with post-secondary education.
- Repeal of the $600 threshold (which would take effect after 2025) for Form 1099K and return to the pre-TCJA rule that a third-party settlement organization need not report the aggregate value of third-party network transactions concerning a particular payee for the year unless the amount exceeds $20,000 and the aggregate number of transactions for that payee exceeds 200.
- Immediate expensing for domestic research and experimentation costs.
- Permanency of the paid family leave tax credit (which would otherwise expire at the end of 2025).
- Higher exemption amount from the individual alternative minimum tax.
- Reinstatement of the rule that computes adjusted taxable income without regard to the deduction for depreciation, amortization or depletion (through 2029).
- Retaining the 20 percent deduction on business income for non-C corporations, increasing the deduction to 23 percent and changing the phase-in limit formula to 75 percent of the taxpayer's taxable income over the threshold amount.
- Bonus depreciation would be increased to 100 percent for 2025 through 2029.
- The Section 179 deprecation limit would be increased
- The "pale people" tax of Obamacare would be repealed.
- Allowing individuals who qualify for Medicare by reason of age, but who are only enrolled in Medicare Part A, to remain eligible to contribute to a Health Savings Account (HSA).
- The bill would make several changes affecting the rules for health savings accounts (HSAs). These would include allowing individuals who qualify for Medicare by reason of age, but who are only enrolled in Medicare Part A, to still be eligible to contribute to HSAs.

### The Future?

What's the fate of the tax provisions and the budget reconciliation bill in general? The House Budget Committee has scheduled another vote this evening (May 18). It will be interesting to see how that vote goes. It's also key that the President has returned from a very successful Mid-East trip and has been back in town for a couple of days for discussions with legislative leaders. A successful vote tonight (or in the wee hours of May 19) would send the legislation to the House floor and keep the schedule on track for House passage by Memorial Day.


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