READING TEA LEAVES – WHAT MAY BE IN STORE FOR TAX LEGISLATION

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President Trump made several tax proposals in the course of his winning campaign for the White House. Here is a list of those proposals and the likely response of Democrats in Congress followed by a general analysis of various positions. Note that the Republicans hold small majorities in both the Senate and the House of Representatives.

PROPOSALS AND LIKELY RESPONSES

1. **President Trump proposes to make permanent the individual tax cuts contained in the Tax Cuts and Jobs Act of 2017 ("T.C.J.A.").**

   Democrats likely respond that this benefit, while applying to all taxpayers, will benefit those with high incomes, potentially increasing the federal deficit.

2. **President Trump proposes lowering the corporate tax rate to 15% - 20%.**

   Democrats respond that this will benefit large corporations and wealthy shareholders.

3. **President Trump proposes higher tariffs.**

   Democrats respond that while these revenues will offset revenue loss from lower income taxes, it may increase the price of some consumer goods.

4. **President Trump proposes exempting overtime pay and tips from federal tax.**

   Democrats respond that this may provide relief for some workers but may cause tax revenue loss.

5. **President Trump proposes ending taxes on Social Security benefits.**

   Democrats respond that this will benefit many senior citizens but could have negative effects on the solvency of the Social Security system, possibly resulting in a cut to future benefits.

6. **President Trump proposes making T.C.J.A. estate tax cuts permanent.**

   Democrats respond that this will benefit wealthy individuals and families.

7. **President Trump proposes raising the state and local tax ("S.A.L.T.") deduction cap.**

   Democrats respond that the S.A.L.T. deduction should be unlimited.

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8. **President Trump proposes eliminating clean energy tax incentives.**

Democrats respond that this would eliminate many popular tax incentives, with possible higher consumer costs.

COMMENTARY

Americans for Prosperity ("AFP"), a conservative political action committee backed by Charles Koch, announced that it is launching a $20 million ad blitz in support of President Trump's proposal to extend the "T.C.J.A."

AFP said in a statement released Monday, January 20, 2025. that it will "protect prosperity and renew" President Trump's $4.5 trillion tax initiative. It is "urging Americans to unite in telling Washington that now is not the time for higher taxes."[1]

These tax incentives come with a heavy price tax. Former U.S. Treasury Secretary Janet Yellen stated that the extension of the T.C.J.A. 2017 tax cuts set to expire in 2026 will add to unsustainable deficits. The Tax Foundation (whose estimates of the impact on the deficit is the most optimistic of those institutes making such a prediction) has reported that:

> In all, making the TCJA permanent would boost long-run GDP by 1.1 percent and employment by 913,000 full-time equivalent jobs, while reducing revenue by $4.0 trillion on a conventional basis. Though TCJA permanence would be pro-growth, it would still result in significant revenue losses on a dynamic basis, amounting to $3.5 trillion over the 10-year budget window. In the long run, TCJA permanence would increase the debt-to-GDP ratio by 25.5 percentage points conventionally and 19.0 percentage points dynamically.[2]

A number of conservatives want their proposals to reduce or at least not add to the deficit. President Trump's tax package is likely to add to the deficit, and it will be difficult to offset its costs without losing Republican votes.

State and local taxes are of particular concern to Republican representatives in Democrat states. In a meeting with more than a dozen House Republicans from New York, New Jersy and California, President Trump asked the Republicans to produce a plan for increasing the S.A.L.T. deduction. Republicans are divided on the issue. Some would raise or abolish the limit, others would increase the limit to account for inflation, and yet others would potentially increase the limitation for married couples. There seems to be a consensus among Republicans that some cap will be necessary. Other Republicans, leery of providing a tax benefit for wealthy Democrats would prefer no changes at all. Interestingly, some Republican lawmakers known as "the Freedom Caucus" have explored limiting the ability of businesses to deduct State and local taxes to raise revenue for other cuts. They would trade the S.A.L.T. deduction for higher corporate rates.

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1 Scully, Rachel. "Koch-Backed Group Unveils $20M Campaign Highlighting Trump Tax Cuts." *The Hill*, January 13, 2025.

2 "Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations." *Tax Foundation*, December 4, 2024.

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Answers to these questions will be forthcoming in the next few months. House Speaker Mike Johnson (R-La.) is now pushing with an aggressive timetable to get a full floor vote by April on a sweeping border, energy, and tax package.[3] Senate Finance Committee Chair Mike Crapo (R-Idaho), the lead tax negotiator in the Senate, acknowledged negotiators are currently working through possible S.A.L.T. trade-offs.

PATH FORWARD

It is important to remain flexible until actual tax proposals have been suggested and enacted. *The Kiplinger Report*[4] notes several potential tax traps for individuals attempting to make tax planning decisions in advance of legislative activity:

- Assuming tax cuts are coming or will be permanent.
- Overlooking the impact of tariffs.
- Delaying taking advantage of clean energy tax credits.
- Counting on a S.A.L.T. cap change to help one's tax bill.
- Neglecting retirement and estate planning.

"It is important to remain flexible until actual tax proposals have been suggested and enacted."

[3] Guggenheim, Benjamin. "Freedom Caucus Floats Corporate Tax Boost in Exchange for Easing State, Local Deduction Cap." *Politico*, January 15, 2025.

[4] Taylor, Kelley R. "The Fine Print: What Trump Isn't Telling You about His 2025 Tax Plans." *The Kiplinger Report*, January 16, 2025.

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