



Federal Tax Update

Hank Gutman
May 2, 2025

Agenda

- Setting the Stage
- The Economic Outlook
- The Current Congress
- The Current Tax Administration
- The Debt Ceiling
- The Coming Perfect Storm
- Summary

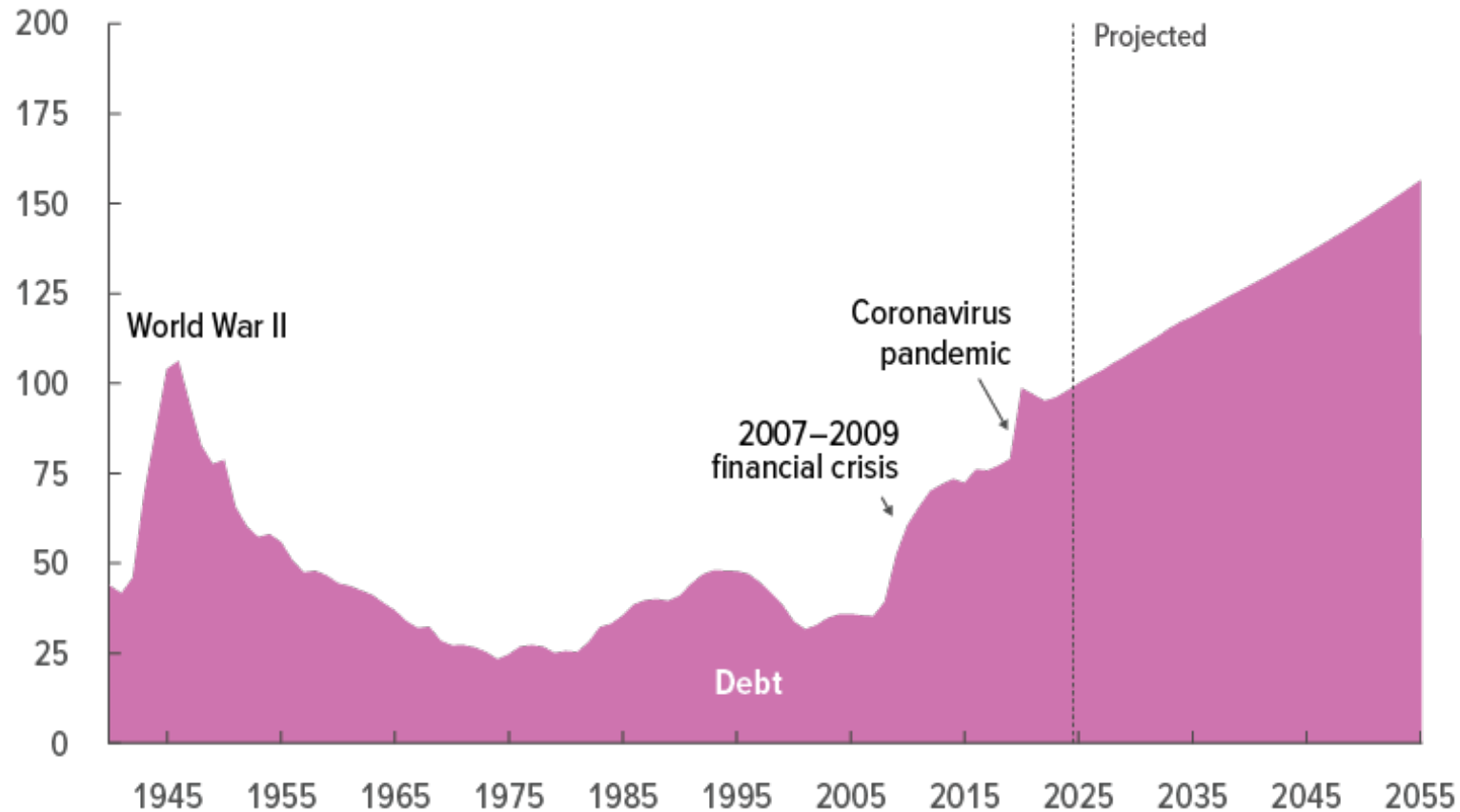
The Economic Outlook

Percentage of GDP	Average, 1995–2024	Actual, 2024	2025	2035	2045	2055
Revenues	17.2	17.1	17.1	18.3	18.9	19.3
Individual income taxes	8.1	8.4	8.7	10.0	10.5	10.9
Payroll taxes	6.0	5.9	5.8	5.9	5.9	5.9
Corporate income taxes	1.7	1.8	1.7	1.2	1.2	1.2
Other	1.4	0.9	0.9	1.1	1.2	1.3
Outlays	21.1	23.4	23.3	24.4	25.3	26.6
Mandatory	12.3	14.1	14.0	15.1	15.6	16.1
Social Security	4.5	5.0	5.2	6.0	5.9	6.1
Major health care programs	4.4	5.6	5.8	6.7	7.6	8.1
Medicare	2.6	3.0	3.1	4.0	4.8	5.2
Medicaid, CHIP, and premium tax credits and related spending	1.8	2.6	2.7	2.7	2.8	2.9
Other mandatory	3.3	3.4	3.0	2.4	2.1	1.9
Discretionary	7.0	6.3	6.1	5.3	5.1	5.1
Net interest	1.8	3.1	3.2	4.1	4.6	5.4
Total deficit (-)	-3.9	-6.4	-6.2	-6.1	-6.4	-7.3
Primary deficit (-)	-2.1	-3.3	-3.0	-2.1	-1.8	-1.9
Debt held by the public at the end of each period	60	98	100	118	136	156

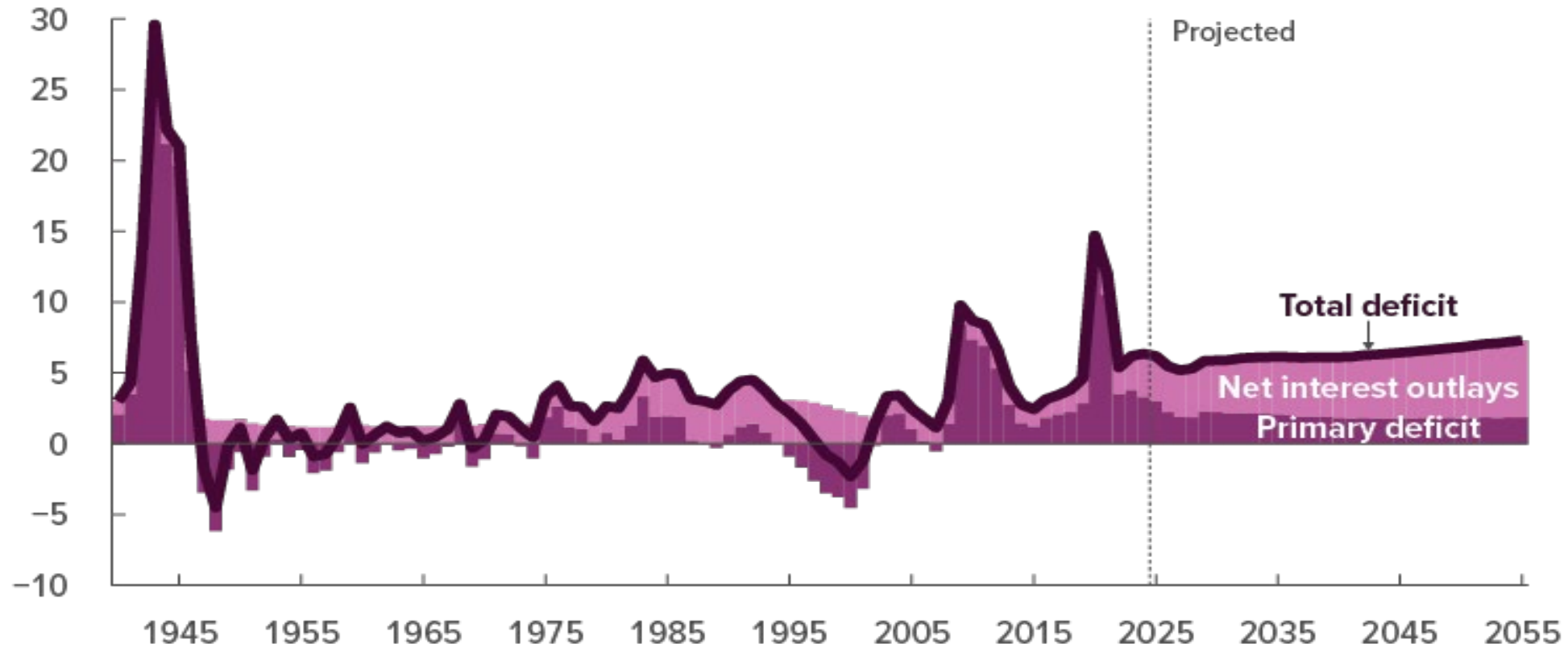
The Economic Outlook

Percent	Average, 1995–2024	Actual, 2024	2025	2035	2045	2055
Growth of real (inflation-adjusted) GDP	2.5	2.8	2.1	1.8	1.5	1.4
Inflation						
Growth of the PCE price index	2.1	2.5	2.2	2.0	2.0	2.0
Growth of the consumer price index for all urban consumers	2.5	3.0	2.2	2.3	2.3	2.3
Labor force participation rate	64.7	62.6	62.7	61.4	61.4	61.2
Unemployment rate	5.6	4.0	4.3	4.3	4.2	4.0
Interest rates						
On 10-year Treasury notes	3.7	4.2	4.1	3.8	3.7	3.8
On all federal debt held by the public (by fiscal year)	3.8	3.4	3.4	3.6	3.6	3.6

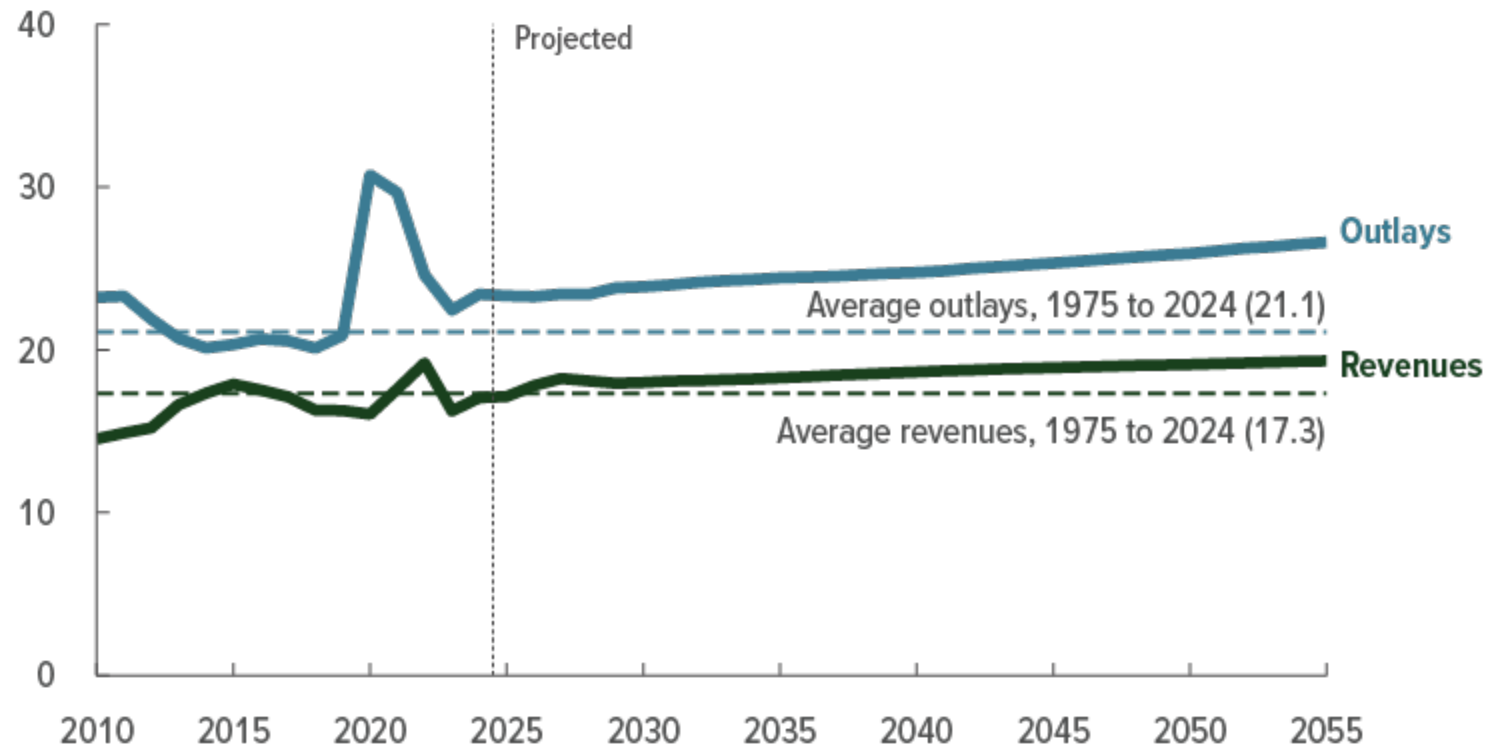
Federal Debt Held By The Public



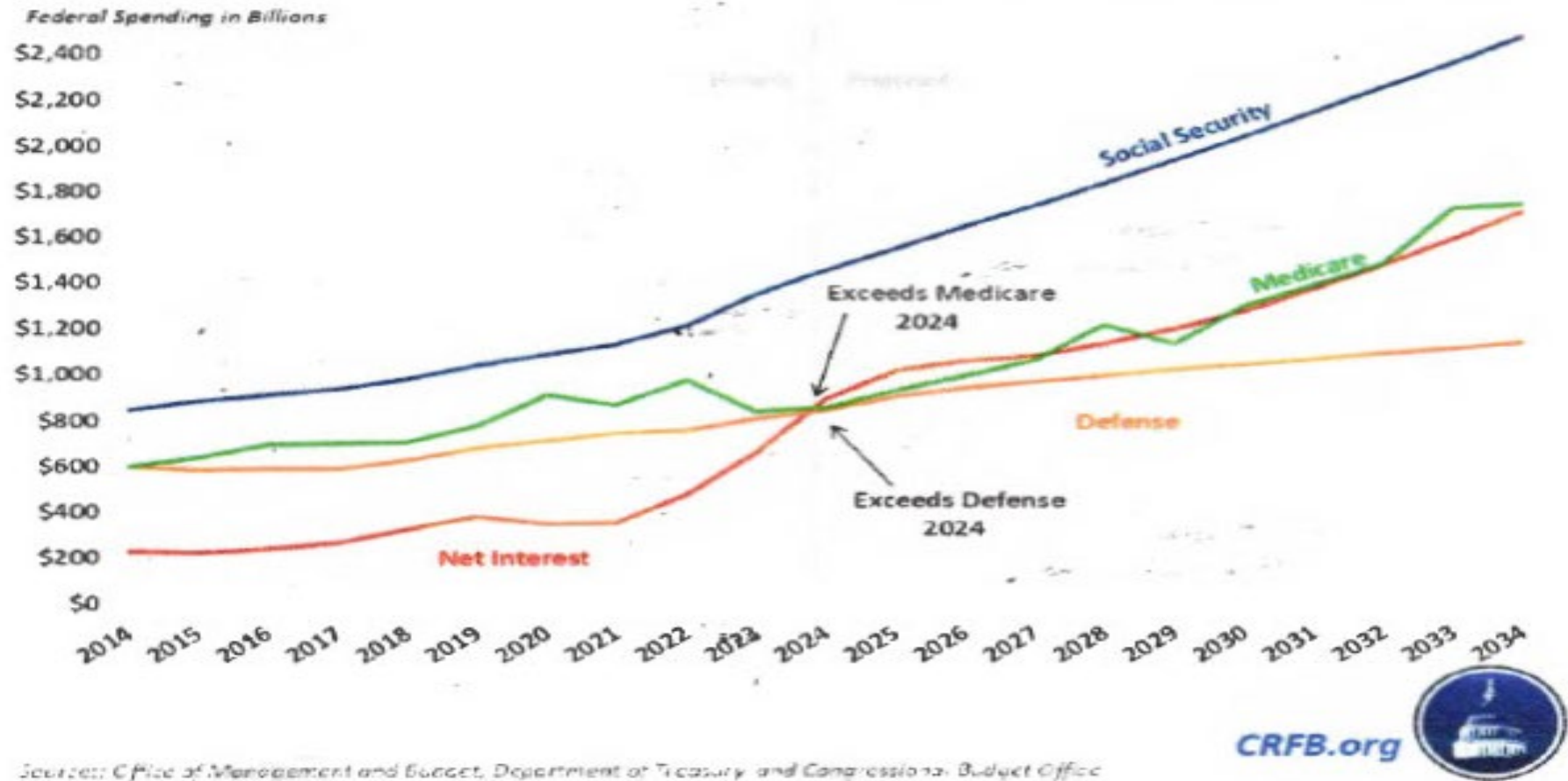
Total Deficit, Primary Deficits and Net Interest Outlays



Total Outlays and Revenues



We Spend More on Interest than Medicare or Defense



Major Points From CBO Projections

- Debt will surge past current record levels
- Deficits will rise even higher
- Spending will continue to outpace revenue
- Interest costs explode
- Social Security is 8 years from insolvency
- **AND THIS IS BEFORE ANY CONGRESSIONAL ACTION THIS YEAR!**

The Current Congress

- Congress
 - House-220 R, 214 D
 - Ways and Means Committee-24R, 19D
 - Senate-53R, 45 D, 2 Ind
 - Finance Committee-14D, 13R
 - Joint Committee on Taxation
 - Congressional Budget Office

The Current Tax Administration

- Treasury Assistant Secretary for Tax (Designate)-Ken Kies
- Commissioner of Internal Revenue (Designate) – Billy Long
- Chief Counsel of IRS-Vacant

The Coming Perfect Storm

- The Debt Ceiling
 - Current debt ceiling is \$36.1 trillion
 - Debt ceiling has been reached and Treasury is using “extraordinary measures” to issue debt
 - Ability to use extraordinary measures will end in August or September
 - Unless extended or increased U.S, will default on debt obligations.
 - House has included increase to \$4 trillion in its reconciliation bill
- Expiration of the TCJA

The Process

- Regular Order
 - President submits Budget
 - Tax writing Committees hold hearings
 - Ways and Means Committee and House Act
 - Importance of the “rule”
 - Senate Finance Committee and Senate Act
 - Filibuster
 - Conference to Resolve Differences
 - President signs
- Reconciliation
 - Avoids filibuster
 - Has special procedures

Special Rules of Reconciliation

- Requires a budget resolution
 - Passage by both Houses by majority vote
 - Ways and Means and Finance Committees mark up bill within their targets
 - Each chamber then marks up a bill within the budget resolution parameters
 - Bill cannot be filibustered
- Special rules
 - No non-revenue provisions
 - Cannot lose revenue outside the ten-year budget window
 - Who determines?
 - Joint Committee on Taxation and Congressional Budget Office
 - What is the baseline?
 - Role of Senate Parliamentarian

Status of Reconciliation Legislation

- Timeline
 - Original House budget resolution—February 25, 2025
 - \$4.5 trillion in tax cuts
 - \$2 trillion in spending cuts
 - Increase debt ceiling to 4 tr.
 - Senate budget resolution—April 5, 2025
 - Add 5.8 tr. to deficits
 - \$4b. in spending cuts
 - Debt increase ?
 - House adopts Senate resolution-April 10, 2025
- Add –Ons
 - Trump tax proposals
 - SALT adjustment
 - Other expiring provisions
- Revenue
 - “Baseline”
 - House conservatives want revenue offsets
 - Trump wants to pay for with tariffs

Cost of Permanent Extension of Expiring Provisions Plus Possible Add-Ons

• Individual (CBO)	
• Rates	-2.16 tr.
• Standard deduction	-1.25 tr.
• AMT exemption	-1.36 tr.
• Child tax credit	-748 b.
• Section 199A	-684 b.
• Estate tax	-167 b..
• Personal Exemptions	+1.7 tr.
• Itemized deductions (SALT, mortgage interest)	+ 1.25 tr.
• Opportunity Zones	-70.5 b.
• Excess business losses	<u>+121.8 b.</u>
	3.47tr.
• Corporate (CBO)	
• Expensing	-378 b.
• Section 163(j) (through 2025)	-18.8 b.
• Section 174 (through 2025)	-8.5 b.
• GILTI and FDII	-120 b.
• BEAT	<u>-21.4 b.</u>
	546b.
• Non-TCJA (CRFB)	
• Tip, overtime income and Social Security	-3.6 tr.
• Corporate rate (15% for domestic mfg)	-200 b.
• Tariffs (10-20% on foreign products)	+2.7 tr.

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
1. Modification of individual income tax rates(sec. 1(j))	12/31/25
2. Child tax credit: Increased credit amount, increased refundable amount, reduced earned income threshold, and modification of identification requirements (sec. 24(h))	12/31/25
3. Premium assistance credit enhancements (sec. 36B(b)(3)(A)(iii) and (c)(1)(E))	12/31/25
4. New markets tax credit (sec. 45D(f)(1)) ¹³	12/31/25
5. Employer credit for paid family and medical leave (sec. 45S(i))	12/31/25
6. Work opportunity credit (sec. 51(c)(4))	12/31/25
7. Increase in exemption amount and phaseout threshold of individual AMT (sec. 55(d)(4))	12/31/25

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
8. Rate on modified taxable income and treatment of credits in the calculation of base erosion minimum tax amount (sec. 59A(b)(2))	12/31/25
9. Increase in standard deduction of individuals (sec. 63(c)(7))	12/31/25
10. Suspension of miscellaneous itemized deduction (sec. 67(g))	12/31/25
I I. Suspension of limitation on itemized deductions (sec. 68(D))	12/31/25
12. Exclusion from gross income of discharge of indebtedness on principal residence (sec. 108(a)(1)(E))	12/31/25
13. Special rule for certain discharges of student loans (sec. 108(D)(5))	12/31/25
14. Exclusion for certain employer payments of student loans (sec. 127(c)(1)(B))	12/31/25

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
15. Suspension of exclusion for reimbursement of bicycle commuting (sec. 132(D)(8))	12/31 /25
16. Suspension of exclusion for moving expense reimbursement (sec. 132(g)(2))	12/31/25
17. Suspension of deduction for personal exemptions (sec. 151(d)(5))	12/31/25
18. Limitation on deduction for qualified residence interest, suspension of deduction for home equity interest (sec. 163(h)(3)(F))	12/31/25
19. Limitation on deduction for State, local, etc., taxes (sec. 164(b)(6))	12/31/25
20. Modification of rules relating to computation of wagering losses (sec. 165(d))	12/31/25

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
21. Personal casualty losses limited to Federally declared disaster areas (sec. 165(h)(5))	12/31/25
22. Seven-year recovery period for motorsports entertainment complexes (sec. 168(e)(3)(C)(ii) and (i)(15)(D))	12/31/25
23. Increase in percentage limitation on cash contributions to public charities (sec. 170(b)(1)(G))	12/31/25
24. Special expensing rules for certain film, television, and live theatrical productions (sec. 181(g)) ¹⁴	12/31/25
25. Qualified business income deduction (sec. 199A(i))	12/31/25
26. Suspension of deduction for moving expenses (sec. 217(k))	12/31/25
27. Deduction percentages for foreign-derived intangible income and global intangible low-taxed income (sec. 250(a)(3))	12/31/25

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
28. Deductibility of employer <i>de minimis</i> meals and related eating facility, and meals for the convenience of the employer (sec. 274(0))	12/31/25
29. ABLE accounts (sec. 529A):	
a. Contributions eligible for saver's credit (sec. 25B(d)(1)(D))	12/31/25
b. Rollovers from qualified tuition programs permitted (sec. 529(c)(3)(C)(i)(III))	12/31/25
c. Increase in contributions limit (sec. 529A(b)(2)(B))	12/31/25
30. Look-through treatment of payments between related controlled foreign corporations under the foreign personal holding company rules (sec. 954(c)(6)(C))	12/31/25

Provisions Expiring in 2025

<u>Provision (Code section)</u>	<u>Expiration Date</u>
31. Empowerment zone tax incentives: ¹⁵	
a. Designation of an empowerment zone and of additional empowerment zones (sec. 1391(d)(1)(A)(i) and (h)(2))	12/31/25
b. Empowerment zone tax-exempt bonds (secs. 1394 and 1391(d)(1)(A)(i))	12/31 /25
c. Empowerment zone employment credit (secs. 1396 and 1391(d)(1)(A)(i))	12/31/25
32. Increase in estate and gift tax exemption (sec. 2010(c)(3)(C))	12/31/25
33. Oil Spill Liability Trust Fund financing rate (sec. 4611(D)(2))	12/31/25
34. Treatment of certain individuals performing services in the Sinai Peninsula of Egypt (sec. 11026 of Public Law 115-97)	12/31/25

The International Tax Landscape—US Participation in Limbo

- Pillar 1
 - Reallocates taxing rights over large multinationals to markets where they have business activities and earn profits regardless of their physical presence.
- Pillar 2
 - 15 percent global minimum tax rate on multinationals with global turnover in excess of 750 million pounds.
 - Income Inclusion Rule (IIR)—a top-up tax of 15%
 - Undertaxed Profits Rule (UTPR)—denies deductions to collect tax that falls outside IIR

Tariffs

Situation in flux

Summary

- Chaos and Uncertainty!

Thank You



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Of Counsel

Hank draws on over 50 years of government, teaching, and practice experience to advise clients on negotiating the federal tax legislative and regulatory process.

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