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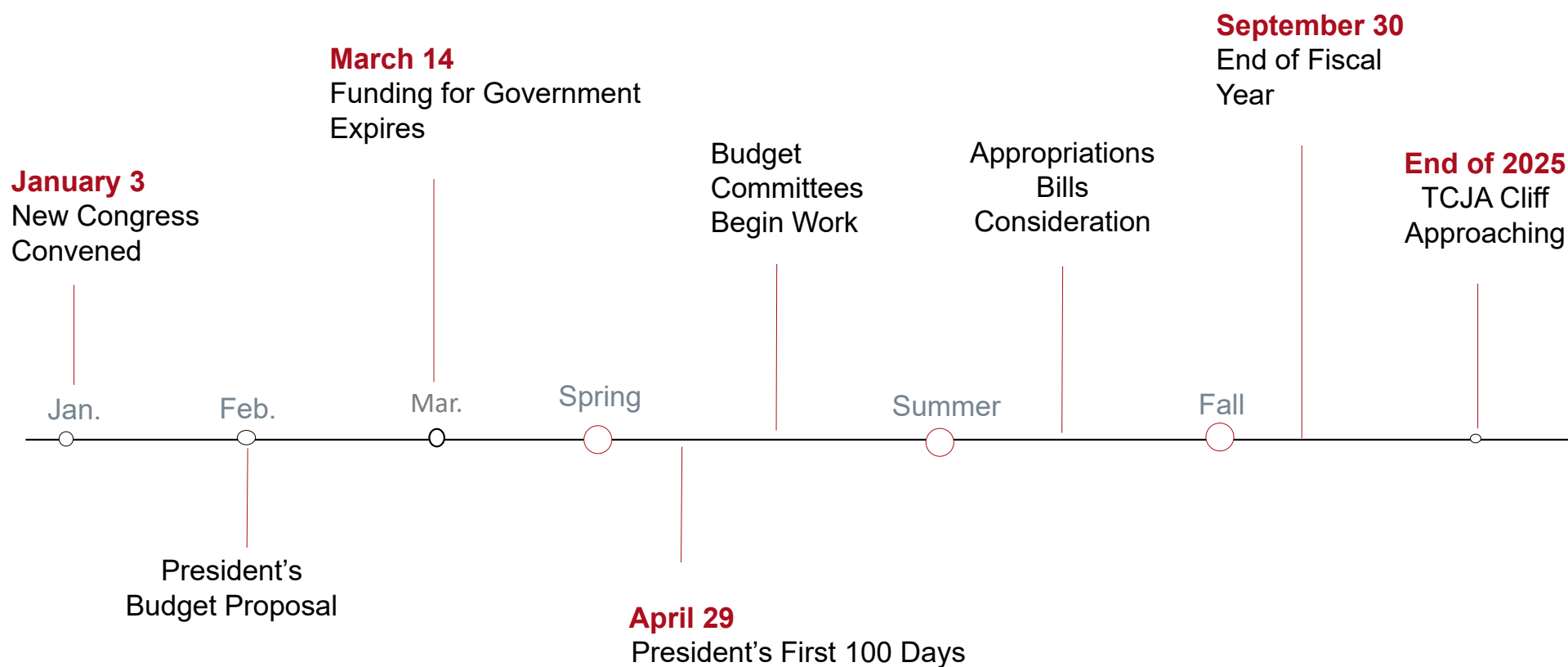
U.S. Tax Legislative & Regulatory Update

As of February 14, 2025

Agenda

- 1 2025 Timeline & Process
- 2 Preparing for TCJA Expirations
- 3 Current Tax Outlook
- 4 Debt and Deficits
- 5 Appendix

2025 Timeline for Tax Policy Actions



Legislative Process Comparison

Regular Legislative Process	Budget Reconciliation Process
Permanent legislation; No types of restrictions	Limited to spending measures, revenue measures, debt limit increases, fiscal policy adjustments. No changes can be made to Social Security
Requires 60 votes for: <ul style="list-style-type: none">Starting debateVoting on amendmentsPassageConference	Requires simple majority (≥ 50 votes); VP as tie-breaker No filibuster; time limits for amendment and debate Byrd Rule: <ul style="list-style-type: none">No deficit increase outside 10-year windowAutomatic sunset for long-term deficits (e.g., 2001/2003 Bush tax cuts)Can only include measures with fiscal impactCannot include changes to social security“Byrd Dropping”: Non-budget measures may be eliminated

Tax Legislation Under Reconciliation

Year	New President	Senate	House	First Major Piece of Legislation
1993–1995	Bill Clinton – D	D	D	Omnibus Budget Reconciliation Act of 1993
1995–1997		R	R	
1997–1999		R	R	
1999–2001		R	R	
2001–2003	George W. Bush - R	R/D	R	Economic Growth and Tax Relief Reconciliation Act of 2001 Jobs and Growth Tax Relief Reconciliation Act of 2003
2003–2005		R	R	
2005–2007		R	R	
2007–2009		D	D	
2009–2011	Barack Obama - D	D	D	Health Care and Education Reconciliation Act of 2010
2011–2013		D	R	
2013–2015		D	R	
2015–2017		R	R	
2017–2019	Donald Trump - R	R	R	Tax Cuts & Jobs Act (2017)
2019–2021		R	D	
2021–2022	Joe Biden - D	D*	D	American Rescue Plan Act (2021); Inflation Reduction Act (2022)
2023–2024		D*	R	

★ Senate evenly split with 50 Democrats (including two independents who caucus with Democrats) and 50 Republicans. Vice-President Harris served as the tie-breaking vote.

Tax Reform Strategy: One Step or Two Steps?

House

House Speaker Mike Johnson said he plans to include all of Trump's legislative priorities in one single legislative package that can be brought up for House vote in April and potential enactment in May.

Items would include:

- Tax cuts,
- Energy policy, and
- Border security

Senate

Senate Majority Leader John Thune and some Senate Republicans previously said they favor a two-step approach that would:

- Prioritize border spending in a bill that would be enacted soon after inauguration, and
- Delay tax legislation for a 2nd reconciliation package

Ways & Means Committee 2025 Tax Teams

American Manufacturing

- Pro-manufacturing tax code

Working Families

- Individual income tax (e.g., SALT deduction)

American Workforce

- Hiring, retainment, childcare, education, paid leave through tax code

Main Street

- Qualified business income deduction (Sec. 199A)

New Economy

- Supporting gig-workers and the self employed, the digital economy, and productivity enhancing technology

Rural America

- Qualified business income deduction, immediate R&D expensing, Low-Income Housing Credit

Community Development

- Qualified Opportunity Zones and community revitalization

Supply Chains

- Energy tax incentives, corporate tax rate, and capital gains tax

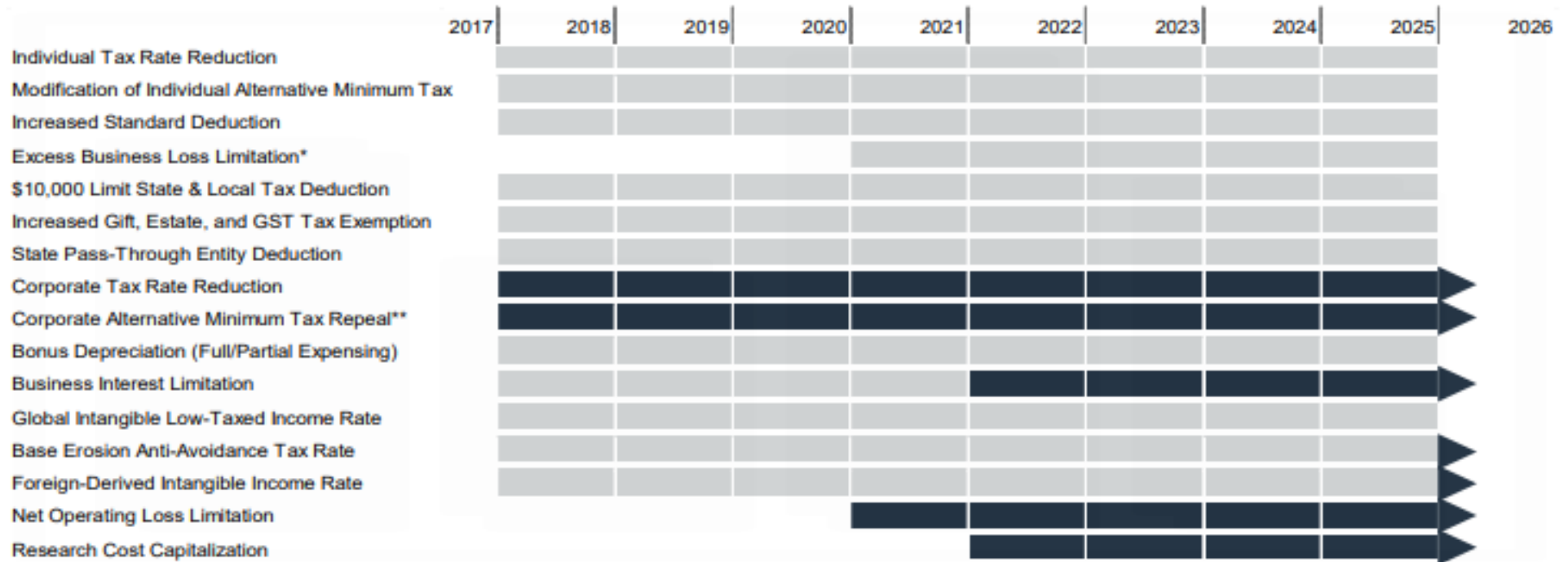
Global Competitiveness

- International tax policies that benefit U.S. businesses and workers

U.S. Innovation

- Encouraging domestic R&D

Tax Cuts and Jobs Act Provisions



Inflation Reduction Act of 2022:

*Excess Business Loss Limitation extended to 2028.

**New Corporate Alternative Minimum Tax effective in 2023.

Tax Cuts & Jobs Act (TCJA) Provisions



- Lowered individual tax rates and raised the standard deduction, which reduced the percentage of tax returns with itemized deductions from 31% to 9%.
- Cut the corporate tax rate to encourage business investment in the U.S. and broadened the business tax base through international and domestic tax changes.
- Allowed for immediate expensing (i.e., bonus depreciation) of certain domestic business investments.

Estimated Effects of Extending Certain TCJA Provisions

Budgetary Effects of Selected Alternative Assumptions About Revenue Policies Related to the 2017 Tax Act

Billions of dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total	
											2025–2029	2025–2034
The 2017 tax act's changes to individual income tax provisions are extended ^a												
Increase in the primary deficit [JCT's estimate]	6	147	368	355	364	374	387	403	419	434	1,239	3,256
Increase in net interest outlays	*	3	12	24	35	48	62	77	94	111	74	467
The 2017 tax act's higher estate and gift tax exemptions are extended ^b												
Increase in the primary deficit [JCT's estimate]	1	3	15	17	18	20	21	22	24	25	55	167
Increase in net interest outlays	*	*	*	1	2	2	3	4	5	6	3	22
The 2017 tax act's changes to the tax treatment of investment costs are extended ^c												
Increase in the primary deficit [JCT's estimate]	74	48	58	54	39	29	23	19	17	17	273	378
Increase in net interest outlays	2	4	6	8	9	10	12	13	14	15	28	91
Certain business tax provisions altered by the 2017 tax act are maintained ^d												
Increase in the primary deficit [JCT's estimate]	0	11	19	19	19	20	20	20	21	22	68	172
Increase in net interest outlays	0	*	1	1	2	3	3	4	5	6	4	25

Source: Congressional Budget Office

Preparing for TCJA Expiring Provisions

Considerations

- ✓ The TCJA provisions could expire, be extended fully or for a shorter period, or a combination, and may need pay-fors
- ✓ Tax increases are less likely to occur with Trump's victory and Republican control of Congress
- ✓ The election results bring a Republican administration, a Republican Senate with 53 votes, and a very slim House majority (220 votes, 218 is a majority).
- ✓ Fiscal pressures are mounting given deficit spending and higher interest rates

Recommendations

- ✓ Use remaining estate tax exemptions
- ✓ Evaluate your tax posture in light of the expiring provisions and potential tax changes
 - C corporation versus pass-through with Sec. 199A, etc.)
 - GILTI, FDII and Beat Rates
 - Potential liquidity events
- ✓ Model the potential impact and develop a plan

Preparing for the Expiration of High Estate, Gift, and GST Exemption Amounts After 2025

Considerations

- ✓ Effective January 1, 2025, the estate and gift tax basic exclusion amount and the GST exemption is \$13.99 million
- ✓ The higher exemptions, implemented under the Tax Cuts and Jobs Act (TCJA), are scheduled to sunset at the end of 2025
- ✓ Without a legislative change to the current higher exemptions, as of January 1, 2026, the exemptions will revert to \$5,000,000, indexed for inflation (expected to be in the \$7,000,000 range)

Recommendations

- ✓ Explore various techniques that best accomplish goals and objectives while considering assets available to gift
- ✓ Make the right estate and gift planning decisions to optimize tax efficiency
- ✓ Through other planning techniques, ensure that the transfer of value can be increased to result in greater savings, in addition to the removal of future appreciation from estate taxes
- ✓ Perform qualified appraisals substantiating any valuation discounts for lifetime gifts and assets using such discounts reported on a federal estate or gift tax return

Current Tax Outlook

- Business
- Payroll /Self Employment Tax
- Individual Taxpayers
- Investment Income
- Estate & Gift Tax
- Billionaire Minimum Tax

Trump's Tax Promises On the Campaign Trail



Businesses	Individuals	
Increase small business expensing	End double taxation of overseas Americans	Tax deduction for purchase of new home generator
15% rate solely for domestic manufacturers	No tax on overtime pay	No tax on tip income
Tariffs, e.g. 100% for automobiles from Mexico	Tax deductions for loans for U.S. manufactured cars	No tax on social security benefits
Expand R&D tax credits and 100% bonus depreciation	Eliminate the SALT cap	Deduct unspecified expenses for a newborn

Business

Present Law

- 21% corporate rate
- 15% corporate minimum tax on book income of \$1 billion
- 1% excise tax on corporate stock buybacks in excess of \$1 million
- 20% pass-through deduction for Qualified Business Income (QBI)
- Territorial style regime with BEAT, 10.5% GILTI rate
- Specified research or experimental expenditures (SRE) must be capitalized and amortized for tax years beginning after December 31, 2021

Tax Issues to Monitor

- Trump called for reducing the corporate tax rate to 20% and to 15% for corporations that make products in the U.S.
- Make 20% pass-through deduction permanent (or modify?)
- Extend TCJA rates for GILTI and FDII that expire after 2025
- First-year write off of all (or just domestic) R&D expenses
- Extension of bonus depreciation
- Restoration of add-back for depreciation and amortization to interest expense limitation
- *Potential revenue raisers*
 - *Repeal employee retention credit*
 - *Increased excise tax rate on stock buybacks*
 - *Repeal selected IRA energy credits*
 - *Repeal SALT deductions for corporations?*

Individual Taxpayers

Present Law

- 37% maximum rate through 2025, reverts to 39.6%. For 2024, the maximum rate applies at taxable incomes above \$609,350 for single filers and \$731,200 for joint filers
- State and local tax (SALT) deduction capped at \$10K per year until the end of 2025

Tax Issues to Monitor

- Make 37% rate and other TCJA rates and other changes permanent
- SALT cap relief in some form
- *Potential revenue raisers*
 - *Further extend excess business loss deferral*

Investment Income

Present Law

- 20% maximum capital gains rate
- 3.8% net investment income tax (NIIT)

Tax Issues to Monitor

- Supports indexing capital gains for inflation, further reducing the rate from the current 20% maximum

- *Potential revenue raisers*
 - *Tax carried interests as ordinary income?*

Estate & Gift Tax

Present Law

- Top rate of 40%; Exemption amount doubled to \$10 million before inflation adjustments through 2025 (e.g., \$13.61 million per person in 2024).
- After 2025 reverts to \$5 million with an inflation adjustment (estimated to be between \$6 and \$7 million)

Tax Issues to Monitor

- Make TCJA changes permanent

Billionaire Minimum Tax

Present Law

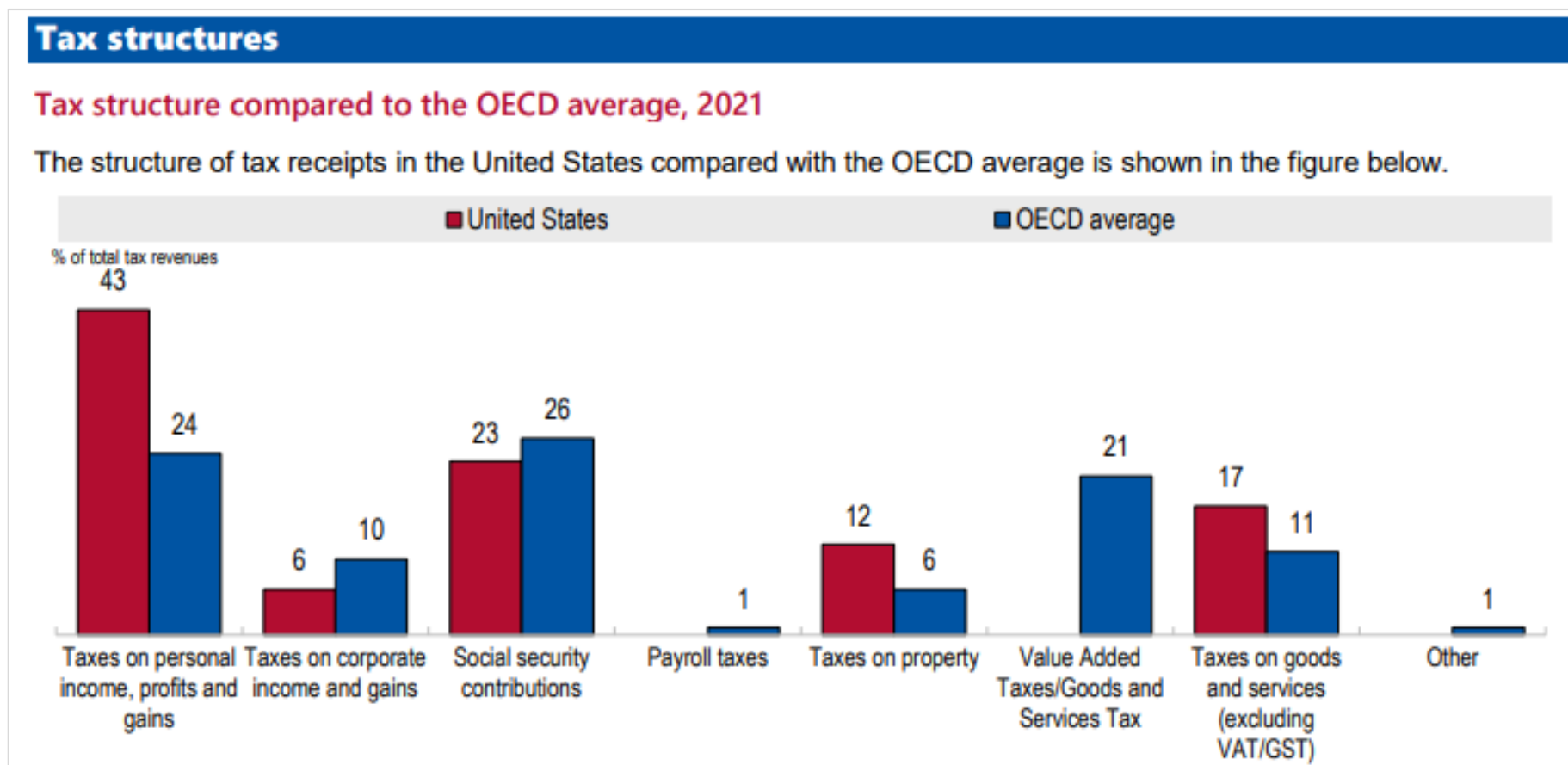
- None

Tax Issues to Monitor

- Opposes

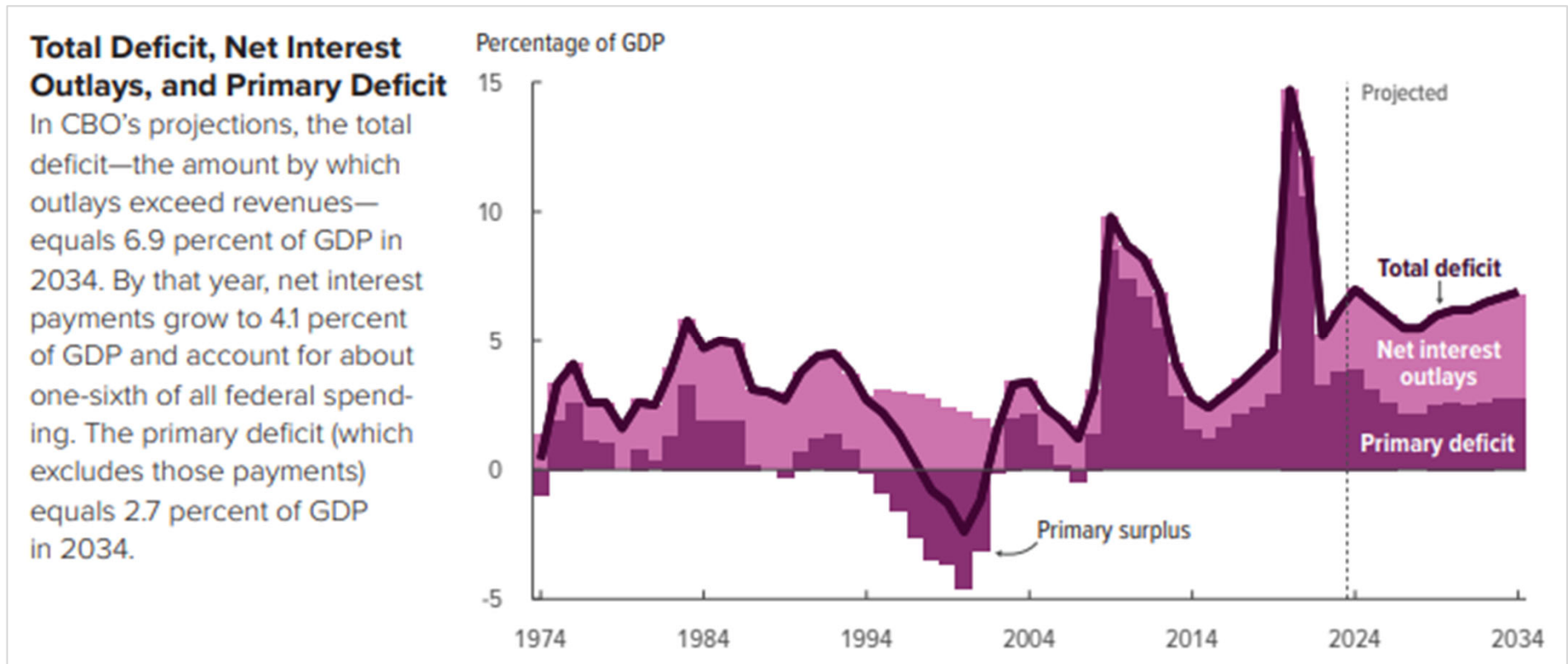
Debt and Deficits

US Tax Structure Compared With OECD



Source: OECD Revenue Statistics 2023 – United States

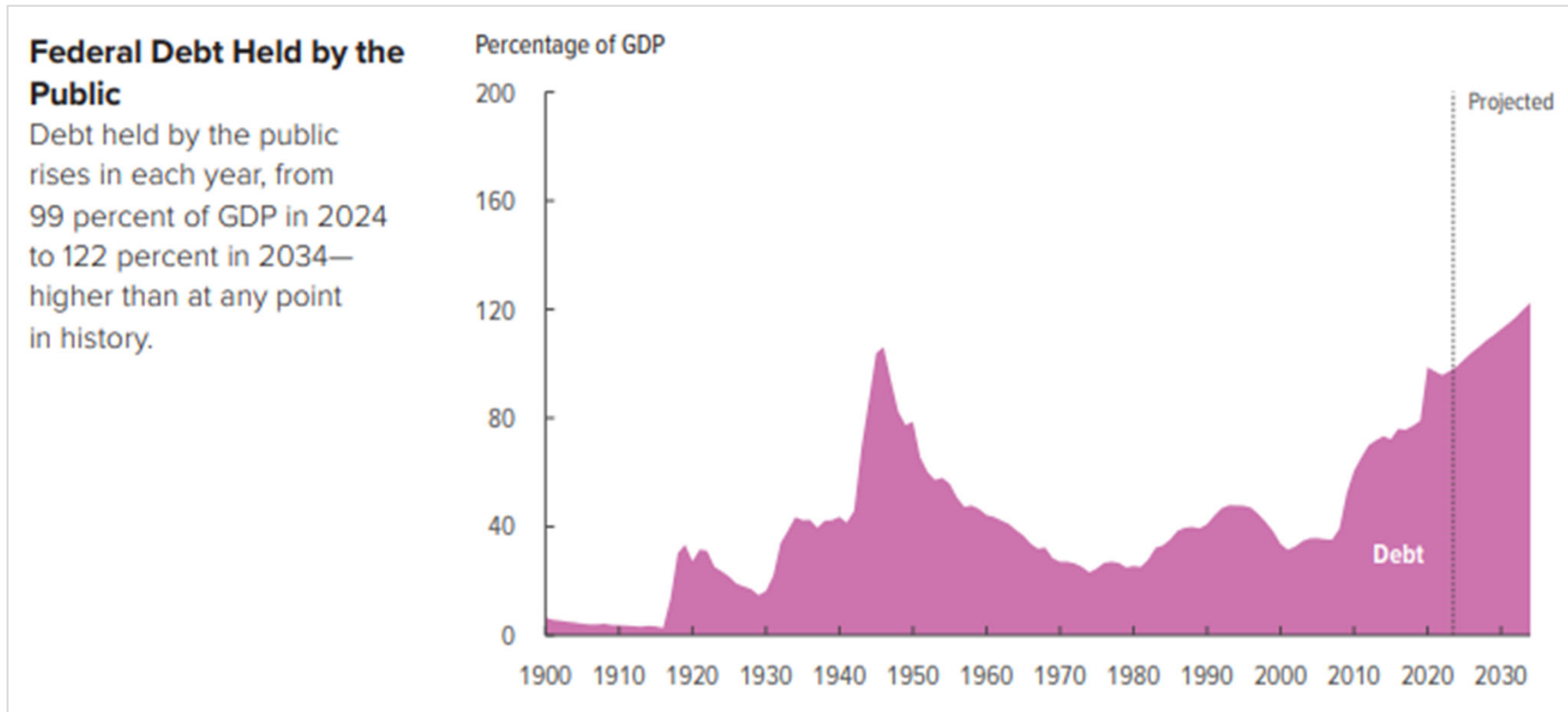
Long-Term: Debts and Deficits



Source: Congressional Budget Office – The Budget and Economic Outlook: 2024 to 2034 (June 2024)

Long-term: Debt and Deficits (Cont.)

Federal Debt as a % of GDP



Source: Congressional Budget Office – The Budget and Economic Outlook: 2024 to 2034 (June 2024)

Appendix

- IRS Examination Readiness
- Recent & Pending Treasury Guidance

IRS Examination Readiness

State of IRS
IRS Initiatives

State of the IRS

Personnel

Table 1. Summary of Employees, Population, And Total Returns Filed: 1992 and 2021

Fiscal Year	Number of Employees ^a	United States Population ^a	Total Returns Filed
1992	116,673	257,861,000	204,075,000 ^b
2021	78,661	332,459,000	261,017,434 ^c
Increase/ (decrease)	(38,012)	74,598,000	56,942,434
Percentage increase/ (decrease)	(32.6%)	28.9%	27.9%
^a IRS Data Book 2021, Table 31. ^b IRS Annual Report 1992, Table 2. ^c IRS Data Book 2021, Table 2.			

Table 4. Staffing Levels for IRS Enforcement Personnel, Fiscal 2010 Through Fiscal 2021 (Continued)

Fiscal Year ^a	Revenue Agents	Revenue Officers	Special Agents
2012	13,011	5,186	2,581
2013	12,270	4,748	2,509
2014	11,659	4,439	2,437
2015	10,862	3,994	2,326
2016	10,174	2,525	2,184
2017	9,759	3,434	2,124
2018	9,037	3,133	2,034
2019	8,526	2,995	1,994
2020	8,346	3,040	1,965
2021	8,321	2,783	2,004
Increase (decrease) between FY 2010 and FY 2021	(5,558)	(3,229)	(735)
Percentage increase	(40.0%)	(53.4%)	(26.8%)

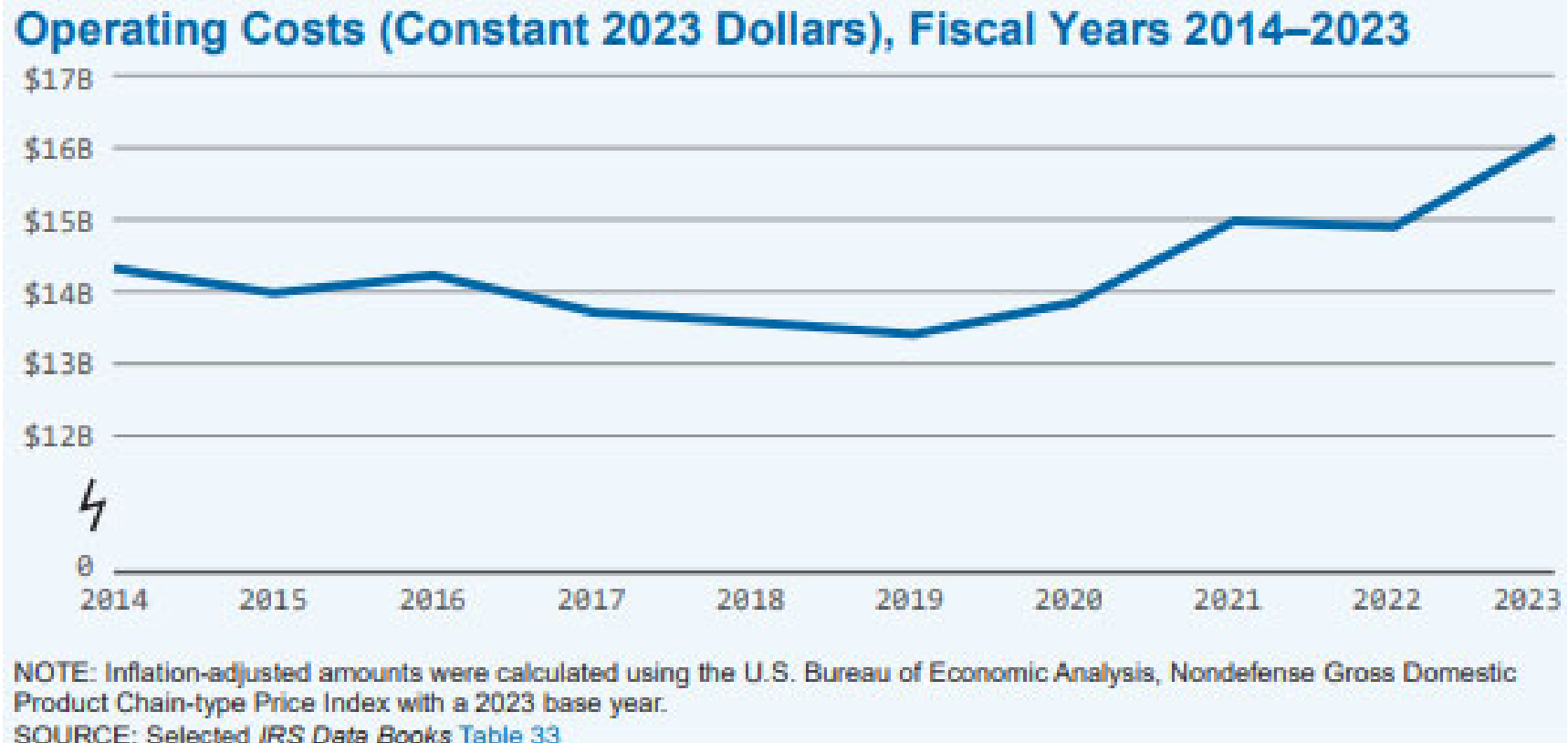
State of the IRS

Backlog

	12/29/2018	12/28/2019	12/26/2020	12/25/2021	12/31/2022	10/28/2023
Unprocessed Correspondence and AM Cases (Requests for Account Adjustments)	1.3 mil	1.9 mil	3.2 mil	5.5 mil	4.9 mil	4.3 mil
Unprocessed Amended Returns (Individual and Business)	0.4 mil	0.5 mil	0.8 mil	2.5 mil	1.3 mil	1.9 mil
Total Unprocessed AM Inventory	1.7 mil	2.4 mil	4.0 mil	8.0 mil	6.2 mil	6.2 mil
Percentage of Unprocessed Inventory Classified as Overage	35.2%	42.7%	44.6%	60.3%	49.7%	69.5%

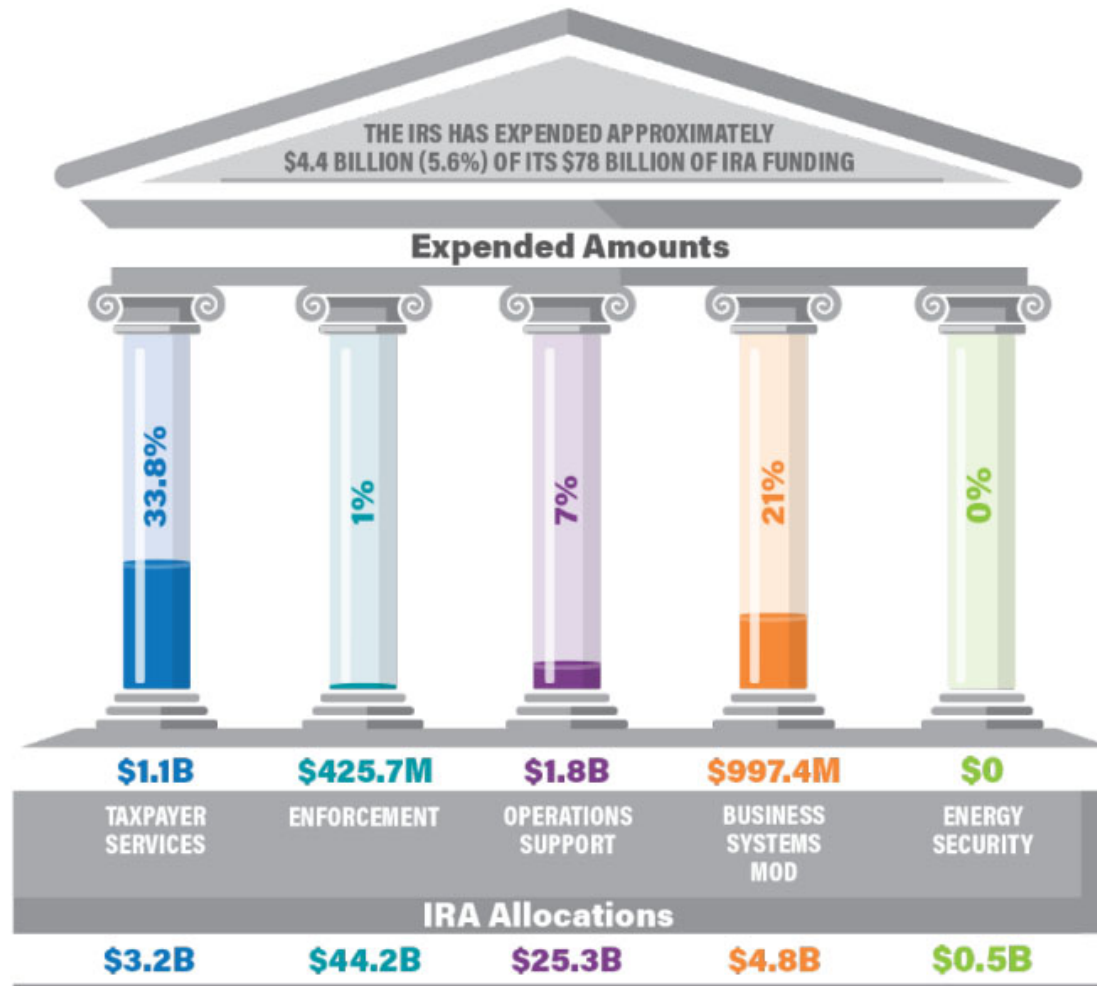
State of the IRS

Fiscal Year 2023



State of the IRS

Inflation Reduction Act (IRA)



State of the IRS

Strategic Operating Plan (SOP)

- Individuals with income over \$10m – 50% increase
 - 11% in 2019 to 16.5% in 2026
- Partnerships with assets over \$10m – 10x increase
 - 0.1% in 2019 to 1% in 2026
- Corporations with assets over \$250m – 3x increase
 - 8.8% in 2019 to 22.6% in 2026

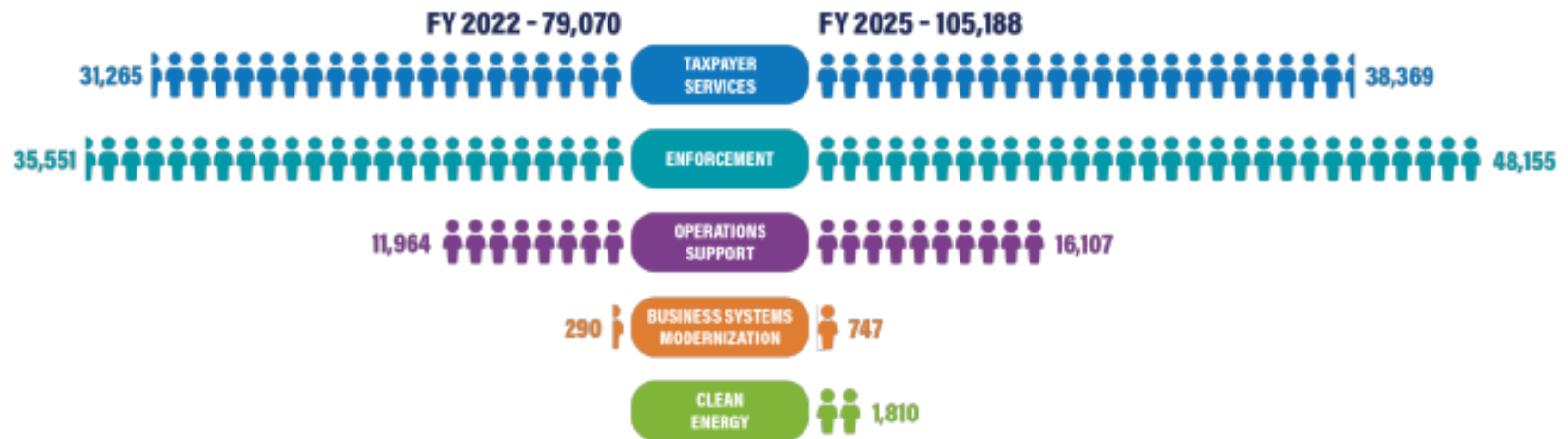
	POSITION TITLE	STAFFING 1/27/2024	FY 2024 HIRING TARGET	FY 2024 ANTICIPATED ATTRITION	STAFFING GOAL END OF FY 2024	NET STAFFING INCREASE FY 2024	
	REVENUE OFFICER	3,200	517	247	3,470	270	
	REVENUE AGENT	8,317	4,663	622	12,358	4,041	
	SPECIAL AGENT	2,183	402	85	2,500	317	
	TOTALS	13,700	5,582	954	18,328	4,628	

Source: Information provided by the IRS.

IRS Initiatives

Hiring

Figure 6: Projected Growth in IRS Personnel



Source: IRS Data Book and IRS April 2023 document regarding IRA spending and IRS staffing.

IRS Initiatives

Individuals

- [Global High Wealth Industry Group](#)
- High Income, High Wealth Strategy
- High Income Initiative
- High Wealth, High Balance Due Taxpayer Field Initiative

Partnerships

- Large Partnership Compliance Program (2021)
- [“Sweeping Effort to Restore Fairness” \(2023\)](#)
 - 75 audits of large partnerships – over \$10b assets
 - 500 compliance letters – over \$10m assets and balance sheet discrepancy
- [Established](#) and [launched](#) new pass-through field operation (2024)

Corporations

- Large Corporate Compliance Program (2019)
- [“Swift and Aggressive Action to Close the Gap” \(2023\)](#)
 - 60 audits of large corporations – over \$24b assets and \$526m income
 - 150 compliance letters – US subs of foreign showing TP losses or low margins

Pending Treasury Guidance

- **Remaining IRA energy tax credit** regulations (e.g., domestic content guidance)
- **Foreign Tax Credit** guidance – uncertainty on 2022 regulations and GloBE Model rule tax guidance
- **Section 482** – guidance clarifying the effects of group membership in determining arm’s length pricing with respect to financial transactions (see general legal advice memorandum AM-2023-008)
- **Section 355** – guidance on Active Trade or Business requirement and prohibition on device.
- **Section 163(j)** – additional guidance
- **Section 958(b)(4)** – final guidance
- **Sections 959 and 961** – proposed guidance addressing PTEP (Notice issued in December)
- **Section 164** – SALT Cap – Does NOT appear to be progressing
- **Section 461(l)** – Excess Business Loss – Does NOT appear to be progressing

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