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2024 Pre-Election Analysis: Tax Issues

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VIEWPOINT TOPICS

- 2024 Pre-Election Analysis

As the 2024 general election draws near, one of the central issues capturing the attention of voters and lawmakers alike is the future of tax policy. With the two presidential candidates offering a range of proposals and control of Congress hanging in the balance, the election results will have significant implications. This pre-election analysis from ML Strategies explores some of the key tax policy proposals put forth by former President Donald Trump and Vice President Kamala Harris as they seek the presidency and highlights what we can expect on Capitol Hill from key leaders on tax policy in the 119th Congress.

The Tax Cuts and Jobs Act (TCJA) of 2017 introduced significant changes to the US tax code, but many of its provisions are set to expire, or "sunset," at the end of 2025. These provisions include significant tax cuts for individuals through lower tax rates and increased standard deductions, as well as the expansion of the child tax credit. Several provisions from the TCJA related to businesses will either expire or be modified, though the 21% flat corporate tax rate will remain permanent. The expiring provisions include the expensing of business investments and the 20% deduction for certain business income. If Congress does not extend or make these provisions permanent, taxpayers could see a return to higher rates and reduced benefits. The results of the November election will determine the direction of next year's significant debate over the future of the TCJA. Depending on which party holds power, provisions may either expire, be extended, or be reversed.

Whether you're a concerned taxpayer, a business owner, or just interested in how politics might affect your organization's financial landscape, understanding these tax policy debates is crucial as you prepare for the future.

Tax Policy in a Harris Administration

A key success of the Biden-Harris administration has been the Inflation Reduction Act (IRA) of 2022, which put in place a range of tax provisions designed to address economic challenges and promote sustainable growth. Key among these provisions is the extension and expansion of tax credits aimed at reducing energy costs and supporting green initiatives. This includes an enhanced clean energy tax credit for individuals and businesses investing in renewable energy sources (section 25C), energy-efficient improvements (section 25D and section 179D), and electric vehicles (section 30D and section 45W). Additionally, the IRA provides significant tax incentives for businesses that invest in manufacturing (section 45X) and deploying clean energy technologies (section 45 and section 48), aiming to drive innovation and job creation in the green economy.**[1]** To fund these initiatives, the IRA also implemented measures to enhance tax compliance and enforcement, targeting high-income earners and large corporations to ensure they meet their tax obligations.

In general, we can expect that if elected, Kamala Harris would continue many of the tax policies of the Biden-Harris administration, including a forceful defense of the IRA should Republicans control the Congress. However, there will invariably be differences or nuances in how a Harris administration will approach tax policy.

While the tax policy plans of the nascent Harris campaign continue to unfold, Harris delivered a speech on August 16, presenting her economic vision for the nation that focuses on food and housing. In that speech, she also called for an expanded and permanent Child Tax Credit of $3,600 per child and a one-time credit of $6,000 per child for the first year of the child's life. She has also highlighted several key tax policy proposals aimed at addressing economic inequality, supporting middle-class families, and boosting economic growth, proposing to:

- Increase taxes on corporations and high-income earners, raising taxes on the wealthiest Americans, limited to those earning over $400,000 annually. This includes increasing the top marginal income tax rate and implementing additional taxes on investment income.
- Close corporate tax loopholes and increase the corporate tax rate. The most recent Biden-Harris budget proposal for the next fiscal year calls for increasing the corporate tax rate from 21% to 28%,

which is lower than the 35% rate pre-TCJA.
- Use tax incentives to promote clean energy and combat climate change, including tax credits for renewable energy investments, electric vehicles, and energy-efficient home improvements. The production tax credit for wind energy is expected to phase out beginning in 2025 (although it will be replaced by a technology neutral production tax credit available for projects placed in service after December 31, 2024), and the EV tax credits (Clean Vehicle Tax Credit, Used Electric Vehicle Tax Credit, and Commercial Clean Vehicle Credit) as well as the Energy Efficient Home Improvement Credit would expire at the end of a possible second Harris term in 2032.
- Address the housing crisis with tax incentives for the construction and preservation of affordable housing, including tax breaks to developers and landlords who provide affordable rental units, as well as expanding deductions for homeowners and renters. The economic plan she unveiled on August 16 calls for a $25,000 credit for first-time homebuyers.

While the Harris campaign is still working to roll out many of their policy proposals, in general, we can expect that Harris would pursue a tax policy agenda focused on reducing inequality, supporting working families, and advancing sustainability. We note that when she was in the Senate, she voted — along with all other Democrats and independents — against the TCJA. During her Senate career, she also proposed legislation that would have established a refundable tax credit that matched earnings of up to $3,000 for unmarried workers and up to $6,000 for married workers, aimed at benefitting those with adjusted gross income up to $50,000 if single and $100,000 for married couples. She also proposed giving rural businesses a $10,000 tax credit for each newly hired full-time employee, capped at $250,000 annually at each business location and up to $100,000 over 10 years for each employee. She also proposed a 100% tax on excess drug company profits.

Tax Policy in a Second Trump Administration

During his presidency, Donald Trump championed the TCJA, a signature achievement of his administration, which lowered individual and corporate tax rates and aimed to stimulate investment and job creation. He has called for extending these tax cuts and further reducing tax rates, particularly for high-income earners and businesses, to enhance competitiveness and economic expansion. Building upon the work of his previous administration, he has outlined several key tax policy proposals that reflect his economic priorities and agenda. He has proposed to:

- Reduce income taxes across the board, including an extension of the tax cuts implemented during his first term in the TJCA, which lowered rates for individuals and corporations.
- Cut the corporate tax rate in addition to providing additional incentives for businesses to invest in the US economy.
- Eliminate the estate tax, arguing that the tax burdens families and small businesses and that its elimination would help preserve wealth within families and encourage investment.
- Reverse the IRA's corporate alternative minimum tax, which imposes a 15% minimum tax on the adjusted financial statement income (AFSI) of large corporations for taxable years beginning after Dec. 31, 2022. The tax generally applies to large corporations with average AFSI exceeding $1 billion.

Overall, Trump's tax policy emphasizes reducing tax burdens, fostering investment, and encouraging economic growth through lower taxes and streamlined regulations. In a second Trump administration, we might see attempts to weaken certain aspects of the IRA, particularly those related to green energy. If Congress does not back these efforts, Trump could leverage the regulatory authority of the Department of the Treasury and the IRS to make changes without needing new legislation.

Democratic Leadership Tax Policy Priorities for the 119th Congress

During his tenure as House Minority Leader, Hakeem Jeffries (D-NY) has supported tax policy priorities aimed at enhancing fairness and supporting working families. He advocates for expanding and making permanent the Child Tax Credit and Earned Income Tax Credit to provide substantial financial relief and reduce poverty. Jeffries calls for a fairer tax system where high-income earners and large corporations pay their fair share by closing loopholes and increasing enforcement to tackle tax evasion. He supports progressive tax reforms to address income inequality and ensure the tax system benefits those with lower and middle incomes. Additionally, Jeffries prioritizes using tax revenues to invest in essential public services like education and health care and strengthening tax enforcement to ensure compliance and prevent evasion.

As key Democratic leaders in tax policy, Rep. Richard Neal (D-MA), Ranking Member of the House Ways and Means Committee, and Senator Ron Wyden (D-OR), Chairman of the Senate Finance Committee, share a focus on enhancing fairness and supporting middle-class families. Both prioritize expanding the Child Tax Credit and Earned Income Tax Credit to provide greater financial relief and reduce poverty and are long-time champions of tax-exempt municipal bonds, which are used for critical community projects including education, health care, utilities, infrastructure, and housing just to name a few. Meanwhile, Neal emphasizes ensuring that the wealthy and corporations pay their fair share through measures like closing tax loopholes and increasing enforcement against tax evasion. Similarly, Wyden is dedicated to reforming the tax code to ensure high-income earners and large corporations contribute equitably while also supporting robust enforcement of tax laws. For example, Wyden sponsored bills this Congress, such as the **Billionaire Minimum Income Tax Act**, which amends the tax code to eliminate tax loopholes and modifies over 30 tax provisions, as well as the **Workforce Housing Tax Credit Act**, which aims to provide a credit for middle-income housing. Their agendas reflect a shared commitment to progressive tax reforms, addressing income inequality, and creating a more equitable tax system that supports working families and funds essential public services.

Republican Leadership Tax Policy Priorities for the 119th Congress

As House Speaker, Mike Johnson (R-LA) has outlined several key tax policy priorities focused on stimulating economic growth and reducing tax burdens. He aims to make tax cuts from the TCJA permanent, maintaining lower tax rates for individuals and businesses to drive investment and job creation. Johnson also prioritizes simplifying the tax code to ease compliance and reduce bureaucratic hurdles for taxpayers and businesses. He supports lowering corporate tax rates to enhance American business competitiveness and advocates for regulatory reforms to limit government overreach and foster a more favorable economic environment. Additionally, Johnson backs targeted tax incentives to encourage investment in infrastructure and technology, aiming to promote long-term economic development and job creation.

The key Republican leaders on tax policy, Rep. Jason Smith (R-MO), Chairman of the House Ways and Means Committee, and Senator Mike Crapo (R-ID), Ranking Member of the Senate Finance Committee, share a strong focus on promoting economic growth and reducing tax burdens. Both prioritize making the tax cuts from the TCJA permanent, aiming to lower individual and corporate tax rates to stimulate investment and job creation. Smith is committed to simplifying the tax code to cut compliance costs and enhance efficiency while also seeking reforms to address issues like the estate tax and ensure a streamlined system. In a June 2024 **op-ed**, Chairman Smith wrote that "*A 2025 tax cuts bill must not only look to renew existing tax policies to prevent a massive tax increase on working people, such as the doubled child tax credit and guaranteed deduction, but it should also embrace new and innovative tax relief ideas that put workers, families, farmers, and small businesses first*." Similarly, Crapo advocates for regulatory reforms to limit government overreach and support a competitive economic environment. Their combined efforts reflect a shared goal of bolstering economic prosperity and providing broad financial relief to taxpayers. Senator Crapo is a cosponsor of the **Book Minimum Tax Repeal Act**, which repeals the IRA's corporate alternative minimum tax.

Chairman Smith and Ways and Means Tax Subcommittee Chairman Mike Kelly (R-PA)'s formation of 10 Committee **tax teams** will also continue to explore legislative solutions to protect key TCJA provisions. These teams cover American manufacturing, working families, the American workforce, Main Street, the new economy, rural America, community development, supply chains, US innovation, and global competitiveness. Having held more than 50 round tables and listening sessions, these teams have stressed the importance of extending 100% expensing and interest deductibility, preserving the 20% small business deduction, and restoring full deductibility for research and development investments.

Opportunities for Bipartisan Collaboration

With the incoming administration and 119th Congress, there are several areas of potential bipartisan collaboration on tax policy. Expanding and simplifying tax credits like the Child Tax Credit and Earned Income Tax Credit offers a common ground for providing financial relief to families. Addressing the expiration of provisions from the TCJA could lead to discussions on whether to extend or modify these cuts, in particular as it relates to individuals making under $400,000 a year, for whom both parties may support making the TCJA cuts permanent. Both parties may also agree on simplifying the tax code to reduce compliance costs and bureaucratic burdens. Additionally, improving infrastructure investment through tax incentives or financing mechanisms could garner bipartisan support.

In the current Congress, Senate Finance Committee Chairman Wyden and House Ways and Means Committee Chairman Smith came together to introduce the bipartisan **Tax Relief for American Families and Workers Act**. The bill was approved by the House 357 – 70 but stalled in the Senate due to opposition from most Republicans. Look for Wyden and Smith to potentially reintroduce the bill in the 119th Congress. The bill seeks to enhance financial support for households through a range of tax relief measures. Key provisions include an extension and expansion of the Child Tax Credit and Earned Income Tax Credit, aimed at providing greater financial assistance to working families and reducing poverty. The bill also proposes temporary tax cuts to offer immediate relief and stimulate economic activity. Additionally, it includes measures to simplify the tax code, such as streamlining deductions and credits to reduce compliance costs and ease the filing process. This bill would also repeal Section 174 provisions of the TCJA, which require certain research and development expenses to be capitalized and amortized over a five-year period for US-based companies and over 15 years for non-US companies. Previously, taxpayers could immediately deduct these expenses. There is bipartisan support for restoring immediate expensing and postponing the requirement to capitalize domestic research or experimental expenditures until tax years beginning after December 31, 2025. Overall, the bill aims to deliver both immediate and long-term benefits to families while simplifying tax administration and bolstering economic stability.

Sen. Ted Cruz (R-TX) recently introduced the **No Tax on Tips Act**, which would exempt tips from federal income taxes. In addition to seven Republican cosponsors, the bipartisan bill is cosponsored by Sens. Catherine Cortez-Masto (D-NV) and Jackie Rosen (D-NV), representing the state with the highest concentration of tipped workers in the nation. With support from some unions as well, this bill may represent a starting point for bipartisan collaboration on tax relief for service workers. Both Kamala Harris and Donald Trump have called for eliminating federal taxes for tips.

There is also bipartisan legislation introduced during this Congress to restore advance refunding of tax-exempt bonds, which was eliminated in the TCJA. The **LOCAL Infrastructure Act** has 18 bipartisan cosponsors. Advance refunding is a financial tool that had been used by states, localities, and 501(c)(3) entities to refinance existing debt, leading to billions of dollars in savings for taxpayers. In addition to Democratic efforts to protect tax-exempt bonds in the upcoming tax debate, particularly in a Republican-led Congress, look for a bipartisan effort to restore advance refunding. We could also see a bipartisan effort to enhance the rules for bank qualified (also referred to as small borrower) bonds, which encourage banks to invest in tax-exempt bonds from smaller, less frequent municipal bond issuers. Current legislation in the House of Representatives introduced by Rep. Terri Sewell (D-AL), the **LIFT Act**, would increase the maximum bond issuance of eligible small borrower bonds to $30 million from the current level of $10 million and apply the cap to the borrower instead of the issuer.

Closing Thoughts

As the 2024 election approaches, the future of US tax policy remains a pivotal issue with far-reaching implications. The varied proposals from presidential candidates and the leadership priorities of key congressional figures underscore a deep divide in approaches yet also highlight potential areas for bipartisan collaboration. With critical provisions of the TCJA set to expire and ongoing debates about economic fairness and growth, the election outcome will shape the tax policy landscape for years to come.

Understanding these policy discussions is essential, and ML Strategies welcomes the opportunity to start a conversation about how we can help your organization meet the moment.

Endnotes

[1] Unless otherwise indicated, “section” references are to the Internal Revenue Code of 1986, as amended, referred to herein, as the tax code.

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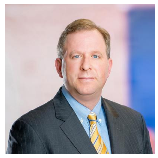

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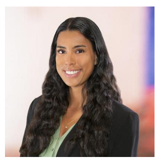

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