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Senate Budget Committee hearing on corporate, high-wealth tax issues previews partisan fissures ahead in 2025

A hearing of the Senate Budget Committee this week convened by Chairman Sheldon Whitehouse, D-R.I., ostensibly to discuss "making Wall Street pay its fair share" in taxes, quickly revealed the deep divisions between Democrats and Republicans on a host of issues related to the taxation of corporations and high-income individuals—a dynamic certain to be front and center next year when lawmakers confront the pending expiration of much of the Trump-era Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97).
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Whitehouse: Tax code favors special interests

The discussion at the June 12 hearing split along party lines soon after the opening gavel came down.

"Our tax code is corrupted and rotten," Chairman Whitehouse said in his opening statement. "Turned upside down for special interests."

Whitehouse—who also serves as a taxwriter on the Senate Finance Committee—went on to enumerate a host of policies in the tax code that he believes should be overhauled.

"Fix the carried interest loophole. Stop rewards for offshoring jobs. Lock in a real corporate minimum tax on foreign profits so huge corporations can't pay zero. Raise the tax on buybacks passed in the Inflation Reduction Act. Tax companies that pay their CEOs more than 50 times what they pay their average worker. Enact a minimum tax so the richest can't pay lower rates than everyone else. Use decorrupting the tax code to make Medicare and Social Security sound and safe as far as the actuarial eye can see," Whitehouse said.

Whitehouse also suggested that simply addressing the sunset of large swaths of the TCJA after 2025 would not be enough to fix the tax system and that lawmakers should take additional steps to make the tax code more progressive. (Among the marquee TCJA provisions that are scheduled to lapse after 2025 are reduced income tax rates for individuals, increased estate and gift tax exemption amounts, and the 20 percent deduction for certain passthrough business income.)

"I will say that it's not enough just to undo the damage of the Trump tax law—our tax code wasn't fair before the Trump tax law," Whitehouse said. "Instead, what we must finally do is to . . . decorrupt the tax code so that the wealthy and corporations finally pay a fair share."

Grassley: Democrats couldn't pass their own proposed reforms

Budget Committee ranking Republican Charles Grassley of Iowa, however, was quick to take issue with the tone and substance of Chairman Whitehouse's remarks.

"Initially, I thought today's hearing related to federal revenues was a nice change of pace . . . ," Grassley said. "Unfortunately, . . . an objective review of our tax laws isn't what this hearing is about."

On Whitehouse's stated desired to repeal the preferential tax treatment for carried interest income, Grassley charged that Democratic—not Republican—opposition has stymied reform, even during a period when Democrats had full control of Congress and the White House, and that Republicans have actually been the only party to crimp the carried interest rules when they lengthened the holding period required to receive preferential tax treatment on such income as part of the TCJA.

"To date, the only legislative action taken to limit the use of carried interest was enacted by Republicans as part of the 2017 tax law," Grassley said.

When the TCJA was moving through Congress, "Democrats roundly criticized Republicans for not going far enough on carried interest," Grassley continued. "Yet, when they had the opportunity to address it as part of their so-called Inflation Reduction Act, they failed."

It is generally recognized that opposition from certain senators—particularly Sen. Kirsten Sinema, I-Ariz.—ultimately led Democrats to jettison a further tightening of the carried interest rules from the Inflation Reduction Act of 2022 (P.L. 117-169) as that measure was moving through the upper chamber. (Sinema was a Democrat while the Inflation Reduction Act was being negotiated and when it was enacted into law in August of 2022. She changed her party affiliation to Independent at the end of 2022 but continued to receive her committee assignments from the Democrats.)
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

Glimmer of bipartisanship on eliminating stepped-up basis

The sole moments of bipartisanship during the hearing came as the panel discussed reforming what's known as "stepped-up basis" at death—a provision in the tax code that allows heirs to take ownership of inherited assets with a basis equal to their fair market value as of the date of death of the decedent, thus avoiding capital gains tax that would otherwise be due on any gains that accrued, but were not realized, while the decedent held the asset.

Stepped-up basis, combined with a relatively high estate tax exemption (at least compared to recent history), means the preponderance of inherited wealth is shielded from taxation at death.

"Current law—including very large exemptions to the estate tax—entrenches and accelerates wealth inequality," said Sen. Chris Van Hollen, D-Md. "In fact, it's one of the larger sources of wealth being passed on from generation to generation in huge amounts, essentially avoiding any taxes and any commitment to the public good in the process."

That sentiment was shared—albeit not as forcefully—by GOP Sen. Mitt Romney of Utah, who noted that "the idea of eliminating the tax-free stepped-up basis in death is one thing that we ought to look at and probably makes sense."

Of course, Romney's view is far from a consensus view among congressional Republicans and Romney himself has announced he will retire from the Senate at the end of the current 118th Congress.

November elections will be key

It is also important to keep in mind that how lawmakers approach tax policy next year will depend largely on the outcome of this November's presidential and congressional elections.

Not surprisingly, the competing tax policy visions diverge sharply at the presidential level.

For example, many of the left-leaning tax policies espoused by Budget Chairman Whitehouse this week have also been staples of President Biden's budget plans. Among the revenue-raising proposals in Biden's fiscal year 2025 budget blueprint, for example, are calls to increase the corporate income tax rate to 28 percent, increase the excise tax on stock buybacks, impose additional limits on deductions for "excessive" employee remuneration, repeal stepped-up basis, tax capital gain and dividend income at ordinary rates for high-income individuals, and impose a 25 percent minimum tax on the income—including unrealized gains—of taxpayers with wealth over $100 million. (For details on the tax proposals in the administration's FY 2025 budget blueprint, see *Tax News & Views*, Vol. 25, No. 11, Mar. 12, 2025.) President Biden also has called for allowing the bulk of the temporary TCJA provisions to expire on schedule for taxpayers with income greater than $400,000.
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312_1.html

By contrast, the presumptive GOP nominee, former President Donald Trump, has mainly spoken in broad terms about fully extending the TCJA (his administration's signature legislation) and perhaps further reducing the corporate rate from its current level of 21 percent. During a meeting with congressional Republicans in Washington on June 13, Trump floated the possibility of replacing income taxes with more stringent tariffs—something that campaign staff and GOP lawmakers later told reporters was simply one of a range of proposals the former president was considering. Repeating an idea he raised earlier in the week at a rally in Las Vegas, the former president also told Republicans that he would consider exempting tipped wages from income taxes. GOP House Ways and Means Committee member Ron Estes of Kansas told reporters that taxwriters would "have to figure out where that fits" into a tax cut plan, noting that there are "a lot of moving parts."

Reconciliation dreams: The full consolidation of power by either Republicans or Democrats would lay the groundwork for the potential use of so-called "budget reconciliation"—that is, the special parliamentary process by which fiscal legislation can be moved in a manner that is protected from filibuster in the Senate.

Both parties have increasingly leaned on that legislative tactic in recent decades to move major tax and spending bills on a party-line basis. Both the TCJA and the Inflation Reduction Act, for example, were moved under reconciliation.

GOP leaders—particularly House Speaker Mike Johnson and House Majority Leader Steve Scalise, both of Louisiana—have openly expressed interest recently in pursuing the reconciliation process if Republicans hold the House and win back the Senate and White House. Speaker Johnson discussed that strategy during a June 12 closed-door meeting with a contingent of Senate Republicans.

At least one GOP senator, however, commented after the meeting that discussions of budget reconciliation are premature considering that the election is still months away and the outcome is far from certain.

“I love this prediction that Republicans are going to win everything, said Sen. Bill Cassidy, R-La., who sits on the Finance Committee. “That’s just incredible. Are you really saying we’re going to get the House, Senate, and the presidency?”

Senate Minority Whip John Thune, R-S.D., likewise cautioned this week that House Republicans may not yet grasp the full extent of the restrictions that the reconciliation process imposes on legislation moving through the Senate.

“I do think, at the end of the day, we’re going to have more limitations on what we’re able to use reconciliation for than perhaps a number of our House colleagues would like,” Thune told reporters.

West Virginia Sen. Joe Manchin—a former Democrat who only recently became an Independent and whose opposition to certain Biden administration tax proposals forced Democratic congressional leaders to pivot from the expansive “Build Back Better” proposal that cleared the House in 2021 (but later stalled in the Senate) to the far more narrow Inflation Reduction Act that was enacted into law in 2022—reminded reporters this week that even if one party has unified control of the House, Senate, and White House, moving legislation under budget reconciliation rules does not guarantee an easy path forward or a successful outcome, particularly if the Senate is closely divided and the majority party can afford few, if any, defections.

“Having a trifecta sometimes can be a curse and a blessing,” Manchin said.

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