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Limited—and familiar—tax talk as Harris, Trump meet for presidential debate

Vice President Kamala Harris and former President Donald Trump this week engaged in some brief exchanges on tax policy and advanced largely familiar arguments during their first and only scheduled debate of the 2024 presidential election cycle. But the more substantive news came in the days before the two met in Philadelphia on September 10, as both candidates revealed new details about their respective tax agendas.

Checking boxes at the debate

Responding to a question from debate moderators about the state of the US economy, Harris cited her proposals to "lift up the middle class" by providing up to $25,000 in assistance for first-time home buyers, expanding the current-law child tax credit and creating an additional credit for parents of newborn children, and increasing the deduction for start-up business expenses to $50,000. The proposals related to the child tax credit and assistance for first-time home buyers were part of the economic agenda she announced in Raleigh, N.C., last month. Harris rolled out her proposal for an expanded deduction for start-ups on September 4 during remarks in New Hampshire. (More on that event below.)

Former President Trump, addressing the same question, did not specifically mention the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97), the marquee tax legislation of his administration, or his plans to extend TCJA tax relief provisions affecting individuals, estates, and passthrough entities that are scheduled to expire at the end of 2025. He did, however, state that he "created one of the greatest economies in the history of our country" during his first term in office and would "do it again and even better" if elected for a second (nonconsecutive) term.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Neither candidate mentioned their respective plans to eliminate federal tax on tip income for hospitality and service workers—proposals that they announced at separate campaign events in Las Vegas last month.

In an instance of mutual finger-pointing, Trump argued that the Biden-Harris administration's economic policies have "fueled the worst inflation we've ever had," while Harris countered that the former president's plan to extend expiring TCJA provisions would result in "a tax cut for billionaires and big corporations, which will result in $5 trillion [added] to America's deficit."

The two candidates also disagreed over former President Trump's proposal to impose tariffs of up to 20 percent on imported consumer products, with even higher rates on goods coming from China. Harris called the plan a national "sales tax" that would ultimately be borne by consumers in the form of higher prices at the checkout line. Trump rejected that characterization, saying the tariffs he imposed in his first term generated "billions of dollars" for the fisc and were not inflationary. He also noted that President Biden has kept many of the Trump-era levies in place and added new ones.

"[I]f she doesn't like them, [she and Biden] should have gone out and they should have immediately cut the tariffs, but those tariffs are there three-and-a-half years now under their administration," Trump said.

Harris did not respond to a question about what she would do with these tariffs if she is elected.

In New Hampshire, Harris touts proposals for capital gains, start-ups

As already noted, Vice President Harris used a September 4 campaign speech in North Hampton, N.H., to unveil a proposal to expand the current-law deduction for start-up business expenditures. She also took the opportunity to announce a new proposal to increase the top rate on long-term capital gain income.
URL: https://www.whitehouse.gov/briefing-room/speeches-remarks/2024/09/04/remarks-by-vice-president-harris-at-a-campaign-event-north-hampton-nh/

Capital gains taxation: In her remarks, Harris called for increasing the tax rate on long-term capital gains to 28 percent (from 20 percent under current law) for taxpayers with income greater than $1 million. That proposed rate, in conjunction with a proposal in the FY 2025 Biden-Harris budget blueprint to increase the current-law net investment income tax (NIIT) rate to 5 percent (from 3.8 percent), would push the maximum combined rate on long-term capital gain income to 33 percent (from 23.8 percent).

Although Harris's proposal, if enacted, would mean a significant increase in the top capital gains rate compared to current law, it is less stringent than the proposed capital gain regime in the FY 2025 Biden-Harris budget blueprint. That plan would raise the top rate on long-term capital gain income to 39.6 percent for taxpayers with income greater than $1 million, which, when coupled with the administration's proposed 5 percent NIIT rate, would result in a top combined rate of 44.6 percent.

Harris told the New Hampshire audience that her proposal would "make our tax code more fair, while also prioritizing investment and innovation."

"Billionaires and big corporations must pay their fair share in taxes," she said. "And while we ensure that the wealthy and big corporations pay their fair share, we will tax capital gains at a rate that rewards investment in America's innovators, founders, and small businesses."

Deduction for start-up costs: Also at the New Hampshire event, the vice president framed her proposal to increase the deduction for business start-up expenditures to $50,000 (from $5,000 under current law) as part of a larger plan to "see 25 million new small-business applications by the end of my first term."

". . . [O]n average, it costs about $40,000 to start a new business in America. That is a great financial barrier for a lot of folks, and it can hold entrepreneurs back," Harris said. "And the current tax deduction for a start-up is just $5,000. . . . Not everyone has access to that kind of wealth and capital. So, part of my plan is we will expand the tax deduction for start-ups to $50,000. It's essentially a tax cut for starting a small business."

Other policy details: One day earlier, the Harris campaign unveiled a new policy page on its website outlining her agenda on tax and other priorities. On tax specifically, the campaign states that Harris and her running mate, Gov. Tim Walz of Minnesota, "are committed to ensuring no one earning less than $400,000 a year will pay more in taxes. . . . They will ensure the wealthiest Americans and the largest corporations pay their fair share, so we can take action to build up the middle class while reducing the deficit." According to the

campaign, "[t]his includes rolling back Trump's tax cuts for the wealthiest Americans, enacting a billionaire minimum tax, quadrupling the tax on stock buybacks, and other reforms to ensure the very wealthy are playing by the same rules as the middle class." These proposals largely track with those in the Green Book that accompanied the Biden-Harris administration's proposed budget for FY 2025 and with planks in the Democratic platform for 2024 that the party officially adopted at its convention in Chicago last month.
URL: https://kamalaharris.com/issues/
URL: https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf
URL: https://democrats.org/wp-content/uploads/2024/08/FINAL-MASTER-PLATFORM.pdf

The campaign also reiterates in general terms many previously stated pledges from Harris to expand the child tax credit (including by creating a new credit for parents of newborns), expand the earned income tax credit, eliminate taxes on tips for service and hospitality workers, and provide assistance to first-time home buyers.

In New York, Trump floats corporate tax rate cut for domestic manufacturers

Former President Trump, meanwhile, added some new details around his own tax plans ahead of this week's debate, telling members of the Economic Club of New York on September 5 that he intends to reduce the corporate tax rate to 15 percent "solely for companies that make their products in America."

Trump indicated that the proposal is intended to spur domestic production, adding that "[i]f you outsource, offshore, or replace American workers, you're not eligible for any of these benefits. In fact, you will pay a very substantial tariff when a product comes in from another country."

"Our message is simple: make your product here in America. Only in America," he said,

The former president did not offer additional details about how this proposal would work.

The Tax Cuts and Jobs Act permanently reduced the corporate tax rate to 21 percent (from 35 percent under prior law). In recent months, Trump has discussed the possibility of cutting that rate to 20 percent or even 15 percent but offered no additional specifics until his September 5 speech. (Vice President Harris has called for increasing the corporate tax rate to 28 percent, marking a shift from her position as a presidential candidate in 2019, when she proposed a rate of 35 percent.)

Reiterating support for TCJA tax cuts: The former president told his audience in New York that he supports "permanently" extending the TCJA's tax cuts for individuals, passthrough entities, and estates that are due to expire at the end of next year.

He also voiced support for reversing certain taxpayer-unfavorable changes that were phased-in under the TCJA, stating that his tax plan "calls for expanded R&D tax credits [and] 100 percent bonus depreciation."

Under the TCJA, the 100 percent rate for bonus depreciation was phased down in increments of 20 percentage points beginning in 2023. (A 60 percent rate is in effect for 2024, but will be reduced to 40 percent for 2025, 20 percent for 2026, and zero for property placed in service after December 31, 2026.) The TCJA also provides

that R&D expenditures paid or incurred in taxable years beginning after December 31, 2021, are subject to capitalization over 5 years for research conducted within the US and 15 years for research conducted outside the US. There is bipartisan interest among lawmakers for restoring 100 percent bonus depreciation and the immediate deduction of domestic R&D expenses; however, legislation from House Ways and Means Committee Chairman Jason Smith, R-Mo., and Senate Finance Committee Chairman Ron Wyden, D-Ore., that would address those and other items, including an expanded child tax credit, is currently stalled on Capitol Hill. The Tax Relief for American Families and Workers Act (H.R. 7024) passed the House in January but failed to clear a procedural hurdle in the Senate on August 1 and is unlikely to be taken up again before this November's elections. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 26, Aug. 2, 2024.)
URL: https://www.congress.gov/bill/118th-congress/house-bill/7024/text
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240802_1.html

Trump did not address a TCJA provision that generally requires adjusted taxable income for purposes of the 30 percent limitation on deductions of net business interest expense to be calculated based on earnings before interest and taxes beginning in 2022. Language reversing that provision and permitting adjusted taxable income to be calculated based on earnings before interest, taxes, depreciation, depletion, and amortization was also included in the stalled Smith-Wyden tax package.

Trump endorsed "expensing for new manufacturing investments" in his remarks, but he provided no additional details on that proposal.

Tax exemption for overtime pay: A week after he spoke at the Economic Club of New York, Trump stated, without elaborating, at a campaign event in Tucson, Ariz., on September 12 that his administration would "end all taxes on overtime." The former president already has called for eliminating federal taxes on tip income and Social Security benefits.

New Deloitte report looks at upcoming tax policy challenges

No matter which party prevails in this November's elections, the next president and the next Congress will face a massive fiscal cliff in 2025 resulting from the pending expiration of a host of temporary TCJA tax provisions and increasingly dire projections regarding federal debt and deficit levels. *Approaching the cliff: Tax policy and the 2024 elections*, a new report from Deloitte Tax LLP, discusses the emerging tax policy positions of both presidential candidates and their implications for the fiscal challenges ahead.
URL: https://www2.deloitte.com/us/en/pages/tax/articles/harris-trump-tax-policy.html

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