Ways and Means Committee debates TCJA tax cuts at hearing

Previewing themes likely to dominate the tax policy debate this year, the House Ways and Means Committee held a hearing on January 14 on "The Need to Make Permanent the Trump Tax Cuts for Working Families," following the committee's organizational meeting (during which the panel approved committee rules for the 119th Congress). (See *Scaling the cliff: Tax policy implications of a Donald Trump presidency* from Deloitte Tax LLP for a detailed discussion of the expiring TCJA tax provisions and Trump's tax proposals.)
URL: https://waysandmeans.house.gov/event/committee-organizational-meeting-for-the-119th-congress/
URL: https://www2.deloitte.com/us/en/pages/tax/articles/implications-of-a-donald-trump-tax-policy.html

House Ways and Means Committee Chairman Jason Smith (R-Mo.) in his opening statement called on Congress to make expiring tax provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) permanent as quickly as possible, warning that taxes will rise for all Americans without congressional action. He stressed that uncertainty exists when soon-to-expire tax provisions have not been made permanent, causing a dampening of business expansion and economic growth, with fewer jobs being created. Smith also said that, without Congress taking action to make these provisions permanent, there would be a reduction in the child tax credit, the estate tax exemption, the standard deduction, as well as the expiration of the passthrough business deduction (section 199A).
URL: https://waysandmeans.house.gov/2025/01/14/chairman-smith-opening-statement-hearing-on-making-the-trump-tax-cuts-permanent/
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Attributing post-enactment economic growth to 2017's enactment of the TCJA, Smith noted that making the 2017 cuts permanent would result in $284 billion in new GDP from a rise in manufacturing; $150 billion in new small business GDP growth from "small businesses expanding, hiring new employees, and investing in their community;" $50 billion in investments in the poorest communities; and more than 1million new small business jobs each year.

Ranking Member Richard Neal (D-Mass.), on the other hand, referred to the TCJA tax cuts as the "GOP Tax Scam," asserting that extending the soon-to-expire cuts would benefit the top 2 percent of taxpayers, rather than providing relief to the average American – a theme expressed by many committee Democrats throughout the hearing. Neal suggested that working families could use targeted relief, including an expanded child tax credit and a premium tax credit for health insurance, to help pay for necessities. Criticizing Republicans for fighting for corporations, he said that the American taxpayer deserves a "worker-centered agenda that delivers them relief."
URL: https://democrats-waysandmeans.house.gov/media-center/press-releases/neal-opening-statement-hearing-gop-tax-scam

Sticking to familiar arguments

Following opening statements by Smith and Neal, Republicans and Democrats on the taxwriting committee appeared to generally stick to their respective party-line positions that are expected to dominate the tax policy debate this year.

For their part, members on the Republican side of the dais touted the benefits of the 2017 tax law as a shot in the arm to the economy, with all Americans benefiting, while they further stressed that making those cuts permanent would prevent a tax increase for individuals and businesses, incentivize investment, and grow the economy. Democrats, on the other hand, criticized the cuts in the TCJA as a way to make the rich wealthier, while leaving everyone else behind. They also made those same arguments against extending the tax cuts, adding that the extensions would swell the national debt by another $4.6 trillion. (The nonpartisan Congressional Budget Office estimated in May of last year that a permanent extension of the expiring TCJA provisions would cost some $4.6 trillion over 10 years, including additional debt service costs, a figure expected to rise when the CBO releases an updated budget baseline in the coming weeks.)
URL: https://www.cbo.gov/publication/60114

TCJA and economic growth: Most Republican lawmakers on the panel mentioned, at least briefly, the benefits to the economy of extending the TCJA tax cuts beyond 2025.

Rep. Adrian Smith (R-Neb.) applauded the TCJA's impact on economic growth, job creation, and increased productivity for businesses. He also stated that even former President Barak Obama realized the need for corporate rate reductions to be competitive in the global economy.

Rep. Jodey Arrington (R-Texas), who is also chairman of the House Budget Committee which plays a key role in the reconciliation process, argued that the TCJA was not a "tax scam," as Democrats have asserted, but in fact, the law promoted pro-growth policies to boost the economy. He emphasized that, as a result of the 2017 tax law, the economy saw the lowest poverty rate in history, the highest corporate investment ever, the lowest unemployment rates for minorities and women ever, with everyone benefiting – even those Americans whose income levels are at the lower end.

National debt: Two Democrats who also serve on the House Budget Committee were sharply critical of the impact of the interplay between the TCJA and the national debt.

Rep. Lloyd Doggett (D-Texas) expressed relief that some elements of the Republican party acknowledge that "you can't just cut taxes without looking at spending and the national debt," noting that the debt would be the biggest loser if the expiring pieces of TCJA are extended without the inclusion of other provisions to offset that cost.

Rep. Jimmy Panetta (D-Calif.) shared similar concerns about the national debt and the fact that congressional Republicans would enact a law (such as extension of the TCJA tax cuts) with a price tag that would add to it. Though he acknowledged that certain "cuts" do raise some revenue for the economy, he emphasized that those cuts would not generate enough revenue to fully offset the rising debt.

Section 199A passthrough deduction: Along party lines, committee members sparred over the merits of the section 199A deduction for pass-through entities, with Republicans citing it as a way to boost small business job creation and Democrats complaining that the benefit is enjoyed by more than just small businesses. The section 199A provision was created by the TCJA and provides a 20 percent deduction for passthrough business income. Barring congressional action, at the end of this year, the deduction will expire and all passthrough business income will resume being taxed at the taxpayer's individual rate.

Rep. Judy Chu (D-Calif.) raised concerns about the section 199A passthrough deduction, maintaining that it is a "myth" of the TCJA that it helps only small businesses, when in fact there is no size restriction, she says, for taking advantage of the deduction, with large businesses able to take the deduction.

Rep. Gwen Moore (D-Wis.) questioned whether the distribution of section 199A comports with tax equity and fairness, while also indicating that the provision is enjoyed largely by higher income taxpayers.

On the other hand, Rep. Carol Miller (R-W.Va.) emphasized that the section 199A passthrough deduction "has been transformational" for small businesses, allowing them to be more competitive against corporations. She gave an example of a West Virginia business that used the provision which gave them the capital they needed to give raises and promotions to their employees as well as purchase equipment to reinvest in their business.

Rep. David Kustoff (R-Tenn.) echoed Miller's arguments that the section 199A deduction has been an important tool for small business owners since the TCJA was enacted, while also maintaining that it gives businesses the capital needed to reinvest through hiring more employees and handing out raises to their staff.

Corporate tax rate: Rep. Linda Sanchez (D-Calif.) asserted that cutting taxes on corporations did not have the trickle-down effect on the economy as Republicans maintained in 2017, and that the rate cut has only helped CEOs and other corporate executives.

Rep. Lloyd Doggett (D-Texas) declared that he is strongly in favor of a "dramatic" increase in the corporate tax rate.

The TCJA permanently reduced the corporate tax rate to 21 percent (from 35 percent under prior law), however, Trump campaigned to reduce that rate to 15 percent, but only for domestic manufacturing (a term that was not further defined during the campaign).

Rep. Kevin Hern (R-Okla.) outlined his support for keeping the lower permanent corporate rate, noting that a corporation would pay more in taxes overall (in addition to the 21 percent) when state taxes are factored into the corporation's tax responsibility.

Research and development expenses: Rep. Ron Estes (R-Kan.) stressed that extending the tax cuts from the TCJA will provide relief to "families, businesses, and innovators." He also shared his long-standing interest in favor of reversing a TCJA provision and returning to prior law which allowed immediate deduction for research and development (R&D) expenditures. Lawmakers in both parties have expressed concern about this provision from TCJA which 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.

Estes emphasized that, with no immediate deduction for R&D expenses for the past 3 years, the economy has suffered, fewer jobs have been created, and reinvestment in business has declined. He applauded the Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) which included a proposal to delay mandatory capitalization of research expenditures under section 174 – for domestic expenditures only – retroactive to expenses paid or incurred after December 31, 2021. The bill passed the House with wide bipartisan support but stalled in the Senate. (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

Estate tax exemption: Rep. Claudia Tenney (R-N.Y.) expressed dissatisfaction with the estate tax – commonly referred to by many Republicans as the death tax – noting that the Internal Revenue Service spends more money (through adhering to regulatory requirements) to collect the tax, including from small businesses and famers, than it receives from taxpayers who owe the tax, which is a perfect reason she says for getting rid of it entirely.

Also passionate about eliminating the estate tax was Rep. Randy Feenstra (R-Iowa) who introduced a bill to repeal estate and generation skipping transfer taxes – the Death Tax Repeal Act (H.R. 7035) – in the 118th Congress. “The death of a loved one should not trigger a massive tax bill from the federal government that threatens to force family-owned-and-operated farms and businesses to close their doors for good,” he said in a release.
URL: https://www.congress.gov/bill/118th-congress/house-bill/7035/text

Child tax credit: Members on both sides of the aisle agreed that changes are needed to the child tax credit which, at the end of 2025, would revert back to its pre-TCJA amount of $1,000 per child.

Rep. Terri Sewell (D-Ala.) who is in favor of expanding the credit and making it fully refundable, insisted that more families would be able to receive the credit as a refund even if the family does not owe any tax. Rep. Sanchez also argued for making the child tax credit fully refundable.

On the other side of the dais, Rep. Blake Moore (R-Utah), who is also Republican Conference Vice Chair, discussed a bill he introduced this Congress – the Family First Act – that would increase the child tax credit amount to $4,200 for families with a child between ages 0 and 5, and $3,000 for families with a child between ages 6 and 17, an increase from the current credit amount of $2,000 for a child under the age of 17. He also would like to establish a $2,800 tax credit for pregnant mothers.
URL: https://blakemoore.house.gov/imo/media/doc/ctc_bill_text.pdf

Moore said in a press release that the bill is fully offset by making changes to a variety of other tax provisions, including simplifying a credit for low-to-moderate income workers (earned income tax credit); repealing the dependent portion of the personal exemption and Head of Household filing status; eliminating the child and dependent care tax credit; and keeping the state and local tax deduction capped at $10,000.

Energy tax credit: Rep. Mike Thompson (D-Calif.) said that, since the Inflation Reduction of 2022 (P.L. 117-169) was signed into law, there has been a significant amount of investment in clean energy, with more than 80 percent of these investments going to Republican congressional districts. He also highlighted the significance of maintaining these incentives for domestic manufacturing.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

House Budget Committee sets out possible "options for offsets"

With the GOP's goal to extend the TCJA tax cuts this year, the House Budget Committee which plays a key role in the budget reconciliation process released a document this week listing a wide range of possible offsets and other items which could be considered for inclusion in a tax and spending bill moved under the procedural framework of budget reconciliation. (For coverage of how budget reconciliation works, see *Tax News & Views*, Vol. 25, No. 34, Dec. 20, 2024.)
URL: https://punchbowl.news/reconciliation_wm/
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241220_1.html

Some possible offsets on the tax front include a repeal of the green energy tax credits, which were created under President Biden's tax-and-climate law, with a 10-year savings of up to $796 billion (depending on the number of credits modified or repealed); repeal of the state and local tax deduction, with a 10-year savings of $1 trillion, an amount that would account for eliminating both the individual and business state and local tax deduction; repeal of the head of household filing status, with a 10-year savings of $192 billion; and more.

The Budget Committee's options cover a variety of issues crossing jurisdictional committee lines. And while the list is long, it is not necessarily a complete list of items that will be part of a discussion in reconciliation and also includes many ideas which will quickly be discarded. So, while it's a useful look at some of the ideas being batted around Capitol Hill, it should not be seen as a definitive list of items expected to be signed into law.

The House Freedom Caucus (HFC) this week also made news on the process front, releasing a letter proposing a two-step reconciliation strategy, which is in contrast to the one-bill approach that Rep. Mike Johnson (R-La.) and Ways and Means Chairman Jason Smith (R-Mo.) have been proposing. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 34 Dec. 20, 2024.) HFC would fund border security, modernize the US military, and reverse some of President Biden's policies in the first bill, while also increasing the debt ceiling for two years. They suggested funding tax cuts in the second bill. HFC contended that their "proposal is a Republican plan that can reach 218 votes."
URL: https://x.com/freedomcaucus/status/1879892258553757817/photo/1
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241220_1.html

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