Bessent supports cutting taxes to grow the economy

Among other tax-related comments at his January 16th confirmation hearing, Treasury Secretary-Designate Scott Bessent told Senate Finance Committee members at his January 16 confirmation hearing that he supports plans to extend soon-to-expire tax cuts in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) as congressional Republicans and the incoming Trump administration have been touting the cuts as a means for economic growth.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Bessent's confirmation hearing was held just four days before Donald Trump's inauguration as the nation's forty-seventh president.

Bessent talks tax at a high level

Bessent, who is expected to win confirmation from the Republican-controlled Senate, told the panel that extending the soon-to-expire TCJA tax cuts will grow the economy, support small businesses, and provide financial relief to American taxpayers.

He emphasized that cutting taxes is "the single most important issue of the day," adding that "if we do not renew or extend [the tax cuts], we will be facing an economic calamity," with many deductions being cut in half and the middle class feeling the financial pain. Bessent further maintained that "we saw the power of these tax cuts in 2018, 2019, and in the beginning of 2020 before COVID started."

Numerous Republican senators – including Chairman Mike Crapo of Idaho and Steve Daines of Montana, contended that, if Congress does not act by extending the TCJA tax cuts, there will be more than a $4 trillion tax hike for American taxpayers. Crapo emphasized that those tax cuts will benefit primarily low-to-moderate income taxpayers, while Daines stressed that, "when you lower taxes, you grow the economy and become competitive."

By contrast, the Democratic panel – including Ranking Member Ron Wyden of Oregon and Michael Bennet of Colorado – criticized Republicans' plans to extend the TCJA tax cuts and maintained that the benefits from extension would benefit primarily the "richest people in America." Bennet stressed that the Trump tax cuts are "deeply, deeply" unfair to the middle class and have already resulted in a $2 trillion dollar price tag.

Bessent respectfully disagreed with Bennet's statement that the benefits only went to the richest Americans, noting that the "top 50 percent of Americans now pay 98 percent of the taxes."

With large portions of the TCJA set to expire at the end of the year, Sen. Daines asked Bessent about the benefits of making tax cuts permanent. Bessent replied that "incentives drive everything in tax policy," adding that, "since November 5 [when Donald Trump clinched the election to become the forty-seventh president of the United States], we have seen the biggest increase in optimism from small businesses." He further indicated that, with permanence, we get the following three results – increase in hiring; real wages; and training and expansion of the workforce – which as Trump advocated will unleash the economic era of the "golden age."

While senators generally kept their discussions about taxes to a high level, several senators broached the subject of specific tax provisions.

Research and development expenditures: Sen. Maggie Hassan (D-N.H.) asked Bessent whether he agrees with revising current law to allow for the immediate deduction for research and development (R&D) expenditures, an initiative she says she has been working on.

Bessent noted that although he is "not totally educated on this matter," his inclination is that "he would support it and make it a priority." Bessent believes it is important to ensure that American companies are competitive.

Currently, the TCJA 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.

Bonus depreciation: Sen. James Lankford (R-Okla.) asked Bessent whether he would be in favor of enacting a "stable bonus depreciation amount," arguing that certainty is beneficial for businesses, large or small.

Bessent indicated that a "high after-tax return on capital for businesses is good for job creation."

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.)

Premium tax credit: Sen. Catherine Cortez Mastro (D-Nev.) asked Bessent whether he would commit to renewing the premium tax credit which she says has helped her constituents pay for health insurance premiums. Bessent responded that he would research the matter with "deliberate speed."

The Inflation Reduction Act: Sen. Cortez Mastro maintained that the advanced manufacturing production credit under section 45X, which was enacted as part of the Inflation Reduction Act of 2022 (P.L. 117-169), has helped drive the creation of jobs in her state. As such, she asked Bessent whether he would commit to opposing any measure to repeal the 45X credit. He indicated that he would get back to her.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

To pay for extending the soon-to-expire tax cuts in the TCJA, congressional Republicans and the incoming administration have touted getting rid of at least some of the clean energy provisions in President Biden's tax-and-climate law.

IRS' Direct File program: When asked by Sen. Wyden whether he would commit to keeping the IRS' Direct File program "up and running" during the 2025 tax filing season, Bessent confirmed that he will ensure that the program is operational for the tax filing season opening later this month (see separate story in this edition of TNV for more details on the filing season schedule), and if confirmed, he will study the program to determine whether it serves the IRS' goals. (A day before the hearing, Sen. Elizabeth Warren (D-Mass.), with more than 130 other lawmakers, sent a letter to both Secretary-Designate Bessent and IRS Commissioner-Designate Billy Long urging them to maintain and expand IRS' Direct File program.)
URL: https://www.warren.senate.gov/imo/media/doc/letter_to_bessent_and_long_on_direct_file.pdf

Direct File is an online tax return system which enables eligible taxpayers to file their taxes for free. It has been a hot button issue for Republicans since it started as a pilot program last year.

Other fiscal policy matters

In addition to taxes, Bessent touched on a variety of other issues that directly affect fiscal policy, including the debt limit and energy dominance.

Debt limit: Sen. Warren noted that President-elect Trump said he supports repealing the debt limit and asked Bessent if he agreed it should be repealed as well. Bessent indicated that "if Trump wants to get rid of it [the debt limit]," then he will work with Sen. Warren to do so.

He also declared that "the United States will not default on its debt if I'm confirmed."

The most recent suspension of the debt limit, which was enacted in the Fiscal Responsibility Act of 2023 (P.L. 118-5), expired on January 1, 2025, but lawmakers typically would have several months after January 1 to raise or suspend the statutory debt limit, without risking default on the nation's credit while the Treasury Department uses "extraordinary measures" to pay the nation's bills. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 22, June 1, 2023.) Those measures will likely extend the so-called "X-Date" – the date after which the government can no longer borrow money to pay its bills – for several months, meaning this issue is all but certain to command more attention from lawmakers in the coming months.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2023/TNV/230602_1.html

Energy dominance: Sen. Barrasso (R-Wyo.) for his part, argued that reigniting the economy could be accomplished by "unleashing energy," noting that the state he represents is the third largest net energy supplier. He asked Bessent the role he would like to play in the new administration to ensure that the United States is dominant in the energy sector.

Responding, Bessent indicated that what Barrasso mentioned is referred to by President-elect Trump as "energy dominance." He maintained that the supply of energy has been constrained in the United States, however, unleashing those constraints could propel economic growth.

Lowering costs for consumers: Consumer affordability – which was front-and-center in last year's presidential election particularly as it related to purchasing necessities – was addressed by Bessent in response to Sen. Tina Smith's (D-Minn.) question as to how costs can be lowered for Americans and make the economy work for everyone.

Bessent said he believes that the incoming administration is committed to addressing the affordability crisis and that he considers inflation to be "one of the great killers for working American families." Bessent further added that the reduction in inflation and interest rates are key components that impact a consumer's ability to afford needed goods and services.

International: Responding to a question from Sen. Lankford (R-Okla.), Bessent said that "any country intent on implementing Pillar Two (a component of the global tax agreement struck through the OECD by more than 140 countries, including the US) before President-elect Trump takes office will be a grave mistake," and stressed that "the taxation of US companies is a sovereign issue, and that the authority lies with this Congress." He promised to work with Congress to undo what he referred to as a "terrible policy."

Pillar Two of the OECD's global tax deal established a global minimum tax of 15 percent, with the goal to ensure that multinational companies pay at least that rate, regardless of where they operate, and it allows countries to levy top-up taxes if a company isn't taxed at that level in a country in which it operates or in the parent jurisdiction – an aspect of the regime known as the undertaxed profits rule (UTPR).

The Biden administration has been in favor of making changes to US tax law to harmonize it with Pillar Two, however, congressional Republicans have argued that the Biden administration overstepped its authority in negotiating and signing on to the deal and have especially opposed the UTPR. A second Trump administration and the 119th Congress controlled by the GOP casts doubt over whether the United States will adopt changes needed to come into compliance with Pillar Two.

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