House rank-and-file presents tax priorities at Ways and Means 'Member Day' hearing, Bessent moves to full Senate for vote

The House Ways and Means Committee on January 22 held a "Member Day" hearing at which Chairman Jason Smith (R-Mo.) and other taxwriters heard from lawmakers—mainly Republicans—who are not on the panel about their tax legislative priorities that fall under the committee's jurisdiction. In addition to taxation, the expansive roster of issues that Ways and Means oversees includes tariffs and other revenue-raising measures, as well as programs such as Social Security, unemployment insurance, Medicare, enforcement of child support laws, Temporary Assistance for Needy Families, and foster care and adoption programs.

TCJA concerns

A majority of GOP members argued in favor of extending the soon-to-expire tax cut provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) and stressed that extending these provisions would benefit American individuals and business, expand economic growth, and make the United States more competitive. The GOP members who testified at the hearing were in sync with Republican taxwriters who, at a committee hearing the week before, expressed their support for extending the TCJA tax cuts to grow the economy and ensure that American taxpayers do not experience a tax increase next year. (For prior coverage of the January 14 committee hearing, see *Tax News & Views*, Vol. 26, No. 2, Jan. 17, 2025.)
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250117_1.html

In addition, most House members who testified at the hearing also focused on an assortment of narrower tax concerns.

Research and development expenses: A number of House members supported reversing a TCJA research and development (R&D) provision and returning to prior law which allowed immediate deduction for R&D expenditures. Lawmakers 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.

Rep. Erin Houchin (R-Ind.), along with Reps. Ashley Hinson (R-Iowa) and Rich McCormick (R-Ga.), argued for making the R&D expenditures fully deductible in the taxable years in which they were incurred. Houchin, who is also a small business owner, said that, with no immediate deduction for R&D expenditures, it makes it more difficult "for families to innovate" and be competitive. Houchin was one of the cosponsors for the American Innovation and R&D Competitiveness Act of 2023 (H.R. 2673) which eliminated the five-year amortization requirement for domestic R&D expenditures.
URL: https://www.congress.gov/bill/118th-congress/house-bill/2673/text

It is worth noting that the bipartisan Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) negotiated by Chairman Smith and then Finance Committee Chairman Ron Wyden (D-Ore.) 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

State and local tax deduction: The issue of modifying or repealing the SALT deduction cap continued to divide rank-and-file members of Congress, with lawmakers representing jurisdictions with high local income and property taxes arguing for relief while those representing lower-tax jurisdictions generally opposed raising the cap on the deduction.

Rep. Kevin Kiley (R-Calif.) was among the members who advocated for raising the cap on the SALT deduction and emphasized that we have an opportunity "to provide needed tax relief" with the change in the law. He also noted that his constituents have experienced a significant tax burden due to the SALT cap, and in a state like California, which he argued has already contributed more than any other state in federal taxes, the additional burden is difficult to bear. Other Republican members also spoke out in favor of increasing or repealing the $10,000 SALT cap, including Reps. Young Kim of California and Nick LaLota of New York who also commented in floor remarks that day that "the SALT deduction is the number one tax issue for Long Islanders," and added that a "higher SALT cap means tax fairness, it means economic equity, and it means relief for hard-working families."

Democrats from high-tax jurisdictions also argued in favor of raising the cap on the SALT deduction. Rep. Laura Gillen of New York maintained that the cap on the SALT deduction is a "critical priority for [constituents in her] district" and emphasized the need to eliminate the cap on the deduction. She stressed that the cap "essentially doubles the taxes" imposed on her constituents and that it has detrimentally affected "hard-working, middle-class Americans." Gillen, along with a bipartisan group of 20 other lawmakers from New York, New Jersey, and California, cosponsored a bill (H.R. 430) – Securing Access to Lower Taxes by Ensuring (SALT) Deductibility Act – to repeal the limitation on the deduction for state and local income and property taxes.
URL: https://www.congress.gov/bill/119th-congress/house-bill/430/text

Other Republicans, including Rep. Keith Self (R-Texas), opposed raising the cap on the SALT deduction. Self argued that it "unfairly punishes residents of his district," and maintained that a "hard-working Texan" should not have to shoulder the costs incurred for taxpayers in New York and California, which he considered to have instituted bad fiscal policies.

A failure to raise the cap on the SALT deduction could be a deal killer for the Republicans' hopes of passing, on a party-line basis, a tax bill to extend the soon-to-expire tax cuts in the TCJA as the GOP can only lose one or two Republican members, assuming all Democrats voted against the bill (all 215 members are present and voting). With the realities of an extremely slim margin in Congress, President Trump and Republican leaders are taking their demands seriously.

Child tax credit: Members on both sides of the aisle expressed support for an expanded child tax credit which, at the end of 2025, would revert back to its pre-TCJA amount of $1,000 per child. Since the 119th Congress

began, there have been several bills introduced in Congress that would modify the child tax credit provision, including a bill (H.R. 353) from Rep. Blake Moore (R-Utah), Republican Conference Vice Chair and House Ways and Means Committee member – the Family First Act – which 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.
URL: https://www.congress.gov/bill/119th-congress/house-bill/353/text

Rep. Tim Moore (R-N.C.) supported an increase in the child tax credit and argued for it to be indexed for inflation. He stressed that the credit is a "lifeline" for families as they tackle the everyday economic realities.

Rep. Rosa DeLauro (D-Conn.) argued in favor of the American Family Act (H.R. 3899;118th Congress) which would have provided for a fully refundable child tax credit and monthly advance payments of credit amounts. She maintained that families live paycheck-to-paycheck with "children suffering the most," and noted that, under the TCJA, "children are left behind" because "parents and grandparents" are not earning enough money, a reference to making the child tax credit fully refundable, with more families able to receive the credit as a refund even if the family does not owe any federal income tax.
URL: https://www.congress.gov/bill/118th-congress/house-bill/3899/text

The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) also included a proposal that would make the child tax credit more generous by permitting the refundable portion of the credit to be calculated on a per-child basis, gradually increasing the overall limit on refundability, allowing parents to use prior-year income to qualify for the credit, and indexing the maximum credit amount for inflation. (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: Reps. Tom Baird (R-Mich.) and Vince Fong (R-Calif.), argued that, if the estate tax provision in the TCJA, which sunsets at the end of the year, was not extended past 2025, it would be difficult to pass family farms to the next generation upon someone's death.

Under current law, the estate tax exemption in 2025 is $13.99 million per taxpayer, up from $13.61 million in 2024, however, if the provision is not extended beyond the end of this year, that amount would decrease to a base amount of $5 million.

Section 199A passthrough deduction: Many Republican lawmakers boasted about the benefits of the section 199A deduction for passthrough entities as a way to increase small business job creation. Rep. Andrew Clyde (R-Ga.) indicated that, as a small business owner, making the section 199A passthrough deduction permanent will "boost small business investment" and noted that 9 out of 10 small businesses could face significant tax hikes, with effective tax rates rising to 43 percent if the passthrough deduction is not made permanent.

The section 199A provision was created by the TCJA and provides a 20 percent deduction for certain 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.

Inflation Reduction Act: Several Republican lawmakers argued for Congress to "take a surgical approach" when determining whether to repeal any of the energy tax credits enacted as part of the Inflation Reduction Act of 2022 (P.L. 117-169) – President Biden's signature tax-and-climate law – rather than use a "sledge hammer" to the assortment of energy tax credits that taxpayers have been utilizing for more than two years.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

Rep. Mariannette Miller-Meeks (R-Iowa), for example, emphasized that many of these credits are already enjoying "bipartisan support" and that companies are already taking advantage of them to further their business goals. While she noted that the Inflation Reduction Act of 2022 is a "deeply flawed bill," she acknowledged that it included some important energy tax credits that are "already driving transformative investments across the US energy sector," including the clean fuel production credit under section 45Z; the advanced manufacturing production credit under section 45X; and the carbons oxide sequestration credit under section 45Q; among others.

President Trump has made public statements about intending to repeal certain energy tax credits enacted as part of the Inflation Reduction Act, and just this week issued an executive order in which he directed federal agencies to "immediately pause the disbursement of funds appropriated through the Inflation Reduction Act of 2022." (See separate coverage in this edition of TNV for a story on President Trump's "Unleashing American Energy" executive order.) (For prior coverage on possible offsets for budget reconciliation, see *Tax News & Views*, Vol. 26, No. 2, Jan. 17, 2025.)
URL: https://www.whitehouse.gov/presidential-actions/2025/01/unleashing-american-energy/
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250117_1.html

Direct File: The Direct File program has been a hot button issue for Republicans since it started as a pilot program last year, so it was not surprising when at least one rank-and-file Republican member – Rep. Chuck Edwards of North Carolina – characterized it as an example of "wasteful spending" by the Biden administration. A proponent of getting rid of Direct File, Edwards, along with 28 other House lawmakers sent a letter on December 10 to then President-elect Donald Trump and urged him to take immediate action to end the IRS' Direct File program.
URL: https://adriansmith.house.gov/sites/evo-subsites/adriansmith.house.gov/files/evo-media-document/Letter%20to%20President-Elect%20Trump%20re%20IRS%20Direct%20File%20-%20Version%20%232%20-%2012-10-2024%20%40%2005-22%20PM.pdf

In the upper chamber, Scott Bessent, Trump's pick for the Treasury Secretary, discussed the fate of the Direct File program when the issue was raised at his nomination hearing at the Senate Finance Committee on January 16. He promised that he would ensure the program is operational for the tax filing season opening next week, and if confirmed, he will study the program to determine whether it serves the IRS' goals for future years. Bessent won approval from the Finance Committee on January 21 which cleared the way for a vote in the full Senate. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 2 (Jan. 17, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250117_2.html

Bessent's nomination secured bipartisan support in Finance Committee, heads to full Senate

In the Senate, Scott Bessent, President Trump's choice to serve as the Treasury Secretary in the new administration, secured bipartisan support from the Finance Committee on January 21 when it voted to recommend his confirmation by a vote of 16 to 11, with two Democrats – Sens. Mark Warner of Virginia and Maggie Hassan of New Hampshire – joining all Republicans on the committee in recommending his confirmation. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 2, Jan. 17, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250117_2.html

Bessent, a long-time hedge fund manager, told Senate Finance Committee members at his January 16 confirmation hearing that he supported plans to extend soon-to-expire tax cuts in the TCJA which will take center stage in this year's tax policy debate. He also told the Senate panel last week that extending the TCJA tax cuts will grow the economy, support small businesses, and provide financial relief to American taxpayers, and further emphasized that cutting taxes is "the most important issue of the day."

"When it comes to Mr. Bessent's qualifications, there's no room for debate – his decades of academic, professional and leadership experience make him tailor made for the role of Treasury Secretary. I am confident he will provide the necessary leadership to help restore economic prosperity and opportunity in the United States, and I look forward to his nomination being considered by the full Senate," said Senate Finance Committee Chairman Mike Crapo (R-Idaho) in a January 21 statement.

"In prior congresses, I have joined with many of my Republican colleagues in voting for well-qualified Treasury Secretary candidates put forward by a Democrat president, even though I did not agree with all the positions for which they advocated, Crapo said.

Ranking Member Ron Wyden (R-Ore.), who voted against Bessent to move forward in the confirmation process, argued that he opted out of paying for his fair share into the Social Security and Medicare Trust fund on certain income earned through his hedge fund, Key Square Group LP. When asked about this, Bessent indicated that he would consider amending his tax returns only if his interpretation of the tax laws was ruled incorrect by higher courts.

A full vote by the Senate has not been scheduled yet but is expected to happen in the coming days.

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