Policy Note

LEARN MORE
Click Here

Click or scan to view our website and access past reports, policy notes and more.

Congress, Not the White House, Drives Tax

Importantly, the US Senate and House of Representatives, not the White House, will set the parameters on US debt and deficits, as well as tax policy. More specific to tax, the details of the 2017 TCJA tax extensions in 2025 will originate in the US House of Representatives' Ways & Means Committee, working collaboratively with the US Senate Finance Committee. **As part of this process, Congress will be the decider on incremental deficit appetite.**

Notable Considerations in US Tax Policy

Expiring TCJA Provisions:
- Expected to be fully restored
- Duration of extension (i.e., 4-5 years?) will likely be a function of deficit impact

Legislative Path: FY 2025 Budget Reconciliation
- Requires only 50 votes in US Senate (vs. 60 for most legislation)
- Bipartisan support therefore not required

Expected Timing:
- **Jan 3, 2025:** New Congress sworn in
- **Q1 2025:** Passage of FY 2025 budget fast-tracked (to unlock reconciliation authority for tax)
- **Q3-Q4 2025:** Passage of tax bill
- **Jan 1, 2026:** Expiring tax rates reset higher if not extended

Deficit Appetite: Will become evident with passage of FY 2025 budget in Q1 2025 (as early as January)
- FY 2025 deficit could be as large as $2-$2.5 trillion (largest in history for a single year)

Deficit Impact: Given late 2025 timing, incremental deficit impact will be largely FY 2026

Two "Bites at the Apple": With US Gov FY end on Sept 30, two tax driven reconciliation bills are possible in calendar year 2025
- FY 2025 budget authority
- FY 2026 budget authority

Notable Questions on Tax

Following passage of the 2025 budget in Q1 to facilitate tax reconciliation instructions for a separate tax bill later in the year, we will likely develop a sense for how Congress is thinking about numerous of the most coveted (and very expensive) US tax proposals.

Key Questions for the 2025 Tax Bill

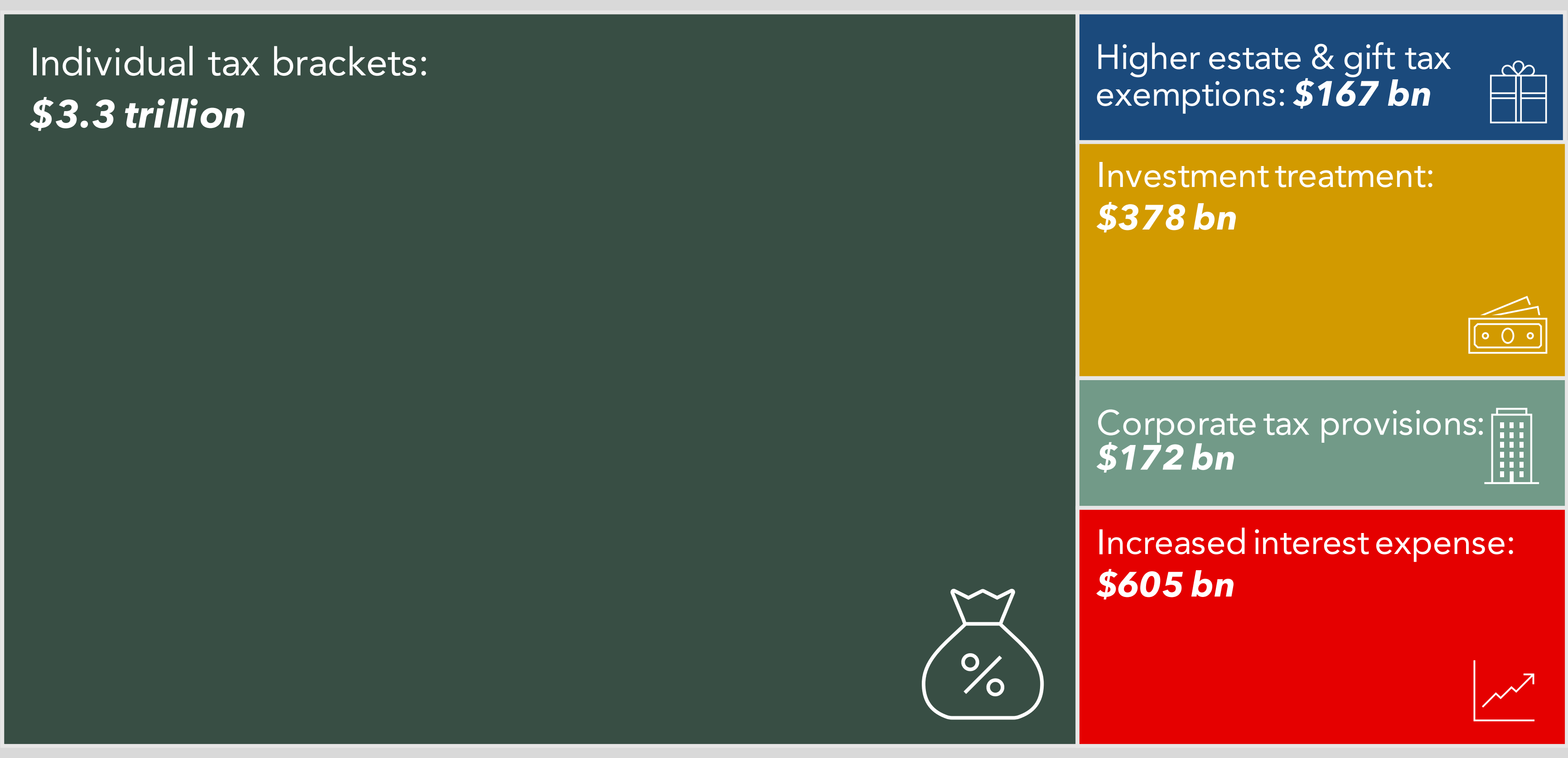
1. ***Corporate Tax:*** Will the statutory rate be reduced below the current 21%?
2. ***Duration:*** Given the deficit implications, how many years will the various tax provisions be extended?
3. ***SALT:*** Will the SALT Cap be increased from current $10k threshold?
4. ***IRA:*** Will any of the IRA energy transition tax incentives be unwound?
5. ***Campaign Promises:*** Will any of Trump's additional tax cut promises be honored (restaurant tips, social security, etc.)?
6. ***Deficit:*** How large is the incremental deficit appetite of GOP Senate and House members?
7. ***Debt Ceiling:*** Will the tax bill be combined with a debt ceiling bill (which must be increased by July 2025), thereby moving forward the timing of the tax bill itself?
8. ***International Tax:*** Will the 2025 tax bill revise international provisions (i.e., GILTI, BEAT, FDII) so that they can be integrated with the OECD's Pillar 2 minimum tax provision (15%), for which the US been given a safe harbor exclusion that will expire in 2026?

Extending the 2017 US Tax Cuts Would Cost $4.6 Trillion

Without an extension, many of President Trump's TCJA tax cuts from 2017 will expire and revert to pre-TCJA levels after 2025. According to the CBO's latest scoring, the cost of extending the expiring TCJA tax cuts would be nearly $5 trillion over 10 years.

Budgetary cost of extending 2017 tax cuts

Total: ***$4.6 trillion***



Restore Expiring Corporate Tax Provisions

Expires	TCJA Provision	Post-Expiry	Trump
Not Expiring	Corporate tax rate at 21%	Corporate tax rate at 21%	Likely 20-21%
After 2021	Immediate upfront expensing for R&D costs	Domestic: 5 years Foreign: 15 years	Restore
	Business net interest expense deduction capped at 30% of EBITDA	Business net interest expense deduction capped at 30% of EBIT	Restore
After 2022	100% bonus depreciation for short-life business investments	Phase out of 100% bonus depreciation (fully expires at end of 2026)	Restore
After 2025	10.5% Global Intangible Low Taxed Income rate (GILTI)	13.125% rate after 2025	Likely resets to higher rate
	10% Base Erosion and Anti-Abuse Tax (BEAT)	12.5% rate after 2025	Likely resets to higher rate
	13.125% effective tax rate for income from Foreign Derived Intangible Income (FDII)	16.406% rate after 2025	Likely resets to higher rate

Source: (1-4) Tax Foundation, "Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations" (May 2024). Veda Partners (Henrietta Treyz). PwC. Deloitte. EY. Tax Policy Center, "How Did The Tax Cuts and Jobs Act Change Personal Taxes?". CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenue" (May 2024). Congressional Research Service, "Reference Table: Expiring Provisions in the Tax Cuts and Jobs Act."

Global Corporate & Investment Banking
Capital Markets Strategy Team


Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472


Stephanie Kendal
Vice President
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443


Angela Sun
Analyst
Angela.Sun@mufgsecurities.com
(212) 405-6952

"Macro stability isn't everything, but without it, you have nothing."