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# Outlook for U.S. Tax Laws - Potential Changes and Process

As of May 12, 2025

# Private Bank's *Washington Tax Watch* – May 12, 2025 Edition

## Recent Developments

Ways & Means Committee releases first look at tax legislation, which includes expected language to extend or make permanent expiring taxpayer-friendly provisions

## Highlights

On May 9, the House Ways & Means Committee released an initial partial draft of long-awaited tax legislation that would extend, or make permanent, many of the provisions of the Tax Cuts & Jobs Act (TCJA) scheduled to expire at the end of this year. On May 12, the Committee released more detail, including 389 pages of proposals that are estimated to increase the net deficit by approximately $3.7 trillion over 10 years.

Most notably for high-income taxpayers, the bill would permanently retain the 37% top income tax rate and increase the exclusion amount used for estate, gift, and GST tax purposes from $13.99MM to a new base amount of $15MM effective 1/1/26 and adjusted for inflation thereafter. The bill would permanently increase the state and local tax (SALT) deduction cap to $30,000 for married couples filing jointly that make under $400,000 ($200,000 for single filers), with phaseouts that would limit the deduction for high-income taxpayers to the current $10,000. It would effectively eliminate the deductions that many pass-through entities take for state and local taxes paid (the so-called "SALT cap workaround"). It would also revive a modified version of the overall limitation on itemized deductions (the so-called "Pease limitation") that would reduce itemized deductions (for example, charitable contributions and investment interest) for individuals in the top rate bracket, beginning 1/1/26.

Also made permanent would be the existing alternative minimum tax exemption amounts and phase-out thresholds, the $750,000 principal cap on mortgage interest deductibility, and the disallowance of miscellaneous itemized deductions (formerly applicable to investment management fees, among other expenses). The bill would allow – from 2025 through 2028 – an above-the-line deduction for tip income paid voluntarily to non-highly compensated individuals working in occupations "which traditionally and customarily received tips" before 2025 (to be defined after enactment), and for qualified overtime compensation.

Revenue raisers include a progressive excise tax on the net investment income of private foundations, from 1.39% up to a top 10% rate for foundations with $5 billion in assets. It would also, starting 1/1/26, subject large private college and university endowments to up to a 21% excise tax. The bill would halve amortization benefits for professional sports team owners that acquire teams after the date of enactment (i.e., the ability to recover the purchase price of the franchise, player contracts, season ticket lists, media contracts, etc., over a 15-year period). President Trump's suggestion to treat some carried interest as ordinary income is not included. Another closely-watched item, the tax-exempt status of municipal bonds, was also not addressed.

Among the business-friendly provisions, the bill would restore 100% bonus depreciation for certain business property, allow immediate expensing of domestic R&D expenditures, and provide more generous limitations on business interest deductibility, through the end of 2029. The 20% qualified business interest deduction on income earned by owners of certain "pass-through" businesses (such as partnerships, S corporations and sole proprietorships) would increase to 23%, reducing the top effective rate on that income from 29.6% to 28.5%.

The details of these proposals will likely shift as Republicans begin to debate the specifics of the bill on May 13. Other issues could also defeat the bill, including the amount and nature of proposed spending cuts, the method used to determine the estimated cost of the bill, and the approach to increasing the debt ceiling before the recently-announced August deadline.

House leadership aims to pass this bill before the Memorial Day recess. The administration and Senate leadership are targeting enactment by July 4. Some observers have suggested that a more realistic date is late July: just before Congress' extended recess and the debt ceiling deadline.

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