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

As of March 24, 2025

Private Bank's *Washington Tax Watch* – March 24, 2025 Edition

Recent Developments

Congress returns from recess; Republicans expected to focus on big-picture budget reconciliation decisions; newly issued Corporate Transparency Act regulations end reporting for domestic reporting companies

Highlights

On March 24, Congress returned from a week-long recess. A top priority for Republicans is solving big-picture issues that must be decided before using the budget reconciliation process to extend the provisions of the 2017 Tax Cuts & Jobs Act (TCJA) scheduled to expire at the end of 2025. Republican leadership in the House and Senate would also like to include other tax rate cuts promised by the Trump Administration, including a tax exemption for tips and overtime, an increase to the $10,000 cap on state and local deductions, and business-friendly provisions to address recently expired or reduced tax benefits, for example, restoring 100% accelerated depreciation for certain business property placed into service (e.g., aircraft, machines, equipment, vehicles), allowing immediate expensing of domestic R&D expenditures, and providing more generous limitations on business interest deductibility.

To advance tax legislation, Congressional Republicans must first decide on whether they will adopt the House's preferred "one big bill" strategy, or address tax policy in a separate bill later this year, as the Senate prefers. They must also determine how they will "score" the cost of extending the TCJA; President Trump and Senate leadership aim to make the TCJA permanent, and also have Congressional scorekeepers score the cost of a bill using the "current policy" baseline to measure (for Congressional calculation purposes), rather than the traditional "current law" baseline. The current policy approach likely requires approval of the Senate parliamentarian, and skeptical "deficit hawks" in the House.

Republicans will need to identify "pay-fors" once they determine the overall cost of tax legislation. Last week, Stephen Moore (an informal economic advisor to President Trump) suggested eliminating the tax-exempt status of municipal bonds. Moore acknowledged that a cap on the exclusion might be more realistic than eliminating the benefit, acknowledging there would be "a lot of pushback" from state and local officials. Proposals to limit the tax-exempt treatment of municipal bonds is likely to face pushback from representatives whose districts benefit from the indirect subsidy given the importance of tax-exempt bonds in helping to fund state and local infrastructure-at lower interest rates than might otherwise prevail. Narrow margins in the House would make it difficult to change the tax treatment of municipal bonds. One Republican member of the House Ways & Means Committee, Rep. Rudy Yakym (R.-In.), recently made clear that he wants to protect the tax-exempt status of municipal bonds, suggesting the "hot debate" on this topic is taking place "outside the halls of Congress as opposed to inside." Many Congressional Republicans are cautious to discuss the details of any specific proposals before they reveal the details of a tax bill.

In other news, on March 21, the U.S. Treasury Department issued interim final regulations confirming that the Corporate Transparency Act (CTA) beneficial ownership information (BOI) reporting regime applies only to foreign reporting companies, requiring that they report within 30 days of the rules being published. Importantly, the rule exempts from reporting "domestic reporting companies" and U.S. persons who are beneficial owners of foreign reporting companies, removing millions of U.S. individuals and entities from its scope. Issuance of these regulations has no impact on the many court challenges in the CTA's constitutionality, though judges may note Treasury's action as they consider the merits of the suits. Clients should contact their legal advisors to confirm they are not required to report any information to FinCEN under the CTA.

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