Tax Insights
from Tax Policy Services

Harris and Trump offer differing approaches to US tax policy

September 3, 2024

In brief

What happened?

Vice President Kamala Harris and former President Donald Trump have laid out competing tax policy agendas since becoming their party's nominees for the 2024 presidential election at the recent Democratic and Republican national party conventions.

Why is it relevant?

The tax policy agendas being proposed by Harris and Trump are expected to be a top focus of the next Congress. The November 5 federal elections also will decide which party controls the US House of Representatives and the US Senate.

2025 will be a year for significant "must-pass" tax legislation with key 2017 Tax Cuts and Jobs Act (TCJA) individual provisions set to expire at the end of 2025 and several significant business tax provisions set to change. Failure to act would result in across-the-board tax increases on individual taxpayers and automatic increases in certain business taxes under current law.

Action to consider

Business leaders and individuals will need to evaluate the potential effect of the tax policies being proposed by Harris and Trump on US economic growth and opportunities for US households.

In detail

Overview

The next president and Congress will need to address the challenge of extending or potentially revising a broad range of tax provisions that are set to expire or become more restrictive at the end of 2025. The provisions include expiring TCJA individual tax provisions and changes to various TCJA business provisions, as noted below. Additional expiring tax provisions include the work opportunity tax credit and expanded Affordable Care Act health insurance premium tax credits. The Congressional Budget Office (CBO) has reported that the 10-year cost of extending all tax provisions set to expire or scheduled change would exceed $4.7 trillion.

House Ways and Means Chairman Jason Smith (R-MO) has stated that "everything will be on the table" in 2025, including possibly the current 21% corporate tax rate, given the cost of addressing expiring TCJA provisions.

Observation: The US annual federal budget deficit in 2025 is projected by CBO to exceed $1.9 trillion, and interest costs to service the federal debt will be $1 trillion. By contrast, in 2017, when the TCJA was enacted, the US federal deficit was $655.7 billion, and interest costs to service the federal debt that year were $296.3 billion.

The next Congress could also revisit other recently enacted tax legislation, including clean energy tax credits and incentives that were enacted as part of the 2022 Inflation Reduction Act.

Observation: Democrats and some Republicans in Congress currently have expressed support for keeping the IRA clean energy tax incentives. While some Republican leaders have indicated that a full "repeal and replace" approach to the IRA provisions appears unlikely, they have expressed an interest in prospective efforts to address the rising cost of the clean energy incentives. CBO has projected the cost of the IRA credits to have increased from the original $370 billion estimate to more than $650 billion through FY 2033.

Harris tax proposals

In response to questions about expiring TCJA individual tax provisions, Vice President Harris has committed to ensuring that individuals with incomes below $400,000 will not pay more in new taxes. She also has proposed several new tax relief measures including an expanded child tax credit, new tax measures intended to lower housing costs, and the elimination of taxes on the tip income of service employees. Specific proposals include:

- Increasing the current $2,000 per child tax credit to $3,600
- Increasing the child tax credit to $6,000 for a child's first year.
- Providing tax incentive for homebuilders who build homes sold to first-time homebuyers
- Providing up to $25,000 in down-payment assistance for first-time homebuyers
- Expanding existing tax incentive for businesses that build affordable rental housing
- Removing certain tax benefits for major investors who acquire large numbers of single-family rental homes as proposed by the "Stop Predatory Investing Act" (S. 2224) introduced by Senator Sherrod Brown (D-OH).

Harris recently called for the top US corporate tax rate to be increased from 21% to 28%, in line with the corporate rate proposal included in President Joe Biden's FY 2025 budget proposal to Congress.

While Harris has not discussed other specific Biden tax increase proposals at this writing, Harris campaign aides reportedly have indicated to the press that she supports President Biden's tax proposals. An August 16 campaign press statement said that Harris will ask "the wealthiest Americans and largest corporations to pay their fair share" to make investments in the middle class while also reducing the federal deficit.

Additional Biden Administration tax proposals that Harris could propose to the next Congress if elected president include:

- Increasing the corporate alternative minimum tax to 21%
- Increasing the excise tax on certain corporate stock repurchases from 1% to 4%
- Denying business deductions for employee compensation above $1 million
- Revising global intangible low-taxed income (GILTI) rules, limiting inversions, and making related reforms to US international tax rules
- Adopting an undertaxed profits rule and repealing the base erosion and anti-abuse tax (BEAT)
- Repealing the deduction for foreign-derived intangible income (FDII)
- Increasing the top individual ordinary income tax rate to 39.6%
- Imposing a new 25% minimum income tax on expanded measure of income including unrealized capital gains for households with net wealth over $100 million
- Taxing capital gain income for high earners at ordinary rates
- Increasing from 3.8% to 5% the net investment tax rate
- Applying the net investment income tax to pass-through business income of high-income taxpayers
- Taxing carried interest as ordinary income
- Tightening estate tax rules

For more on President Biden's FY 2025 tax proposals, see our PwC Insight.

Observation: A Republican-controlled House or Senate generally would oppose tax increase proposals that Harris might propose if she is elected president, but some tax increases could be adopted as part of a bipartisan agreement to address expiring TCJA individual tax provisions and avert across-the-board tax increases. Even a Democratic-controlled Congress might not adopt all the tax increase proposals that a Harris administration might propose. For example, President Biden was unable to secure enactment of many of his tax increase proposals when Democrats narrowly controlled the House and Senate during his first two years in office.

Trump tax proposals

Former President Trump has called for making permanent expiring TJCA individual income tax and estate tax provisions. The Republican party platform also calls for maintaining TCJA business provisions and pursuing additional tax cuts.

Trump has said in various interviews he would like to lower the 21% corporate income tax rate to 20% or 15%.

Additional Trump tax relief proposals include:

- Eliminating taxes on tip income for restaurant and hospitality workers
- Eliminating income taxes on Social Security benefits
- Promoting homeownership through tax incentives and support for first-time buyers
- Supporting unpaid family caregivers through tax credits

Trump has stated that increased economic growth would offset the cost of his tax proposals. He also has proposed increasing federal revenues with a baseline tariff of at least 10% on all foreign-made goods and a 60% tariff on imports from China.

Budget reconciliation procedures could be used for a 2025 tax bill

If Trump is elected president along with a Republican-controlled Congress, senior House and Senate GOP leaders have indicated that budget reconciliation procedures will be used to enact tax legislation in 2025. Democratic House and Senate leaders also have indicated that they will use reconciliation procedures if Harris is elected, and Democrats win control of Congress.

Senate rules allow for budget reconciliation legislation to be approved by a simple majority, instead of the 60 votes generally required for legislation. A bill must comply with several requirements to preserve the protection against needing 60 votes in the Senate, including a key prohibition against a reconciliation measure increasing federal deficits outside the period covered by a budget resolution. Senate rules also prohibit using reconciliation to change Social Security laws.

The TCJA was enacted in 2017 using budget reconciliation procedures under a joint House and Senate budget resolution that set a $1.5 trillion deficit-financing cap on the legislation for the initial 10 years covered by the resolution. The December 31, 2025, sunset of individual tax provisions and other scheduled changes to business provisions were adopted to comply with these reconciliation requirements.

Observation: A 2025 tax bill considered under reconciliation would be subject to the same requirements to sunset provisions that increase federal deficits in future decades. The level of any deficit-financing for the first 10 years would have to be approved by the House and Senate in a joint budget resolution providing reconciliation instructions for the House and Senate tax committees. Divided party control of the White House and Congress would make the use of reconciliation procedures unlikely, and a tax bill considered under regular legislative procedures would not be subject to automatic sunsets or other reconciliation restrictions.

Key TCJA tax provisions set to expire or change

Key TCJA individual tax provisions scheduled to expire Dec. 31, 2025 include:		
	From	**To**
All current individual tax rates	37% for top individual ordinary income rate	39.6% for top individual ordinary income tax rate
Pass-through business income deduction	20%	0
Enhanced child tax credit	$2,000	$1,000

Higher standard deductions	**From**	**To**
Married filing jointly	$24,000	$13,000
Heads of household	$18,000	$9,550
Single filers	$12,000	$6,500

Other provisions set to sunset Dec. 31, 2025 include:

- current estate and gift tax provisions,
- expanded individual alternative minimum tax relief provisions,
- the $10,000 cap on the deduction for state and local taxes, and
- current limits on mortgage interest deductions.

Key corporate rates scheduled to automatically increase in 2026 include:		
	From	**To**
GILTI hike on a significant portion of foreign earnings	10.5%	13.125%
BEAT minimum tax on US earnings	10%	12.5%
Favorability rate on FDII eligible income	13.125%	16.4%

The look-through treatment for certain controlled foreign corporation income is also set to expire.

In addition to the provisions noted in the chart above, the next Congress could address other TCJA provisions that have already been subject to scheduled changes since 2017. The Senate recently blocked a House-passed bill (H.R. 7024) that would have temporarily restored on an elective retroactive, seamless basis Section 174 expensing for US-based R&D investments, the EBITDA-based business interest limitation under Section 163(j), and 100% 'bonus' depreciation under Section 168(k) through the end of 2025. H.R. 7024 also would have featured temporary enhancements to the child tax credit and other provisions, including disaster tax relief measures and Taiwan double taxation relief.

Observation: Efforts could be undertaken by the current Congress later this year to have the House and Senate consider a less generous, prospective-only version of bill's business and child tax credit provisions that would apply generally for tax years after December 31, 2023 and through December 31, 2025.

For more information on H.R. 7024, see our PwC Insight.

For additional information, see PwC's 2024 Tax Policy Outlook.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

Tax Policy Services

Pat Brown
(203) 550-5783
pat.brown@pwc.com

Rohit Kumar
(202) 841-8300
rohit.kumar@pwc.com

Scott McCandless
(202) 748-4760
scott.mccandless@pwc.com

Janice Mays
(202) 603-0641
janice.a.mays@pwc.com

Todd Metcalf
(202) 304-5383
todd.metcalf@pwc.com

Mark Prater
(202) 826-9014
mark.a.prater@pwc.com

Dave Camp
(989) 488-8807
david.l.camp@pwc.com

Pam Olson
(703) 627-8925
pam.olson@pwc.com

Andrew Prior
(703) 980-4520
andrew.prior@pwc.com

National Economics & Statistics

Karl Russo
(202) 431-9566
karl.russo@pwc.com