Tax Insights
from Tax Policy Services

Republicans on track to keep House for 2025 tax bill action

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In brief

What happened?

Updated results from the November 5 elections at this writing show that Republicans are projected to retain control of the House, with the minimum required majority of at least 218 Republican seats to 208 Democratic seats. Republicans are leading in four of the remaining nine races that are still undecided. If Republicans and Democrats hold the seats in which they are currently leading, Republicans would have a 222 to 213 seat majority in the 119th Congress. In addition, results available as of this writing show that Republicans are set to hold a Senate majority of 53 Republicans seats to 47 Democratic seats, pending potential recounts in two races.

Control of the White House and Congress will provide President-elect Trump and Congressional Republicans the opportunity to set the direction of US tax policy and potentially act on the tax and trade policies that Trump proposed during his campaign.

Why is it relevant?

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 virtually every individual taxpayer and automatic increases in some business taxes.

Observation: Republican control of the White House and Congress will allow for the use of "budget reconciliation" procedures to enact tax legislation in 2025 with only Republican votes, as was the case in 2017 when the TCJA was enacted. However, the narrow margins of the House and Senate Republican majorities could complicate the ability of Republican Congressional leaders to enact all of President-elect Trump's campaign proposals. Reaching an agreement on how to address expiring TCJA tax provisions and campaign tax and trade proposals could delay action on a reconciliation tax bill until late 2025.

The reinstatement of a statutory federal debt limit on January 1, 2025 – when a temporary suspension of the debt limit will expire – ensures that debate over the federal debt and annual federal budget deficits will confront the next Republican-controlled Congress early next year. While the incoming Trump administration's Treasury Department can use "extraordinary measures" to postpone the need for an increase in the statutory debt limit until later in the year, the need to avert a default on federal debt obligations by enacting new debt limit legislation will focus attention on the worsening US fiscal policy outlook and could complicate debate on 2025 tax legislation.

Action to consider

Business leaders and individuals will need to evaluate the potential effect of the tax policies proposed by President-elect Trump on the US economy, business, and individuals.

In detail

Overview

President-elect Trump can be expected to seek enactment of the key tax and trade proposals that he advanced during the campaign. These include addressing the challenge of extending or potentially revising a broad range of TCJA tax provisions that are set to expire or become more restrictive at the end of 2025. The provisions include expiring individual tax provisions and changes to various business provisions.

Observation: While Republicans in Congress can be expected to support President-elect Trump's policy goals, it is up to the House and Senate to draft statutory legislation carrying out specific campaign proposals. It can be difficult to garner the support necessary to enact legislation in a narrowly divided Congress.

As was demonstrated in 2017 when Trump initially proposed to reduce the US corporate tax rate from 35% to 15%, not all of President-elect Trump's campaign proposals will be advanced even by a Republican-controlled Congress. Federal budget constraints, the policy preferences of key House and Senate members, and other economic and political factors also will affect legislation enacted in 2025.

Historic levels of projected federal debt could affect action on tax legislation next year. The Congressional Budget Office (CBO) has projected that the current $35 trillion federal debt will increase by another $22 trillion over the next 10 years under current law. Based on Joint Committee on Taxation (JCT) estimates, the 2026 to 2035 10-year net cost of extending all tax provisions set to expire or scheduled to change would add more than $5.5 trillion to CBO's projected level of federal debt. The revenue effect of campaign proposals that go beyond the TCJA, and even reverse some of TCJA's base broadening, also could have a significant effect on the federal debt.

Observation: A key decision for Congressional Republicans next year will be to agree on the amount of tax relief that can be deficit financed and how much should be offset by some mix of revenue raisers and spending cuts. The US debt-to-GDP ratio in 2025 is projected by CBO to exceed 101.6%, and interest costs to service the federal debt will be more than $1 trillion, exceeding the annual budget for the Department of Defense. By contrast, in 2017, when the TCJA was enacted, the US debt-to-GDP ratio was 76.7%, and interest costs to service the federal debt that year were $296.3 billion. Republicans in 2017 voted to set a cap of $1.5 trillion on deficit financing for the TCJA.

Trump tax proposals

President-elect Trump has called for making permanent expiring TCJA individual income tax and estate tax provisions. He also has proposed to lower the 21% corporate income tax rate to 15% for companies producing goods in the United States, reinstating 100% 'bonus' depreciation, and enhancing incentives for US-based research activities. In addition, he called for numerous targeted individual tax cuts during his campaign, with proposals that range from eliminating taxes on tip income and Social Security benefits to restoring federal individual itemized deductions for state and local taxes and allowing a deduction for auto loan interest payments.

The Republican party platform also calls for maintaining TCJA business tax provisions. Under current law, key international business tax rates will increase at the end of 2025, including the rate of tax on global intangible low-taxed income (GILTI), the rate of the base erosion and anti-abuse tax (BEAT), and the foreign-derived intangible income (FDII) rate.

The next Congress could seek to address concerns about the potential for US companies to pay a higher overall tax rate to other governments under the new ‘Pillar Two’ global minimum tax regime. Congressional Republicans have expressed strong opposition to the approach undertaken by the Biden administration in supporting the OECD/G20 framework agreement on a Pillar One reallocation of taxing rights and a Pillar Two global minimum tax. Some Congressional Democrats also have expressed concern about these proposals, especially about treatment of the US research tax credit under the Pillar Two guidelines. In addition, there is bipartisan opposition to other countries imposing digital services taxes or similar measures that are considered primarily to affect US companies.

Observation: The Trump campaign has not released details on key tax proposals that have been announced at various events over the past several months. Incoming Trump administration officials at the White House and the Treasury Department will be responsible for submitting President-elect Trump’s specific proposals to Congress. In the case of the proposed 15% corporate rate for companies producing goods in the United States, some analysts have suggested that the Section 199 domestic manufacturing deduction, which was repealed by the TCJA, could be a model for providing a tax reduction for the eligible income of qualifying companies.

Figure 1. Key TCJA tax provisions set to expire or change

Key TCJA individual tax provisions scheduled to expire Dec. 31, 2025 include:		
	From in 2025	**To in 2026**
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 in 2025**	**To in 2026**
Married filing jointly	$30,000	$16,700
Heads of household	$22,500	$12,250
Single filers	$15,000	$8,350
Other provisions set to sunset Dec. 31, 2025, include:		
current estate and gift tax provisions (e.g., the estate tax unified credit is projected to go from roughly $14 million in 2025 to just over $7 million in 2026),		

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.

	From in 2025	To in 2026
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.

Source: CBO, *Update to the Budget and Economic Outlook: 2024 to 2034*, June 2024, Tax Parameters Supplemental Data; IRS, Rev. Proc. 2024-40, October 22, 2024.

In addition to the provisions noted in the chart above, the next Congress could address other TCJA provisions that already have been subject to scheduled changes since 2017. The Senate on August 1 blocked a House-passed bill (H.R. 7024) that would have restored through the end of 2025 on an elective retroactive, seamless basis expensing for US-based R&D investments under Section 174, the EBITDA-based business interest limitation under Section 163(j), and 100% 'bonus' depreciation under Section 168(k). 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.

The current Congress reconvened on November 12 for a lame-duck session that will focus on FY 2025 federal government funding and additional disaster relief funding for areas affected by Hurricanes Helene and Milton. A government-wide temporary funding bill is set to expire on December 20, 2024. Other legislation that is expected to be addressed includes an annual national defense authorization act and legislation extending federal farm programs.

- The current Congress could still act on disaster tax relief and the US-Taiwan provisions during the lame-duck session – if that gains traction, it could attract attention from proponents of the TCJA and child tax credit provisions.

President-elect Trump has stated that increased economic growth will 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. For more on Trump's tariff proposals, see this PwC Insight.

President-elect Trump also has called for repealing clean energy tax credits and incentives that were enacted under President Biden as part of the 2022 Inflation Reduction Act and has proposed to increase federal taxes on large university endowments.

Observation: 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. JCT has projected the cost of the IRA tax credits to have increased from the original $270 billion estimate to more than $650 billion through FY 2033. The 2022 Inflation Reduction Act also provided an additional $100 billion in clean energy grant incentives.

Additional tax provisions expiring at the end of 2025 include expanded Affordable Care Act (ACA) health insurance premium tax credits and the work opportunity tax credit. While President-elect Trump did not offer specific proposals to address health care during his campaign, he did express opposition to reducing Social Security and Medicare benefits. In addition to potentially addressing the scheduled expiration of expanded ACA health insurance premium tax credits, the next Congress could seek to change how health care providers are reimbursed by the Medicare and Medicaid programs and could seek to expand work requirements for individuals receiving Medicaid health insurance coverage.

IRS funding and tax administration are expected to be areas of focus for the incoming administration and Congressional Republicans. The Republican-led House and Senate appropriations committees are expected to reduce or eliminate fully the Inflation Reduction Act's remaining multiyear funding for IRS enforcement and operations. The current Congress has rescinded $21.6 billion of the original $80 billion in multiyear Inflation Reduction Act funding for the IRS.

President-elect Trump could direct the IRS to suspend the agency's Direct File tax return filing initiative. For the 2025 tax filing season, eligible taxpayers in 24 states are set to use the IRS Direct File program. While IRS Commissioner Daniel Werfel's five-year statutory term is set to expire on November 12, 2027, President-elect Trump could seek to make a change in the agency's leadership before that date. The new president is likely to appoint a new IRS chief counsel; the current IRS chief counsel, Marjorie Rollinson, was confirmed by the Senate in March 2024.

President-elect Trump has not indicated who he may nominate to serve as Treasury Secretary. The Republican-controlled Senate can be expected to be generally supportive of President-elect Trump's executive branch and judicial nominations.

For a discussion of tax accounting issues related to current tax law and pending tax legislation, see this PwC Insight.

Budget reconciliation procedures expected to be used for a 2025 tax bill

With Trump being elected president along with a Republican-controlled Congress, senior House and Senate Republican leaders have indicated that budget reconciliation procedures will be the preferred mechanism to enact tax legislation in 2025. Based on JCT staff estimates, the 2026 to 2035 10-year net cost of extending TCJA provisions and all other tax provisions set to expire or scheduled to change would add more than $5.5 trillion to CBO's projected level of federal debt. This estimate of future net costs assumes the extension of the current cap on the deduction for state and local taxes and other TCJA revenue raising provisions.

A joint budget resolution providing reconciliation instructions – and setting an agreed upon amount of tax relief that could be deficit financed – for the House and Senate tax committees would require nearly universal support from Congressional Republicans, since Democrats in Congress would be expected to oppose a Republican budget resolution.

Senate rules allow for a simple majority vote to enact budget reconciliation legislation, instead of the 60 votes generally required for legislation. A reconciliation bill must comply with several requirements to preserve the protection against needing 60 votes in the Senate, including a key prohibition against the measure increasing federal deficits outside the period covered by a budget resolution (typically 10 years). Senate rules also prohibit using reconciliation to change Social Security laws or to make changes unrelated to the federal budget.

Observation: Reconciliation procedure limitations could be an obstacle for President-elect Trump to deliver on his campaign promise to eliminate federal income taxes on Social Security benefits, since the revenues from those taxes are dedicated to support the Social Security trust fund.

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 the prohibition on reconciliation legislation resulting in a long-term deficit increase.

While a major increase in the corporate tax rate now seems unlikely, lawmakers will still be looking for ways to offset some of the cost of extending the individual tax relief that expires at the end of 2025. House Ways and Means Committee Chairman Jason Smith (R-MO) has said “everything will be on the table” in 2025, given the cost of addressing expiring TCJA provisions benefiting individuals and small businesses. JCT staff have estimated that a one-point increase in the corporate tax rate would raise about $125 billion over 10 years. Congress also could change other business tax rules in ways that would increase the tax corporations pay even if the 21% rate remains in place.

Observation: In PwC’s recent pre-election Pulse Survey 56% of tax leaders ranked an increase in the US corporate tax rate among the top three policy risks that would most affect their companies, and 55% said their companies would cut labor costs and/or move revenue-generating tasks outside the United States to mitigate a corporate tax increase.

A 2025 tax bill considered under reconciliation for the 2026 to 2035 10-year budget period would be subject to the same requirements to sunset provisions that increase federal deficits in future decades. A critical decision for Republican Congressional leaders will be to agree on the level of any deficit financing for the first 10 years of the reconciliation tax bill. The remaining initial 10-year cost of a reconciliation tax bill would need to be offset by some combination of spending reductions, corporate and individual base-broadening measures, or changes in various tax provisions, as was the case with the 2017 TCJA.

As noted above, President-elect Trump has stated that revenue from higher tariffs will be used to offset some of the cost of his tax proposals. While a president can impose tariffs under many conditions (e.g., unfair trade practices) without Congress, reconciliation procedures generally would require legislative action to impose higher tariff rates for the resulting revenue increase to be officially counted as an offset for other provisions in a reconciliation bill.

Observation: While the revenue effect of higher tariffs that a President Trump could impose under existing authority might not be included by CBO in the official score for a reconciliation tax bill, some Republican Senators might consider the revenue from higher tariffs as helping to address their goal on how much of the reconciliation bill should be deficit financed.

Economists at the nonpartisan Committee for a Responsible Federal Budget (CRFB) recently issued a report on the estimated fiscal impact of tax and spending proposals put forth by both the Trump and Harris campaigns. The CRFB noted that their estimates provide a range of potential fiscal effects due to the limited details provided by the campaigns on key proposals. As shown in Figure 2, the CRFB reported that under their central estimate, President-elect Trump’s proposals would increase the federal debt by $7.5 trillion. Under their low- and high-cost estimates, the Trump proposals were estimated to increase the debt by between $1.45 and $15.15 trillion.

Observation: While the CRFB acknowledges that their assumptions on the application of some Trump proposals may differ from the campaign’s intended design, the CRFB estimates illustrate the magnitude of the challenge that will confront the new Republican-controlled Congress in seeking to enact President-elect Trump’s campaign proposals in a manner that is (1) fiscally responsible and (2) can gain the votes of nearly all House and Senate Republicans.

Figure 2: Summary of Trump Campaign Proposals, Savings/Costs

The Trump Plan - (billions, 2026-2035)			
Policy Proposals	**Low**	**Central**	**High**
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-$ 4.600	-$ 5.350	-$ 5.950
Exempt Overtime Income from Taxes	-$ 500	-$ 2.00	-$ 3.00
End Taxation of Social Security Benefits	-$ 1.200	-$ 1.300	-$ 1.450
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-$ 150	-$ 200	-$ 600
Exempt Tip Income from Taxes	-$ 100	-$ 300	-$ 550
Strengthen and Modernize the Military	-$ 100	-$ 400	-$ 2.450
Secure the Border and Deport Unauthorized Immigrants	$ 0	-$ 350	-$ 1.000
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-$ 100	-$ 150	-$ 350
Boost Support for Health Care, Long-Term Care, and Caregiving	-$ 50	-$ 150	-$ 300
Subtotal, Tax Cuts and Spending Increases	-$ 5.100	-$ 7.250	-$ 9.700
Establish a Universal Baseline Tariff and Additional Tariffs	$ 4.300	$ 2.700	$ 2.000
Reverse Current Energy/Environment Policies and Expand Production	$ 750	$ 700	$ 550
Reduce Waste, Fraud, and Abuse	$ 250	$ 100	$ 0
End the Department of Education and Support School Choice	$ 200	$ 200	$ 0
Subtotal, Revenue Increases and Spending Reductions	$ 5.500	$ 3.700	$ 2.550
Net Interest	-$ 150	-$ 1.000	-$ 2.050
Total, Net Deficit Impact	-$ 1.450	-$ 7.500	-$ 15.150

Source: The Committee for a Responsible Federal Budget," The Fiscal Impact of the Harris and Trump Campaign Plans," Oct. 7, 2024. Assumptions made by the CRFB on the application of some proposals may differ from the campaign's intended design.

Narrow House and Senate Republican majorities will require building consensus on tax legislation

It is likely that any tax bill considered under reconciliation procedures in 2025 will need to rely entirely on securing near unanimous Republican support for the final legislation. Congressional Democrats are expected to strongly oppose the use of budget reconciliation for tax legislation next year, especially if it maintains the TCJA's reductions in taxes paid by those with more than $400,000 of income and fails to include tax increases on large corporations. As noted above, the TCJA was enacted in 2017 with only Republican votes.

Based on election results available at this writing, House Republicans are on track to retain narrow House majority, having secured the minimum required majority of at least 218 seats. The exact size of the Republican majority remains to be determined, with Democrats projected to have won at least 208 seats and nine races still undecided. If Republicans and Democrats hold the seats in which they are currently leading, Republicans would hold a 222 to 213 seat majority in the 119th Congress.

Senate Republicans are set to hold a 53 to 47 seat majority in the Senate, pending potential recounts in two races. Organizational efforts for the next Congress and decisions on leadership positions and committee assignments in the House and Senate began the week of November 11.

Note: The balance of power in the House could be complicated by President-elect Trump's selection of some current Republican House members to serve in his administration. The decision of Rep. Matt Gaetz (R-FL) to resign from the House effective immediately following his nomination by President-elect Trump to serve as US Attorney General will reduce the Republican House majority until a special election can be held in Florida to fill the seat vacated by Rep. Gaetz. President-elect Trump also has selected Rep. Matt Waltz (R-FL) to serve as White House national security advisor and Rep. Elise Stefanik (R-NY) to serve as US ambassador to the United Nations. The position of national security advisor does not require Senate confirmation, so Rep. Waltz could resign his seat at the start of the Trump administration, while Rep. Stefanik might delay her departure from the House until she is confirmed by the Senate. In both cases, special elections also would be required to fill the seats vacated by Reps. Waltz and Stefanik, and the House Republican majority would be reduced until those seats are held. By contrast, President-elect Trump's decision to nominate Senator Marco Rubio (R-FL) to serve as Secretary of State would have no effect on Republican control of the Senate, since Florida law allows Governor Ron DeSantis (R) to immediately appoint a replacement for Senator Rubio.

Current Speaker Mike Johnson (R-LA) was selected by House Republicans as the speaker nominee for the next Congress. Current Minority Leader Hakeem Jeffries (D-NY) is expected to continue in that position.

Senate Republican Minority Leader Mitch McConnell (R-KY) is stepping down from his leadership position; Senator John Thune (R-SD) was selected to serve as Senate majority leader in the next Congress. Current Senator Majority Leader Chuck Schumer (D-NY) is expected to serve as Democratic Minority Leader.

Current House Ways and Means Committee Chairman Smith and Ranking Democratic Member Richard Neal (D-MA) are expected to continue serving in their positions. The Ways and Means Committee currently is composed of 25 Republicans and 18 Democrats.

Assuming this 25-to-18 ratio of Ways and Means majority and minority seats is maintained in the new 119th Congress, there will be two open Republican seats and two Democratic seats to fill due to the retirements of committee members Earl Blumenauer (D-OR), Drew Ferguson (R-GA), Dan Kildee (D-MI), and Brad Wenstrup (R-OH). All current Ways and Means Committee members who ran for re-election won their races, although the results of Rep. Michelle Steel's (R-CA) re-election race have not been called.

Current Senate Finance Committee Ranking Republican Member Mike Crapo (R-ID) is expected to become Finance chairman, and current Finance Chairman Ron Wyden (D-OR) is expected to serve as Ranking Democratic Member on the committee.

The Finance Committee currently is composed of 14 Democrats and 13 Republicans. All current Finance Committee members who ran for re-election won their races, except for Senators Sherrod Brown (D-OH) and Bob Casey (D-PA); Senator Casey has not conceded his projected re-election loss, which could be subject to a recount.

Assuming this 14-to-13 ratio of Finance majority and minority seats is maintained in the new 119th Congress, there will be one new Republican seat on the Finance Committee to fill and five open Democratic seats to fill due to the retirements of Senators Debbie Stabenow (D-MI), Ben Cardin (D-MD), and Tom Carper (D-DE), as well as the election defeats of Senators Brown and Casey. The Democratic Finance committee seat now held by Senator George Helmy (D-NJ), who was appointed recently to fill the Senate seat left by resigned Senator Bob Menendez (D-NJ), would not be filled.

Let's talk

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

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