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Tax Proposals Potentially Being Considered by the U.S. House Budget Committee in Reconciliation

Tax Talks on **January 27, 2025**

On January 17, 2025, multiple news outlets and other sources reported the existence of a memorandum circulated by the U.S. House of Representatives Budget Committee to the House Republican Caucus (the "Memorandum") containing an extensive list of budget proposals that may be considered in connection with the new Congress's widely expected budget reconciliation legislation. The Memorandum, which is publicly available via link from a number of news outlets,[1] contains approximately fifty pages of proposals covering a wide range of policy areas and enumerating scores of potential specific legislative proposals (along with estimated budget effects in most cases), some of which are seemingly mutually exclusive. Included in the memo are a number of tax-related proposals, including tariff proposals, which are briefly set forth below.

It is not possible to know whether any or all of these proposals will ultimately be included in the budget reconciliation bill (or any other proposed legislation). It is also very possible that any number of other proposals may be considered in what is expected to be a lengthy legislative process. Additionally, the expiration of a sizable number of the tax provisions of the 2017 Tax Cuts and Jobs Act ("TCJA") may further affect the development of several of these proposals. However, potentially affected taxpayers should be aware of these tax-related proposals and closely monitor all developments involving the budget reconciliation legislation.

Although the Memorandum presents the proposals in no particular order, for ease of reference this blog post organizes the proposals as:

- *Tax Proposals Involving Tariffs and Trade;*
- *Tax Proposals Affecting Businesses;*
- *Tax Proposals Affecting Employees and Unions;*
- *Tax Proposals for Business Tax Credits;*
- *Tax Proposals Relating to Municipal and other Tax-Exempt Bonds;*

- *Tax Proposals Relating to the Deductibility of State and Local Taxes ("SALT");*
- *Other Tax Proposals Affecting Individual Taxpayers and Households;*
- *Tax Proposals Affecting Exempt Organizations; and*
- *Tax Proposals Affecting the Internal Revenue Service.*

Notably, the Memorandum includes no current proposals relating to the taxation of partnerships and very limited proposals related to international taxation other than as related to trade. Although the proposals in the Memorandum generally do not reference particular sections of the U.S. Internal Revenue Code ("IRC"), where the relevant Section cross-reference is sufficiently clear it is included here to aid the reader.

Tax Proposals Involving Tariffs and Trade

- A "Border Adjustment Tax" that would "create a new tax on goods where they are consumed, not purchased" resulting in a "shift from an origin-based tax to a destination-based tax."
- Codify and increase "Section 301 Tariffs" on products from China.
- Require "de minimis" value shipments to pay existing "Section 301 Tariffs."
- Create a 10% across the board tariff on all imports.

Tax Proposals Affecting Businesses

- Lower the corporate income tax rate to 15%. (IRC Section 11)
- Lower the corporate income tax rate to 20%. (IRC Section 11)
- Repeal the 15% corporate alternative minimum tax. (IRC Section 55)
- Return to immediate expensing of research and development ("R&D") costs, which under the TCJA are required to be amortized. (IRC Section 174)
- Implement "Neutral Cost Recovery for Structures," to allow businesses to index the value of deductions to inflation and a real rate of return (to address the time value of money).
- Subject credit unions (exempt from income tax under current law) to the federal income tax. (IRC Section 501(c)(1))

Tax Proposals Affecting Employees and Unions

- Subject employees to tax on employer-provided transportation benefits (such as transit passes and parking) that are excluded from income under current law. (IRC

Section 132)

- Subject employees to tax on all employer-provided meals and lodging, other than for the military that are excluded from income under current law. (IRC Section 132)
- Subject employees to tax on the value of on-site gym facilities intended for employee and family use that are excluded from income under current law. (IRC Section 132)
- Impose a federal excise tax on “non-representation spending” by federal unions.
- Impose “new limits” on the deductibility of “DEI training” by federal unions.

Tax Proposals for Business Tax Credits

- Proposed repeal of tax credits for carbon oxide sequestration, zero-emission nuclear power production and clean fuel production (IRC Sections 45Q, 45U and 45Z), as well as the electric vehicle (“EV”) tax credit. (IRC Section 30D)
- Changing the EV credit to be available only to EV buyers, not lessors. (IRC Section 30D)
- Repeal of “Green Energy” tax credits “created and expanded” under the Inflation Reduction Act (“IRA”). The discussion of this proposal identifies these credits as including those “related to clean vehicles, clean energy, efficient building and home energy, carbon sequestration, sustainable aviation fuels, environmental justice, biofuel and more.”
- Ending the Employee Retention Tax Credit (“ERTC”), by extending the moratorium on claims processing and eliminating the ERTC for claims submitted after January 31, 2024, along with stricter penalties for fraud. (Section 2301 of the CARES Act)

Tax Proposals Relating to Municipal and other Tax-Exempt Bonds

- Eliminate the exclusion of interest on municipal bonds. (IRC Section 103)
- Eliminate the exclusion of interest on private activity bonds, Build America bonds and other non-municipal bonds. (IRC Sections 103, 141-150)

Tax Proposals Relating to the Deductibility of State and Local Taxes (“SALT”) (IRC Section 164)

- Under the TCJA, the SALT deduction is limited to $10,000 per taxpayer, and married persons filing jointly are subject to the same $10,000 limitation as a single filer. This statutory limitation is scheduled to expire in 2025. The memorandum lists five alternative approaches to SALT, four applicable to individual SALT deductions and two to SALT deductions for business:

- Make the TCJA $10,000 limitation permanent but double the limitation (to $20,000) for “married couples”.
- Make the general provisions of the TCJA provision permanent, but increase the thresholds to $15,000 for individuals and $30,000 for married couples.
- Eliminate the deductibility of state and local income or sales taxes, but preserve the deductibility of property taxes. In this proposal, the TCJA $10,000 limitation would be allowed to expire in 2025.
- Eliminate the SALT deduction for businesses (presumably including eliminating the pass-through entity tax (“PTET”) workaround), and the individual SALT deduction would be “unchanged from current law.”
- Repeal the SALT deduction, in its entirety, for both individuals and businesses (presumably including eliminating the PTET workaround).

Other Tax Proposals affecting Individual Taxpayers and Households

- Entirely eliminate the federal estate tax. (IRC Sections 2001-2210)
- “Fully repeal” the home mortgage interest tax deduction. (IRC Section 163)
- Lower the home mortgage interest deduction cap from the TCJA level of $750,000 to $500,000. (IRC Section 163)
- Eliminate the deduction for contributions to qualifying health organizations (patient advocacy groups, professional medical associations and “other U.S.-based charitable organizations with [IRC Section] 501(c)(3) tax status.” (See also *Tax Proposals Affecting Hospitals and Health Organizations*). (IRC Section 170)
- Either raise or eliminate the foreign earned income exclusion on Americans residing overseas. (IRC Section 911)
- Replace Health Savings Accounts with a $9,100 “Roth-style” Universal Savings Account indexed to inflation.
- Make certain changes to HSAs to increase their availability and flexibility. (IRC Section 223)
- Permit a deduction for auto loan interest payments.
- Eliminate the deductibility of interest on student loans. (IRC Section 163)
- Eliminate the income tax on tips, which are currently subject to income and payroll taxes.
- Create a “blanket exemption” on the taxation of “overtime earnings.”
- Eliminate the “head of household” filing status. (IRC Section 1)

- Eliminate the exclusion of scholarship and fellowship income used for tuition and related expenses. (IRC Section 117)
- Eliminate the American Opportunity Credit for qualified educational expenses. (IRC Section 25A)
- Eliminate the Lifetime Learning Credit for a portion of certain qualified tuition and related expenses. (IRC Section 25A)
- Eliminate the maximum $2,100 credit for child and dependent care. (IRC Section 21)
- Requiring both children and parents have a social security number to claim the Child Tax Credit. (IRC Section 24)
- Restructure the Earned Income Tax Credit in certain ways. (IRC Section 32)

Tax Proposals Affecting Exempt Organizations

- Eliminating nonprofit status for hospitals, and taxing hospitals as "ordinary for-profit businesses." (See also *Tax Proposals Affecting Individuals*). (IRC Section 501(c)(3))
- Expanding the excise tax on the net investment income of certain university endowments by increasing the rate tenfold, from 1.4% to 14%. (IRC Section 4968)
- Expanding the criteria to impose the university endowment excise tax to effectively require certain universities to either "enroll more American students or spend more of their endowment funds on those students," or become subject to the endowment tax. (IRC Section 4968)

Tax Proposals Affecting the Internal Revenue Service

- Repeal remaining increased IRS funding from the Inflation Reduction Act.

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[1] *See, e.g.,* https://ccf.georgetown.edu/2025/01/20/house-budget-committee-circulates-new-detailed-list-of-budget-reconciliation-options-including-draconian-medicaid-cuts-within-house-republican-caucus/, last visited January 27, 2025. This article contains an embedded link to both the original *Politico* article reporting the Memorandum (https://subscriber.politicopro.com/article/2025/01/reconciliation-menu-reveals-wide-ranging-gop-policy-priorities-00198940, subscription required) and the Memorandum itself.

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