



# Federal Tax Update

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Hank Gutman  
May 2, 2025

# Agenda

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- Setting the Stage
- The Economic Outlook
- The Current Congress
- The Current Tax Administration
- The Debt Ceiling
- The Coming Perfect Storm
- International Tax
- Summary

# The Economic Outlook--CBO

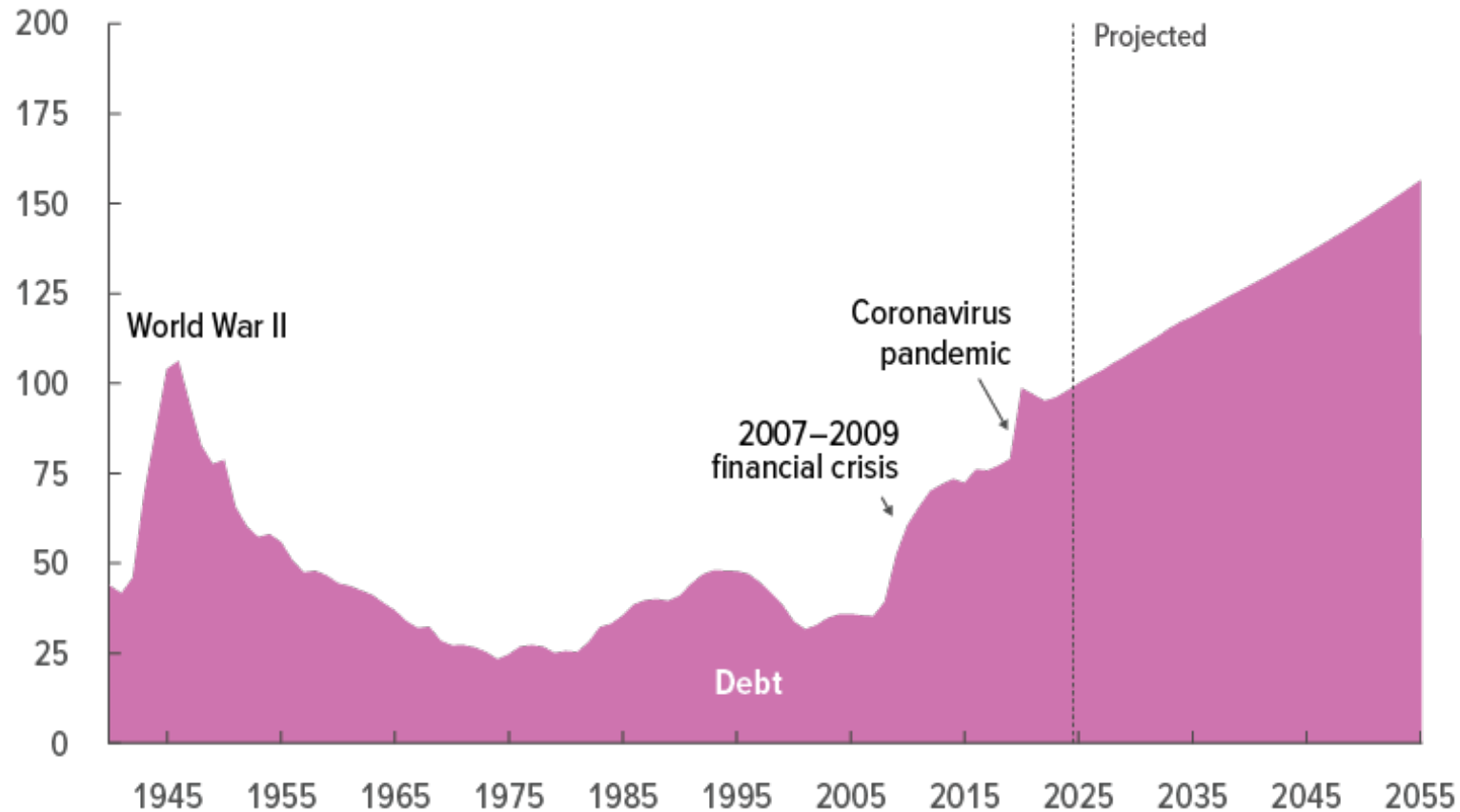
	Average, 1975–2024	Percentage of GDP				Billions of dollars			
		Actual, 2024	2025	2026	2035	Actual, 2024	2025	2026	2035
<b>Revenues</b>	<b>17.3</b>	<b>17.1</b>	<b>17.1</b>	<b>17.8</b>	<b>18.3</b>	<b>4,918</b>	<b>5,163</b>	<b>5,580</b>	<b>8,031</b>
Individual income taxes	8.0	8.4	8.7	9.5	10.0	2,426	2,621	2,968	4,413
Payroll taxes	6.0	5.9	5.8	5.9	5.9	1,709	1,759	1,840	2,605
Corporate income taxes	1.8	1.8	1.7	1.6	1.2	530	524	495	517
Other	1.5	0.9	0.9	0.9	1.1	253	259	277	496
<b>Outlays</b>	<b>21.1</b>	<b>23.7</b>	<b>23.3</b>	<b>23.3</b>	<b>24.4</b>	<b>6,826</b>	<b>7,028</b>	<b>7,294</b>	<b>10,730</b>
Mandatory	11.1	14.3	14.0	14.0	15.1	4,130	4,228	4,386	6,626
Social Security	4.4	5.0	5.2	5.3	6.0	1,454	1,572	1,664	2,624
Major health care programs	3.5	5.8	5.8	5.8	6.7	1,669	1,754	1,832	2,949
Medicare	2.1	3.2	3.1	3.2	4.0	910	942	1,000	1,753
Medicaid, CHIP, and marketplace subsidies	1.3	2.6	2.7	2.7	2.7	759	812	831	1,196
Other mandatory	3.2	3.5	3.0	2.8	2.4	1,006	902	891	1,053
Discretionary	7.9	6.3	6.1	6.1	5.3	1,815	1,848	1,897	2,322
Defense	4.2	3.0	2.9	2.8	2.4	855	859	866	1,053
Nondefense	3.7	3.3	3.3	3.3	2.9	960	989	1,031	1,268
Net interest	2.1	3.1	3.2	3.2	4.1	881	952	1,010	1,783
<b>Total deficit (-)</b>	<b>-3.8</b>	<b>-6.6</b>	<b>-6.2</b>	<b>-5.5</b>	<b>-6.1</b>	<b>-1,907</b>	<b>-1,865</b>	<b>-1,713</b>	<b>-2,699</b>
Primary deficit (-)	-1.7	-3.6	-3.0	-2.2	-2.1	-1,026	-913	-703	-916
Debt held by the public at the end of each period	49.7	97.8	99.9	101.7	118.5	28,199	30,103	31,883	52,056

# The Economic Outlook--CBO

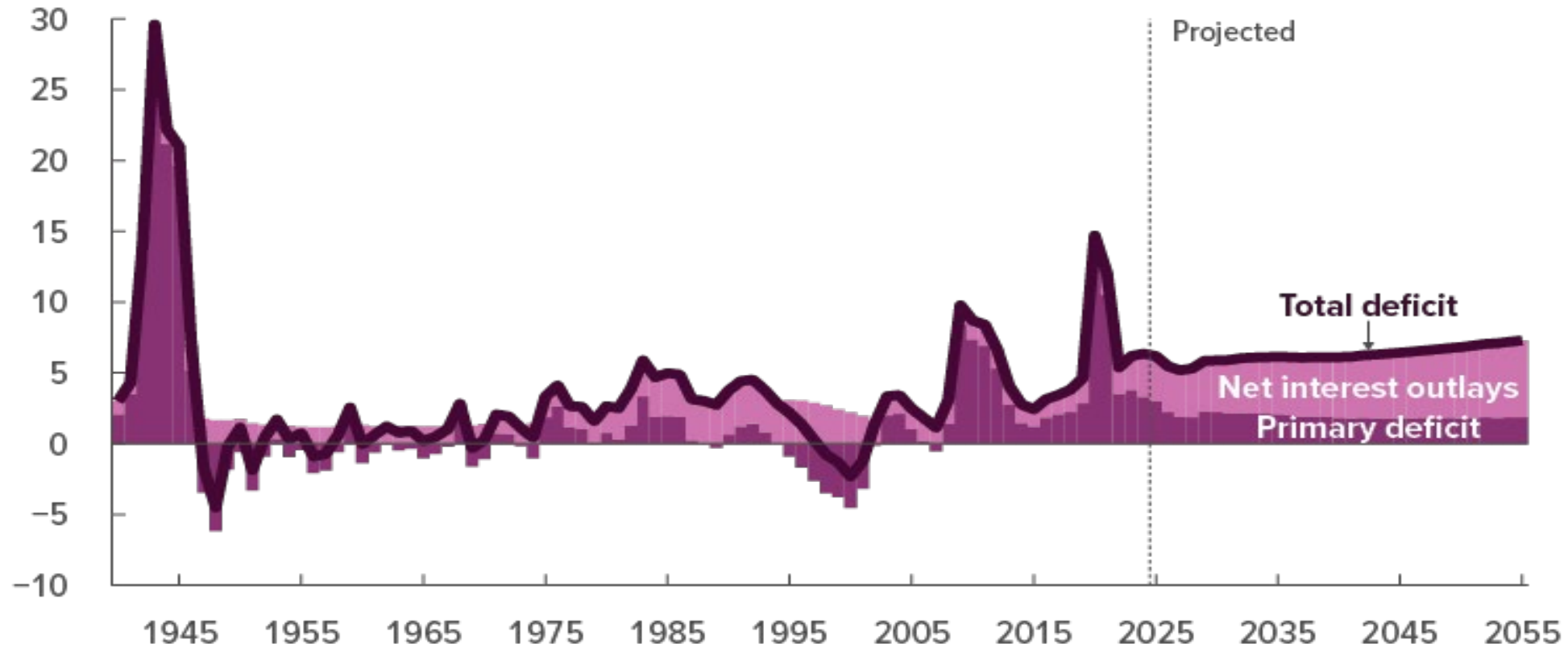
Percent	Average, 1995–2024	Actual, 2024	2025	2035	2045	2055
Growth of real (inflation-adjusted) GDP	2.5	2.8	2.1	1.8	1.5	1.4
Inflation						
Growth of the PCE price index	2.1	2.5	2.2	2.0	2.0	2.0
Growth of the consumer price index for all urban consumers	2.5	3.0	2.2	2.3	2.3	2.3
Labor force participation rate	64.7	62.6	62.7	61.4	61.4	61.2
Unemployment rate	5.6	4.0	4.3	4.3	4.2	4.0
Interest rates						
On 10-year Treasury notes	3.7	4.2	4.1	3.8	3.7	3.8
On all federal debt held by the public (by fiscal year)	3.8	3.4	3.4	3.6	3.6	3.6

# Federal Debt Held By The Public as a Percentage of GDP

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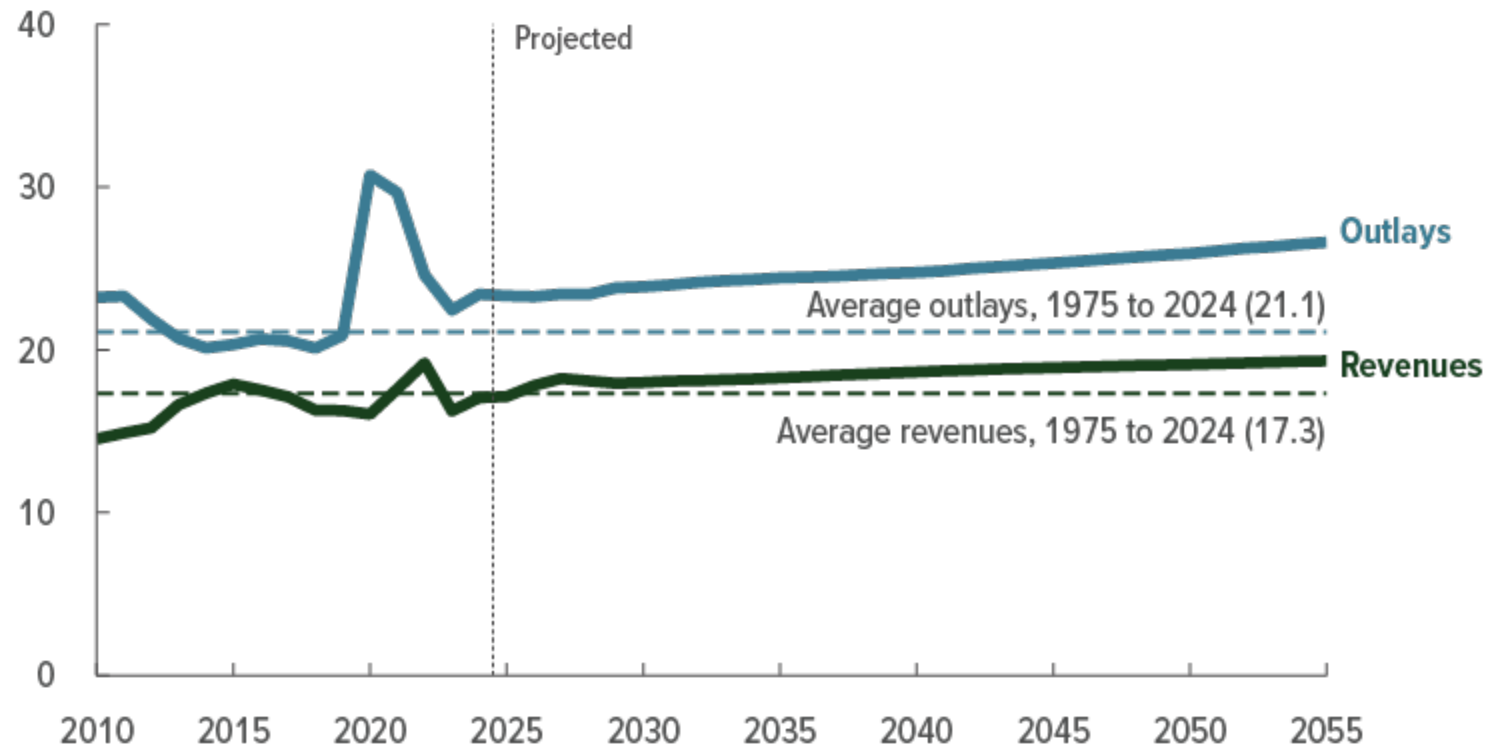


# Total Deficit, Primary Deficits and Net Interest Outlays

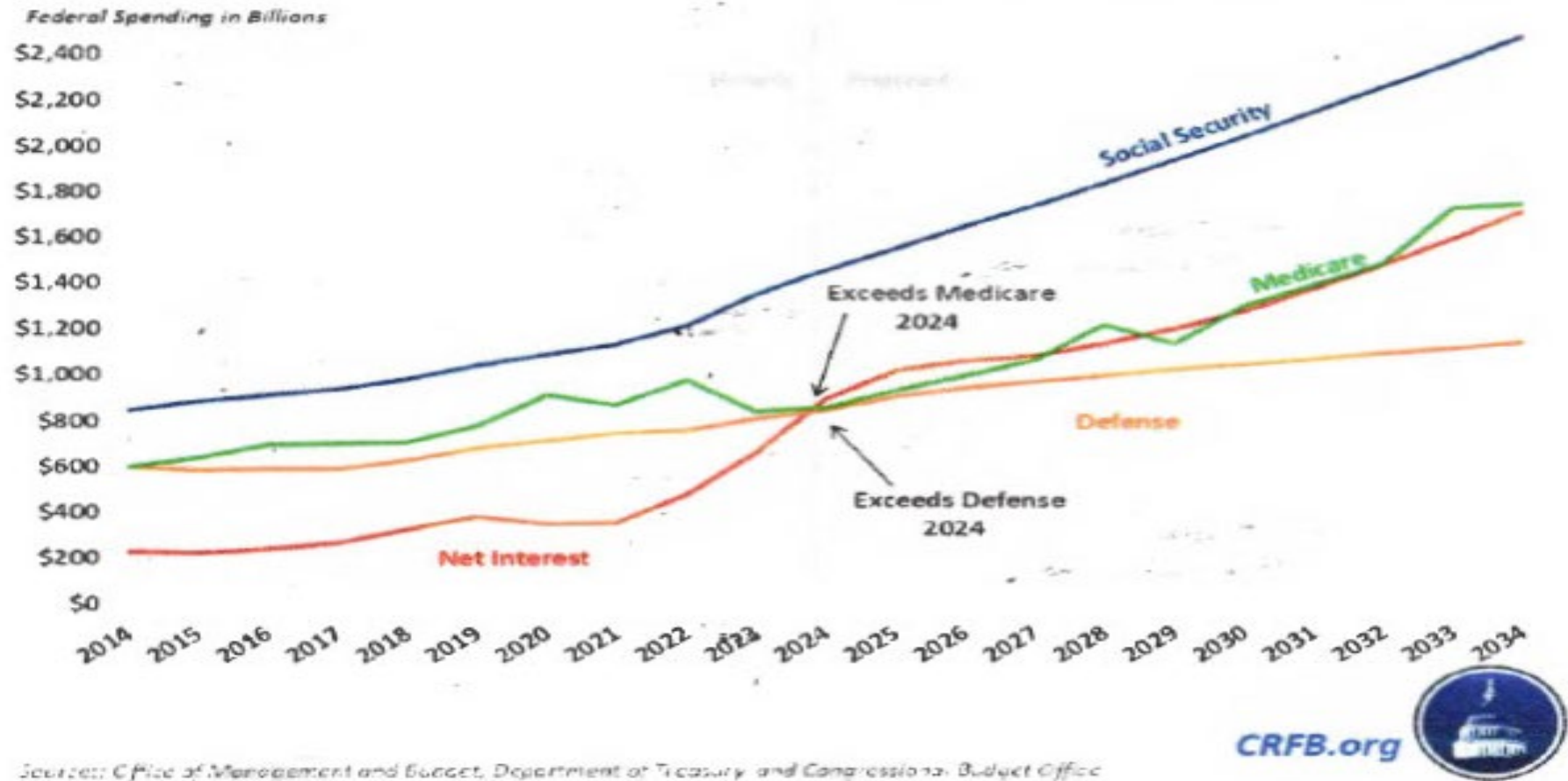


# Total Outlays and Revenues as a Percentage of GDP

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# We Spend More on Interest than Medicare or Defense





# Major Points From CBO Projections

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- Debt will surge past current record levels
- Deficits will rise even higher
- Spending will continue to outpace revenue
- Interest costs explode
- Social Security is 8 years from insolvency
- **AND THIS IS BEFORE ANY CONGRESSIONAL ACTION THIS YEAR!**

# The Current Congress

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- Congress
  - House-220 R, 214 D
    - Ways and Means Committee-24R, 19D
  - Senate-53R, 45 D, 2 Ind
    - Finance Committee-14R, 13D
  - Joint Committee on Taxation
  - Congressional Budget Office

# The Current Tax Administration

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- Treasury Assistant Secretary for Tax (Designate)-Ken Kies
  - Former Congressional staffer
  - Former JCT Chief of Staff
- Commissioner of Internal Revenue (Designate) – Billy Long
  - Former member of Congress
  - Prior job-AUCTIONEER
  - “Certified Tax and Business Advisor”—a three-day course
  - Purveyor of ERTC claims for a commission
- Chief Counsel of IRS-Vacant
  - William Paul, long time IRS official, resigned rather than permit access to IRS records
- IRS Directives
  - “5 for 1”—remove 5 documents for each new one published
  - Regs once again subject to review to Executive Office review

# The Coming Perfect Storm

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- The Debt Ceiling
  - Current debt ceiling is \$36.1 trillion
    - Debt ceiling has been reached and Treasury is using “extraordinary measures” to issue debt
    - Ability to use extraordinary measures will end in August or September
    - Unless extended or increased U.S, will default on debt obligations.
    - House has included a \$4 trillion increase in its reconciliation bill, Senate \$5 trillion
- Expiration of the TCJA
  - Dispute over how to calculate cost

# The Process

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- Regular Order
  - President submits Budget
  - Tax writing Committees hold hearings
  - Ways and Means Committee and House Act
    - Importance of the “rule”
  - Senate Finance Committee and Senate Act
    - Filibuster
  - Conference to Resolve Differences
  - President signs
- Reconciliation
  - Avoids filibuster
  - Has special procedures

# Special Rules of Reconciliation

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- Requires a budget resolution
  - Passage by both Houses by majority vote
  - Ways and Means and Finance Committees mark up bill within their targets
  - Each chamber then marks up a bill within the budget resolution parameters
  - Bill cannot be filibustered
- Special rules
  - No non-revenue provisions
  - Cannot lose revenue outside the ten-year budget window
    - Who determines?
      - Joint Committee on Taxation and Congressional Budget Office
    - What is the baseline?
      - Role of Senate Parliamentarian

# Status of Reconciliation Legislation (1)

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- Timeline
  - Original House budget resolution—February 25, 2025
    - \$4.5 trillion in tax cuts
    - \$2 trillion in spending cuts
    - Increase debt ceiling by \$4 tr.
  - Senate budget resolution—April 5, 2025)
    - Add 5.8 tr. to deficits
    - \$4b. in spending cuts
    - Increase debt ceiling by \$5 tr.
  - House adopts Senate resolution-April 10, 2025
  - Ways and Means and Finance Committees mark up bills consistent with their reconciliation instructions
    - Timing TBD

# Status of Reconciliation (2)

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- Add –Ons
  - Trump tax proposals
    - Exclude tips
    - Exclude overtime pay
    - Exempt social security
    - Deduct interest on car debt
    - Lower corporate rate
    - Caregiver tax credit
  - SALT adjustment--TBD
  - “Millionaire tax” -40%
    - Trump says no/maybe—depends on the day
  - Other expiring provisions
- Revenue
  - “Baseline”
  - House conservatives want revenue offsets
  - Trump wants to pay for with tariffs



# Cost of Permanent Extension of Expiring Provisions Plus Possible Add-Ons

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• Individual (CBO)	
• Rates	-2.16 tr.
• Standard deduction	-1.25 tr.
• AMT exemption	-1.36 tr.
• Child tax credit	-748 b.
• Section 199A	-684 b.
• Estate tax	-167 b..
• Personal Exemptions	+1.7 tr.
• Itemized deductions (SALT, mortgage interest, "Pease", misc. deductions)	+ 1.25 tr.
• Opportunity Zones	-70.5 b.
• Excess business losses	<u>+121.8 b.</u>
	3.47tr.
• Corporate (CBO)	
• Expensing	-378 b.
• Section 163(j) (through 2025)	-18.8 b.
• Section 174 (through 2025)	-8.5 b.
• GILTI and FDII	-120 b.
• BEAT	<u>-21.4 b.</u>
	546b.
• Non-TCJA (CRFB)	
• Tip, overtime income and Social Security	-3.6 tr.
• Corporate rate (15% for domestic mfg)	-200 b.
• Tariffs (10-20% on foreign products)	+2.7 tr.

# The International Tax Landscape—US Participation in Limbo

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- Pillar 1
  - Reallocates taxing rights over large multinationals to markets where they have business activities and earn profits regardless of their physical presence.
- Pillar 2-Executive Order issued on January 20 states that OECD Global Tax Deal has no force and effect in the US. EU issues notice that rules will be re-examined.
  - 15 percent global minimum tax rate on multinationals with global turnover in excess of 750 million pounds.
    - Income Inclusion Rule (IIR)—a top-up tax of 15%
    - Undertaxed Profits Rule (UTPR)

# Tariffs

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**Situation in flux-varies from day  
to day**

# Summary

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## Chaos and Uncertainty

# Thank You

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Of Counsel

Hank draws on over 55 years of government, teaching, and practice experience to advise clients on negotiating the federal tax legislative and regulatory process.

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