Tax policy in the year: Voters opt for a change in course

The nation has voted, the results are now in, and former Vice President Joe Biden has been elected to serve as the nation’s forty-sixth president and will assume responsibility for the nation’s fiscal policy beginning in January 2021.

Although the economic impact of the coronavirus pandemic (and the federal response to it) dominated the fiscal policy debate during the campaign, one of the issues implicitly on the ballot in 2020 was the fate of President Trump’s signature 2017 tax code overhaul—known informally as the Tax Cuts and Jobs Act (TCJA)—which, among other things, lowered the tax burden for many businesses, whether structured as corporations or passthrough entities, as well as for individuals, trusts, and estates. (For budgetary and procedural reasons, the individual and passthrough provisions generally are scheduled to expire at the end of 2025, with certain other business tax changes phasing in or out even sooner.)

Biden campaigned on the premise that TCJA’s benefits are skewed to large corporations and wealthy individuals and that the federal income tax system needs to be retooled to ensure that these taxpayers are paying “their fair share.” To that end, he has proposed increasing top income tax rates, along with “base broadeners,” such as eliminating or limiting various incentives currently available to these taxpayers.

Under Biden’s plan, revenue generated from these proposed changes to the tax code (as much as $4 trillion over 10 years, according to some unofficial estimates) would be used to provide tax relief for lower- and middle-income taxpayers and pay for spending priorities such as improving the nation’s infrastructure, developing alternative energy sources, and building up the US manufacturing sector.

But the immediate challenge facing Biden once he takes office will be to address the ongoing economic and health impacts of the coronavirus pandemic. Thus, tax policy in the near term may be shaped by the status of a viable vaccine for COVID-19 and the need for economic recovery.

On the regulatory front, meanwhile, the Treasury Department and Internal Revenue Service continue to issue guidance regarding the provisions enacted in the TCJA.

A change in course, a new publication from the Deloitte Tax Policy Group in Washington, D.C., considers Biden’s tax policy proposals, how they compare to current law, and how economic factors and the makeup of the next Congress may influence his agenda going forward.

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