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No new tax policy insights from first presidential debate

Although the first general election debate between President Joe Biden and former President Donald Trump, which was hosted by CNN in Atlanta on June 27, included a segment on the economic issues, there was little sustained discussion of tax policy and neither of the candidates shed any new light on their respective tax platforms.

President Biden responded to a question about the current state of the US economy by arguing that his administration had to dig the nation out of a hole created by his predecessor—a situation he attributed in part to the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97), which he contended was skewed largely to corporations and upper-income taxpayers. An across-the-board extension of the TCJA tax cuts that

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are scheduled to expire at the end of 2025—something the former president has proposed—would “fundamentally bankrupt the country,” Biden said.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Reiterating his now-familiar call to restore “fairness” to the tax code, Biden touted his own proposal to impose higher taxes on “billionaires”—an allusion to the 25 percent minimum tax on certain ultrawealthy taxpayers that has appeared in several of his budget blueprints—arguing that it would raise enough revenue to shore up the Medicare program, and he stated that his proposal to impose employment taxes on income over $400,000 would ensure the solvency of Social Security. He also cited his proposals to create a new tax credit for first-time home buyers, increase the child tax credit, and increase premium credits for individuals purchasing health insurance on Affordable Care Act exchanges as examples of how his administration would reduce economic anxiety for less affluent individuals.

Former President Trump, when asked about the merits of extending the expiring TCJA provisions in the face of rising federal deficits, repeated the GOP mantra that his temporary tax cuts for individuals and his permanent cut in the corporate income tax rate (from 35 percent to 21 percent) spurred the economy and prompted US-based multinationals to repatriate significant profits that had been held offshore. He also highlighted the effectiveness TCJA’s Opportunity Zone provisions in promoting economic development in distressed communities.

Trump contended that Biden’s tax plans would lead to a four-fold tax increase on all taxpayers, although it’s worth noting that the former president mischaracterized Biden’s approach to the TCJA, stating that Biden would allow all the tax cuts to expire rather than just those benefiting wealthier individuals.

Not many specifics on the campaign trail, either

What transpired on the debate stage was emblematic of what has played out on the campaign trail, where the tax policy discussions to date have been conducted largely in broad strokes and have focused chiefly on the pending sunset of TCJA provisions such as reduced income tax rates for individuals, increased estate and gift tax exemption amounts, and the 20 percent deduction for certain passthrough business income.

Biden’s platform: President Biden thus far has argued for allowing the TCJA tax breaks to expire for taxpayers with income greater than $400,000, retaining them for less affluent taxpayers, and offsetting the cost with additional taxes on large corporations and ultrawealthy individuals. Among the revenue-raising proposals in Biden’s fiscal year 2025 budget blueprint, for example, are calls to increase the corporate income tax rate to 28 percent, increase the excise tax on stock buybacks, impose additional limits on deductions for “excessive” employee remuneration, repeal stepped-up basis, tax capital gain and dividend income at ordinary rates for high-income individuals, and impose a 25 percent minimum tax on the income—including unrealized gains—of taxpayers with wealth over $100 million. (For details on all the tax proposals in the administration’s FY 2025 budget blueprint, see *Tax News & Views*, Vol. 25, No. 11, Mar. 12, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312_1.html

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Trump's platform: Former President Trump has spoken about fully extending the TCJA (his administration's signature legislative accomplishment) and perhaps further reducing the corporate rate from its current level of 21 percent. During a meeting with congressional Republicans in Washington earlier this month, Trump floated the possibility of scrapping income taxes altogether and replacing them with a more stringent tariff regime—something that campaign staff and GOP lawmakers later told reporters was simply one of a range of proposals he was considering.

Repeating an idea he had raised at a rally in Las Vegas, the former president also told GOP lawmakers that he would consider exempting tip income from federal taxes, although he did not elaborate on how such a proposal would work—for example, whether the exemption would apply only to income taxes or if it also would apply to employment taxes. In comments to reporters this week, House Speaker Mike Johnson, R-La., called the proposal "a great idea," but acknowledged that it could become law next year only if Republicans win the presidency and both chambers of Congress in November. House Ways and Means Committee Chairman Jason Smith, R-Mo., in an op-ed piece published June 27, called the proposal "a straightforward way to deliver immediate relief to working people and let them keep more of their hard-earned money."
URL: https://waysandmeans.house.gov/2024/06/27/chairman-smith-op-ed-all-options-must-be-on-the-table-to-deliver-tax-relief-for-working-people/

Pressure for offsets in 2025: Trump has not thus far discussed how—or even whether—to pay for renewing the expiring TCJA provisions. But if he wins a second term in the White House, he is likely to face pressure from Congress—including from some Republican lawmakers—to include revenue offsets as part of a larger tax plan. This is particularly true in light of a recent estimate from the nonpartisan Congressional Budget Office (CBO) that pegged the 10-year cost of permanently extending all of the lapsed and lapsing provisions at $4.6 trillion—a $1.1 trillion increase from similar projections the agency issued in 2023.
URL: https://www.cbo.gov/publication/60114

That estimate, combined with the CBO's increasingly dire long-term projections of federal debt-and-deficit levels, has even prompted some congressional Republicans to contemplate bucking what has been regarded as GOP orthodoxy and consider an increase in the corporate tax rate as a viable revenue-raising option for a future tax bill, according to Jason Smith, the House's top taxwriter. On that point, however, it's also worth remembering that some Republicans, particularly in the Senate, continue to believe as a matter of principle that extensions of current law should not require revenue offsets of any kind. (For prior coverage of the CBO's estimate for extending the TCJA and Smith's remarks about corporate tax rates, see *Tax News & Views*, Vol. 25, No. 17, May 10, 2024; for coverage of the CBO's latest debt-and-deficit projections, see *Tax News & Views*, Vol. 25, No. 22, June 21, 2024.)
URL: https://www.cbo.gov/publication/60039
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240510_2.html
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240621_1.html

Next debate set for September 10

Biden and Trump are next scheduled to face-off on September 10 in a debate hosted by ABC News. The location of that event has not yet been announced.

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OECD guidance provides new details on implementing Pillar Two and determining if local implementation is 'qualified'

The OECD/G20 Inclusive Framework on BEPS (OECD Inclusive Framework or IF) published further administrative guidance on June 17 that addresses the implementation of the Pillar Two global minimum tax rules and provides details of the processes for determining that jurisdictions' respective plans for local implementation of the Pillar Two rules are "qualified."
URL: https://www.oecd.org/tax/beps/about/
URL: https://www.oecd.org/tax/beps/administrative-guidance-global-anti-base-erosion-rules-pillar-two-june-2024.pdf

Pillar Two overview

To date, more than 140 members of the OECD Inclusive Framework have agreed to the Pillar Two global minimum tax rules. Jurisdictions are in the process of implementing rules in domestic legislation, which apply starting in January 2024.

Components of the Pillar Two rules: The IF's Pillar Two model rules, applicable to large multinational groups with annual consolidated group revenue of at least €750 million, will result in "top-up" tax amounts to bring the overall tax on profits in each jurisdiction where a group operates up to a 15 percent minimum effective tax rate. The key components are: qualified domestic minimum top-up taxes, which allow jurisdictions to charge any top-up taxes due in respect of local profits; the income inclusion rule, under which parent company jurisdictions apply the top-up tax rules on a top-down basis; and the undertaxed profits rule, which will apply as a secondary (backstop) rule where the other rules have not been fully applied.

New guidance: The new administrative guidance will be incorporated into the OECD's commentary to the model rules at a future date. There are also a number of additional examples which will be included in the OECD's published examples illustrating the application of the model rules.
URL: https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.htm
URL: https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-globe-rules-pillar-two-examples.pdf

The new guidance covers the following distinct areas: recapture of deferred tax liabilities; divergences between Pillar Two basis and accounting carrying values; allocation of cross-border current taxes; allocation of cross-border deferred taxes; allocation of profits and taxes in groups including flowthrough entities; and treatment of securitization vehicles.

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Find out more: A new alert from Deloitte Tax LLP provides an overview of the guidance.
URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-25-june-2024.pdf

Treasury officials, GOP taxwriter discuss Pillar Two implementation

In other Pillar Two developments, Treasury Department officials—including Acting Deputy Assistant Secretary (International Affairs) Scott Levine and Acting Assistant Secretary (Tax Policy) Aviva Aron-Dine—this week called on Congress to make the legislative changes necessary to implement Pillar Two in the US as part of a 2025 tax bill.

Treasury officials tout revenue impact: In comments at a conference sponsored by the OECD and the US Council for International Business, the Treasury officials said Pillar Two would raise sufficient revenue to justify its implementation, and that the US needs to have Pillar Two in place in order to turn off other countries' undertaxed profits rules, which will begin coming into force in 2025.

Addressing longstanding complaints from stakeholders that Pillar Two provides more favorable treatment for refundable tax credits, which are more common in jurisdictions outside the US, over nonrefundable credits—including the research credit—which are more prevalent in the US, the officials emphasized that the issue is on the front burner amid ongoing negotiations and that they are "actively developing" a solution but are "not prepared to share details at this time."

Hern decries lack of consultation with Congress: Speaking at the same conference, House Ways and Means Committee member Kevin Hern, R-Okla., repeated criticisms advanced by a number of GOP taxwriters over the last several years that the Biden Treasury Department has been negotiating the OECD's global tax agreements—Pillar One as well as Pillar Two—without sufficiently consulting Congress and vowed that lawmakers will block their implementation.

Hern called it a "fool's errand" for the administration to negotiate any global tax agreements without bipartisan congressional buy-in. He added that he is not convinced that the US can fairly compete under Pillar Two as currently drafted, arguing that other countries will bend the rules to their benefit and that China will never play by them.

The US "will not lay down in the face of discriminatory taxes," he said.

Hern leads the Ways and Means Committee's tax team on global competitiveness—one of 10 Republican-only teams convened by Chairman Jason Smith, R-Mo., to give GOP taxwriters an opportunity to develop legislative approaches to address significant tax policy issues affecting families, workers, and businesses as Congress contemplates the possibility of a broad tax bill in 2025.
URL: https://waysandmeans.house.gov/ways-means-chairman-smith-and-tax-subcommittee-chairman-kelly-announce-tax-teams-to-avert-2025-tax-cliff/

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The global competitiveness team is set to hold a field hearing in Atlanta on August 8 to hear from stakeholders on issues under its purview. Additional details about that hearing, including witnesses, have not yet been announced.

Members of the public interested in sharing information with any of the tax teams may submit comments to RepublicanTaxTeams@mail.house.gov. Comments will be accepted through October 15, 2024.
URL: mailto:RepublicanTaxTeams@mail.house.gov

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IRS has spent 10 percent of available Inflation Reduction Act funds, TIGTA says

The Internal Revenue Service as of March 31 has spent a total of $5.7 billion—roughly 10 percent—of the 10-year mandatory funding allocation available to it under the Inflation Reduction Act of 2022 (P.L. 117-169), according to a new report from the Treasury Inspector General for Tax Administration (TIGTA).
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf
URL: https://www.tigta.gov/sites/default/files/reports/2024-06/2024ier015fr.pdf

The Inflation Reduction Act as enacted initially provided roughly $80 billion in mandatory funding, available through the end of fiscal year 2031, to allow the IRS to beef up its enforcement and compliance resources, modernize its information technology, and overhaul its customer service operations. Since then, however, some $21.6 billion of that amount has been rescinded as part of bipartisan spending deals, including the Fiscal Responsibility Act of 2023 (P.L. 118-5) last June and the Further Consolidated Appropriations Act, 2024 (P.L. 118-47), this past March. (The rescinded funds came chiefly from the agency's enforcement allocation.)
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf
URL: https://www.congress.gov/bill/118th-congress/house-bill/2882/text

Spending so far

The TIGTA report, released June 18, indicates that IRS expenditures between the enactment of the Inflation Reduction Act in August of 2022 and the end of the first quarter of 2024 break down this way:

- **Taxpayer Services:** $1.4 billion (total 10-year allocation: $3.2 billion);
- **Enforcement:** $691 million (total 10-year allocation: $24 billion);
- **Operations Support:** $2.3 billion (total 10-year allocation: $23.3 billion); and
- **Business Systems Modernization:** $1.3 billion (total 10-year allocation: $4.8 billion).

Within each of these areas, labor costs (employee pay and benefits as well as contractor support) account for the bulk of the IRS's spending to date, the report states. Most of the labor costs have been attributable to new

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customer service hires who were brought on to handle telephone help lines and staff walk-in taxpayer assistance centers. But the report notes that the IRS intends expand its enforcement ranks by just over one-third in the coming months—from 13,700 as of this January to 18,328 by the end of fiscal year 2024—with the addition of new collections officers, auditors, and special agents to address tax noncompliance among large corporations, complex partnerships, and high-wealth individuals.

Covering discretionary appropriations shortfalls

The report notes that the IRS's total $5.7 billion Inflation Reduction Act spending draw includes $2 billion that it had to redirect to regular operating expenses for fiscal year 2023 that it could not cover with the annual discretionary budget allocation it received from Congress. Since Congress kept IRS funding flat for fiscal year 2024 (with no adjustment for inflation), the agency likewise anticipates that it will have to skim an additional $1.6 billion from its Inflation Reduction Act funds to cover another anticipated discretionary budget shortfall, according to the report.

IRS Commissioner Danny Werfel told the House Ways and Means Committee earlier this year that forcing the IRS to spend its Inflation Reduction Act funds just to "keep the lights on" ultimately would undercut the agency's efforts to modernize. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 7, Feb. 16, 2024.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240216_2.html

The congressional debate over discretionary funding levels for the IRS is likely to continue in the weeks ahead as House and Senate appropriators prepare budget proposals for fiscal year 2025, which begins this coming October 1. The Republican-led House Appropriations Committee earlier this month approved along party lines a Financial Services and General Government funding bill that would allocate $10.1 billion in discretionary funds to the IRS in the coming fiscal year—some $2.2 billion below both current funding levels and the amount requested by the Biden administration in the budget blueprint it sent to Congress in March. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 21, June 14, 2024.) The committee-approved measure is expected to come up for a vote by the entire House sometime in July.
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240614_1.html

Appropriators in the Democratic-led Senate have not yet released an IRS funding proposal of their own but are generally expected to call for keeping discretionary spending for the agency at current levels for the coming fiscal year, as proposed by the White House.

Separate report looks at audits of high-income individuals

In other TIGTA developments, a separate report, released June 20, found that for tax years 2018, 2019, and 2020, the IRS met a Treasury Department directive issued in 2020 that required it to achieve an audit rate of at least 8 percent for taxpayers with total positive income of $10 million or more. The agency fell short of that mark for tax years 2016 and 2017, the report notes.
URL: https://www.tigta.gov/sites/default/files/reports/2024-06/2024300028fr.pdf

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Following the enactment of the Inflation Reduction Act, however, the IRS shifted its audit focus from the $10 million total positive income threshold in the 2020 directive to a new standard laid out in a 2022 directive from Treasury Secretary Janet Yellen that requires the agency to use the 10-year mandatory funding stream allocated under that legislation to focus more broadly on audits of individuals with total positive income above $400,000, the report notes. (Yellen's directive expressly forbids the IRS from using Inflation Reduction Act funds to increase audit rates, relative to historical levels, on taxpayers with income below this threshold.)

In explaining that shift, the IRS told TIGTA that the standard in the 2020 Treasury directive frequently led to audits that resulted in no additional tax owed. TIGTA found, however, that the rate of so-called "no change" audits tended to vary based on which IRS division conducted the examinations and which case selection methods were used. For example, audits by the Small Business-Self Employed Division for tax years 2016 through 2021 covering taxpayers with income over $10 million were, generally speaking, more productive than audits of taxpayers with income between $400,000 and $10 million, the report states. Conversely, the case selection measures used by the Large Business and International (LB&I) Division before the 2020 Treasury directive generally were more productive than those used for audits conducted after that directive was issued, according to the report.

TIGTA recommended that the IRS include a separate category for taxpayers with total positive income of $10 million or more in evaluating its compliance with audit targets for high-income taxpayers laid out in its strategic operating plan for administering Inflation Reduction Act funds. TIGTA also recommended that the IRS "identify the potential causes for the [LB&I] Division's low productivity examination results and monitor measures to ensure that the most productive returns are selected for examination."
URL: https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan

The IRS noted in response that it already tracks results for audits of high-income, high-wealth taxpayers, including those with total positive income of $10 million or more. It also pledged to identify the potential causes for the low-productivity examination results within LB&I and use enhanced data and analytics to select cases based on the highest risk of noncompliance.

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