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Ways and Means Committee debates TCJA tax cuts at hearing

Previewing themes likely to dominate the tax policy debate this year, the House Ways and Means Committee held a hearing on January 14 on "The Need to Make Permanent the Trump Tax Cuts for Working Families," following the committee's organizational meeting (during which the panel approved committee rules for the 119th Congress). (See *Scaling the cliff: Tax policy implications of a Donald Trump presidency* from Deloitte Tax LLP for a detailed discussion of the expiring TCJA tax provisions and Trump's tax proposals.)
URL: https://waysandmeans.house.gov/event/committee-organizational-meeting-for-the-119th-congress/
URL: https://www2.deloitte.com/us/en/pages/tax/articles/implications-of-a-donald-trump-tax-policy.html

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House Ways and Means Committee Chairman Jason Smith (R-Mo.) in his opening statement called on Congress to make expiring tax provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) permanent as quickly as possible, warning that taxes will rise for all Americans without congressional action. He stressed that uncertainty exists when soon-to-expire tax provisions have not been made permanent, causing a dampening of business expansion and economic growth, with fewer jobs being created. Smith also said that, without Congress taking action to make these provisions
permanent, there would be a reduction in the child tax credit, the estate tax exemption, the standard deduction, as well as the expiration of the passthrough business deduction (section 199A).
URL: https://waysandmeans.house.gov/2025/01/14/chairman-smith-opening-statement-hearing-on-making-the-trump-tax-cuts-permanent/
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Attributing post-enactment economic growth to 2017's enactment of the TCJA, Smith noted that making the 2017 cuts permanent would result in $284 billion in new GDP from a rise in manufacturing; $150 billion in new small business GDP growth from "small businesses expanding, hiring new employees, and investing in their community;" $50 billion in investments in the poorest communities; and more than 1million new small business jobs each year.

Ranking Member Richard Neal (D-Mass.), on the other hand, referred to the TCJA tax cuts as the "GOP Tax Scam," asserting that extending the soon-to-expire cuts would benefit the top 2 percent of taxpayers, rather than providing relief to the average American – a theme expressed by many committee Democrats throughout the hearing. Neal suggested that working families could use targeted relief, including an expanded child tax credit and a premium tax credit for health insurance, to help pay for necessities. Criticizing Republicans for fighting for corporations, he said that the American taxpayer deserves a "worker-centered agenda that delivers them relief."
URL: https://democrats-waysandmeans.house.gov/media-center/press-releases/neal-opening-statement-hearing-gop-tax-scam

Sticking to familiar arguments

Following opening statements by Smith and Neal, Republicans and Democrats on the taxwriting committee appeared to generally stick to their respective party-line positions that are expected to dominate the tax policy debate this year.

For their part, members on the Republican side of the dais touted the benefits of the 2017 tax law as a shot in the arm to the economy, with all Americans benefiting, while they further stressed that making those cuts permanent would prevent a tax increase for individuals and businesses, incentivize investment, and grow the economy. Democrats, on the other hand, criticized the cuts in the TCJA as a way to make the rich wealthier, while leaving everyone else behind. They also made those same arguments against extending the tax cuts, adding that the extensions would swell the national debt by another $4.6 trillion. (The nonpartisan Congressional Budget Office estimated in May of last year that a permanent extension of the expiring TCJA provisions would cost some $4.6 trillion over 10 years, including additional debt service costs, a figure expected to rise when the CBO releases an updated budget baseline in the coming weeks.)

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URL: https://www.cbo.gov/publication/60114

TCJA and economic growth: Most Republican lawmakers on the panel mentioned, at least briefly, the benefits to the economy of extending the TCJA tax cuts beyond 2025.

Rep. Adrian Smith (R-Neb.) applauded the TCJA's impact on economic growth, job creation, and increased productivity for businesses. He also stated that even former President Barak Obama realized the need for corporate rate reductions to be competitive in the global economy.

Rep. Jodey Arrington (R-Texas), who is also chairman of the House Budget Committee which plays a key role in the reconciliation process, argued that the TCJA was not a "tax scam," as Democrats have asserted, but in fact, the law promoted pro-growth policies to boost the economy. He emphasized that, as a result of the 2017 tax law, the economy saw the lowest poverty rate in history, the highest corporate investment ever, the lowest unemployment rates for minorities and women ever, with everyone benefiting – even those Americans whose income levels are at the lower end.

National debt: Two Democrats who also serve on the House Budget Committee were sharply critical of the impact of the interplay between the TCJA and the national debt.

Rep. Lloyd Doggett (D-Texas) expressed relief that some elements of the Republican party acknowledge that "you can't just cut taxes without looking at spending and the national debt," noting that the debt would be the biggest loser if the expiring pieces of TCJA are extended without the inclusion of other provisions to offset that cost.

Rep. Jimmy Panetta (D-Calif.) shared similar concerns about the national debt and the fact that congressional Republicans would enact a law (such as extension of the TCJA tax cuts) with a price tag that would add to it. Though he acknowledged that certain "cuts" do raise some revenue for the economy, he emphasized that those cuts would not generate enough revenue to fully offset the rising debt.

Section 199A passthrough deduction: Along party lines, committee members sparred over the merits of the section 199A deduction for pass-through entities, with Republicans citing it as a way to boost small business job creation and Democrats complaining that the benefit is enjoyed by more than just small businesses. The section 199A provision was created by the TCJA and provides a 20 percent deduction for passthrough business income. Barring congressional action, at the end of this year, the deduction will expire and all passthrough business income will resume being taxed at the taxpayer's individual rate.

Rep. Judy Chu (D-Calif.) raised concerns about the section 199A passthrough deduction, maintaining that it is a "myth" of the TCJA that it helps only small businesses, when in fact there is no size restriction, she says, for taking advantage of the deduction, with large businesses able to take the deduction.

Rep. Gwen Moore (D-Wis.) questioned whether the distribution of section 199A comports with tax equity and fairness, while also indicating that the provision is enjoyed largely by higher income taxpayers.

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On the other hand, Rep. Carol Miller (R-W.Va.) emphasized that the section 199A passthrough deduction "has been transformational" for small businesses, allowing them to be more competitive against corporations. She gave an example of a West Virginia business that used the provision which gave them the capital they needed to give raises and promotions to their employees as well as purchase equipment to reinvest in their business.

Rep. David Kustoff (R-Tenn.) echoed Miller's arguments that the section 199A deduction has been an important tool for small business owners since the TCJA was enacted, while also maintaining that it gives businesses the capital needed to reinvest through hiring more employees and handing out raises to their staff.

Corporate tax rate: Rep. Linda Sanchez (D-Calif.) asserted that cutting taxes on corporations did not have the trickle-down effect on the economy as Republicans maintained in 2017, and that the rate cut has only helped CEOs and other corporate executives.

Rep. Lloyd Doggett (D-Texas) declared that he is strongly in favor of a "dramatic" increase in the corporate tax rate.

The TCJA permanently reduced the corporate tax rate to 21 percent (from 35 percent under prior law), however, Trump campaigned to reduce that rate to 15 percent, but only for domestic manufacturing (a term that was not further defined during the campaign).

Rep. Kevin Hern (R-Okla.) outlined his support for keeping the lower permanent corporate rate, noting that a corporation would pay more in taxes overall (in addition to the 21 percent) when state taxes are factored into the corporation's tax responsibility.

Research and development expenses: Rep. Ron Estes (R-Kan.) stressed that extending the tax cuts from the TCJA will provide relief to "families, businesses, and innovators." He also shared his long-standing interest in favor of reversing a TCJA provision and returning to prior law which allowed immediate deduction for research and development (R&D) expenditures. Lawmakers in both parties have expressed concern about this provision from TCJA which provides that R&D expenditures paid or incurred in taxable years beginning after December 31, 2021, are subject to capitalization over 5 years for research conducted within the US and 15 years for research conducted outside the US.

Estes emphasized that, with no immediate deduction for R&D expenses for the past 3 years, the economy has suffered, fewer jobs have been created, and reinvestment in business has declined. He applauded the Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) which included a proposal to delay mandatory capitalization of research expenditures under section 174 – for domestic expenditures only – retroactive to expenses paid or incurred after December 31, 2021. The bill passed the House with wide bipartisan support but stalled in the Senate. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 26, Aug. 2, 2024.)
URL: https://www.congress.gov/bill/118th-congress/house-bill/7024/text
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240802_1.html

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Estate tax exemption: Rep. Claudia Tenney (R-N.Y.) expressed dissatisfaction with the estate tax – commonly referred to by many Republicans as the death tax – noting that the Internal Revenue Service spends more money (through adhering to regulatory requirements) to collect the tax, including from small businesses and famers, than it receives from taxpayers who owe the tax, which is a perfect reason she says for getting rid of it entirely.

Also passionate about eliminating the estate tax was Rep. Randy Feenstra (R-Iowa) who introduced a bill to repeal estate and generation skipping transfer taxes – the Death Tax Repeal Act (H.R. 7035) – in the 118th Congress. "The death of a loved one should not trigger a massive tax bill from the federal government that threatens to force family-owned-and-operated farms and businesses to close their doors for good," he said in a release.
URL: https://www.congress.gov/bill/118th-congress/house-bill/7035/text

Child tax credit: Members on both sides of the aisle agreed that changes are needed to the child tax credit which, at the end of 2025, would revert back to its pre-TCJA amount of $1,000 per child.

Rep. Terri Sewell (D-Ala.) who is in favor of expanding the credit and making it fully refundable, insisted that more families would be able to receive the credit as a refund even if the family does not owe any tax. Rep. Sanchez also argued for making the child tax credit fully refundable.

On the other side of the dais, Rep. Blake Moore (R-Utah), who is also Republican Conference Vice Chair, discussed a bill he introduced this Congress – the Family First Act – that would increase the child tax credit amount to $4,200 for families with a child between ages 0 and 5, and $3,000 for families with a child between ages 6 and 17, an increase from the current credit amount of $2,000 for a child under the age of 17. He also would like to establish a $2,800 tax credit for pregnant mothers.
URL: https://blakemoore.house.gov/imo/media/doc/ctc_bill_text.pdf

Moore said in a press release that the bill is fully offset by making changes to a variety of other tax provisions, including simplifying a credit for low-to-moderate income workers (earned income tax credit); repealing the dependent portion of the personal exemption and Head of Household filing status; eliminating the child and dependent care tax credit; and keeping the state and local tax deduction capped at $10,000.

Energy tax credit: Rep. Mike Thompson (D-Calif.) said that, since the Inflation Reduction of 2022 (P.L. 117-169) was signed into law, there has been a significant amount of investment in clean energy, with more than 80 percent of these investments going to Republican congressional districts. He also highlighted the significance of maintaining these incentives for domestic manufacturing.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

House Budget Committee sets out possible "options for offsets"

With the GOP's goal to extend the TCJA tax cuts this year, the House Budget Committee which plays a key role in the budget reconciliation process released a document this week listing a wide range of possible offsets and other items which could be considered for inclusion in a tax and spending bill moved under the procedural

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framework of budget reconciliation. (For coverage of how budget reconciliation works, see *Tax News & Views*, Vol. 25, No. 34, Dec. 20, 2024.)
URL: https://punchbowl.news/reconciliation_wm/
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241220_1.html

Some possible offsets on the tax front include a repeal of the green energy tax credits, which were created under President Biden's tax-and-climate law, with a 10-year savings of up to $796 billion (depending on the number of credits modified or repealed); repeal of the state and local tax deduction, with a 10-year savings of $1 trillion, an amount that would account for eliminating both the individual and business state and local tax deduction; repeal of the head of household filing status, with a 10-year savings of $192 billion; and more.

The Budget Committee's options cover a variety of issues crossing jurisdictional committee lines. And while the list is long, it is not necessarily a complete list of items that will be part of a discussion in reconciliation and also includes many ideas which will quickly be discarded. So, while it's a useful look at some of the ideas being batted around Capitol Hill, it should not be seen as a definitive list of items expected to be signed into law.

The House Freedom Caucus (HFC) this week also made news on the process front, releasing a letter proposing a two-step reconciliation strategy, which is in contrast to the one-bill approach that Rep. Mike Johnson (R-La.) and Ways and Means Chairman Jason Smith (R-Mo.) have been proposing. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 34 Dec. 20, 2024.) HFC would fund border security, modernize the US military, and reverse some of President Biden's policies in the first bill, while also increasing the debt ceiling for two years. They suggested funding tax cuts in the second bill. HFC contended that their "proposal is a Republican plan that can reach 218 votes."
URL: https://x.com/freedomcaucus/status/1879892258553757817/photo/1
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241220_1.html

— Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

Bessent supports cutting taxes to grow the economy

Among other tax-related comments at his January 16th confirmation hearing, Treasury Secretary-Designate Scott Bessent told Senate Finance Committee members at his January 16 confirmation hearing that he supports plans to extend soon-to-expire tax cuts in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) as congressional Republicans and the incoming Trump administration have been touting the cuts as a means for economic growth.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Bessent's confirmation hearing was held just four days before Donald Trump's inauguration as the nation's forty-seventh president.

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Bessent talks tax at a high level

Bessent, who is expected to win confirmation from the Republican-controlled Senate, told the panel that extending the soon-to-expire TCJA tax cuts will grow the economy, support small businesses, and provide financial relief to American taxpayers.

He emphasized that cutting taxes is "the single most important issue of the day," adding that "if we do not renew or extend [the tax cuts], we will be facing an economic calamity," with many deductions being cut in half and the middle class feeling the financial pain. Bessent further maintained that "we saw the power of these tax cuts in 2018, 2019, and in the beginning of 2020 before COVID started."

Numerous Republican senators – including Chairman Mike Crapo of Idaho and Steve Daines of Montana, contended that, if Congress does not act by extending the TCJA tax cuts, there will be more than a $4 trillion tax hike for American taxpayers. Crapo emphasized that those tax cuts will benefit primarily low-to-moderate income taxpayers, while Daines stressed that, "when you lower taxes, you grow the economy and become competitive."

By contrast, the Democratic panel – including Ranking Member Ron Wyden of Oregon and Michael Bennet of Colorado – criticized Republicans' plans to extend the TCJA tax cuts and maintained that the benefits from extension would benefit primarily the "richest people in America." Bennet stressed that the Trump tax cuts are "deeply, deeply" unfair to the middle class and have already resulted in a $2 trillion dollar price tag.

Bessent respectfully disagreed with Bennet's statement that the benefits only went to the richest Americans, noting that the "top 50 percent of Americans now pay 98 percent of the taxes."

With large portions of the TCJA set to expire at the end of the year, Sen. Daines asked Bessent about the benefits of making tax cuts permanent. Bessent replied that "incentives drive everything in tax policy," adding that, "since November 5 [when Donald Trump clinched the election to become the forty-seventh president of the United States], we have seen the biggest increase in optimism from small businesses." He further indicated that, with permanence, we get the following three results – increase in hiring; real wages; and training and expansion of the workforce – which as Trump advocated will unleash the economic era of the "golden age."

While senators generally kept their discussions about taxes to a high level, several senators broached the subject of specific tax provisions.

Research and development expenditures: Sen. Maggie Hassan (D-N.H.) asked Bessent whether he agrees with revising current law to allow for the immediate deduction for research and development (R&D) expenditures, an initiative she says she has been working on.

Bessent noted that although he is "not totally educated on this matter," his inclination is that "he would support it and make it a priority." Bessent believes it is important to ensure that American companies are competitive.

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Currently, the TCJA provides that R&D expenditures paid or incurred in taxable years beginning after December 31, 2021, are subject to capitalization over 5 years for research conducted within the US and 15 years for research conducted outside the US.

Bonus depreciation: Sen. James Lankford (R-Okla.) asked Bessent whether he would be in favor of enacting a "stable bonus depreciation amount," arguing that certainty is beneficial for businesses, large or small.

Bessent indicated that a "high after-tax return on capital for businesses is good for job creation."

Under the TCJA, the 100 percent rate for bonus depreciation was phased down in increments of 20 percentage points beginning in 2023. (A 60 percent rate is in effect for 2024, but will be reduced to 40 percent for 2025, 20 percent for 2026, and zero for property placed in service after December 31, 2026.)

Premium tax credit: Sen. Catherine Cortez Mastro (D-Nev.) asked Bessent whether he would commit to renewing the premium tax credit which she says has helped her constituents pay for health insurance premiums. Bessent responded that he would research the matter with "deliberate speed."

The Inflation Reduction Act: Sen. Cortez Mastro maintained that the advanced manufacturing production credit under section 45X, which was enacted as part of the Inflation Reduction Act of 2022 (P.L. 117-169), has helped drive the creation of jobs in her state. As such, she asked Bessent whether he would commit to opposing any measure to repeal the 45X credit. He indicated that he would get back to her.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

To pay for extending the soon-to-expire tax cuts in the TCJA, congressional Republicans and the incoming administration have touted getting rid of at least some of the clean energy provisions in President Biden's tax-and-climate law.

IRS' Direct File program: When asked by Sen. Wyden whether he would commit to keeping the IRS' Direct File program "up and running" during the 2025 tax filing season, Bessent confirmed that he will ensure that the program is operational for the tax filing season opening later this month (see separate story in this edition of TNV for more details on the filing season schedule), and if confirmed, he will study the program to determine whether it serves the IRS' goals. (A day before the hearing, Sen. Elizabeth Warren (D-Mass.), with more than 130 other lawmakers, sent a letter to both Secretary-Designate Bessent and IRS Commissioner-Designate Billy Long urging them to maintain and expand IRS' Direct File program.)
URL: https://www.warren.senate.gov/imo/media/doc/letter_to_bessent_and_long_on_direct_file.pdf

Direct File is an online tax return system which enables eligible taxpayers to file their taxes for free. It has been a hot button issue for Republicans since it started as a pilot program last year.

Other fiscal policy matters

In addition to taxes, Bessent touched on a variety of other issues that directly affect fiscal policy, including the debt limit and energy dominance.

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Debt limit: Sen. Warren noted that President-elect Trump said he supports repealing the debt limit and asked Bessent if he agreed it should be repealed as well. Bessent indicated that "if Trump wants to get rid of it [the debt limit]," then he will work with Sen. Warren to do so.

He also declared that "the United States will not default on its debt if I'm confirmed."

The most recent suspension of the debt limit, which was enacted in the Fiscal Responsibility Act of 2023 (P.L. 118-5), expired on January 1, 2025, but lawmakers typically would have several months after January 1 to raise or suspend the statutory debt limit, without risking default on the nation's credit while the Treasury Department uses "extraordinary measures" to pay the nation's bills. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 22, June 1, 2023.) Those measures will likely extend the so-called "X-Date" – the date after which the government can no longer borrow money to pay its bills – for several months, meaning this issue is all but certain to command more attention from lawmakers in the coming months.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2023/TNV/230602_1.html

Energy dominance: Sen. Barrasso (R-Wyo.) for his part, argued that reigniting the economy could be accomplished by "unleashing energy," noting that the state he represents is the third largest net energy supplier. He asked Bessent the role he would like to play in the new administration to ensure that the United States is dominant in the energy sector.

Responding, Bessent indicated that what Barrasso mentioned is referred to by President-elect Trump as "energy dominance." He maintained that the supply of energy has been constrained in the United States, however, unleashing those constraints could propel economic growth.

Lowering costs for consumers: Consumer affordability – which was front-and-center in last year's presidential election particularly as it related to purchasing necessities – was addressed by Bessent in response to Sen. Tina Smith's (D-Minn.) question as to how costs can be lowered for Americans and make the economy work for everyone.

Bessent said he believes that the incoming administration is committed to addressing the affordability crisis and that he considers inflation to be "one of the great killers for working American families." Bessent further added that the reduction in inflation and interest rates are key components that impact a consumer's ability to afford needed goods and services.

International: Responding to a question from Sen. Lankford (R-Okla.), Bessent said that "any country intent on implementing Pillar Two (a component of the global tax agreement struck through the OECD by more than 140 countries, including the US) before President-elect Trump takes office will be a grave mistake," and stressed that "the taxation of US companies is a sovereign issue, and that the authority lies with this Congress." He promised to work with Congress to undo what he referred to as a "terrible policy."

Pillar Two of the OECD's global tax deal established a global minimum tax of 15 percent, with the goal to ensure that multinational companies pay at least that rate, regardless of where they operate, and it allows

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countries to levy top-up taxes if a company isn't taxed at that level in a country in which it operates or in the parent jurisdiction – an aspect of the regime known as the undertaxed profits rule (UTPR).

The Biden administration has been in favor of making changes to US tax law to harmonize it with Pillar Two, however, congressional Republicans have argued that the Biden administration overstepped its authority in negotiating and signing on to the deal and have especially opposed the UTPR. A second Trump administration and the 119th Congress controlled by the GOP casts doubt over whether the United States will adopt changes needed to come into compliance with Pillar Two.

— Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

Measure to address double-tax issues between the US and Taiwan sails through House

Legislation to address double taxation on investments between the United States and Taiwan easily cleared the House of Representatives this week, however, the measure's path forward in the Senate remains uncertain at this time.

The United States-Taiwan Expedited Double-Tax Relief Act

The measure, H.R. 33, dubbed the United States-Taiwan Expedited Double-Tax Relief Act, passed the lower chamber on January 15 by a nearly unanimous 423 – 1 vote. Under a special fast-track process that was established as part of the House rules package for the 119th Congress that GOP members adopted on January 3, the Taiwan measure was subject to only one hour of debate on the House floor and no amendments were permitted to be offered. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 1, Jan. 10, 2025.)
URL: https://www.congress.gov/bill/119th-congress/house-bill/33/text
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250110_1.html

In general, the House-passed bill would provide benefits for income from US sources earned or received by qualified residents of Taiwan, including reduced tax rates, taxation of only that income effectively connected with a US permanent establishment, and preferential treatment of wages and related income earned by qualified residents. It also would authorize the president to negotiate additional tax benefits between the US and Taiwan subject to certain limitations. The provisions reflect the fact that the US cannot sign a tax treaty with Taiwan because of the "One China" policy, under which the US recognizes the People's Republic of China (PRC) as the sole legal government of China, therefore maintaining formal relations with the PRC and only unofficial relations with Taiwan.

The language mirrors text included as Title III of H.R. 7024, the Tax Relief for American Families and Workers Act of 2024, which passed the House with wide bipartisan support during January of last year but – for a

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variety of reasons, including opposition from key GOP senators to separate provisions in the bill that would have expanded the child tax credit – was blocked in the Senate. [The broader bill, which was negotiated by House Ways and Means Committee Chairman Jason Smith (R-Mo.) and then-Senate Finance Committee Chairman Ron Wyden (D-Ore.) also included a number of other business tax relief provisions such as reinstating (through 2025) certain business-unfriendly tax provisions related to the treatment of research expenditures, bonus depreciation, and the deduction for business interest expenses that were included in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) but did not take effect until several years after that measure was enacted. (For prior coverage, see *Tax News & Views*, Vol. 25, No.26, Aug. 2, 2024.)]
URL: https://www.congress.gov/bill/118th-congress/house-bill/7024/text
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240802_1.html

Smith: Legislation key to securing US supply chains

During floor remarks before the House vote, Ways and Means Committee Chairman Smith argued that the Taiwan bill will help secure supply chains critical to the US, particularly in the area of semiconductor manufacturing.

"Reducing burdens to Taiwanese investment in America will help aid in building new cutting-edge manufacturing plants staffed by American workers," Smith said. "It will help support our domestic semiconductor and chip manufacturing capabilities, securing strategic supply chains and helping us further move away from China."

Smith also contended that the US is an outlier in terms of international trade relations with Taiwan.

"Citizens and companies from countries like Great Britain, the European Union, Japan, Australia, and New Zealand all enjoy better tax treatment than Americans in Taiwan currently do," Smith said. "That's not right. In fact, the United States is Taiwan's largest trading partner without a tax treaty."

Next steps in Senate remain unclear

Having passed the House, the US-Taiwan tax measure now heads across the Capitol to the Senate where, at this time, its prospects for near-term action remain unclear.

Although the measure would likely garner at least 60 votes in the Senate – that is, enough to clear procedural hurdles in the chamber which generally require a three-fifths vote to end debate and move toward final passage – the anticipated opposition of certain members could drag the process out.

"I know of several Republicans where there would be challenges," Finance Committee ranking Democrat Ron Wyden told reporters on January 13.

A GOP senator of particular concern is Rand Paul of Kentucky. Paul, a longstanding and persistent opponent of information exchange provisions within conventional tax treaties, could force the chamber to expend the full

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amount of debate time on the measure – a reality that may dissuade Senate Majority Leader John Thune, R-S.D., from attempting to bring the measure to the floor, especially this winter and spring when the chamber will be focused on processing and confirming President-elect Donald Trump's nominees to the executive and judicial branch.

Republicans could also attempt to fold the Taiwan tax measure into any filibuster-proof reconciliation measure they attempt to move this year. However, that approach may run aground procedurally due to the arcane rules that govern the budget reconciliation process, one of which requires all provisions in a reconciliation bill to have a discrete impact on the federal budget. When the Taiwan-related language was scored by the Joint Committee on Taxation last year prior to the House processing the Smith-Wyden tax deal, the nonpartisan scorekeeper determined that those particular provisions would have no revenue effect (see JCX-5-24).
URL: https://www.jct.gov/publications/2024/jcx-5-24/

Still, it perhaps bodes well for eventual Senate action that Finance Committee Chairman Mike Crapo, (R-Idaho) is supportive of enacting the US-Taiwan accord, even if he did oppose the broader Smith-Wyden bill last year that also included it.

"It is … time to act on bipartisan legislation to relieve double taxation on cross-border investment between the US and Taiwan," Crapo said in a January 7 press release. "The legislative package negotiated last Congress – provisions of which passed unanimously through the Finance and House Ways and Means committees—demonstrates Congress's willingness to strengthen its economic partnership with Taiwan and facilitate mutual investment."
URL: https://www.finance.senate.gov/ranking-members-news/crapo-named-chairman-of-senate-finance-committee

— Alex Brosseau
Tax Policy Group
Deloitte Tax LLP

Tax filing season begins on January 27, IRS says

The Internal Revenue Service announced that it will begin accepting and processing 2024 tax year returns on January 27.
URL: https://www.irs.gov/newsroom/irs-announces-jan-27-start-to-2025-tax-filing-season-agency-continues-historic-improvements-to-expand-enhance-tools-and-filing-options-to-help-taxpayers

IRS Commissioner Danny Werfel expects the 2025 tax filing season to reflect what he says is the agency's continued progress to modernize and improve its customer service operations, resulting in a streamlined tax filing process. Though Werfel has not completed his full five-year term as most IRS commissioners do, he announced January 17 that he will step down on January 20, acknowledging President-elect Trump's desire to replace him with former Rep. Billy Long (R-Mo.), who the President-elect nominated December 4, according to news reports. (For prior coverage, see *Tax News & Views*, Vol 25, No. 32, Dec. 6, 2024.)

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URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241206_3.html

"This has been a historic period of improvement for the IRS, and people will see additional tools and features to help them with filing their taxes this tax season," said Werfel. "These taxpayer-focused improvements we've done so far are important, but they are just the beginning of what the IRS needs to do. More can be done with continued investment in the nation's tax system."

Among the service improvements the agency is touting for the upcoming filing season are expanded in-person service at Taxpayer Assistance Centers; increased help available on the IRS's toll-free line; more access to tax account information from text and voice virtual assistants; expanded capabilities of the IRS Individual Online Account; more access to dozens of digital tax forms; and increased accessibility of last year's Direct File program.

With an influx of resources, the IRS is working to follow-up what is said were successes of the prior two tax filing seasons which saw "levels of service at roughly 85% and wait times averaging less than 5 minutes on the main phone lines," Werfel specified in the release. He further indicated that these metrics are ones the agency is hoping to reach in this years' tax filing season.

It is worth noting that the IRS's additional resources came from a special mandatory funding allocation of $80 billion (through 2032) under the Inflation Reduction Act of 2022 (P.L. 117-169) to enhance its compliance and enforcement efforts, modernize its business systems, and improve its taxpayer services operations. That amount, however, has already been trimmed by $20 billion on a bipartisan basis in the fiscal year 2024 government funding law. Also, the 2024 end-of-year continuing resolution appears to carryover from the prior stopgap measure a freeze on the agency's access to roughly another $20.1 billion in mandatory funding. It is unclear how much more, if any, additional special funding the agency may lose.
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

— Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

Deloitte Tax looks at more year-end guidance from Treasury, IRS

New alerts from Deloitte Tax LLP discuss guidance from the Treasury Department and the Internal Revenue Service on cloud transaction regulations, disregarded payment losses, and spinoff transaction and reporting requirements.

Treasury and IRS release proposed cloud transaction sourcing regulations

On January 14, 2025, the Treasury Department and the IRS published proposed regulations providing specific rules for determining the source of income from cloud transactions for purposes of the international

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provisions of the Internal Revenue Code. These proposed regulations, which build upon the regulations addressing cloud transactions and are intended to clarify the sourcing of such income, are proposed to apply to taxable years beginning on or after the date the final regulations are published in the Federal Register.

Details of the new guidance are provided in a new alert from Deloitte Tax LLP.
URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-16-january-2025.pdf

Final digital content and cloud transaction regulations issued

On January 14, 2025, the Treasury Department and the IRS published final regulations addressing the classification of transactions involving digital content and cloud transactions. This guidance refines the existing rules for digital content and introduce new rules for cloud transactions. The final regulations apply to taxable years beginning on or after January 14, 2025; taxpayers may elect early application if certain conditions are met.

Details of the new guidance are provided in a new alert from Deloitte Tax LLP.
URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-15-january-2025.pdf

Final regulations address disregarded payment loss and dual consolidation loss rules

On January 14, 2025, the IRS and Treasury Department published regulations to finalize certain provisions of the August 2024 proposed regulations that relate to disregarded payment losses (DPLs), including portions that are also relevant for dual consolidated losses (DCLs). The final DPL regulations do not finalize all provisions of the proposed DCL/DPL regulations; certain provisions remain outstanding as proposed rules with retroactive effective dates. Most of the final DPL regulations have a delayed applicability date.

Details of the new guidance are provided in a new alert from Deloitte Tax LLP.
URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-16a-january-2025.pdf

Treasury and IRS issue guidance on spinoff transactions and reporting requirements

Deloitte Tax LLP provides a short summary of the proposed regulations on spinoff transactions and related multi-year reporting requirements that can be shared with clients in the following message.

On January 13, 2025, Treasury and the IRS issued two sets of proposed regulations providing guidelines for spinoff transactions under section 355 and related reporting requirements. The proposed regulations follow Notice 2024-38 and Rev. Proc. 2024-24, both issued on May 1, 2024.

The first set of proposed regulations (REG-112261-24) address certain matters relating to corporate separations, incorporations, and reorganizations that qualify, in whole or in part, for nonrecognition of gain or loss. Specifically, these proposed regulations address distributions and retentions of controlled corporation stock, assumptions of liabilities by controlled corporations, exchanges of property between distributing corporations and controlled corporations, and distributions and transfers of consideration to distributing

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corporation shareholders and creditors. According to the preamble, the purpose of these proposed regulations is to establish a comprehensive set of rules to implement core definitional and operative provisions of subchapter C. The proposed regulations are intended to facilitate the ability for taxpayers to achieve increased comfort on the Federal income tax treatment of their corporate M&A transactions without the need for a private letter ruling. In general, the proposed regulations would apply to transactions that occur after final regulations are published. However, in a statement accompanying the release of the proposed regulations, the IRS stated that it will follow the proposed regulations when is issuing private letter rulings and will revise Rev. Proc. 2024-24 to incorporate changes made by the proposed regulations.

Concurrently issued proposed regulations (REG-116085-23) address multi-year reporting for corporate separations and related transactions under section 355. These proposed regulations revise existing Treas. Reg. § 1.355-5 to enhance the IRS's ability to administer and enforce the requirements of section 355. The revisions would require taxpayers to submit new Form 7216, Multi-Year Reporting Related to Section 355 Transactions, or any successor form, to provide the IRS with additional information to help identify potential noncompliance in section 355 transactions. The new form is to be filed annually along with the tax returns of "covered filers". The proposed regulations apply to taxable years ending after the final regulations are published with respect to section 355 transactions occurring after the final regulations are published.

Please watch for a Tax Alert with more detailed analysis of these two sets of proposed regulations in the coming days.

— Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

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