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US Inbound Corner

US Elections and 2025 Tax Policy: Why US Inbound Companies Should Pay Attention

With the presidential campaign moving into the last few weeks, the two leading contenders in the race for the White House—Vice President Kamala Harris and former President Donald Trump—have begun to make their final case to voters ahead of the November 5 general election.

Throughout the campaign, Harris and Trump have presented their respective tax policy arguments largely in broad strokes and focused chiefly on disagreements over the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97), the signature legislation of the Trump administration that moved through a Republican-controlled Congress under fast-track budget reconciliation protections. That law fundamentally changed the tax treatment of US-based multinationals, lowered corporate and personal tax rates, and broadened the tax base for both inbound businesses and individuals. The bulk of the TCJA's corporate changes are permanent law; however, because of long-term fiscal constraints baked into the budget reconciliation process—namely, that legislation moved under the special parliamentary procedure cannot increase the deficit in the years beyond the budget resolution that includes the underlying reconciliation instructions—Congress opted to make many of the provisions on the individual side of the tax code temporary, with sunset dates at the end of 2025. Lawmakers also included revenue raising provisions with delayed effective dates, some of which have since come into effect, including the tax treatment of research costs, further limitations on interest deductibility and a phased-in haircut on bonus depreciation, as well as other changes that will raise further revenue from multinational corporations and inbound companies that are scheduled to take effect at the end of next year.

In this edition

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Find out more

Approaching the cliff: Tax policy and the 2024 elections, a new report from Deloitte Tax LLP, discusses the emerging tax policy positions of both presidential candidates and their implications for the fiscal challenges ahead.

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All of this sets up the prospect of a massive fiscal cliff for the next White House and the next Congress as they grapple with how to address the pending expiration of key TCJA individual tax provisions such as reduced income tax rates for individuals and the 20 percent deduction for permanent passthrough business income. The nonpartisan Congressional Budget Office (CBO) estimated in May that the 10-year cost of permanently extending all of these provisions will come in at $4.6 trillion—a $1.1 trillion increase from similar projections the agency issued in 2023. Adding to the magnitude of the challenge facing Congress, there are also many non-TCJA tax provisions expiring next year, such as the new markets tax credit and the lookthrough rules for controlled foreign corporations in section 954(c)(6).

Revenue increases likely (regardless of who wins)

Vice President Harris has proposed to allow the temporary TCJA provisions to expire for taxpayers with incomes greater than $400,000 ($450,000 for joint filers) and stay in place for less affluent taxpayers. She and congressional Democrats also maintain that any extensions of the TCJA tax cuts must be offset primarily with tax increases on large corporations (for example, an increase in the corporate tax rate to 28 percent) and on upper-income individuals (such as a "billionaire's" tax on unrealized asset gains). And they would have dozens of other revenue-raising proposals from Biden-Harris budget blueprints at the ready if they control the tax policy agenda next year.

Former President Trump has called for permanently extending all of the expiring TCJA tax cuts, but he not thus far discussed how, or even whether, he intends to pay for some or all of the cost of renewing them. 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. Possible revenue targets for Republicans might include rescinding some of the clean energy credits enacted in the Inflation Reduction Act of 2022 (P.L. 117-169) and clawing back some of the special mandatory funding allocated to the IRS (through 2032) under that legislation.

One potential approach to addressing the expiring TCJA provisions—namely, extending them without regard to the deficit impact—seems less likely to gain traction in 2025 than might have been the case previously as the current Congress appears more willing to set aside other tax policy goals in the name of fiscal discipline, and if that mindset holds into next year, the implications could be profound.

There are several important reasons why revenue raisers may well be on the table in the TCJA discussions no matter how power is parceled out in Washington in 2025.

The roughly $4.6 trillion 10-year cost of extending the expiring provisions may simply be too big to be ignored. And, as already noted, the list of imminently expiring tax provisions doesn't end with the TCJA. Lawmakers also will have to consider how to pay the tab for a swath of traditional tax "extenders" provisions enacted outside of the TCJA that are also set to expire in 2025, plus about a dozen others—mainly in the energy sector—that are due to sunset at the end of 2024.

Any unease over the cost of extending all or even part of the TCJA and enacting new tax cuts is exacerbated by the increasingly dire long-term fiscal projections the CBO released in June, which show that the budget deficit for current fiscal year 2024—which runs through September 30—will clock-in at more than $1.9 trillion, or 6.7 percent of gross domestic product (GDP). By comparison, over the past five decades, the government has on average run deficits of about 3.7 percent of GDP. This negative trend continues over the 10-year budget window, with cumulative deficits now projected to amount to almost $22.1 trillion over the next decade.

Meanwhile, spending levels—which have fallen sharply from their pandemic-era highs—are expected to resume their steady climb due to pre-existing demographic trends that are projected to increase the ranks of Social Security and Medicare beneficiaries and thus push up outlays within those programs. Health care cost growth is also expected to continue to outstrip economic growth, thus pushing up that budgetary component as a share of GDP. By 2034, outlays would exceed 24 percent of the economy, compared to an average of 21 percent of GDP over the last 50 years.

The combined effects of these pressures ***plus*** the need for Congress and the White House to act when the most recent suspension of the federal debt ceiling expires early next year are likely to ratchet up the pressure on lawmakers for increased fiscal discipline.

Evaluate, model, and plan

As we contemplate the direction in which the two candidates propose to take tax policy, it is worth remembering that tax legislation generally originates in Congress, not the White House, so any new tax laws enacted in a Harris administration or in a second Trump administration will necessarily also carry the imprint of the legislative branch with its many competing interests and priorities. As a result, decisions regarding the use of revenue raisers to offset the cost of any TCJA extensions and other proposed tax relief—are likely to be shaped by the make-up of the incoming 119th Congress.

Despite uncertainty over who will be leading the tax policy debate next year and the direction that future negotiations will take, significant tax law changes potentially impacting inbound companies—including corporate-focused revenue increases—remain a real possibility. It is not too early to start evaluating any proposals being put forward, modeling potential outcomes, and planning the appropriate actions to take if and when these proposals go from high-level plans to fully framed legislative policies with substance.

Find out more

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