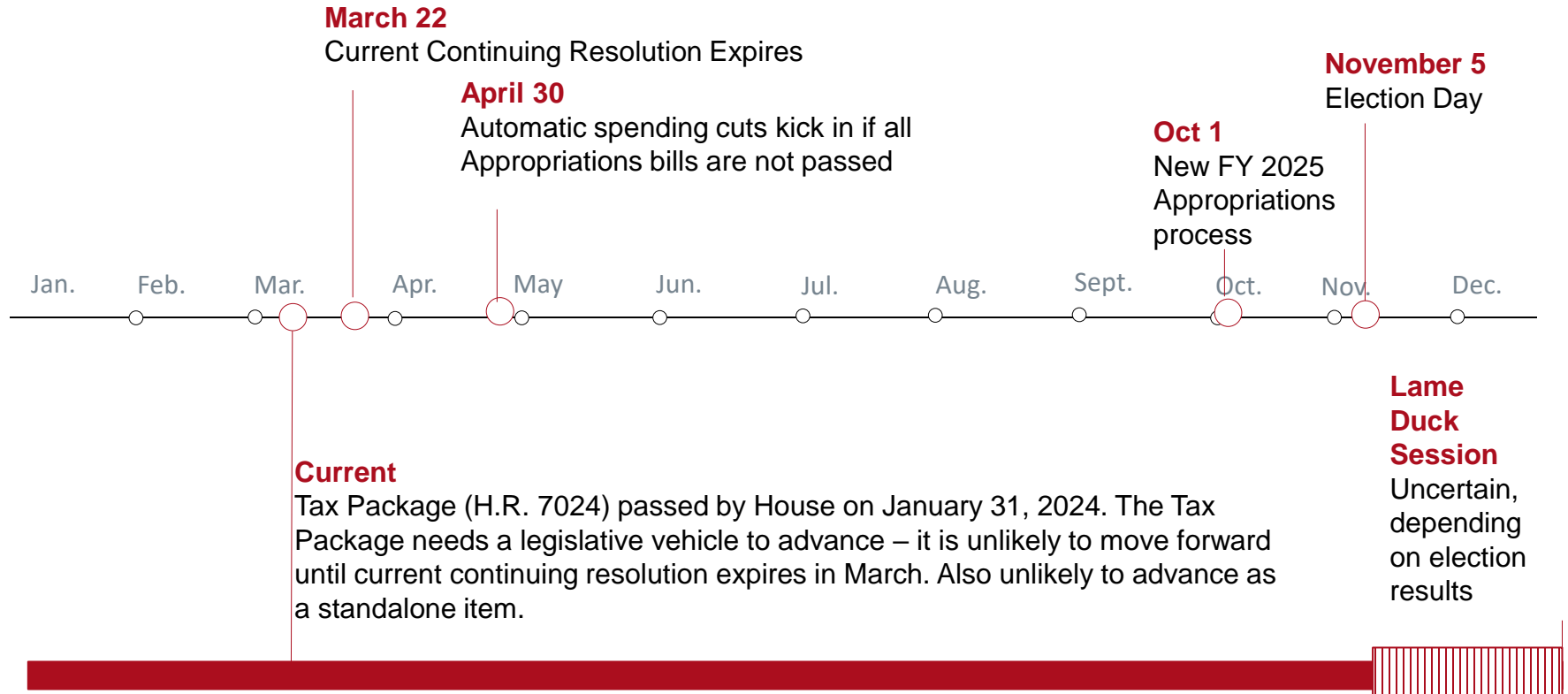




U.S. Tax Legislative & Regulatory Update

As of March 6, 2024

2024 Timeline for Tax Policy Actions



H.R. 7024, Tax Relief for American Families and Workers Act of 2024

Extend Select Measures Through 2025

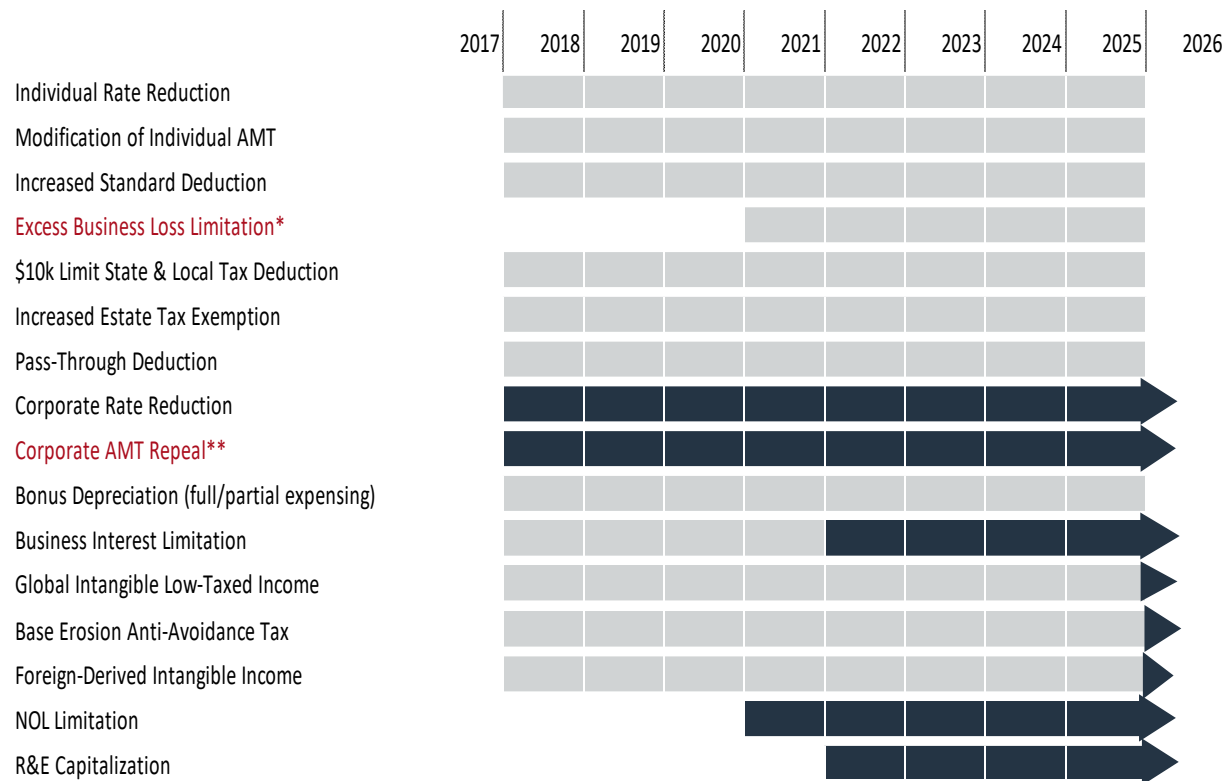
- Delay the requirement to capitalize **domestic** research to 2026. Retroactive for 2022 tax year, taxpayers can amend returns, make a late election to capitalize under old Sec. 174(b), or elect to treat prospectively with a method change. **Foreign** research is still capitalizable and amortizable over 15 years.
- The addback to the Sec. 163(j) interest expense limitation includes depreciation and amortization for 2024 and 2025, and electively for 2022 and 2023.
- Extend 100% bonus depreciation to property placed in service in 2023, 2024, and 2025 (2026 for longer production period property and certain aircraft). Retain 20% bonus depreciation for property placed in service in 2026 (2027 for longer production period property and certain aircraft).

Other Items

- Terminates availability of Employee Retention Tax Credit (ERC) claims after January 31, 2024 (retroactive), instead of by April 15, 2024 (for 2020 claims) and April 15, 2025 (for 2021 claims).
- Additional enforcement provisions with respect to ERC claims.
- Relief from double taxation for certain residents of Taiwan.
- Disaster relief for major disasters declared on or after December 28, 2019.
- Restore the low-income housing credit ceiling to 12.5% for 2023-2025 and provide tax-exempt bond financing relief.
- Changes to certain Form 1099 reporting thresholds from \$600 to \$1,000.
- Modifications and enhancement to the child tax credit.

Separate House negotiation: For 2023 only, doubling SALT cap from \$10,000 to \$20,000 for married filers with AGI below \$500,000.

The Temporary Nature of the TCJA



Inflation Reduction Act of 2022:

*Excess Business Loss Limitation extended to **2028**.

New corporate AMT taking effect beginning in **2023

Temporary Permanent

Planning for TCJA Expiring Provisions in 2024

Considerations

- The TCJA provisions could expire, be extended, or a combination
- Tax increases or other changes may be back on the table in 2025 (depending on the results of the 2024 Presidential and Congressional Elections)
- Tax changes are less likely if the election results in divided government
- Fiscal pressures will continue to increase

Recommendations

- Use remaining estate tax exemptions
- Evaluate your tax posture in light of the expiring provisions and potential tax changes
 - C corporation versus pass-through with 199A, etc.)
 - Potential liquidity events
- Develop a plan that could be executed as soon as late 2024, depending on the election results

Recent Legislation

Not Enacted

Build Back Better's sweeping tax changes, including:

- Corporate rate increase
- Individual surcharges
- Capital gain rate increases, carried interest, etc.

Research capitalization fix or other tax extenders

Enacted

Infrastructure Investment and Jobs Act (November 11, 2021)

Chips & Science Act (August 9, 2022)

Inflation Reduction Act (August 16, 2022)

Consolidated Appropriations Act, 2023 (December 29, 2022)

Inflation Reduction Act of 2022 – What's In It?

15% book-income alternative minimum tax on corporations with financial accounting profits over \$1 billion (Raises \$222 billion)

1% excise tax on the value of certain net stock repurchases by publicly traded corporations (Raises \$74 billion)

\$80 billion increase in IRS tax enforcement funding (Raises \$204 billion)

Two-year extension of the excess business loss rules for individuals (Raises \$53 billion)

Expands clean energy tax credits & incentives (Spends \$370 billion)

**Inflation
Reduction Act**

Clean Energy Credits & Incentives



Overview

- Largest federal investment in clean energy in U.S. history
- Significantly expands current incentives providing an estimated \$370 billion of new energy related tax credits over the next 10 years
- In addition to significant energy provisions, the law provides other targeted incentives to promote economic growth in targeted areas
- Key themes:
 - Reduce carbon emissions in power generation and transportation
 - Promote lower-carbon manufacturing
 - Build energy efficiency
 - Promote jobs in the U.S.
 - Create options for financing the desired investments
- Many credits continue until end of 2032 (with some transition dates)

Clean Energy Credits & Incentives (cont.)



Direct Pay and Transferability

Direct pay:

- Taxpayers that fall within the definition of applicable entities (i.e., tax-exempt entities, state & local governments, etc.) can elect to be treated as having made a payment of tax equal to the value of the credit they were eligible for
- The limitation on applicable entities does NOT apply to credits for:
 - Carbon capture and sequestration (Sec. 45Q)
 - Clean hydrogen (Sec. 45V)
 - Advanced manufacturing production credit (Sec. 45X)

Transferability:

- Generally, entities that are not applicable entities under the direct pay rules may transfer tax credits to third parties for cash
- Transfer may be for all or a portion of a credit
- No re-transfers allowed, and no deduction for buyer or income inclusion for seller

Key SECURE 2.0 Provisions

<u>2023</u>	<u>2024</u>	<u>2025</u>
Increase age for Required Minimum Distributions (RMD) to 73 from 72 (to 75 in 2033)	Allow employers to make matching contributions for qualified student loan repayments (plan years beginning after 2023)	Indexes Increases the limit on catch-up contributions for individuals aged 60-62
Permits SIMPLE and SEP IRAs to accept Roth contributions	Requires catch-up contributions to be Roth for taxpayers >\$145k prior year income (indexed) (IRS delayed until 2026)	
Allows qualified plans to permit an employee to elect to treat employer matching and nonelective contributions as Roth	Indexes \$1,000 catch up limit for inflation	
Expands the SEP exception for household employees	Reforms the family attribution rules to disregard community property laws and for minor children	
	Eliminates the requirement to begin (RMD) from Roth accounts within a plan prior to death of the account owner	

Gazing in the Crystal Ball

- Divided government means that legislation must be bi-partisan to pass
- White House will look to regulatory changes to advance their agenda
- 2024 elections are currently a toss-up
- Approaching a new *fiscal cliff* in 2026 with TCJA expirations





Individual Tax Priorities

Democrats

- Raise Tax Rates for Wealthy Individuals (>400K)
- SALT Cap Relief
- Child Tax Credits
- Expand the 3.8% tax and increase the rate to 5%
- Modify and make permanent EBL
- Anti-step up in tax basis?
- Billionaire's (Wealth) Tax?
- Repeal LKE and expand 1250 recapture?
- Limits on large IRAs?

Republicans

- Make TCJA changes permanent
- Avoid tax increases
- Small Business Jobs Act
 - Enhance QSBS and expand to S Corps
 - Enhance Sec. 179 expensing
 - Opportunity Zone rules
- Higher 1099 reporting thresholds



Estate & Gift Tax Priorities

Democrats

- Regulatory changes anticipated in remainder of Biden administration
- Remove valuation discounts for intrafamily transfers
- Modifications to grantor trusts to treat transfers as regarded for income tax purposes, payment of tax as a gift
- Modifications to GRATs

Republicans

- Extend TCJA thresholds?
- Repeal estate tax?



Corporate & International Tax Priorities

Democrats

- Increase corporate tax rate to 25-28%
- Increase stock buyback tax rate from 1% to 4%
- Implement OECD global corporate minimum tax
- Apply GILTI on a country-by-country basis
- Repeal FDII

Republicans

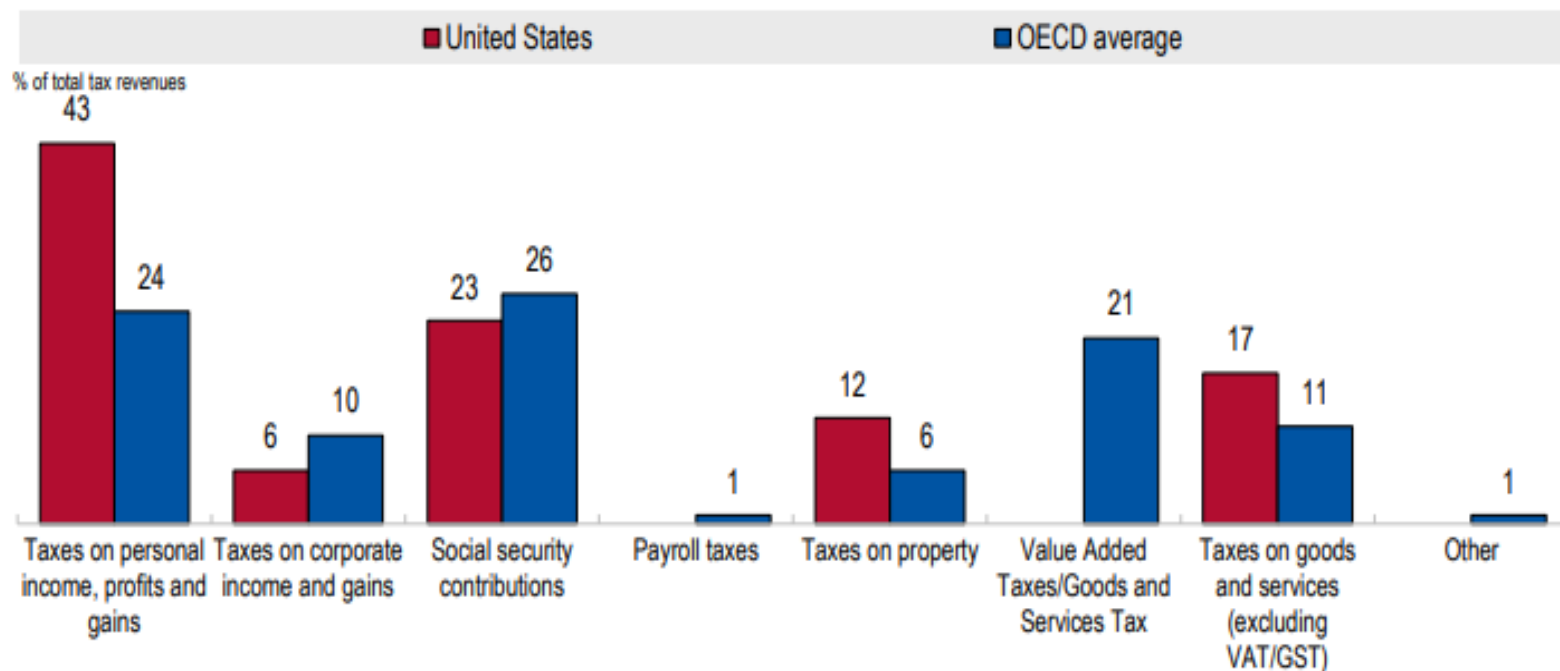
- Fix TCJA *glitches*
- Avoid tax increases
- Resist/retaliate against Pillar 2 UPTR regimes

US Tax Structure Compared With OECD

Tax structures

Tax structure compared to the OECD average, 2021

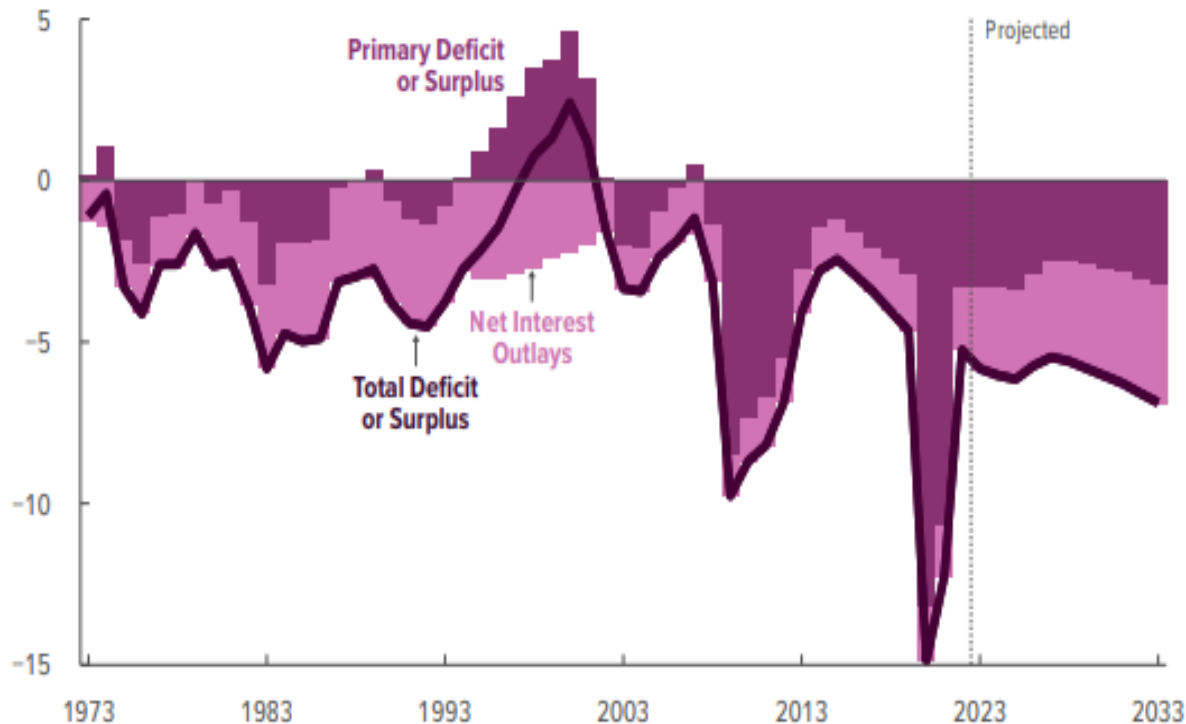
The structure of tax receipts in the United States compared with the OECD average is shown in the figure below.



Long-Term: Debts and Deficits

Total Deficits, Primary Deficits, and Net Interest Outlays

Percentage of GDP



In CBO's updated projections, net interest outlays increase by 1.1 percent of GDP from 2023 to 2033 and are the main contributor to the growth of total deficits. Primary deficits decrease by 0.1 percent of GDP over that period.

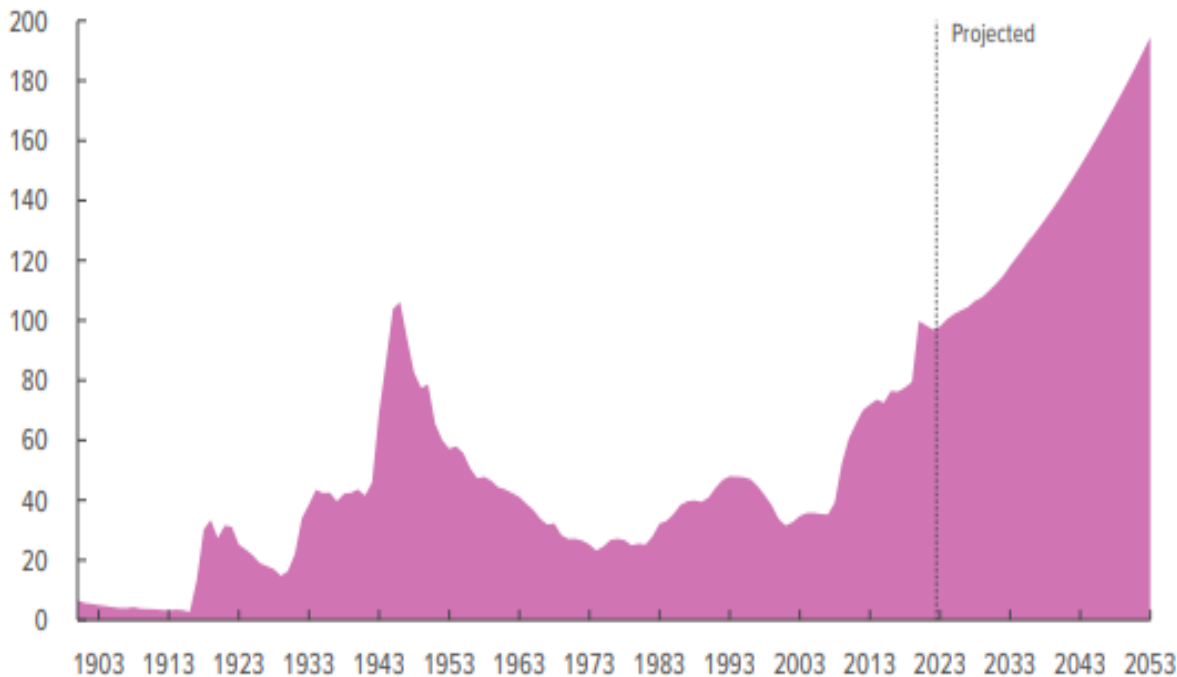
Source: Congressional Budget Office – An Update to the Budget Outlook: 2023 to 2033 (May 2023)

Long-term: Debt and Deficits (cont.)

Federal Debt as a % of GDP

Federal Debt Held by the Public, 1900 to 2053

Percentage of GDP



Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

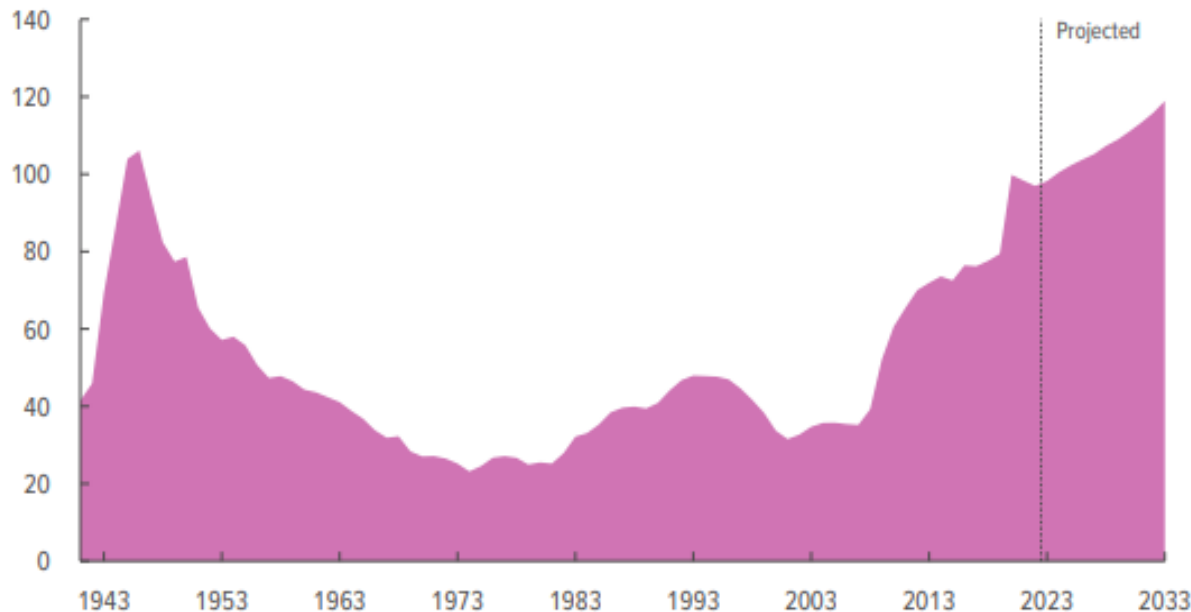
Source: Congressional Budget Office – The Budget and Economic Outlook: 2023 to 2033 (Feb. 2023)

Long-term: Debt and Deficits (cont.)

Federal Debt as a % of GDP

Federal Debt Held by the Public, 1941 to 2033

Percentage of GDP



Debt held by the public is projected to rise in relation to GDP, mainly because of increasing interest costs and the growth of spending on the major health care programs and Social Security.

Source: Congressional Budget Office – The Budget and Economic Outlook: 2023 to 2033 (Feb. 2023)

QUESTIONS?

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