

# What to expect in Washington

Washington Council  
Ernst & Young  
[ey.com/wcey](https://ey.com/wcey)

January 2025



The better the question. The better the answer. The better the world works.



Shape the future  
with confidence

# Topics

1 Elections & timeline

2 Policy in 2025

3 Budget

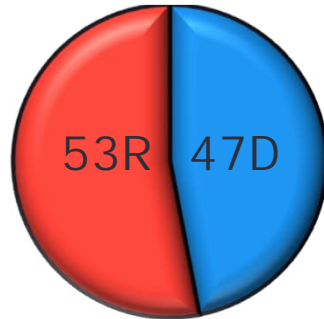
4 Global tax

5 2025 Tax Considerations



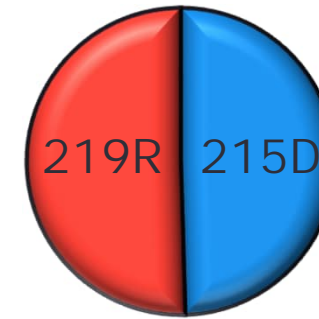
# Elections & timeline

## Senate



- 2024 ratio: 51D/49R 2025 ratio: 53R/47D
- New members on Senate Finance Committee
  - Roger Marshall (R-KS)
  - Bernie Sanders (I-VT)
  - Tina Smith (D-MN)
  - Ben Ray Lujan (D-NM)
  - Raphael Warnock (D-GA)
  - Peter Welch (D-VT)

## House



- 2024 ratio: 221R/214D 2025 ratio: 220R/215D
- Already dropped to 219R, likely 217R after confirmation of Reps. Stefanik (R-NY), Waltz (R-FL) to Administration posts
- New members on House Ways & Means Committee
  - Aaron Bean (R-FL)
  - Max Miller (R-OH)
  - Nathaniel Moran (R-TX)
  - Rudy Yakym (R-IN)
  - Brendan Boyle (D-PA)
  - Stacey Plaskett (D-VI)
  - Tom Suozzi (D-NY)

## Key dates

Early February - Target for FY25 budget

March 14 - Government funding expires

Early April - Target for House to pass reconciliation bill

May, by Memorial Day - Target to pass tax bill

Midyear TBD - Deadline to address federal debt limit

End of 2025 - Tax cliff of TCJA provisions expiring

# Trump staff, cabinet nominees

Administration role	Nominee/Appointee
<i>WH Chief of Staff</i>	Susie Wiles
<i>Deputy COS for policy</i>	Stephen Miller
<i>Communications Director</i>	Steven Cheung
<i>Press Secretary</i>	Karoline Leavitt
<i>WH Director of Leg. Affairs</i>	James Braid
<i>National Economic Council</i>	Kevin Hassett
<i>Department of Gov. Efficiency</i>	Elon Musk, Vivek Ramaswamy
OMB	Russell Vought
Council of Economic Advisors	Stephen Miran
Treasury	Scott Bessent
Deputy Treasury Sec.	Michael Faulkender
Asst. Sec. for Tax Policy	Ken Kies
IRS Commissioner	Fmr. Rep. Billy Long (R-MO)
Commerce	Howard Lutnick
USTR	Jamieson Greer
<i>Senior Trade Counselor</i>	Peter Navarro
HHS	Robert F. Kennedy, Jr.
Deputy HHS Sec.	Jim O'Neill
CMS	Dr. Mehmet Oz
FDA	Marty Makary
Surgeon General	Janette Nesheiwat
NIH Director	Jay Bhattacharya

*Italics* - doesn't require Senate confirmation

Administration role	Nominee/Appointee
Interior	ND Gov. Doug Burgum
Energy	Chris Wright
Transportation	Fmr. Rep. Sean Duffy (R-WI)
Agriculture	Brooke Rollins
Education	Linda McMahon
HUD	Scott Turner
SEC Chair	Paul Atkins
SSA Commissioner	Frank Bisignano
Small Business Administrator	Fmr. Sen. Kelly Loeffler (R-GA)
FBI	Kash Patel
UN Ambassador	Rep. Elise Stefanik (R-NY)
<i>Border Czar</i>	Former ICE Director Tom Homan
<i>National security adviser</i>	Rep. Mike Waltz (R-FL)
EPA	Fmr. Rep. Lee Zeldin (R-NY)
State	Senator Marco Rubio (R-FL)
Homeland Security	SD Governor Kristi Noem
CIA	John Ratcliffe
Defense	Pete Hegseth
Director, National Intelligence	Fmr. Rep. Tulsi Gabbard (D-HI)
Attorney General	Pam Bondi
Veterans Affairs	Fmr. Rep. Doug Collins (R-GA)

# Congressional leadership in 2025

Senate	
John Thune (R-SD)	Majority Leader
John Barrasso (R-WY)	Majority Whip
Tom Cotton (R-AR)	Republican Conference Chair
Shelley Moore Capito (R-WV)	Republican Policy Committee Chair
James Lankford (R-OK)	Vice Chair of Republican Conference
Tim Scott (R-SC)	Republican Senatorial Committee Chair
Chuck Schumer (D-NY)	Democratic leader
Dick Durbin (D-IL)	Democratic Whip
Amy Klobuchar (D-MN)	Chair of Steering and Policy Committee
Cory Booker (D-NJ)	Chair of the Strategic Communications Committee
Elizabeth Warren (D-MA), Mark Warner (D-VA)	Vice chairs of the Democratic Caucus
House	
Mike Johnson (R-LA)	Speaker
Steve Scalise (R-LA)	Majority Leader
Tom Emmer (R-MN)	Majority Whip
Lisa McClain (R-MI)	Conference Chair
Richard Hudson (R-NC)	National Republican Congressional Committee Chair
Kevin Hern (R-OK)	Republican Policy Committee Chairman
Hakeem Jeffries (D-NY)	Democratic leader
Katherine Clark (D-MA)	Democratic Whip
Pete Aguilar (D-CA)	Democratic Caucus Chairman

# Many tax committee members weren't on committee for 2017 TCJA

Ways & Means Republicans
<b>Chairman Jason Smith (R-MO)</b>
<b>Vern Buchanan (R-FL)</b>
<b>Adrian Smith (R-NE)</b>
<b>Mike Kelly (R-PA)</b>
<b>Dave Schweikert (R-AZ)</b>
Darin LaHood (R-IL)
Jodey Arrington (R-TX)
Ron Estes (R-KS)
Lloyd Smucker (R-PA)
X Carol Miller (R-WV)
X Kevin Hern (R-OK)
X Greg Murphy (R-NC)
David Kustoff (R-TN)
Brian Fitzpatrick (R-PA)
X Greg Steube (R-FL)
Claudia Tenney (R-NY)
X Michelle Fischbach (R-MN)
X Blake Moore (R-UT)
X Michelle Steel (R-CA)
X Beth Van Duyne (R-TX)
X Randy Feenstra (R-IA)
X Nicole Malliotakis (R-NY)
X Mike Carey (R-OH)
X Aaron Bean (R-FL)
X Max Miller (R-OH)
X Nathaniel Moran (R-TX)
X Rudy Yakym (R-IN)

Ways & Means Democrats
<b>Ranking Richard Neal (D-MA)</b>
<b>Lloyd Doggett (D-TX)</b>
<b>Mike Thompson (D-CA)</b>
<b>John Larson (D-CT)</b>
<b>R Earl Blumenauer (D-OR)</b>
<b>Bill Pascrell (D-NJ)</b>
<b>Danny K. Davis (D-IL)</b>
<b>Linda Sanchez (D-CA)</b>
<b>Terri Sewell (D-AL)</b>
<b>Suzan DelBene (D-WA)</b>
<b>Judy Chu (D-CA)</b>
Gwen Moore (D-WI)
Don Beyer (D-VA)
Dwight Evans (D-PA)
Brad Schneider (D-IL)
Jimmy Panetta (D-CA)
X Jimmy Gomez (D-CA)
X Brendan Boyle (R-PA)
Stacey Plaskett (D-VI)
Tom Suozzi (D-NY)

Senate Finance Republicans (14)
<b>Ranking Mike Crapo (R-ID)</b>
<b>Chuck Grassley (R-IA)</b>
<b>John Cornyn (R-TX)</b>
<b>John Thune (R-SD)</b>
<b>Tim Scott (R-SC)</b>
<b>Bill Cassidy (R-LA)</b>
James Lankford (R-OK)
Steve Daines (R-MT)
Todd Young (R-IN)
John Barrasso (R-WY)
Ron Johnson (R-WI)
Thom Tillis (R-NC)
Marsha Blackburn (R-TN) was a House member in 2017
Roger Marshall (R-KS) was a House member in 2017

Senate Finance Democrats (13)
<b>Chairman Ron Wyden (D-OR)</b>
<b>Maria Cantwell (D-WA)</b>
<b>Michael Bennet (D-CO)</b>
<b>Mark Warner (D-VA)</b>
Sheldon Whitehouse (D-RI)
Maggie Hassan (D-NH)
Catherine Cortez Masto (D-NV)
Elizabeth Warren (D-MA)
Bernie Sanders (I-VT)
X Tina Smith (D-MN)
X Ben Ray Lujan (D-NM)
X Raphael Warnock (D-GA)
Peter Welch (D-VT) was a House member in 2017

Bold = On committee in 2017 X = not in Congress in 2017

# Policy in 2025

# Budget reconciliation plans

Reconciliation allows Senate passage by a simple majority

GOP trifecta of control in Washington in 2025 allows Republicans to craft two separate reconciliation packages in 2025: using the FY2025 budget resolution, because the current Congress did not process one, then another for FY2026

	Senate (53R-47D)	House (219R-215D)	President-elect Trump
Sequencing	<p>1<sup>st</sup> bill on border, defense, and energy, w/permitting as raiser</p> <p>TCJA extensions saved for 2<sup>nd</sup>, later bill</p> <p>Budget Chairman Graham worried about waiting on border, how long tax will take</p>	<p>One big bill including TCJA extensions, border, energy, etc.</p> <p>Speaker Johnson: One big bill is the assumption members working under now</p>	<p>Preference is one big bill, but open to two-bill approach</p>
Revenue	<p>Chairmen Crapo &amp; Smith, Leader Thune have all spoken in favor of a current policy baseline under which tax cut extensions needn't be offset; tariff revenue possible</p>	<p>Chairman Smith: Tariffs will pay for it but won't be included in bill</p>	<p>Has previously discussed economic growth from tax cuts, tariffs, etc. January 5: . IT WILL ALL BE MADE UP WITH TARIFFS, AND MUCH MORE, FROM COUNTRIES THAT HAVE TAKEN ADVANTAGE OF THE U.S. FOR YEARS.</p>

Process targets, as envisioned by Speaker Johnson:

- Pass a budget resolution with reconciliation instructions in early February
- Pass the reconciliation bill in the House in early April
- Have the bill on Trump's desk "certainly by May" or "in a worst-case scenario, Memorial Day"

# Budget reconciliation

## Reconciliation is an optional, expedited process

Instructions call for changes in mandatory spending, revenues, deficits, and/or the debt limit

### Reconciliation bills over the years

- Inflation Reduction Act (IRA) – climate and Rx pricing
- American Rescue Plan Act (ARPA) – COVID assistance
- Tax Cuts & Jobs Act (2017) – tax reform
- Affordable Care Act (2010) – health care reform
- Tax Increase Prevention and Reconciliation Act (2006) – extension of capital gains rate, extenders
- EGTRRA (2001) – “Bush tax cuts”

## Steps for reconciliation

House & Senate approve same budget resolution with reconciliation instructions

Relevant committees report legislation meeting instructions

House & Senate approve same reconciliation legislation, President must sign

## \$ directives

A reconciliation directive may instruct a committee to report legislation to either raise or cut taxes and/or mandatory spending

## Byrd Rule deems extraneous proposals that:

Do not produce a change in outlays or revenues

Produce changes in outlays or revenue which are merely incidental

Are outside the jurisdiction of the committee that submitted the title or provision

Increase outlays or decrease revenue if the provision's title, as a whole, fails to achieve the committee's reconciliation instructions

Increase net outlays or decrease revenue during a fiscal year after those covered by the bill

Contain changes to Social Security

Waiving the Byrd Rule for these items requires 60 Senate votes

## Byrd Rule dynamics in recent legislation include:

- During the ACA repeal debate, non-revenue aspects like eliminating essential health benefits and permitting insurers to sell policies across state lines were found to violate the rule.
- During the TCJA, the budget impact of expanding 529 accounts to home-school expenses was found to be incidental to the non-budgetary policy around education.

# Universe of revenue offsets under discussion by Republicans



# President-elect Trump tax positions



\$4t

Cost to extend TCJA provisions  
(before interest)

\$3.8t more

Cost of Trump tax exemptions for overtime, tip,  
Social Security, 15% domestic mfg. rate\*

- Extension of TCJA provisions for all, relying on resulting economic growth to cover the cost, or perhaps revenue from tariffs
- Restoring the full State and local tax (SALT) deduction
- 15% “Made in America” tax rate for companies that make products in America and, for those that make products elsewhere, “a very substantial tariff when you send your product into the” US
- Tariffs that have been described to be:
  - 10%-20% generally
  - 10% additional tariffs on products from certain foreign rivals (November 25 announcement)
  - 25% on “Day One” on goods from Mexico and Canada (November 25 announcement)
  - 25% on products from countries whose citizens come to US illegally
  - 100% or 200% for certain foreign automobiles
- Expanded R&D tax credits, 100% expensing
- Family tax credit for caregivers who care for a parent or loved one
- Exempting tip and overtime income and Social Security benefits from tax
- Making auto loan interest deductible
- International tax?

\*Committee for a Responsible Federal Budget

# TCJA expirations & changes

2025 expiration	TCJA in effect for 2025	Revenue (2025-2034)
Individual rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	-\$2.16t
Standard deduction	\$15,000/single, \$30,000/married	-\$1.25t
AMT exemption	\$137,000/married, \$88,100/single	-\$1.36t
Personal exemptions	Reduced to \$0, effectively suspending the provision	+\$1.72t
Child tax credit	\$2,000 credit, \$1,400 refundable	-\$747b
199A pass-through deduction	20% deduction on certain pass-through income	-\$684b
Estate tax	Exemption \$13.99m	-\$167b
Itemized deductions	SALT deduction limited to \$10,000; Mortgage interest deduction \$750,000; Casualty and theft deduction only for federal disaster	+\$1.24b

2025 change	TCJA + change after 2025	Revenue (2025-2034)
GILTI	50% deduction (10.5% rate) changes to 37.5% deduction (13.125% rate)	GILTI & FDII combined: -\$120b
FDII	37.5% deduction (13.125% rate) changes to 21.875% deduction (16.4% rate)	
BEAT	10%, or 11% for banks/dealers, changes to 12.5%, or 13.5% for banks/dealers, R&D and energy credits no longer receive favorable treatment	-\$21b

Pre-2025 change	TCJA	Revenue (2025-2034)
Expensing	100%, phased down in 20% increments after 2022	-\$378b
163(j)	Interest deduction limitation based on EBITDA before 2022, tightened to 30% of EBIT after then	-\$18.8b only through 2025
174 R&D	Expensing until 2022, then R&D expenditures amortized over a 5-year period (15-year for foreign R&D)	-\$8.5b for extension only through 2025

Sources: - Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions, May 2024

- Joint Committee on Taxation (JCT), JCX-3-24, Estimated Revenue Effects of H.R. 7024, The Tax Relief For American Families and Workers Act of 2024, January 2024

# Trump tax proposals' cost

Individual	TCJA	Post-2025, current law	Revenue to extend (2024-2033)
Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	-\$2.16t
Standard deduction	\$15,000/single, \$30,000/married	\$6,350/single, \$12,700/married	-\$1.25t
AMT exemption	\$137,000/married, \$88,100/single	\$86,200/ married, \$55,400/single	-\$1.36t
Child tax credit	\$2,000 credit, \$1,700 refundable	\$1,000 credit, \$1,000 refundability cap	-\$748b
199A	20% deduction on pass-through income	No deduction	-\$684b
Estate tax	Exemption \$13.99m (inflation adjusted)	\$5.49m (pre-2018 \$5m)	-\$167b
Personal exemptions	Reduced to \$0, suspending the provision	Revert to pre-TCJA levels. adjusted	+\$1.7t
Itemized deductions	SALT deduction \$10,000; Mortgage interest deduction \$750,000	SALT unlimited; Mortgage interest deduction \$1 million	+\$1.25t
Opportunity Zones	Capital gains deferral for investments	No tax benefits for OZ investments	-\$70.5b
Excess business loss	Excess business loss deduction disallowed	After 2028, NOLs permitted	+\$21.8b

Corporate	TCJA	Post-2025, current law	Revenue to extend (2024-2033)
Expensing	Through 2022, phased down in 20% increments	20% expensing through 2026	-\$378b
163(j)	Beginning in 2022, deduction limitation based on EBIT rather than EBITDA		extension through 2025, -\$18.8b
174	Beginning in 2022, R&D expenditures must be amortized over 5 years (15 for foreign)		extension through 2025, -\$8.5b
GILTI	50% deduction (10.5% rate)	37.5% deduction (13.125% rate)	GILTI & FDII combined: -\$120b
FDII	37.5% deduction (13.125% rate)	21.875% deduction (16.4% rate)	
BEAT	10%, or 11% for banks/dealers	12.5%, or 13.5% for banks/dealers; R&D and energy credits no longer receive favorable treatment	-\$21.4b

Non-TCJA proposals			Revenue (2026-2035). CRFB
Tip and overtime income, Social Security	Exempt from tax		-\$3.6t
Corporate rate	15% corporate rate for domestic manufacturing		-\$200b
Tariffs	10-20% or more for foreign products		+\$2.7t

Sources: Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions, May 2024; Committee for a Responsible Federal Budget

# Expiration/change dates of tax provisions

Provision	2021	2022	2023	2024	2025	2026	Revenue
TCJA "pre-cliffs"							Through 2025 <sup>1</sup>   2025-2034 <sup>2</sup>
Interest deduction based on EBITDA		EBIT					-\$18.8b
R&D expensing		Five-year amortization (15-year for foreign R&D)					-\$8.5b
100% expensing			Phased down in 20% increments				-\$3.05b   -\$378b
TCJA international provisions							
GILTI deduction at 50% (10.5% rate)						37.5% deduction (13.125% rate)	-\$120b
FDII deduction at 37.5% (13.125% rate)						21.875% deduction (16.4% rate)	
BEAT rate: 10% (11% for banks/dealers)						12.5%/13.5% rate, R&D and energy credits no longer receive favorable treatment	-\$21b
TCJA individual provisions							
Income tax rates 10%, 12%, 22%, 24%, 32%, 35%, 37%						10%, 15%, 25%, 28%, 33%, 35%, 39.6%	-\$2.16t
Standard deduction \$15,000/single, \$30,000/married						\$6,350/single, \$12,700/married	-\$1.25t
AMT exemption \$137,000/ married, \$88,100 single						\$84,500/married, \$54,300/single	-\$1.36t
Child tax credit: \$2,000, refundable \$1,700						\$1,000, \$1,000 refundability	-\$748b
20% pass-through deduction						No deduction	-\$684b
Estate (currently \$13.99m) and Gift Tax Exemptions						\$5.49m (pre-2018 \$5m inflation adjusted)	-\$167b
SALT deduction cap \$10,000						No SALT deduction cap	+\$1.2t <sup>3</sup>
Other issues							
Tax extenders - CFC look-through, WOTC, NMTC, etc.						Extenders expire	-\$66b
Expanded ACA Premium Tax Credits						Credit amounts reduced, limited to incomes below 400% of FPL	-\$335b

■ In effect  
■ Not in effect

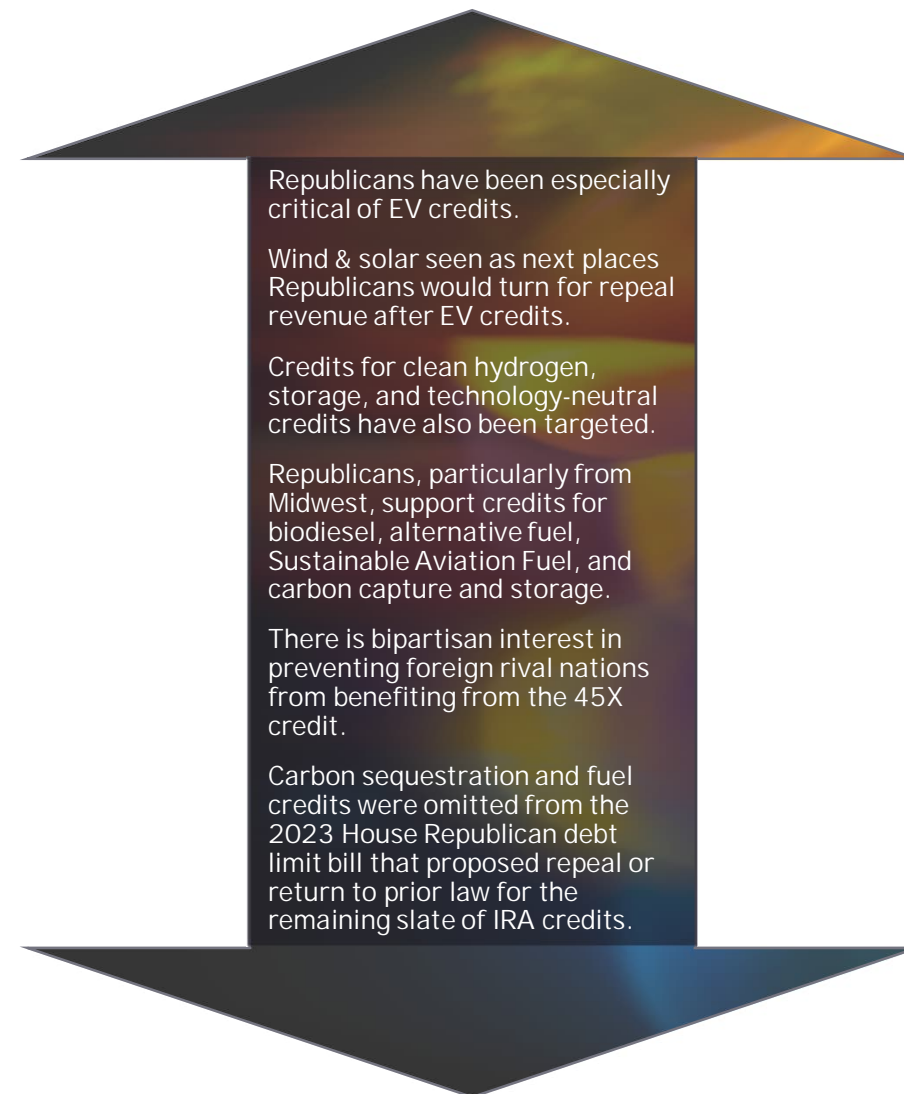
1 Joint Committee on Taxation (JCT), JCX-3-24, Estimated Revenue Effects of H.R. 7024, The Tax Relief For American Families and Workers Act of 2024, January 2024  
2 Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues, Supplemental Data, May 2024  
3 Tax Foundation estimate



# Inflation Reduction Act (IRA) energy tax credits as a revenue source

## Full repeal unlikely, but escalating revenue potential makes provisions a target

Inflation Reduction Act (IRA) energy provisions	10-year revenue cost, (May 2023 Joint Tax report)
Clean vehicle credit (30D)	\$99.1b
Credit for previously-owned clean vehicles (25E)	\$763m
Credit for qualified commercial clean vehicles (45W)	(included in above estimate)
Credit for renewable electricity (Sec. 45)	\$85.5b
Energy credit (48)	\$57b
Increased solar credit for low-income communities	(above)
Nonbusiness energy credit (25C)	\$22.8b
Residential energy efficient credit (25D)	\$23.9b
Commercial buildings deduction (179D) expansion	\$707m
New energy efficient home credit (45L)	\$2b
Credit for production of clean hydrogen (45V)	\$34.8b
Clean electricity production credit (45Y)	\$25.2b
Clean electricity investment credit (48E)	\$90.5b
Clean fuel production credit (45Z)	\$7.4b
Cost recovery for energy storage	\$603m
Advanced manufacturing production credit (45X)	\$135b
Zero-emission nuclear power production credit (45U)	\$30b
Sustainable aviation fuel credit	\$205m
Alternative fuel refueling property credit (30C)	\$1.3b
Advanced energy project credit (48C)	\$7.5b
Carbon sequestration (45Q)	\$29b
Biodiesel, renewable diesel, alternative fuel credits	\$9.6b
Second generation biofuel incentives	\$3m
<b>TOTAL</b>	<b>\$652.5b</b>



# Debt limit

Expiration of the suspension of the debt limit (enacted in the June 2023 Fiscal Responsibility Act) was January 1, 2025

Extraordinary measures would be expected to put the must-act date into the second quarter of 2025 or midyear

House Speaker Johnson: Debt limit may be addressed in reconciliation bill because "you can do it just with the Republican party."

## Perspectives

- Debt held by the public rises from 99% of GDP this year to 122%, or \$50.7 trillion, in 2034
- More than 20 debt limit actions taken by Congress since 2001
- In past 15 years, debt limit has at times been used as a bargaining chip, in divided government
- Reconciliation can be used to address debt limit but rare: majority wants minority party to share responsibility
- Debate likely to be preceded by parties trading blame over who and what is responsible for driving up federal debt

# Executive authority to modify tariff rates and impose trade remedies

## Section 232 of the Trade Expansion Act of 1962

- Allows president to adjust imports if Commerce finds certain products threaten to impair U.S. national security
- In 2018, Trump used to impose a 25% tariff on steel imports and a 10% tariff on aluminum imports
- Biden administration suspended import tariffs on the European Union

## Section 201 of the Trade Act of 1974

- Allows temporary duties and other trade measures if ITC finds imports cause or threaten "serious injury" to a US industry
- In 2018, Trump used to impose a 4-year tariff regime (30%, then 15%) on imports of solar equipment
- Biden administration extended the tariffs for an additional 4 years in 2022

## Section 301 of the Trade Act of 1974

- Allows USTR to suspend trade agreement concessions or impose import restrictions for violation of commitments or discriminatory practices
- Trump used to impose foreign adversary tariffs (7.5%-25%)
- Biden administration extended and reinstated many tariff exclusions while reviewing others

## International Emergency Economic Powers Act

- Provides president broad authority to regulate economic transactions following a declaration of national emergency
- Congress enacted IEEPA in 1977 and it was first used in response to the Iranian hostage crisis of 1979
- In 2019, Trump threatened to use it to impose tariffs on Mexico for failing to stop illegal immigration

Tariffs could be cited as raising revenue, either officially if enacted by Congress or unofficially if not. (Executive action by the President would not be estimated by CBO as it would be considered outside the legislative process, but if Congress created legislation that imposed tariffs, CBO would estimate it as part of the legislative process.)

# Looking Ahead: Tariffs and Trade Policy in 2025



*To me, the most beautiful word in the dictionary is tariff, and it's my favorite word.*

- President-elect Donald Trump, October 15, 2024

## Administration

- In his first presidential term (2017-2021), Trump imposed tariffs on imports from foreign adversaries, as well as steel and aluminum imports.
- Trump is now proposing tariffs of
  - 10%-20% on all imported goods, regardless of country of origin
  - 25% on goods from countries seen as contributing to illegal immigration to US
  - 60% tariffs on imports from certain foreign adversaries
  - 100%-200% tariffs on some imported automobiles
- Tariffs may be limited to critical materials: metals, energy & health supplies
- Revenue from across-the-board tariffs
  - \$2t-\$3.3t (Tax Foundation)
  - \$2.7t (CRFB)

## Congress

- House Ways & Means Committee Chairman Jason Smith (R-MO) said January 6 that tariffs may offset tax cuts but not be formally included.
- "Tariffs will pay for it. [Trump] didn't say it was going to be in the bill," Smith said. "Revenues coming into the country are revenues coming into the country."
- Tariffs could be cited as raising revenue, either officially if enacted by Congress or unofficially if not. (Executive action by the President would not be estimated by CBO)
- Trump advisors discussed with Smith tax package partially paid for by tariffs approved by Congress (House rules not clear)
- The US-Mexico-Canada Agreement (USMCA) comes up for review in 2026 and is set to expire in 2036 unless extended

Congress hasn't often raised tariffs through legislation. Some Republicans in Congress see the tariff threats as primarily a negotiating tool at this point.

# Administration officials involved in trade policy

1

## Commerce nominee Howard Lutnick

- Role: Lutnick will be tasked with overseeing Trump's tariff and trade agenda, including "additional direct responsibility for the Office of the United States Trade Representative," possibly suggesting an agency reorganization that places USTR within the DOC. [\(Link\)](#) DOC traditionally conducts trade enforcement activities and ensures compliance with trade laws and agreements, including export and investment restrictions.
- View on tariffs: Advocate of using tariffs to achieve economic policy goals including raising revenue and encouraging domestic manufacturing, recently stating, "Use tariffs to build in America. If we want to make it in America, tariff it... we need to protect the American worker."



2

## USTR nominee Jamieson Greer

- Role: Greer will be tasked with negotiating with our trading partners and implementing new tariff changes. Trump has suggested that the USTR will report to the Department of Commerce on the trade and tariff agenda.
- View on tariffs: Strong supporter of tariffs to achieve geopolitical goals, most prominently related to China. "There is no silver bullet, and in some cases the effort to pursue strategic decoupling from China will cause short-term pain. However, the cost of doing nothing or underestimating the threat posed by China is far greater." [\(Link\)](#)



3

## Treasury nominee Scott Bessent

- Role: The Treasury Secretary plays a significant role in formulating international economic policy and administering the collection of tariffs at U.S. ports of entry.
- View on tariffs: "The truth is that tariffs have a long and storied history as both a revenue-raising tool and a way of protecting strategically important industries in the U.S. President-elect Trump has added a third leg to the stool: tariffs as a negotiating tool with our trading partners." [Fox News op-ed from Bessent](#)



4

## Senior Counselor Peter Navarro

- Role: Senior advisor in the White House coordinating the Administration's trade, tariff, and manufacturing agenda.
- View on tariffs: "Expected to be a vocal advocate for more aggressive and far-reaching tariff policies, stating, "American multinational corporations naturally want to offshore American jobs in their search for cheap, sweatshop labor and pollution havens. That's why God created tariffs."



# Budget

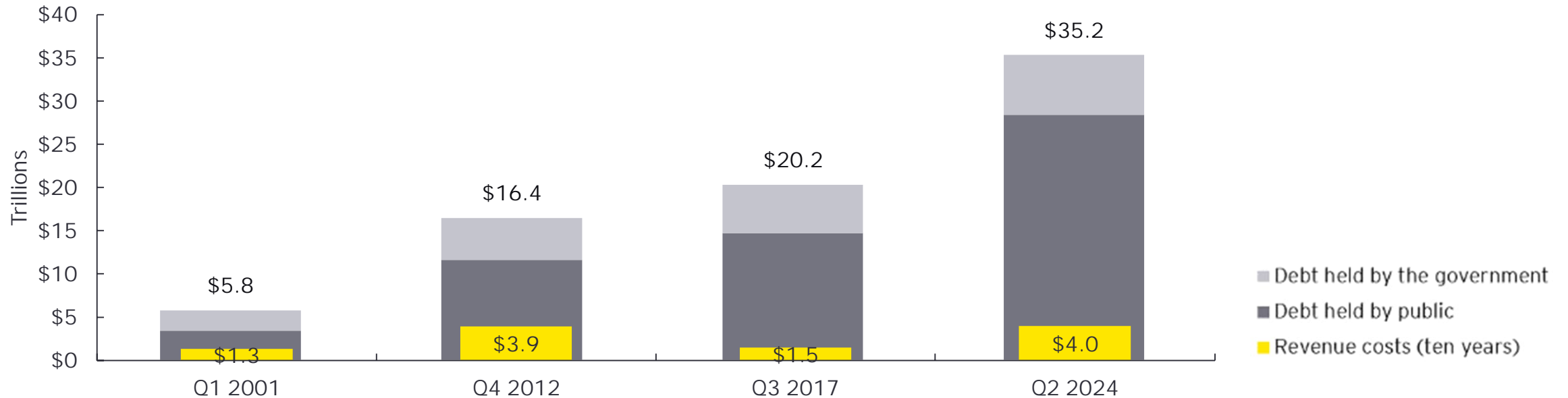
# TCJA expirations in a time of record debt

Total debt pre-EGTRRA: \$5.8t  
Debt held by public: \$3.3t  
EGTRRA cost: \$1.35t

Total debt pre-ATRA: \$16.4t  
Debt held by public: \$11.6t  
ATRA cost: \$3.9t

Total debt pre-TCJA: \$20.25t  
Debt held by public: \$14.7t  
TCJA cost: \$1.5t

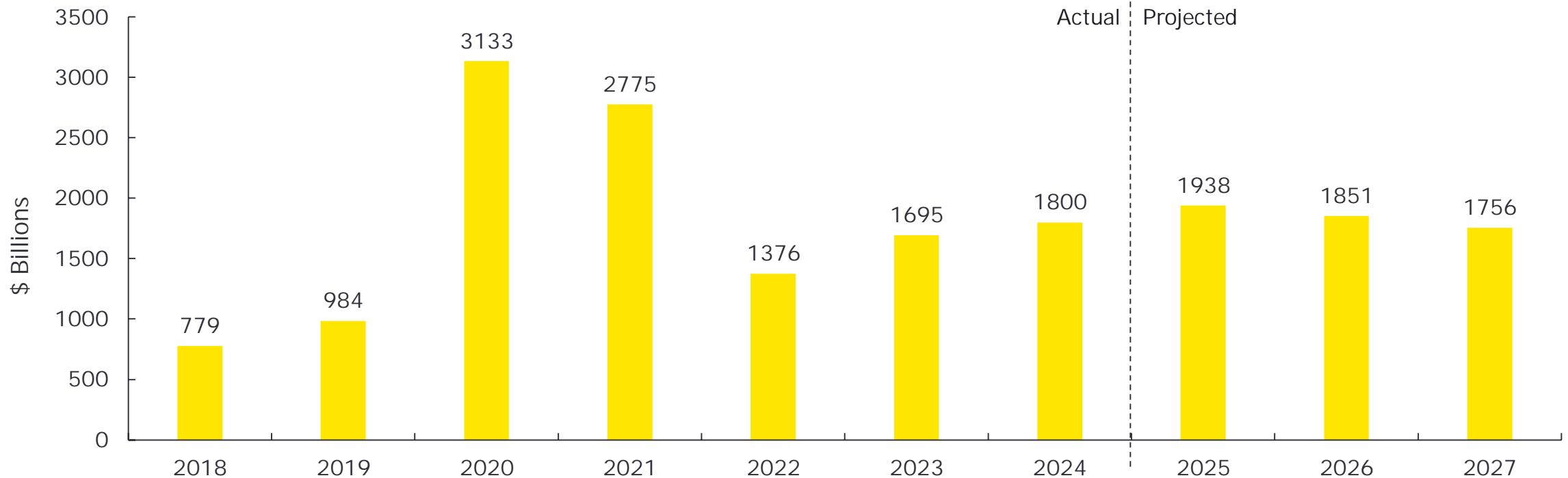
Total debt now: \$35t  
Debt held by public: \$28t  
TCJA extension cost: \$4t



Note: Tax bill costs are over ten years. Figures are rounded.

Sources: Total Public Debt data from St. Louis Federal Reserve; Federal Debt Held by the Public from St. Louis Federal Reserve; Economic Growth and Tax Relief Reconciliation Act (EGTRAA) from Joint Committee on Taxation (JCT), [JCX-51-01](#); American Taxpayer Relief Act (ATRA) from JCT, [JCX-1-13](#); Tax Cuts and Jobs Act (TCJA) from JCT, [JCX-67-17](#); Extension Cost Data from Congressional Budget Office (CBO), [Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues](#), Supplemental Data, May 2024; and most recent debt data from Bureau of Fiscal Service, US Department of Treasury, [Final Monthly Treasury Statement](#), September 2024.

# Federal budget deficit increased substantially following COVID-19 pandemic



- In response to COVID-19, the federal government enacted expansionary fiscal policy to provide relief and stimulus to the economy, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the 2021 Consolidated Appropriations Act, and the American Rescue Plan Act.
- The FY2020 federal budget deficit totaled \$3.1 trillion, more than triple its FY2019 value.

# Reconciliation timeline: Inflation Reduction Act (2022)

## Reconciliation instruction

- FY2022 budget resolution providing for \$3.5t bill (intended for Build Back Better Act)

## Notable revenue offsets

- Corporate alternative minimum tax (CAMT)
- stock buyback excise tax
- 2-year excess business loss limitation extension
- IRS enforcement
- Medicare prescription drug negotiation

Days between resolution and final legislation: 357

8/9/2021 - Release of Senate FY22 budget resolution

8/24/2021 - House passed Senate FY22 budget resolution

9/2/2021 - Senator Joe Manchin (D-WV) called for a pause in the reconciliation process.

12/19/2021 - Manchin says he's a 'no' on House BBBA

8/7/2022 - Senate passed the IRA climate & health bill

8/16/2022 - Biden signed into law

8/11/2021 - Senate passed FY22 budget resolution

9/15/2021 - The House Ways & Means Committee approved the Build Back Better Act (BBBA)

11/19/2021 - House passed BBBA with some tax provisions changed from Ways & Means bill

7/27/2022 - Manchin announced IRA deal

8/12/2022 - House passed IRA

# Reconciliation timeline: Tax Cuts & Jobs Act (2017)

## Reconciliation instruction

- Net tax cut of not more than \$1.5t over 10 years + ANWR drilling

## Notable actions to keep net cost <\$1.5t

- Individual provisions sunset at end of 2025
- 21% corporate rate in final bill v. 20% in House, Senate bills
- Pass-through deduction reduced from 23% in Senate bill to 20%
- R&D expense amortized over a 5-year period beginning in 2022
- Business interest deduction based on EBIT v. EBITDA starting in 2022

Days between resolution and final legislation: 57

7/18/2017 - Release of House FY18 budget resolution

10/19/2017 - FY18 budget resolution passes Senate

11/2/2017 - Reconciliation bill introduced in House

11/16/2017 - Reconciliation bill approved in House

12/15/2017 - Conference agreement released

12/22/2017 - TCJA signed into law

9/29/2017 - Release of Senate FY18 budget resolution

10/26/2017 - FY18 budget resolution passes House

11/9/2017 - Reconciliation bill introduced in Senate

12/2/2017 - Reconciliation bill approved in Senate

12/20/2017 - Conference agreement approved in House & Senate

# Reconciliation timeline: Affordable Care Act (2010)

Technically the Health Care and Education Reconciliation Act of 2010 modifying Patient Protection and Affordable Care Act (PPACA)

## Reconciliation instruction

- Each committee with health care jurisdiction in House & Senate to identify \$1b in deficit reduction over 5 years

## Notable revenue provisions

- Net investment income tax
- High-cost plan excise tax ("Cadillac tax," now repealed)
- Excise tax on medical device manufacturers (now repealed)
- Codification of economic substance doctrine and penalties

Days between resolution and final legislation: 337

3/27/2009 - Introduction of FY10 budget resolutions in House & Senate

4/29/2009 - Budget conference agreement passes House & Senate

Separate health reform bills were approved 11/7/2009 in the House and 12/24/2009 in the Senate, but the two sides could not agree on a unified approach before a special Senate election in MA (Scott Brown to replace late Sen. Kennedy) ended Democrats' 60-vote majority. Reconciliation was used to amend the Senate bill to gain requisite support.

3/17/2010 - Reconciliation bill (HCERA) introduced

3/25/2010 - Reconciliation bill passes House & Senate

4/2/2009 - FY10 Budget resolutions pass House & Senate

3/23/2010 - PPACA signed into law

3/30/2010 - Reconciliation bill signed into law

# Global tax

# Potential Republican approaches to OECD agreement

How a Trump Administration will address the Pillar 2 global minimum tax is not known, but at a minimum the incoming Administration, backed by Congressional tax writers, may use their leverage to achieve concessions that benefit the US fisc and US MNEs.

On Pillar 2, around 40 countries have enacted some or all of Pillar 2 into their domestic laws, and most have taken effect.

## Congressional Republican perspectives

- September 17, 2024 – House Republican leaders expressed support for a lawsuit filed by the American Free Enterprise Chamber of Commerce in the Belgian Constitutional Court challenging the undertaxed profits rule (UTPR).
  - UTPR “would surrender U.S. tax sovereignty, allowing unelected foreign bureaucrats to dictate tax policy, and help foreign governments arbitrarily extract hundreds of billions of dollars from the U.S. economy.”
  - GILTI is a “strong global minimum tax” and, “Regrettably, the UTPR and other policies envisioned in the OECD global tax deal fail to adequately respect GILTI as the first and only proven global minimum tax in the world, which allows foreign governments to unfairly target Americans.”
- May 25, 2023 – Ways & Means Republicans’ Defending American Jobs and Investment Act (H.R. 3665) aimed at discouraging countries from adopting the UTPR
  - Increase taxes on the US businesses of companies headquartered in countries that enact the UTPR and apply in the context of other taxes imposed on US businesses if those taxes meet a set of criteria deeming them to be either extraterritorial or discriminatory in nature.
- July 18, 2023 – Ways & Means member Rep. Ron Estes’ (R-KS) Unfair Tax Prevention Act (H.R. 4695) to amend the Base-Erosion and Anti-Abuse tax (BEAT) calculation for specified Foreign-Owned Extraterritorial Tax Regime Entities, as another reciprocal tax measure for countries that target the US under the OECD-led agreement.

# OECD BEPS 2.0, Pillar One

## Allocate taxing rights to market jurisdictions

### Pillar One – Amount A

Creates a new taxing right outside the arm's length principle (ALP) that would allocate profits of an MNE group to market jurisdictions through a formulary approach, and in exchange require removal of current DSTs and prevent future DSTs.

- Implementation will require both a Multilateral Convention (MLC) and changes to domestic law by the participating countries. The draft MLC and commentary released Oct. 11, 2023, with the goal of opening for signature by July 2024.
- JCT March 5, 2024: If Pillar One in effect in 2021, \$1.4b loss in US Federal receipt. JCT staff also present a range of single-year effects, from a loss of \$100m to a loss of \$4.4b reflecting different methods of determining final sales in the United States for in-scope MNEs.
- US congressional support for tax convention is in doubt. March 13, 2024, letter from House Committee on Ways and Means Chairman Jason Smith (R-MO) and Senate Finance Committee Ranking Member Mike Crapo (R-ID): "The Biden Administration may commit to signing a global deal that surrenders U.S. taxing rights, in exchange for other countries' promise to not impose certain discriminatory taxes on American businesses."
- Most members of Inclusive Framework agreed to refrain from imposing newly enacted DSTs or similar measures on any company between January 1, 2024, and earlier of December 31, 2024, or entry into force of the MLC, provided that a sufficient number of jurisdictions sign MLC before the end of 2023.

### Pillar One – Amount B

Framework for simpler, streamlined application of the arm's length principle (ALP) for baseline distribution transactions.

- Implemented through updates to the Transfer Pricing Guidelines.
- February 19 OECD released an optional Amount B framework that would start in 2025.
- The US prefers moving to a mandatory Amount B.

# OECD: Architecture of the Pillar Two Rules

Pillar Two: MNEs must pay 15% tax on profits in each jurisdiction. If top-up tax is owed, it is paid to:

- the local jurisdiction under the Qualified Domestic Minimum Top-up Tax (QDMTT)
- a direct or indirect parent jurisdiction under the Income Inclusion Rule (IIR), or
- multiple jurisdictions through the Undertaxed Profits Rule (UTPR)

## Qualified Domestic Minimum Top-Up Tax (local min tax rule)

- Jurisdictions may introduce their own domestic minimum tax rule to preserve their primary right of taxation over their own income. A QDMTT applies first, before any other jurisdiction can impose its IIR or other CFC regime taxes.
- In the context of GILTI, though, both a local QDMTT and GILTI apply at the same time, though a US FTC is available (for companies that are not excess credit) to offset QDMTTs.
- The rule is included in domestic law, implemented and administered in a manner consistent with the GloBE Rules.

## Income Inclusion rule (IIR) (min tax rule)

- A top-up tax is assessed on income of a multinational enterprise (MNE) (earned through a subsidiary or branch) taxed below the agreed 15% minimum rate on a jurisdictional basis, unless a QDMTT is applying a top-up tax at the local level.
- The IIR is applied on a top-down approach, starting at the parent level, and works its way down the chain to a jurisdiction that has adopted an IIR.

## Undertaxed Payment rule (UTPR) (backstop rule)

- Where low-taxed income is not subject to the IIR or QDMTT, the UTPR applies to ensure entities are all subject to some form of Pillar Two minimum tax.
- The UTPR is imposed by jurisdictions in which the MNE has a business, and the top-up tax is divided up among those jurisdictions.
- Based on a jurisdiction's relative share of assets and employees; a jurisdiction may assess the UTPR by either denying deductions or making an equivalent adjustment.
- Failure to assess the UTPR by a jurisdiction results in a 0% UTPR allocation to that jurisdiction.

# OECD BEPS 2.0, Pillar Two

## 15% global minimum tax

- Effective dates
  - IIR – 2024
  - QDMTTs – No earlier than 2024
  - UTPRs – No earlier than 2025
- Status of Pillar 2 admin guidance
  - February 2023 – First package
    - Rule order (QDMTTs come first)
    - GILTI push down rules
  - July 2023 – Second package
    - Transferable tax credits
    - QDMTT safe harbor rules
  - December 2023 – Third package
    - Application of the Transitional Country-by-Country Reporting Safe Harbor
    - Mechanism for allocating taxes arising in a CFC regime when some jurisdictions the MNE operates in are eligible for safe harbor
- OECD additional guidance on Pillar Two released June 17:
  - Simplified method applying the Deferred Tax Liability recapture rule.
  - Divergences between GloBE and accounting carrying values.
  - Guidance on the allocation of cross-border current
  - Allocated of deferred taxes from CFC Regimes.
  - Classification of certain flow-through entities.
  - Treatment of securitization vehicles.
- The OECD is expected to publish a list of peer reviewed qualifying IIR and QDMTT regimes by year end and is working on further guidance relating to the integrity of the Pillar 2 rules, including guidelines for incentives, including tax credits, that are permissible under Pillar 2.
- US Treasury officials are hopeful for future administrative guidance changes to treatment of US R&D credit, to ensure US MNEs are not subject to UTPRs because they've taken advantage of the credit
  - Non-refundable R&D credit along with other tax incentives in US law, including FDII and stock-based compensation, could put companies below 15%, subject to application of the UTPR by other countries

# 2025 Tax Considerations

# 2025 Tax Considerations Framework

US Business Tax Functions – considerations for next steps:

- General consensus - wait and see approach
- Engage in conversation with congressional representatives for provisions with significant impact (e.g., tariffs)
- Develop scenario planning as specific tax legislation comes into view

## No TCJA Ext / No CbC FTC limitation

- Accelerate low tax tested income
- Accelerate low-tax foreign branch & Sub F income
- Accelerate FDII
- Accelerate US taxable income

## 15% CIT for Domestic Mfg / Anti-round tripping rate increase

- Accelerate recognition of low tax income that could be caught in the provision
- Defer accrual of FTCs associated with income that could be caught in the provision
- Assess IP ownership policy and develop plans to optimize future IP ownership

## Tariffs

- Evaluation supply chain and optionality for change in response to potential changes in tariffs
- Accelerate build and sale of goods produced offshore for US consumption
- Customs valuation planning
- Addressing higher costs
- Lobbying and advocacy
- Exploring new markets
- Entering strategic partnerships

In all cases, consider Pillar 2, CAMT, BEAT and other potential collateral consequences in current and subsequent years depending on approach.

Ex., Tax planning implementation may not impact “book income” treatment for Pillar 2 and CAMT

## EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2025 Ernst & Young LLP.  
All Rights Reserved.

2411-10947-CS  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

[ey.com](https://ey.com)