Countdown to Tax Changes: Navigating Budget Reconciliation 2025

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As the clock ticks down to the end of 2025, the impending sunset of key provisions of the Tax Cuts and Jobs Act **[i]** ("TCJA") looms large, threatening tax hikes for millions of Americans. With Congress at a crossroads, the urgency of a budget reconciliation deal intensifies, as both chambers grapple with competing plans. Will law makers find common ground to avert the looming tax cliff?

We continue to monitor significant developments in Congress on the latest federal budget proposals and the looming expiration of many key components of the TCJA. Here's the latest.

House and Senate Budget Plans

On February 25, the House Republicans, in a 217-215 vote, narrowly adopted a budget proposal[ii] that serves as a blueprint for President Trump's agenda with an estimated $4.5 trillion set aside for net tax cuts.[iii]

The resolution now goes to the Senate, who passed a competing budget resolution the week before.[iv]

The two chambers must adopt the same budget plan to move forward with the budget reconciliation process — a complicated maneuver that allows Congress to bypass the 60-vote threshold typically required in the Senate.

What is reconciliation?

In simplest terms, bills must pass both chambers of Congress to become laws.

To pass in the House, a bill needs support of at least 218 members (half of the 435 representatives plus one). In the Senate, most bills need the support of at least 60 senators. Republicans have 53 seats today.

One way to get around that 60-vote threshold and avoid the threat of a filibuster is budget reconciliation, a tool made possible because of the Congressional Budget Act of 1974.

Reconciliation allows the party in control to pass legislation with a 51-vote simple majority in the Senate. The aim is to make it easier for Congress to make adjustments to laws that either bring in revenue or change spending levels.

What's in the budget resolution?

The budget resolution directs congressional committees to craft their own proposals to hit spending targets, increasing or decreasing funding by adjusting programs and policies that fall under their purview. Republicans want to cut trillions of dollars in spending to pay for trillions in tax cuts, while increasing funding in some areas.

Though Senate Republicans have pushed for two bills to address Mr. Trump's priorities, House Republicans are pursuing one major combined bill to address border security, defense and energy priorities, along with $4.5 trillion in tax cuts.

The House plan includes at least $1.5 trillion in spending cuts over the next 10-years. It does this by instructing a number of committees to find ways to reduce their budget impact, while increasing spending in several other key areas. The House Ways and Means Committee is tasked with implementing the $4.5 trillion in tax cuts over a decade.

To comply with reconciliation rules, the final legislation must be deficit-neutral. Republicans are banking on economic forecasts suggesting that the tax cuts will stimulate growth and ultimately increase tax revenues. However, these projections have faced skepticism from external experts and Democrats who view them as overly optimistic. One analysis found that the budget proposal would allow for a deficit increase of $2.8 trillion through 2034.[v]

The TCJA Tax Cliff

All of this is occurring while the expiration of major provisions of the TCJA looms. The Tax Foundation has estimated that unless Congress acts, the vast majority of Americans will see higher, more complicated taxes beginning in 2026 as these laws expire.[vi] The TCJA was the last major overhaul to the federal tax system, passed by President Trump during his last term in office. To appreciate the urgency felt by many to pass new federal tax legislation in 2025, it is helpful to review the status of some provisions adopted as part of the TCJA. Without action from Congress, the following taxpayer-friendly provisions will expire or be subject to rate changes at the end of 2025 with the following results:

- **Individual tax rates:** The reduced individual income tax rates and adjusted tax brackets will expire. As a result, the top individual income tax rate will increase from 37 percent to 39.6 percent.[vii] Without changes, the standard deduction for taxpayers younger than age 65, currently $15,000 (single) and $30,000 (married filing jointly), is expected to decline to $8,300 and $16,600, respectively, in 2026.[viii]
- **Estate and gift tax exemption:** The TCJA increased the federal estate and gift tax exemption amount to $10 million per individual (currently indexed at approximately $13.6 million per individual). The exemption amount reverts to pre-TCJA levels in 2026 (with an estimated indexed amount for 2026 of about $7 million per individual).[ix]
- **Alternative minimum tax ("AMT"):** The threshold for the individual alternative minimum tax exemption will be reduced to pre-TCJA levels, thereby increasing the number of individuals subject to the AMT.[x]
- **Bonus depreciation:** The TCJA allowed 100 percent bonus depreciation for some assets. This amount was reduced to 80 percent in 2023 and 60 percent in 2024, and it will be reduced to 40 percent in 2025 before being eliminated entirely at the end of 2025.[xi]
- **Business interest deduction limitation:** The business interest deduction limitation imposed under the TCJA was adjusted in 2022 to expand the scope of the limitation.[xii] In 2022 and future years, depreciation, amortization, and depletion deductions are taken into account in determining a taxpayer's adjusted taxable income, and the interest deduction is allowed only in an amount equal to 30 percent of this now-reduced amount.[xiii]
- **Section 199A deduction:** The passthrough deduction under section 199A will expire at the end of 2025. The TCJA created a special 20 percent passthrough deduction for certain qualified business income earned by passthrough entities (*i.e.*, partnerships, limited liability companies, and S corporations) and proprietorships.[xiv]
- **The global intangible low-taxed income inclusion ("GILTI"):** Under current law, the GILTI rules allow an income tax deduction equal to a portion of a domestic corporation's GILTI inclusion for a given tax year. For tax years 2018-2025, this deduction is 50 percent of the GILTI inclusion, making the basic effective corporate tax rate for GILTI 10.5 percent.[xv] Beginning in 2026, the deduction will be reduced to 37.5 percent of the GILTI inclusion, resulting in an effective tax rate of 13.125 percent.[xvi]
- **The foreign-derived intangible income ("FDII") deduction:** In short, FDII is the income of a domestic corporation that is derived from the use of intellectual property in creating an export.[xvii] As enacted under the TCJA, a domestic corporation may claim a deduction equal to a portion of its gross income that is attributable to FDII in a given tax year.[xviii] For tax years 2018-2025, the deduction is equal to 37.5 percent of the FDII amount, resulting in an effective corporate tax rate of 13.125 percent. Beginning in 2026, the FDII deduction will be reduced to 21.875 percent, resulting in an effective tax rate of 16.4 percent.
- **The base erosion and anti-abuse tax ("BEAT"):** In general, the BEAT is targeted at large multinational corporations with gross receipts of $500 million or more. The calculation to determine the BEAT's applicability is complex, but it can generally be understood as imposing a minimum tax on a large multinational corporation that makes a significant number of tax-deductible payments (for example, interest payments) to related foreign entities.[xix] For tax years 2018-2025, if applicable, the BEAT results in a 10 percent tax on the corporation's modified taxable income.[xx] Beginning in 2026, however, the BEAT rate will increase to 12.5 percent.

On the other side of the equation, one government-friendly TCJA provision is set to expire. The TCJA imposed a $10,000 limit on the state and local tax deduction "(SALT cap"). This limitation is scheduled to expire at the end of 2025, reverting to an uncapped amount.[xxi]

In addition to the proposals for extending taxpayer-friendly TCJA provisions, President Trump, at one time or another, has also proposed the following:

- reducing the corporate income tax rate to 15 percent (from 21% established by the TCJA); and
- exempting tip income, overtime pay, and all Social Security benefits from federal income tax.

So, the next several weeks promise to be intriguing times on the tax front. We will continue to monitor Congress' work and keep our clients and colleagues apprised as events unfold. In the meantime, the Tax Planning and Tax Controversy teams at Lippes Mathias can help clients navigate business and personal decisions with strategic planning ensuring you are well-prepared during this period of uncertainty.

Should you have any questions or would like to request assistance, please contact the authors or a member of the Tax Controversy Practice Team and Tax Planning Practice Team.

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[i] Pub. L. No. 115-97
[ii] Text - H.Con.Res.14 - 119th Congress (2025-2026): Establishing the congressional budget for the United States Government for fiscal year 2025 and setting forth the appropriate budgetary levels for fiscal years 2026 through 2034. | Congress.gov | Library of Congress.
[iii] https://waysandmeans.house.gov/2025/02/25/house-passes-budget-resolution-to-advance-one-big-beautiful-bill-that-will-deliver-tax-relief-to-working-families/.
[iv] Text - S.Con.Res.7 - 119th Congress (2025-2026): An original concurrent resolution setting forth the congressional budget for the United States Government for fiscal year 2025 and setting forth the appropriate budgetary levels for fiscal years 2026 through 2034. | Congress.gov | Library of Congress.
[v] House Budget Allows At Least $2.8 Trillion of Deficit Increases-2025-02-21 .
[vi] 2025 Tax Reform Options: Tax Cuts and Jobs Act Expirations.
[vii] Section 1(j).
[viii] Rev. Proc. 2024-40.
[ix] Section 2010(c)(3); section 2505(a)(1).

[x] Section 55(d)(4).
[xi] Section 168(k)(6)(A).
[xii] Section 163(j)(8)(A)(v).
[xiii] Section 163(j)(1)(B); section 163(j)(8)(A)(v).
[xiv] Section 199A(i).
[xv] Section 250(a)(1)(B)(i); Treas. Reg. §1.250(a)-1(b)(1)(ii)(A).
[xvi] Section 250(a)(3).
[xvii] Section 250(b).
[xviii] Section 250(a).
[xix] Section 59A(e)(1)(B).
[xx] As defined in section 59A(c).
[xxi] Section 164(b)(6)(B).

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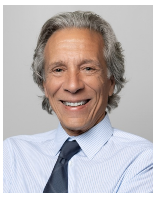

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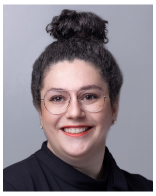

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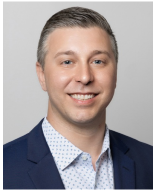

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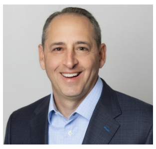

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