

2025 Tax Changes Affecting Family Businesses



Factors Indicating Congress Will Enact Tax Changes



A Republican Sweep Sets Up Efforts to Extend Expiring TCJA Tax Cuts



Republicans May Struggle to Pay For Their Expansive Tax Agenda

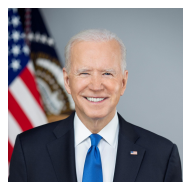


Democrats 2024 Attacks on Successful Entrepreneurs



Dems Want a Repeat of the Battle Over Individual Tax Increases

Historical Fact: Each New President Gets a Tax Bill in The First Year of Their Term



Reagan	1981	Economic Recovery Tax Act of 1981 Tax Reform Act of 1986	Aug. 1981 Oct. 1986
Bush	1989	No tax bill; no second term	
Clinton	1993	Omnibus Budget Reconciliation Act of 1993 Balanced Budget Act of 1997	Aug. 1993 Aug. 1997
Bush	2001	Economic Growth & Tax Reconciliation Act of 2001	June 2001
Obama	2009	American Recovery and Reinvestment Act of 2009 Affordable Care Act	Feb. 2009 Mar. 2010
Trump	2017	Tax Cuts and Jobs Act	Dec. 2017
Biden	2022	American Rescue Plan Act Inflation Reduction Act	Mar. 2021 Aug. 2022



Tax Legislation Set to Expire in 2025

TCJA Individual Provisions:

- Tax rates & brackets revert (39.6% comes back)
- Itemized deductions restored
- Standard deduction drops
- Increased child tax credit expires
- No SALT limitation
- Individual AMT expands
- Estate-tax exemption reverts

TCJA Business Provisions:

- 20% section 199A deduction expires
- R&D expenses spread over 5 years
- Narrower interest limitation
- End of bonus depreciation
- Corporate/international changes to respond to OECD global minimum tax
- Fuel tax provisions switch to Tech-Neutral

Congressional Budget Office: Extending the TCJA for all Provisions will Cost \$4 Trillion over 10 Years

- Congressional scorekeepers prepare estimates of the revenue effect of proposed legislation
- Last week, CBO estimated that extending the TCJA tax cuts (and increases) for individuals will **reduce federal revenues by \$3.4 trillion**
- Some Republicans are calling for no new legislation that increases the deficit. The Fiscal Responsibility Act of 2023 reduced the federal deficit. The Wyden-Smith small tax extender bill was fully paid for
- Most Republicans support spending reductions in



Challenges for Trump and Republicans

Is Trump committed to extending Section 199A (which was added by the House/Senate in 2017)?

In addition to extending TCJA, what initiatives will Trump propose?

Is it plausible that Republicans will coalesce around a proposal that simply extends current tax cuts but raises new revenues that are not extensions of current law?

If Republicans decide to fully offset the legislation, what are the large offsets options?



Here's What Tax Legislation Looks Like if Republicans Sweep

- Make permanent or extend TCJA provisions:
 - Section 199A deduction for passthroughs
 - \$13 mil. estate tax exemption
 - Lower individual rates
- Repeal much of the Democrats' IRA
- Maintain or lower the corporate tax rate
- Scale back IRS enforcement funds
- Raise taxes on elite higher education
- Reexamine the Democrats' corporate alternative minimum tax



Democrats Fire Up Investigations of Successful Entrepreneurs

- **Targets** include large multi-national corporations (pharmaceutical companies and fossil fuel businesses) and **wealthy individuals** (grantor trusts and private placement life insurance)
- **Senate Democrats will consider subpoenas, hearings, and bill introductions** to try to light a fire under some of these targets



Sheldon Whitehouse
(R-RI)

Recent Finance and Budget Committee Hearings

Senate Committee on the Budget

“Fairness and Fiscal Responsibility: Cracking Down on Wealthy Tax Cheats”

Senate Committee on Finance

“Examining How the Tax Code Affects High-Income Individuals and Tax Planning Strategies”



Ron Wyden
(D-OR)

Senate Democrats' New Tax Proposals

- Grantor Retained Annuity Trust Legislation
- Tax on Unrealized Gains for Millionaires
- Changes in Private Placement Insurance Taxation
- Limitations on Tax-Free Borrowing Against Personal Assets
- Limitations on Retirement Account Holdings



The Millionaires' Income Tax Act



“America’s tax code is riddled with loopholes that allow the ultra-wealthy to get away without paying their fair share, while working families have to play by a different set of rules and pay taxes out of each paycheck.”

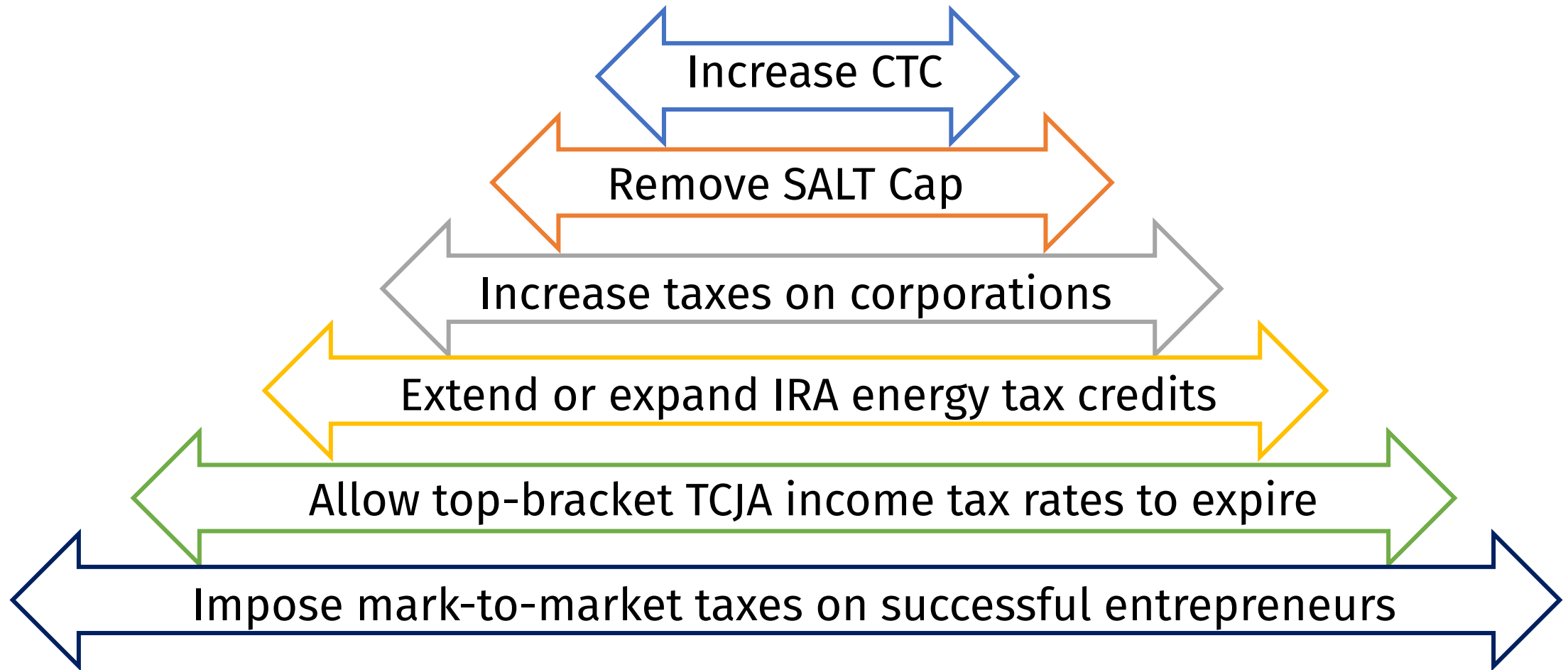
- Senate Finance Committee Chairman **Ron Wyden, D-Ore.**, introduces the Billionaires Income Tax Act, seeking to tax high income and high net worth taxpayers on unrealized gains
- Proposed changes:
 - “Buy, Borrow, Die” is unacceptable to Wyden without a tax;
 - Tradable assets will be marked to market yearly;
 - Non-tradable assets would be assessed a “deferral recapture amount” (i.e., interest on tax deferred);
 - Transfers of gifts or bequests will trigger gain/loss recognition.

Tax Increases in Biden's Budget

Increase individual tax rates	\$1.85 trillion
Increase estate & gift taxes	\$100 billion
Other individual tax increases	\$60 billion
Corporate tax increases	\$3 trillion
Total	\$5 trillion



Here's What Tax Reform Looks Like if Democrats Sweep



If Democrats Sweep, We Will Repeat These 2022 Battles: **Estate/Trust Provisions EXCLUDED From Build Back Better**



Sen. Jon Tester
(D-MT)



Rep. David Scott
(D-GA)

Elimination of Grantor Trusts

Elimination of Valuation Discounts
for Non-business Assets

Reduction of Estate Tax Lifetime
Exemption

Elimination of Step-up in Basis

Increase in Estate Tax Rate

Rate Increases EXCLUDED From Build Back Better



Increase in Income Tax Rates

Increase in Capital Gains Tax Rates

5% Surtax on Income Above \$10 million (\$200,000 for Trusts/Estates)

+3% Surtax on Income Above \$25 million (\$500,000 for Trusts/Estates)

Provisions EXCLUDED From Inflation Reduction Act



IRA Limitation of Private Stock Ownership

199A Deduction Reduction

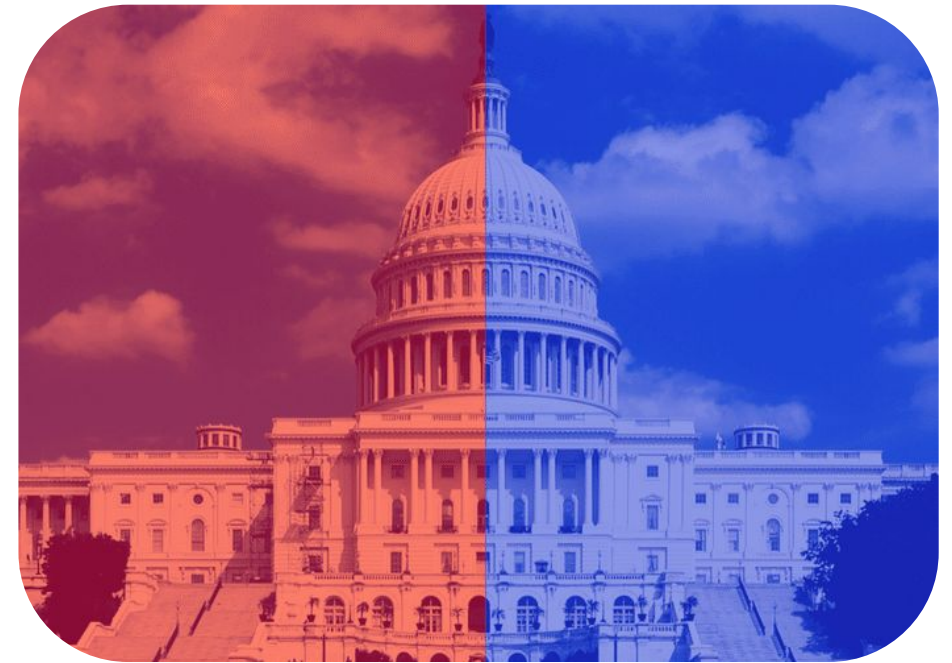
Net Investment Income Tax (NIIT)
3.8% on Non-passive Income

Taxation on Carried Interest

Elimination of Like-kind Exchange Treatment

Here's What Tax Reform Looks Like in a Divided Government

- Extend TCJA middle class tax cuts
- Reduce tax incentives for in-bound foreign-derived income
- Promote domestic research and manufacturing
- Reduce incentives for foreign investment in the U.S., especially from China
- Find large revenue raisers on unsympathetic groups
- The process of reaching a bipartisan deal will take most, if not all, of 2025



Proposed Priority Guidance Plan

2023-2024 Priority Guidance Plan

Final regulations regarding the application of §163(j) to partnerships and S corporations

Regulations under §199A related to the determination of unadjusted basis immediately after acquisition of qualified property, the definition of qualified business income and other issues

Regulations under §267 regarding related party transactions and partnerships

Final regulations under §§1014(f) and 6035 regarding basis consistency between estate and person acquiring property from decedent

Regulations providing guidance on the definition and allocation of GST

One Thing Is Certain: The IRS Will Dramatically Increase Audits



- \$45 billion of the \$80 billion given to the IRS in the IRA legislation is dedicated to enforcement
- Janet Yellen pronounced that **none of the new money will be used to audit taxpayers with less than \$400K in income**
- The IRS plans to add more attention on the wealthy, partnerships and other high earners
- Changes will be driven with the help of improved technology and AI

IRS Begins Audits of Corporate Jet Usage

- As part of ongoing efforts to improve tax compliance in high-income categories, the IRS announced plans to begin dozens of audits on business aircraft involving personal use
- “Personal use of corporate jets and other aircraft by executives and others have tax implications, and it’s a complex area where IRS work has been stretched thin. With expanded resources, IRS work in this area will take off. These aircraft audits will help ensure high-income groups aren’t flying under the radar with their tax responsibilities.” IRS Commissioner Danny Werfel



IRS Ramps Up New Initiatives Using IRA Funding

- The IRS has ramped up efforts to pursue complex partnerships, large corporations and high-income, high-wealth individuals who have either not filed their taxes or failed to pay recognized tax debt
- Efforts focus on taxpayers with more than \$1 million in income and more than \$250,000 in recognized tax debt
- This past fall, the IRS collected \$520 million from more than 1,800 high-income earners

