Forbes


Robert W. Wood
THE TAX LAWYER

TAXES 11/18/24

11 Things Trump And Congress Might Do To Your Taxes

When President Elect Trump takes office in January, he will have a Republican-controlled Senate and a slimly Republican-controlled House. Tax changes are on the horizon, and here are some of the ones to watch for.

Expiring 2017 Tax Changes

The tax changes Trump rolled out in 2017 are set to expire at the end of 2025, which will mark the first year of his new administration. Trump has proposed making these cuts permanent but with some tweaks as we will see. Unless Congress takes action to extend them, the end of 2025 will bring numerous tax changes—here are just a few.

Top tax rates would go from 37% to 39.6%. The $10,000 cap on deducting state and local taxes would also expire, making all such taxes deductible again. Estate taxes will go up, too. If the current law expires, the exemption in 2026 will be about $14.3 million for a married couple, compared with $28.6 million if the 2017 law is extended.

If Trump's 2017 law expires, the standard deduction for a married couple will be approximately $16,525 in 2026, and the personal exemption will be about $5,275. In contrast, if the current law is extended through 2026, the standard deduction will be approximately $30,725, and the personal exemption will be zero. Trump wants the higher standard deduction.

State And Local Tax Deduction

Trump's 2017 tax law slashed the so-called SALT deduction to $10,000. But in a campaign flip-flop, Trump vowed to restore it. The deduction matters a lot to millions of middle- and upper-class Americans in many states, not just high tax states like New York and California. While Democrats were quick to point out Trump's change on the SALT issue, raising the deduction also may face GOP pushback, including from Senator Mike Crapo of Idaho, who views it as regressive. This could make it challenging for Trump to fulfill his promise, even with a Republican-controlled Congress.

Corporate Tax Rate

Trump famously slashed this rate from 35% to 21% in 2017. He has proposed lowering it *again* from 21% to 20%. He also wants to lower the corporate income tax rate to 15% for companies that produce products in the U.S. How this criteria would be measured is not yet clear, but it fits nicely with his other protectionist economic plans, such as increased tariffs, which might be used to offset the cost of tax cuts.

No Tax On Tips

Trump said he would eliminate tax on tips for service and hospitality workers, although it is unclear whether this would apply to income or payroll tax. This was a proposal his former opponent, Kamala Harris, embraced too, so perhaps it will enjoy relatively bipartisan support. Unfortunately, numerous experts, including those at the Brookings Institution, cautioned against such an agenda, arguing that the vast majority of low-income workers would not benefit.

No Tax On Overtime

Trump even floated the idea of eliminating income tax on overtime work. While the exact details are unclear, this might invite employees to seek out more overtime work from employers may need to adjust to accommodate new incentives. Experts say such an exemption could create new complications in the tax code, as it would require verification from employers and employees of exact hours worked in order to calculate the portion of wage income that could be excluded.

No Tax On Social Security Benefits

Trump has vowed that Social Security recipients would no longer have to pay taxes on their benefits if he were elected. This would be a welcome change for seniors relying on Social Security, but it could also place additional strain on an already-overburdened program, putting the same benefits at risk for future retirees. The Social Security trust funds could be insolvent by 2034, leading to a 23% cut in benefits. Experts say that cutting taxes on benefits will hasten this process unless an offset is provided.

Tariffs

Trump has proposed imposing a universal baseline tariff on all US imports of 10% to 20%. He also proposes a 60% tariff on all US imports from China. He is also considering replacing personal income taxes with increased tariffs, and many of his proposed tax cuts (including Trump's plan to make 2017 changes permanent) will be supposedly offset by revenue generated with tariffs. A 10% universal tariff could raise around $2 trillion over the next ten years, but experts at the Tax Foundation have cautioned against using tariffs in this way. They say tariffs run the risk of foreign retaliation and can be unpredictable. The Tax Foundation says the reduction in other tax revenue and economic output expected from a universal tariff has the potential to offset any revenue it would generate in the long run, severely diminishing its ability to pay for tax cuts.

Bonus Depreciation

As part of restoring the 2017 tax changes, Trump has called for bringing back 100% bonus depreciation. Currently, the bonus rate is at 40% and scheduled to go down to 20% in 2025. Since a higher rate can help reduce a company's tax liability, 100% would be a boon to business.

R&D Expenses

As part of his efforts to incentivize U.S. innovation, Trump has said that he would like to see Research & Development expenses currently deductible again. This is a walk-back on changes he made in 2017, which phased out existing R&D tax credits and required business to amortize R&D costs over five years. Effects of this change could include increased investment into R&D and associated increases in economic output, as well as a reduction in the complexity of the tax code.

Stock Buyback Tax

Trump called for eliminating the 1% stock buyback excise tax for public companies that buy back their own shares of over $1 million in a taxable year. This could lead many corporations to prefer buybacks over dividends. Since dividends already have a tax of their own, the resultant revenue reduction could be larger than expected, since existing buybacks would lose the 1% tax *and* shareholder rewards that once took the form of dividends might transform into buybacks.

Family Tax Breaks

Trump has called for other tax breaks, such as tax credits for family caregivers taking care of parents or loved ones, and allowing those who buy an automobile made in the U.S. to write off the interest on their car loans.

Check out my website.