

# Policy Note



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## Congress, Not the White House, Drives Tax



Importantly, the US Senate and House of Representatives, not the White House, will set the parameters on US debt and deficits, as well as tax policy. More specific to tax, the details of the 2017 TCJA tax extensions in 2025 will originate in the US House of Representatives’ Ways & Means Committee, working collaboratively with the US Senate Finance Committee. As part of this process, Congress will be the decider on incremental deficit appetite.

### Possible US tax policy approaches

More Likely



US House Approach:  
“One big beautiful bill”



US Senate Approach:  
2-bill Strategy

|                          |                                     |  |                       |
|--------------------------|-------------------------------------|--|-----------------------|
| <b>Legislative Path</b>  | One bill<br>FY 2025                 | Two bills<br>FY 2025 / FY 2026                 |                       |
| <b>Legislative Focus</b> | Border<br>Military<br>Energy<br>Tax | <u>FY 2025</u><br>Border<br>Military<br>Energy | <u>FY 2026</u><br>Tax |
| <b>Cost</b>              | \$2.0-\$2.5 tn                      | \$300-\$500 bn                                 | \$1.5-\$2.0 tn        |
| <b>Timing of Passage</b> | Q2 2025                             | April 2025                                     | Dec 2025              |

## Tax Policy Requires Leadership

Finance Committee will lead tax writing in Senate.



### Senate Finance Committee Leaders



**Mike Crapo (R-ID)**

Chairman



**Ron Wyden (D-OR)**

Ranking member

| Republicans             | Democrats                     |
|-------------------------|-------------------------------|
| Chuck Grassley (R-IA)   | Maria Cantwell (D-WA)         |
| John Cornyn (R-TX)      | Michael Bennet (D-CO)         |
| John Thune (R-SD)       | Mark Warner (D-VA)            |
| Tim Scott (R-SC)        | Sheldon Whitehouse (D-RI)     |
| Bill Cassidy (R-LA)     | Maggie Hassan (D-NH)          |
| James Lankford (R-OK)   | Catherine Cortez Masto (D-NV) |
| Steve Daines (R-MO)     | Elizabeth Warren (D-MA)       |
| Todd Young (R-IN)       | Bernie Sanders (I-VT)         |
| John Barrasso (R-WY)    | Tina Smith (D-MN)             |
| Ron Johnson (R-WI)      | Ben Ray Luján (D-NM)          |
| Thom Tillis (R-NC)      | Raphael Warnock (D-GA)        |
| Marsha Blackburn (R-TN) | Peter Welch (D-VT)            |
| Roger Marshall (R-KS)   |                               |

Ways and Means Committee has jurisdiction in House.



### House Ways and Means Committee



**Jason Smith (R-MO)**

Chairman



**Richard Neal (D-MA)**

Ranking member

| Republicans              |                           | Democrats             |                           |
|--------------------------|---------------------------|-----------------------|---------------------------|
| Vern Buchanan (R-FL)     | Greg Steube (R-FL)        | Lloyd Doggett (D-TX)  | Jimmy Panetta (D-CA)      |
| Adrian Smith (R-NE)      | Claudia Tenney (R-NY)     | Mike Thompson (D-CA)* | Jimmy Gomez (D-CA)        |
| Mike Kelly (R-PA)*       | Michelle Fischbach (R-MN) | John Larson (D-CT)    | Steven Horsford (D-NV)    |
| David Schweikert (R-AZ)  | Blake Moore (R-UT)        | Danny Davis (D-IL)    | Stacey Plaskett (D-US VI) |
| Darin LaHood (R-IL)      | Beth Van Duyne (R-TX)     | Linda Sánchez (D-CA)  | Tom Suozzi (D-NY)         |
| Jodey Arrington (R-TX)   | Randy Feenstra (R-IA)     | Terri Sewell (D-AK)   |                           |
| Ron Estes (R-KS)         | Nicole Malliotakis (R-NY) | Suzan DelBene (D-WA)  |                           |
| Lloyd Smucker (R-PA)     | Mike Carey (R-OH)         | Judy Chu (D-CA)       |                           |
| Kevin Hern (R-OK)        | Rudy Yakym (R-IN)         | Gwen Moore (D-WI)     |                           |
| Carol Miller (R-WV)      | Max Miller (R-OH)         | Brendan Boyle (D-PA)  |                           |
| Greg Murphy (R-NC)       | Aaron Bean (R-FL)         | Don Beyer (D-VA)      |                           |
| David Kustoff (R-TN)     | Nathaniel Moran (R-TX)    | Dwight Evans (D-PA)   |                           |
| Brian Fitzpatrick (R-PA) |                           | Brad Schneider (D-IL) |                           |

## Tax Policy Must Balance Key Constituents

The \$10k SALT cap on mortgage deductions provided a critical source of needed funding for Trump’s comprehensive 2017 tax cuts. They also had a disproportionately adverse impact from taxpayers in high tax states with high property values (many of them blue coastal states). In early January, nearly 20 “Salty Republicans” (House GOP members from CA, NY, NJ) visited President Trump to discuss a substantive increase in the SALT cap and elimination of the marriage penalty. With razor thin GOP majorities in the House, Salty Republicans will wield significant power in the 2025 tax bill negotiations.

### Salty Republicans (in the House)

|                |                        |         |                         |         |
|----------------|------------------------|---------|-------------------------|---------|
| <br>California | 1. Doug LaMalfa        | R-CA 1  | 6. Jay Obernolte        | R-CA 23 |
|                | 2. Kevin Kiley         | R-CA 3  | 7. Young Kim            | R-CA 40 |
|                | 3. Tom McClintock      | R-CA 5  | 8. Ken Calvert          | R-CA 41 |
|                | 4. Vince Fong          | R-CA 20 | 9. Darrell Issa         | R-CA 48 |
|                | 5. David Valadao       | R-CA 22 |                         |         |
| <br>New Jersey | 10. Jefferson Van Drew | R-NJ 2  |                         |         |
|                | 11. Christopher Smith  | R-NJ 4  |                         |         |
|                | 12. Thomas Kean Jr.    | R-NJ 7  |                         |         |
| <br>New York   | 13. Nick LaLota        | R-NY 1  | 17. Elise Stefanik*     | R-NY 21 |
|                | 14. Andrew Garbarino   | R-NY 2  | 18. Nicholas Langworthy | R-NY 23 |
|                | 15. Nicole Malliotakis | R-NY 11 | 19. Claudia Tenney      | R-NY 24 |
|                | 16. Michael Lawler     | R-NY 17 |                         |         |



On Jan 16, just a few days before the Inauguration, the 31 members of the fiscal and deficit focused House Freedom Caucus sent an open letter to House Speaker Mike Johnson (R-LA) indicating their support of the two-bill strategy, favored by Senate Republicans, to addressing legislative priorities (border, military, energy, tax) as opposed to the single, larger bill favored by Speaker Johnson and President Trump.



The House Freedom Caucus

|                         |      |                       |      |
|-------------------------|------|-----------------------|------|
| 1. Barry Moore          | R-AL | 17. Jim Jordan        | R-OH |
| 2. Gary Palmer          | R-AL | 18. Josh Brecheen     | R-OK |
| 3. Eli Crane            | R-AZ | 19. Scott Perry       | R-PA |
| 4. Andy Biggs           | R-AZ | 20. Ralph Norman      | R-SC |
| 5. Paul Gosar           | R-AZ | 21. Diana Harshbarger | R-TN |
| 6. Lauren Boebert       | R-CO | 22. Scott DesJarlais  | R-TN |
| 7. Anna Paulina Luna    | R-FL | 23. Andy Ogles        | R-TN |
| 8. Greg Steube          | R-FL | 24. Mark Green        | R-TN |
| 9. Byron Donalds        | R-FL | 25. Keith Self        | R-TX |
| 10. Andrew Clyde        | R-GA | 26. Chip Roy          | R-TX |
| 11. Mike Collins        | R-GA | 27. Michael Cloud     | R-TX |
| 12. Russ Fulcher        | R-ID | 28. Ben Cline         | R-VA |
| 13. Mary Miller         | R-IL | 29. Morgan Griffith   | R-VA |
| 14. Clay Higgins        | R-LA | 30. Tom Tiffany       | R-WI |
| 15. Andy Harris (Chair) | R-MD | 31. Harriet Hageman   | R-WY |
| 16. Eric Burlison       | R-MO |                       |      |

Notable Questions on Tax



Following passage of the 2025 budget in Q1 to facilitate tax reconciliation instructions for a separate tax bill later in the year, we will likely develop a sense for how Congress is thinking about numerous of the most coveted (and very expensive) US tax proposals.

Key Questions for the 2025 Tax Bill

- 1**Corporate Tax:** Will the statutory rate be reduced below the current 21%?
- 2**Duration:** Given the deficit implications, how many years will the various tax provisions be extended?
- 3**SALT:** Will the SALT cap be increased from current \$10k threshold?
- 4**IRA:** Will any of the IRA energy transition tax incentives be unwound?
- 5**Campaign Promises:** Will any of Trump’s additional tax cut promises be honored (restaurant tips, social security, etc.)?
- 6**Deficit:** How large is the incremental deficit appetite of GOP Senate and House members?
- 7**Debt Ceiling:** Will the tax bill be combined with a debt ceiling bill (which must be increased by July 2025), thereby moving forward the timing of the tax bill itself?
- 8**International Tax:** Will the 2025 tax bill revise international provisions(i.e., GILTI, BEAT, FDII) so that they can be integrated with the OECD’s Pillar 2 minimum tax provision (15%), for which the US been given a safe harbor exclusion that will expire in 2026?

Expiring TCJA Corporate Tax Provisions



The 2017 TCJA cut the corporate tax rate from 35% to 21%, a permanent change that will not expire at the end of 2025. Other provisions which have or will expire are likely to be restored to 2017 TCJA levels in a late 2025 tax bill.

|                       | Provision                                 | Expires  | Post-Expiry if Not Restored / Extended  |
|-----------------------|---|----------|---|
| Investment Incentives | R&D expensing                             | Dec 2021 | From <b>immediate upfront expensing</b> to <b>Domestic: 5 years</b><br><b>Foreign: 15 years</b>   |
|                       | Business net interest expense deduction   | Dec 2021 | From business net interest expense deduction capped at <b>30% of EBITDA</b> to <b>30% of EBIT</b>   |
|                       | Bonus depreciation                        | Dec 2022 | From <b>100% bonus depreciation</b> for short-life business investments to <b>phase out of 100% bonus depreciation</b> (fully expires at end of 2026) |
| International Tax     | Global minimum tax (on intangible income) | Dec 2025 | From <b>10.5%</b> to <b>13.125%</b>   |
|                       | Base Erosion and Anti-Abuse Tax (BEAT)    | Dec 2025 | From <b>10%</b> to <b>12.5%</b>   |
|                       | Foreign Derived Intangible Income (FDII)  | Dec 2025 | From <b>13.125%</b> to <b>16.406%</b>   |

Expiring TCJA Individual Tax Provisions



All (or most) individual tax provisions expiring in December 2025 are likely to be extended. We expect a significant increase in the SALT cap and / or a removal of the marriage penalty.

| Provision                                     | Post December 2025 Expiry  |
|---|--|
| Individual tax rates                          | Individual tax rates and brackets revert to pre-2017 levels, including maximum rate of <b>39.6%</b> from <b>37%</b>  |
| SALT deduction                                | <b>\$10k SALT deduction</b> cap <b>expires, significant increase in cap and / or removal of marriage penalty likely</b>  |
| Mortgage interest deduction                   | Cap reverts to from <b>\$750k</b> to <b>\$1 million</b>  |
| Child tax credit                              | Child tax credit reverts back from <b>\$2k per child</b> and <b>\$200/\$400 phaseout threshold</b> to <b>\$1k per child</b> and <b>\$75/\$110 phaseout threshold</b> |
| Pass through business income (199A) deduction | <b>199A deduction</b> expires, passthrough business income taxed according to <b>ordinary individual income tax rates</b>  |
| Standard deduction                            | Standard deduction reverts back from <b>\$12k (single)</b> and <b>\$24k (joint)</b> to <b>\$6.5k (single)</b> and <b>\$13k (joint)</b>                               |
| Personal exemptions                           | Personal exemptions revert back from <b>\$0</b> to <b>\$4,150, adjusted for inflation</b>  |
| Charitable deductions                         | Charitable deduction will drop from <b>60% of AGI</b> to <b>50% of AGI</b>   |
| Miscellaneous expenses                        | <b>No itemized deductions</b> changes to <b>itemized deductions to miscellaneous expenses that exceed 2% of AGI</b>  |
| AMT exemption and phase-out thresholds        | Higher 28% rate exemption and phase-out threshold decreases from <b>\$232,600</b> to <b>\$191,500</b>  |
| Estate and gift tax                           | Estate and gift tax exclusion amount reduced from <b>\$10 million</b> per descendent to <b>\$5 million</b> and then annually adjusted for inflation                  |

Source: Tax Foundation. Veda Partners(Henrietta Treyz). PwC. Deloitte. EY. Tax Policy Center. Congressional Research Service. Bloomberg Government, “Tax Talks Take Center Stage”. Mike Kelly (R-PA) has been named chairman of the Tax subcommittee. Mike Thompson (D-CA) has been named ranking member. US House of Representatives. “If Stefanik confirmed, vacant position until special election. Various sources. The Ho use Freedom Caucus does not publicize full membership list. Does not include freshman representatives. Data as of January 17, 2025. Tax Foundation, “Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations” (May 2024). Congressional Research Service, “Reference Table: Expiring Provisions in the Tax Cuts and Jobs Act.” Tax Policy Center, “How Did The Tax Cuts and Jobs Act Change Personal Taxes?”

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“Macro stability isn’t everything, but without it, you have nothing.”