BROADHURST Financial Advisors, Inc.

The Next Tax Bill is Coming

May 16, 2025

The tax code we have lived under for the past decade was written as the Tax Cuts and Jobs Act of 2017, which created the existing tax brackets, expanded the standard deduction, provided exemptions to the Alternative Minimum Tax and generous gift and estate tax exemption amounts, a $10,000 limit on state and local tax itemized deductions and created the Section 199A deduction for up to 20% of qualified business income for pass-through business owners.

All of this is set to expire on January 1 of next year. As a result, the Congressional Republicans are working overtime to extend and potentially make permanent the basic tax structure that was created when the Republicans last enjoyed majorities in both the House and the Senate. The goal is to finalize the bill by Memorial Day.

The framework for tax extension is a bit messy this time around, since the TCJA tax provisions, along with Covid, blew up the federal deficit. We can find some of the outlines of how Congress is going to go about rescuing its 10-year-old creation in the budget proposals which passed along party lines in both houses. The House version instructs the Ways & Means Committee, which handles tax legislation, to submit a bill that raises the federal budget deficit by no more than $4.5 trillion (!) over the next ten years, meaning it can write in $4.5 trillion in tax cuts that wouldn't have to be offset by government spending reductions.

This, interestingly, is slightly below the $4.6 trillion estimated cost of extending the current tax provisions over the next ten years. That overage can (and probably will) be offset by cuts to the federal Medicaid program, which provides low-cost health insurance to low-income households.

However, other provisions in the Republican-led platform that would be added to the new legislation could push the overage back up over the limit. That includes eliminating taxes on tips and doubling the state and local tax deduction to $20,000. These might be offset by eliminating credits for electric vehicles and home energy efficiency improvements, and by raising the top individual tax bracket to 39.6%.

The Senate budget proposal kind of cheats; it estimates that extending the current tax regime for the next ten years would add nothing to the budget deficit. So, its limit is $1.5 trillion of additional cuts—creating an estimated $6.1 trillion shortfall over the next ten years. Thus, the Senate version of a tax-cut-extension bill doesn't require a lot of painful spending reductions.

At some point, the two houses will have to compare notes and come to an agreement on a final bill. But it appears certain that the sunset of the 2017 tax bill, which loomed so large in tax planning circles, will be pushed back for another 10 years.

Sources:

https://www.kitces.com/blog/tax-cuts-and-jobs-act-tcja-sunset-budget-resolution-reconciliation-salt-cap-qbi-deduction-congress-republication-house-senate-bill/

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

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