

TCJA 2.0: White House Weighs In on Taxes

February 10, 2025

In a meeting last week with Republican lawmakers, President Trump announced the tax priorities for his administration. The President's short list starts with tax cuts, including renewing the tax cuts of the 2017 Tax Cuts and Jobs Act ("TCJA"), and eliminating taxes on tips, overtime pay and social security benefits. The list then swerves into tax increases and calls for ending special tax breaks for "billionaire sports owners" and closing the carried interest "loophole." Each of the tax priorities is discussed in turn below.

The President's list puts carried interest squarely back into the headlines, along with billionaire sports owners. The tax cuts on the priority list have been tagged with an enormous incremental deficit cost (more than \$6 trillion depending on the scoring baseline chosen). Revenue raised by taxing carried interest and ending sports owner tax breaks will not be a significant counter. Instead, taking a swing at these targets seems aimed mainly to score political points. It remains to be seen how the Republican lawmakers will try to address these priorities in legislation, which is expected to advance under budget reconciliation rules where incremental deficits are limited. But it is clear that Congressional tax writers will need to find real "pay fors" as an offset for the tax cuts, regardless of the scoring baseline used. We reported recently on the proposals ("Proposals") included in the 50-page House Budget Committee document [[TCJA 2.0: Tax Cuts, Tariffs and Revenue Raisers](#)]. If the Democrats oppose, the Republican members of the House and Senate will need to be nearly unanimous in their support of the legislation.

RENEWING 2017 TAX CUTS FOR MIDDLE CLASS

At the top of the list is extending popular TCJA tax cuts that are slated to expire after 2025, including lower individual income tax rates, and the higher standard deduction and child tax credit (both doubled from prior law). A full extension under the “current law” scoring baseline is estimated to cost \$5.5 trillion. A proposed switch to a “current policy” baseline would, on paper, negate this scoring cost and put less pressure on loading revenue raisers into the bill. Despite support from the Republican leadership and the Treasury Secretary himself, this change to scoring is likely to face opposition from deficit hawks within the party.

TAX CUTS ON TIPS, OVERTIME AND SOCIAL SECURITY

As expected, the President has prioritized the elimination of taxes on tips and overtime, which is expected to cost \$856 billion. Consistent with his campaign promises, the President added ending the taxation of social security benefits as another top priority, which was not included in the tax Proposals. It may not be possible to modify the taxation of social security benefits through reconciliation.

Debevoise comment: The proposals on tips and overtime will require significant guardrails to avoid gaming. For example, if every in-scope employee worked time-and-a-half one week and half-time the next, there would be a 25% tax reduction without any increase in overall hours worked. Tips will need to be defined narrowly to avoid employers and employees converting what would be compensation into tips.

CLOSING THE CARRIED INTEREST “LOOPHOLE”

President Trump announced he will close the so-called carried interest “loophole.” Under current rules, investment managers of private equity and hedge funds can benefit from lower capital gains tax rates on carried interest, if a three-year holding period is satisfied.

Details have not emerged on how taxes on carried interest would change. One possibility would be to tax carried interest as ordinary income without regard to holding period. Another possibility would be to increase the minimum holding period from three years to a longer period. If carried interest were taxed as ordinary income, then investment professionals and management company owners would be taxed at rates that are higher than business owners in other favored industries that benefit from the “qualified business income” deduction.

Debevoise Comment: Tax increases on carried interest were first proposed in 2007. In the 2017 TCJA, the Republican-controlled Congress and Mr. Trump added the three-year holding period requirement. Many have predicted the demise of the favorable tax treatment of carried interest only to be proven wrong, including during periods when Democrats controlled Congress and the White House (most recently in 2022). Given the narrow Republican majorities in both the House and Senate today, it remains to be seen if there will be effective unanimity among Republicans to advance this proposal.

Debevoise Comment: The revenue score for taxing carried interest as ordinary income is low (\$6.6 billion per President Biden’s final Green Book, and \$13 billion per the Congressional Budget Office). So, the proposal is not a real factor in meeting budget reconciliation requirements.

“ADJUST” SALT DEDUCTION CAP

The President’s list calls for “adjusting” the \$10,000 cap on state and local taxes (“SALT”) deduction. These adjustments may include some additional relief for individuals, to win support of blue state Republicans. However, the Proposals contain items that would increase SALT pain, including a full repeal and potential cutting back of the business SALT (“B-SALT”) deduction.

Debevoise Comment: B-SALT limitations would burden U.S. businesses, particularly those that operate in high-tax states, and could remove some or all of the benefits of tax rate cuts on corporations and owners of businesses that operate in pass-through form.

ELIMINATE SPECIAL TAX BREAKS FOR BILLIONAIRE SPORTS OWNERS

Just in time for the Super Bowl, tax breaks for billionaire sports owners landed on the priorities list.

Debevoise Comment: There are no details, but the proposal may be aimed at a 2004 tax law change allowing sports team owners to capture goodwill amortization tax benefits from the purchase of a sports team. The proposal also may be intended to cut back on the use of tax-exempt Private Activity Bonds to fund sports complexes and arenas.

TAX CUTS FOR "MADE IN AMERICA" PRODUCTS

"Made in America" products are a priority for favorable tax treatment. However, specifics are unannounced, and thus the criteria for a producer to qualify and the mechanism by which the tax incentive will be delivered (for example, lower rate or higher deduction) are still to be determined.

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We will continue monitoring the progress of proposals throughout the year and assessing their potential impact on your business. Please do not hesitate to contact us with any questions.



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