Insight

Tax Teams Aim to Strengthen the TCJA's Key Reforms – and More

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Executive Summary

- House Ways and Means Chairman Jason Smith recently announced the creation of 10 "Tax Teams" to prepare for negotiations over the provisions of the Tax Cuts and Jobs Act (TCJA) expiring in 2025, as well as other tax reforms.
- These tax teams will cover most aspects of the tax code, meaning the Ways and Means Committee will not be limited by the changes that were agreed to in 2017; the intent of this effort is to build a comprehensive tax reform framework that prioritizes a pro-growth agenda and keeping the competitive rates and policies that were achieved in TCJA, addressing personal tax issues, global and domestic tax policy, and urban and rural incentives, among others.
- This insight provides a brief overview of the 10 tax teams and their assignments, as well as what objectives are considered their highest priorities.

Introduction

House Ways and Means Chairman Jason Smith recently announced the creation of 10 "Tax Teams" to prepare for negotiations over the provisions of the Tax Cuts and Jobs Act (TCJA) expiring in 2025, as well as other tax reforms. These tax teams will cover most aspects of the tax code, meaning the Ways and Means Committee will not be limited by the changes that were agreed to in 2017. The intent of this effort is to build a comprehensive tax framework that prioritizes a pro-growth agenda and keeping the competitive rates and policies that were achieved in TCJA. The teams will consider personal tax issues, global and domestic tax policy, and urban and rural incentives, among others.

These efforts will be a high priority for Congress. With most provisions of the TCJA set to expire next year, sitting in the breach for individuals and businesses will be trillions of dollars in tax increases if these issues are not addressed. This will have significant implications for American competitiveness.

The 10 teams are broken into broad subject areas that overlap with one another. Almost every major event in a person's life – and certainly most events in the life cycle of a business – are impacted by the tax code. The tax teams reflect this reality – and therefore cover the following issue areas: Working Families, American Workforce, Main Street, Rural America, Community Development, New Economy, U.S. Innovation, Supply Chain, American Manufacturing, and Global Competitiveness. The titles are broad by intention, and the chairs of each team will work to define the most important aspects of each subject, as well as how they intersect with the tax code.

This insight provides a brief overview of the tax teams and their assignments, as well as what objectives are considered their highest priorities.

Background

Prior to the 2017 TCJA reform, the tax code had not been substantially changed or updated in nearly 30 years, and tax reform was long overdue. Now, with many of the TCJA's provisions expiring in 2025, lawmakers find themselves with a promising opportunity to author more comprehensive fixes to the tax code that were left unaddressed in 2017. Therefore, Congress cannot limit itself merely to fixes in the TCJA.

To accomplish a more comprehensive overhaul of the tax code requires bipartisan agreement on how to move forward. Both Republicans and Democrats share concerns over the looming expiration of some of the provisions of the TCJA. One such area of concern, for example, is that as the non-partisan Tax Foundation recently explained, a married individual with two kids making $85,000 per year would pay $1,700 more in taxes with the expiration of the TCJA. Such a prospect would violate a key promise of President Biden, who made assurances that he would not raise taxes on any American making less than $400,000 per year. To meet this promise, bipartisan agreement will be necessary.

The first attempt at a serious tax extender package in the 118th Congress was the Widen-Smith Tax Relief for American Families and Workers Act of 2024. It passed the House 357-70 in January, but as of this writing is stalled in the Senate, demonstrating the difficulty of getting full consensus on tax extenders. That proposal looked at some of the expiring provisions and made significant steps toward solving some looming problems. It would also provide for research and development expensing to allow businesses of all sizes to deduct the cost of investments immediately, increase small business expensing above what was enacted in the TCJA, and eliminate bureaucratic hurdles for small businesses by raising the reporting threshold for subcontract labor. These provisions were also paid for with the 10-year costs covered by ending the employee retention credit (ERC). Established to help with the lockdown economy, the ERC has been wildly abused. The Joint Committee on Taxation estimates another $78 billion in claims could be demanded of the program absent this provision.

The proposal would also address the existing double taxation on Taiwanese companies that operate in the United States, providing tax benefits to companies that operate in Taipei, a critical step in the goal of boosting semiconductor manufacturing and research in the United States. This was popular in the House and had great bipartisan support. To make this happen – and to educate the committee, the conference, and Congress – Chairman Smith has created these working groups to lay the framework for tax extenders.

The Tax Teams

The 10 teams will be mini laboratories of policy where members can hold subject-specific roundtables with policy experts, economists, businesses, workers, and others, as well as field hearings and town hall meetings so members can hear from a broad cross-section of the country. The teams will gather information to develop ideas on how to extend, modify, or eliminate individual provisions in the tax code to best support future economic growth. The teams will likely produce legislative proposals and frameworks rather than final legislative text for individual subjects or areas.

Notably, a major part of the effort must focus on providing education on what the TCJA did, and what will need to happen in 2025 to secure the pro-growth benefits the law has allowed. This is true not just for informing the public, but also members of the committee and broader Congress, as membership of both has changed significantly since the 2017 law was crafted — as has the professional staff critical to advising and piecing together the legislation.

The teams include: Working Families, chaired by Rep. Brian Fitzpatrick; New Economy, chaired by Rep. David Schweikert; U.S. Innovation, chaired by Rep. Ron Estes; Supply Chain, chaired by Rep. Carol Miller; American Manufacturing, chaired by Rep. Vern Buchanan; American Workforce, chaired by Rep. Darrin LaHood; Main Street, chaired by Rep. Lloyd Smucker; Rural America, chaired by Rep. Adrian Smith; Global Competitiveness, chaired by Rep. Kevin Hern; and Community Development, chaired by Rep. Mike Kelly.

Each Tax Team is composed of a chair, vice-chair, and four additional members, with members serving on multiple teams. The teams are broadly defined, and there will be significant and intentional overlap among the teams to ensure the proposed policies consider the whole spectrum of the U.S. economy, which often overlap in real life in ways that make the compliance with the complex tax code difficult.

Working Families and American Workforce

Rep. Fitzpatrick is leading the Working Families team and Rep. LaHood is chair of the American Workforce team. One of Rep. Fitzpatrick's goals on the Working Families team is to preserve the provisions in the code that make family expenses more affordable by reducing their tax burden. The ways the tax code treats issues facing American Families and the American Workforce are similar – families are often in a better economic position because of tax incentives made available through their employer including retirement accounts and health savings accounts. Among the TCJA's expiring provisions that require review are the creation of the Achieving a Better Life Experience Act "ABLE" accounts, which are section 529 education accounts that can be used for expenses related to maintaining the health, independence, and quality of life for people with disabilities; rollover from qualified tuition plans; the ability to transfer excess pension assets to retiree health and life insurance accounts; limitations on deduction for qualified residence interest; and suspension of the deduction for home equity interest. Additionally, the child tax credit – subject to much spilled ink in the discussion around the 2024 tax extender package – and the employer credit for paid family and medical leave are both set to expire in 2025.

Also set to expire is the limitation on the deduction for state and local taxes (SALT). This will easily fall into the Working Families team. While it is probably untenable for the SALT deduction limitation to be removed entirely, there may be an opportunity to consider whether there is bipartisan and bicameral support to raise the limit, or to better reflect and protect the Alternative Minimum Tax.

New Economy

Rep. Schweikert is leading the New Economy team, and serving on the U.S. Innovation team, and he has long been focused on using technology to bring efficiency to government processes and to reduce the national debt. As Rep. Schweikert recently stated on the House floor: "I will argue that disruption and adopting the technology is the only path I can mathematically come up with to stabilize the debt." There will be a significant opportunity for Rep. Schweikert to comb through the myriad ways the economy is changing and to recommend ways the tax code can keep up to date. He may consider, for example, whether there are opportunities to use technology to reduce inefficiencies in Social Security and Medicare. He will also likely consider U.S. innovation, including the development of AI, can be harnessed through incentives in the code to reduce fraud and waste in these vital programs.

U.S. Innovation

Rep. Estes is leading the U.S. Innovation team and serving as a member of the Global Competitiveness tax team. There is obvious interplay between the importance of maintaining a code that rewards U.S. innovation while encouraging businesses to open and operate here in America. The research and development expensing provision that was included in the Tax Relief for American Families and Workers Act of 20246 has broad bipartisan support and builds on the success of TCJA, allowing businesses of all sizes to deduct the costs of investments immediately and support innovation and growth at the front-end of a business operation – often when flexibility of financing is most crucial to a business's chance of survival. Yet as the extender package has stalled in the Senate, the Tax Teams will provide an opportunity to further refine and gain support for many of these provisions.

The Supply Chain and Global Competitiveness

The Supply Chain team, led by Rep. Miller, and the Global Competitiveness team led by Rep. Hern, will likely gather input from U.S. companies of all sizes in the global economy. The pandemic lockdowns highlighted the massive flaws in the U.S. supply chain. The teams will need to focus on treating all sources of energy fairly, focus on insisting that the corporate tax rate remains competitive, and that the code encourages companies to manufacture necessities and keep control of the process from start to finish. One can expect these tax teams to focus on rewarding long-term investment in the United States.

American Manufacturing

Rep. Buchanan will be chairing the American Manufacturing team. With overlap on the issues covered by both the Global Competitiveness and Supply Chain tax teams, the American Manufacturing team's focus is on "reshoring" manufacturing, including incentives to encourage people to pursue manufacturing careers and companies to "reshore" manufacturing.

Main Street and Community Development

The Main Street team, led by Rep. Smucker, and Community Development team, led by Rep. Kelly, will likely have significant crossover and both may have the opportunity to address the expiring Empowerment Zone tax incentives, tax-exempt bonds, and employment credits, all of which are set to expire in 2025 and are designed to revitalize communities that are federally designated as having high levels of poverty and economic stress through economic incentives. The teams will likely place a significant focus on ensuring parity between small businesses and corporations, including with the extension of section 1099a, set to expire in 2025, which allowed a 20 percent deduction of qualified income for pass-through businesses.

Rural America

The Rural America team, led by Rep. Smith, will look at the impact of the tax code on the costs of energy and other agricultural inputs. For example, this team may consider how, through the changes in the 2017 tax law — including doubling the estate tax exemption, creating a new 20 percent deduction for passthrough and small business income, and allowing 100 percent bonus depreciation for purchases of both new and used farm equipment – farm and ranch households saw a lower tax liability.