Lawmakers Unveil Framework for a $78Billion Bipartisan Tax Proposal

On Tuesday, January 16th, 2024 the top tax writers in the House and Senate put forth a $78 billion, multi-pronged joint tax proposal highlighted by tax benefits for low-income taxpayers and businesses as Congress continues to inch toward a government shutdown that would begin in part Friday.

The proposed framework announced in a joint release from Senate Finance Committee Chair Ron Wyden (D-OR) and House Way and Means Chair Jason Smith (R-MO) includes the much-anticipated child tax credit enhancements combined with tweaks to certain Tax Cuts and Jobs Act business provisions that have enjoyed bipartisan support.

Under the Titled the Tax Relief for American Families and Workers Act of 2024, the CTC would, for tax years 2023-2025, be calculated on a per-child basis. Claimants would first multiply earned income in excess of $2,500 by 15%, and multiply that amount by the number of qualifying children. The maximum refundable CTC would be raised to $1,800 in tax year 2023, $1,900 in 2024, and $2,000 in 2025, adjusted for inflation in 2024-2025, rounded down to the nearest $100. For those years, taxpayers may elect to use earned income from the prior tax year when calculating their maximum CTC if their earned income in the current year is less.

Known as the TCJA "Big Three," the potential legislative package would address some aspects of the 2017 reform bill that have been pain points for businesses by extending certain benefits.

First, the TCJA allowed for a 100% bonus depreciation rate for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. Under current law, bonus depreciation will phase out annually, 20% at a time, until 2027. The proposal would extend 100% bonus depreciation through January 1, 2026, or January 1, 2027, for longer production period property and certain aircraft. The 20% phaseout would begin a year after.

Next, the proposal extends the application of earnings before interest, taxes, depreciation, and amortization (EBITDA) for the purposes of the limitation on the deduction for business interest. EBITDA would apply to tax years beginning after December 31, 2023, and before January 1, 2026. "Therefore, for taxable years beginning after December 31, 2021, and before January 1, 2024, [adjusted taxable income] is computed with regard to deductions allowable for depreciation, amortization, or depletion (i.e., earnings before interest and taxes (EBIT))," read the proposal's technical summary . "However, ATI may be computed as EBITDA, if elected, for such taxable years."

Finally, Wyden and Smith's plan would amend Code Sec. 179 by increasing the limit on depreciable business asset expensing. For property placed in service in tax years after December 31, 2023, taxpayers would be able to expense up to $1.29 million, reduced by the amount the cost of qualifying property exceeds $3.22 million, adjusted for inflation.

The proposal's other tax changes include relief for US-Taiwan double taxation; the definition of a COVID-employee retention credit (ERC) promotor (to penalize fraudulent preparers of ERC claims during the pandemic); disaster relief for victims of natural disasters, wildfires, and the East Palestine train derailment; and enhancements to the low-income housing credit.

"I'm thrilled to announce we officially have a deal to expand the Child Tax Credit, build more than 200,000 new affordable homes, and boost our economic competitiveness and innovation," Wyden posted on X.

"This legislation locks in over $600 billion in proven pro-growth, pro America tax policies with key provisions that support over 21 million jobs," said Smith.

Amid the rollout of this pre-tax season legislation are negotiations in Congress to avoid a January 19 partial government shutdown. Reuters reported over the weekend that party leaders in both chambers have a deal in place in the form of a continuing resolution to punt that deadline to March 1. Affected agencies include federal programs for housing, agriculture, energy, transportation, and more. All other parts of the government are set to run out of funding February 2. This agreement appropriates enough to keep the lights on through March 8.

Whether the tax legislation will be a standalone bill or attached to the short-term spending bill remains to be seen. President Biden is scheduled to meet with Senate Majority Leader Chuck Schumer (D-NY), Senate Minority Leader Mitch McConnell (R-KY), House Speaker Mike Johnson (R-LA) and House Minority Leader Hakeem Jeffries (D-NY) Wednesday to discuss the president's national security supplemental request, according to Reuters.