



# D.C. DEVELOPMENTS

H.I.G. Capital

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# DC Insights and Tax Landscape

## What's Ahead for Private Equity





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*The information provided herein is educational in nature and is based on authorities that are subject to change. You should contact your tax adviser regarding application of the information provided to your specific facts and circumstances*





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# AGENDA



ONE

- Republican Sweep in DC



TWO

- TCJA Drives Tax Legislative Discussion



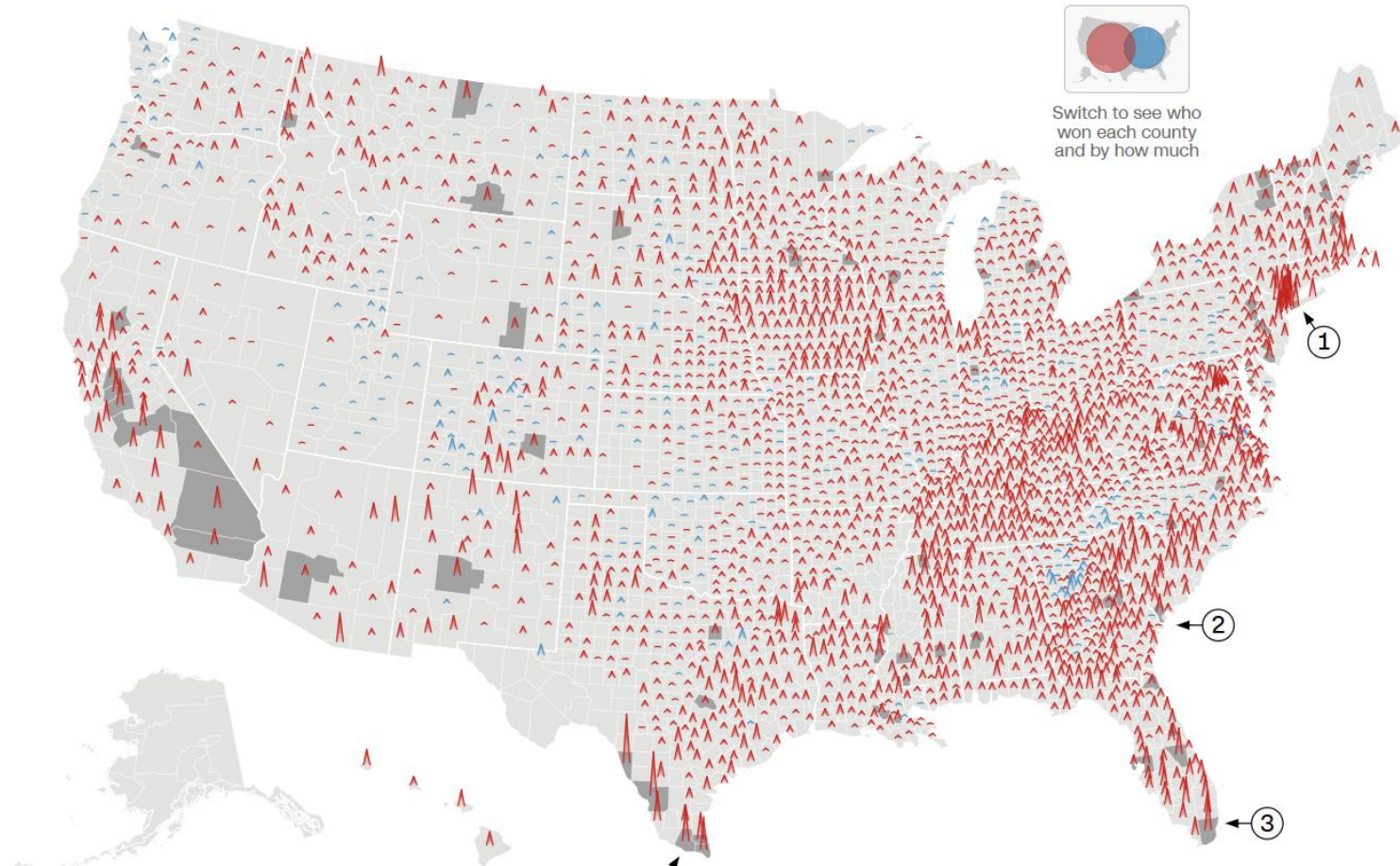
THREE

- Eased Regulatory Environment and a Less Robust IRS



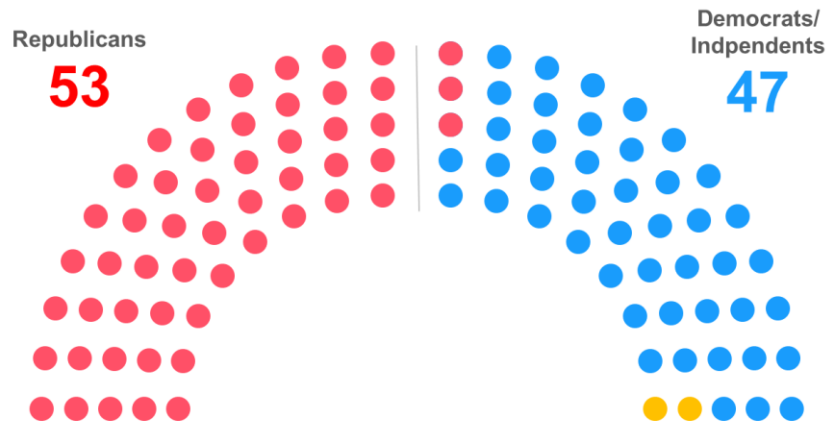
# Republican Sweep in DC

# PRESIDENTIAL ELECTION RESULTS – NATIONAL SHIFT TO THE RIGHT

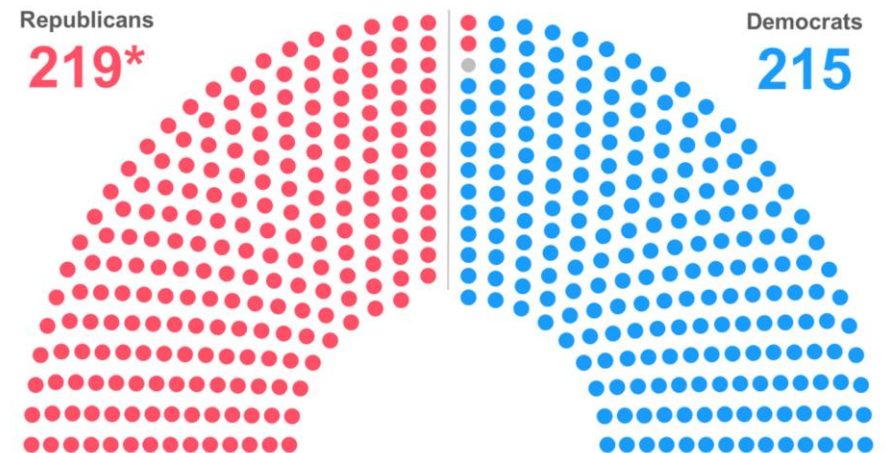


# GOP MUST WORK WITH SLIM MAJORITIES IN THE 119TH CONGRESS

Senate



House



# FEW HURDLES FOR TRUMP, GOP IN CARRYING OUT IDEAL AGENDA

Republicans flipped four Senate seats to obtain a 53-seat majority, but filibuster rules require 60 votes to advance most bills

- Incoming Senate Majority Leader John Thune (R-S.D.) has been a regular advocate for maintaining the filibuster threshold for regular votes, vowed to keep the process in place following the election
- Thune and Senate leadership may still face pressure from the White House and conservative groups to modify or abolish the filibuster if Democrats use it to successfully block Trump's policy agenda in the chamber

Republican lawmakers eyeing budget reconciliation process to pass key priorities

- Process allows Senate to pass bills with simple majority, but provisions must be directly tied to the budget
- GOP can extend 2017 tax cuts through reconciliation, may try to attach other priorities such as border security

Senate likely to focus on confirming Trump cabinet, judicial nominations early in the year

- Trump has already called on Senate GOP to allow recess appointments to install his cabinet picks, some of which are controversial and may not get enough Republican support
- Thune said all options for confirming nominees "on the table" but a vote to go into recess would also need a majority

# TENURE SHIFTS, RETURNING LEADERSHIP IN BOTH CHAMBERS

Thune elected to lead Senate Republicans

- The Senate minority whip defeated Sens. John Cornyn (Texas) and Rick Scott (Fla.) in a secret-ballot vote to replace Mitch McConnell (Ky.), who is stepping down from leadership
- Chuck Schumer (N.Y.) will remain the top Senate Democrat

Speaker Mike Johnson (R-La.) will keep his role next year

- A small GOP majority would limit the number of lawmakers who could defect on tough votes, create headaches for leadership
- Hakeem Jefferies (D-N.Y.) will continue to lead Democratic caucus

House majority passed a rules package dictating how the chamber operates

- House GOP announced a deal to increase the threshold on the number of votes it would take to initiate the removal of the speaker from one to five.

## Hill Republicans set to leave for Executive Branch

- Ohio Gov. Mike DeWine (R) will name a replacement for Vice President-elect JD Vance in January
- Trump has also named several House and Senate Republicans to his administration, potentially shrinking their already narrow majorities

## New House members shift tenure in chamber

Nearly two-thirds of House members in the 119th Congress will have come to the Hill since January 2017, as the number of lawmakers with more than a decade of experience in Congress continues to decrease

# RECONCILIATION

Reconciliation is a multi-step process for fiscal bills with special rules that lowers the normal threshold for votes in the Senate from 60 to 51

It reconciles current law with a multi-year budget blueprint (e.g., TCJA had a 10-year window)

Reconciliation can only be used to enact budget-related provisions, like tax and spending

Reconciliation instructions can only be included in a budget resolution for that fiscal year

Both parties have used reconciliation to enact major laws: TCJA (2017), American Rescue Plan (2021), Inflation Reduction Act (2022), certain parts of the Affordable Care Act (2010).

# RECONCILIATION – THE PROCESS

- 1- The two Houses of Congress must first adopt identical concurrent resolutions on the budget that instruct committees on revenue and spending targets
- 2- Committees meet and transmit reconciliation bills to the Budget Committee
- 3- Budget Committee reports and the two Houses start to consider their individual bills
- 4- Senate process includes “vote-a-rama” and restrictive rules that limit what can be included in the bill (Byrd rule)
- 5- Two Houses must pass an identical bill that is sent to the President
- 6- President signs

# WHITE HOUSE ON DAY 1: EXECUTIVE ORDERS

The one thing a President can do unilaterally is sign Executive Orders.

Expected EO's may include:

- Immigration

- Reinstate the "Stay in Mexico" asylum policy
- Directing ICE to prioritize deportation of illegal immigrants with criminal records

- Energy

- Recission of all Biden Energy, Environment, and Climate EO's
- Lift moratorium on Liquid Natural Gas exports

- Tariffs

- Impose tariffs to address dumping or National Security
- Directive to reopen USMCA



# TCJA Drives Tax Legislative Discussion

# TCJA MAKES TAX A LEGISLATIVE PRIORITY FOR 2025

TCJA included a number of provisions that expire at the end of 2025 (and later) to keep the cost of the legislation within the agreed \$1.5 trillion 10-year budget window

- For the most part, the expiring provisions are individual tax provisions

Extending TCJA is expensive

- In 2024 it was estimated that extending all TCJA expiring provisions (most of which expire at the end of 2025) would cost \$4.6 trillion and that extending only the individual expiring provisions would cost \$3.5 trillion

Allowing the TCJA expiring provisions to sunset will increase taxes on most individuals

# SELECT TCJA EXPIRING PROVISIONS

## AFTER 2025

Marginal tax rates revert to the higher pre-TCJA rates.

The standard deduction reverts to lower pre-TCJA amounts, adjusted for inflation.

The personal exemption is reinstated to pre-TCJA amounts, adjusted for inflation.

The child tax credit amount and the threshold for eligibility reverts to lower pre-TCJA levels.

Personal casualty and theft loss itemized deduction reinstated.

## AFTER 2025

Itemized deduction rules revert to pre-TCJA rules, including elimination of the \$10,000 cap on the SALT deduction.

The individual alternative minimum tax exemption and phase-out will revert to the lower pre-TCJA levels, adjusted for inflation.

The estate and gift tax exemption will revert to the lower pre-TCJA amount, adjusted for inflation.

The Section 199A pass-through deduction expires.

## AFTER 2026

100% bonus depreciation for eligible property acquired and placed in service after 9/27/2017 and before 1/1/2023 phase out as follows:

- 2023: 80%
- 2024: 60%
- 2025: 40%
- 2026: 20%
- 2027: 0%

Opportunity zone deferral election no longer available.

## AFTER 2028

The limitation on business losses for noncorporate taxpayers under Section 461(l).

# OTHER TAX TOPICS LIKELY TO BE INCLUDED IN TCJA EXTENDER NEGOTIATIONS

## HOUSE-PASSED BILL

Rollback capitalization and amortization of Section 174 that came into effect beginning in 2022 extending the effective date to 2026 for domestic research expenditures.

Revert to pre-2022 Section 163(j) rules, by allowing an add-back for amortization and depreciation when computing the business loss limitation under Section 163(j) until 2026.

Reinstate 100% bonus depreciation until the 2026 phase-out.

## INTERNATIONAL TAX

Increased rates for GILTI (10.5% increasing to 13.125%), FDII (13.125% increasing to 16.406%) and BEAT (10% increasing to 12.5%) effective after 2025.

Whether and how to amend US law to coordinate with Pillar II and foreign jurisdiction top-up taxes.

## IRA PROVISIONS

Clean energy incentives

Stock buyback excise tax

Corporate alternative minimum tax

IRS multi-year funding

## TRUMP CAMPAIGN PROPOSALS

Make TCJA expiring provisions permanent; allow SALT cap to expire

Eliminate income tax on social security benefits.

Exclude tips from both income tax and payroll tax.

Exclude overtime pay from tax.  
Eliminate double-taxation for Americans overseas.

Exclude income of firefighters, police officers, military personnel, and veterans from tax.

Increase the child tax credit to \$5,000 (Vance).

## TRUMP CAMPAIGN PROPOSALS

Lower the corporate tax rate to 21% (15% for domestic production).

Repeal the Inflation Reduction Act clean energy incentives.

Impose a universal 20% tariff and a 50% tariff on China.

# WHAT'S LIKELY NOT TO BE INCLUDED IN TCJA EXTENDER NEGOTIATIONS

- Wealth tax
- Increased NIIT
- Changes to carried interest
- Partnership tax overhaul (Wyden 2021 proposal)

# Cost of to Enact Trump Tax Proposals (No Offset): \$10 Trillion

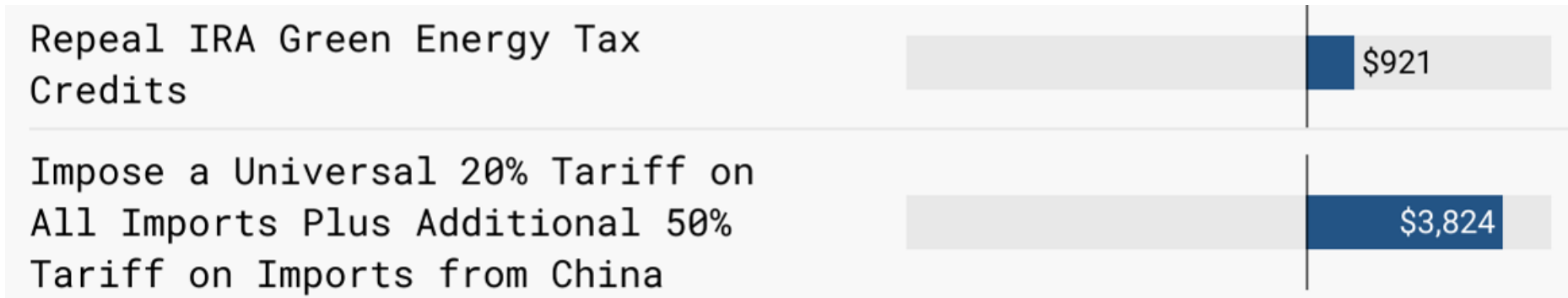
10-Year Conventional Revenue Effects from 2025-2034, In Billions

TCJA Individual Permanence	- \$3,392
TCJA Estate Tax Permanence	- \$206
TCJA Business Tax Permanence	- \$643
Restore Full Deduction for SALT	- \$1,041
Lower Corporate Rate to 15% for Domestic Production Activities	- \$361
Exempt Social Security Benefits from Income Tax	- \$1,189
Exempt Overtime Pay from Income Tax	- \$748
Exempt Tips from Income Tax	- \$118
Create an Itemized Deduction for Auto Loan Interest	- \$61
Exempt Tips and Overtime from Payroll Tax	- \$450
Exempt Americans Abroad from Income Tax	- \$100
Expand the Child Tax Credit to \$5,000	- \$2,432

Source: Tax Foundation <https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024/>

# Cost to Enact Trump Proposals Goes Down to \$6 Trillion With Offsets

*10-Year Conventional Revenue Effects from 2025-2034, In Billions*



Source: Tax Foundation <https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024/>

# QUESTIONS FACING THE 119<sup>TH</sup> CONGRESS

Will there be one or two reconciliation bills?

- Senate Republican leadership has expressed a preference for 2 bills, dealing with immigration and other priorities in the first one in early 2025 and tax in the second one later in 2025

What will the budget framework be for the reconciliation bill extending TCJA expiring provisions?

- Some republicans believe that the baseline for determining the cost of a tax bill should be current policy rather than current law, which means no additional cost for extending expiring provisions
- Dynamic scoring might also be used to reduce the cost of provisions that are seen as positive economic generators

Which expiring provisions will be extended? Which will be made permanent? Which will be retained but in a modified way?

What other tax provisions will be included in a bill addressing the TCJA expiring provisions?

# OTHER DEFICIT REDUCING OPTIONS

Reduce agency budgets

Eliminate federal agencies

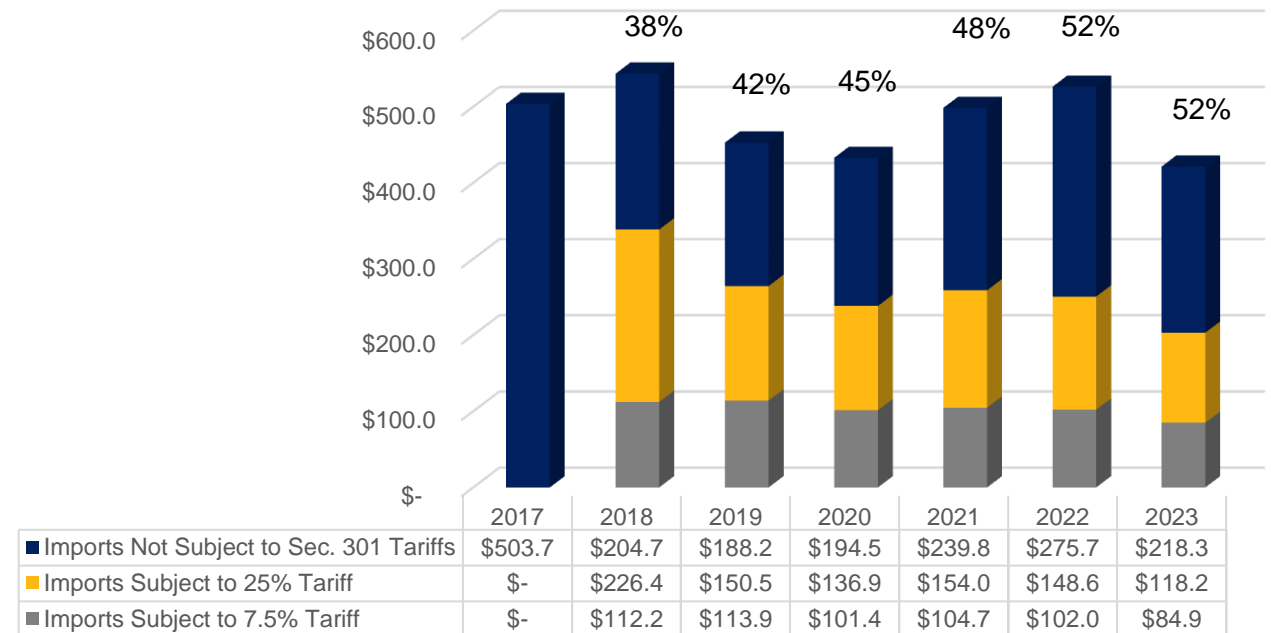
Reduce spending



# 5 THINGS YOU SHOULD KNOW ABOUT TARIFFS

1. What to expect
2. Retaliation
3. Bond insufficiency
4. Big data
5. Duty minimization

U.S. Imports of Chinese Originating Goods (in billions USD)



# A TARIFF PREPPER'S "TO DO" LIST

A "to list" for your holdings to prepare for a period of growing protectionism and increasing tariffs:

- ❑ Have a meeting with the bond surety to discuss your company's bond limit
- ❑ Consider a review of the HTS Database to ensure that your company's imported goods are appropriately classified
- ❑ Consider including a tariff classification expert in the company's new product development process for tariff engineering purposes
- ❑ Evaluate supply chain to identify potential substitute vendors for dual sourcing
- ❑ Consider the possibility of nearshoring, where practical
- ❑ Evaluate the necessity of building up North America inventory before tariffs are implemented
- ❑ If your company imports and exports, consider establishing a duty drawback program
- ❑ Form an internal "Tariff Committee" consisting of stakeholders such as tax, purchasing, procurement, vendor management, trade compliance, supply chain, product development, etc.
- ❑ Perform a Foreign Trade Zone (FTZ) cost benefit analysis
- ❑ Monitor opportunities for Section 301 and Section 232 exclusions, as well as petitions for Miscellaneous Tariff Bill (MTB)
- ❑ Establish an Automated Commercial Environment (ACE) portal account and enroll in Periodic Monthly Statement (PMS)
- ❑ Make contact with your Congressional representative's office and your two (2) senators and let them know that you exist
- ❑ Consider joining a trade promotion organization, such as AAEI
- ❑ Consider subscribing to a trade-focused periodical such as International Trade Today, Journal of Commerce, etc.
- ❑ Have questions? Call Dan Swartz, Principal of Crowe's Customs & Trade practice at 415-706-8423

# 5 QUESTIONS TO ASK

Five (5) questions to ask possible acquisition targets to mitigate risk:

1. Who classifies your imported goods?
2. Have you ever received a penalty notice from U.S. Customs, and if so, what was it regarding and how was it resolved?
3. How do you determine the value to declare to U.S. Customs?
4. Do you import goods subject to dumping duties?
5. Are any of your suppliers in Xingjiang, China?

Degree of Culpability	Revenue Loss	No Revenue Loss
<b>Fraud</b>	Domestic value	Domestic value
<b>Gross Negligence</b>	4 times loss of revenue	40% of dutiable value
<b>Negligence</b>	2 times loss of revenue	20% of dutiable value

*\* 19 U.S.C. §1592 Penalty Guidelines*



# Eased Regulatory Environment and a Less Robust IRS

# REDUCE THE REGULATORY STATE

Reduce the number of federal employees

- Back to the office
- Move agencies
- Schedule F

Withdraw regulations to issue a new one

- Trump I – 2 withdrawn for every one issued; Trump II – 10 withdrawn for every 1 issued?

Congressional Review Act (CRA)

- Final regulations can be disapproved by Joint Resolution
- Regulations at risk are those issued within a 60 session/legislative window (plus 15 days in a new Congress) (August 2024?)
- Agency can't reissue in substantially the same form without approval from Congress

# NEW TREASURY/TAX LEADERSHIP ANNOUNCED

Scott Bessent – Secretary of the Treasury

- Founder Key Square Group, former Soros Fund Management partner

Ken Kies – Assistant Secretary Tax Policy

- Republican lobbyist, former Chief of the Joint Committee on Taxation

Rep. Billy Long – IRS Commissioner

- Former representative who sponsored legislation to eliminate the IRS and replace it with a national sales tax

# IRS WILL LIKELY BE REIGNED IN

IRA funding will likely be clawed back and future appropriations reduced

- Will this reverse IRS massive hiring, technology and customer service gains, and increased enforcement of large corporations, complex partnerships, and high net worth individuals?

Will IRS continue to pursue self-employment tax for limited partners?

What will happen to controversial guidance projects?

- Partnership basis-shifting (TOI Final Reg, RR, notice of reg project)
- Digital asset broker reporting (June 2024) and DeFi broker reporting (Dec. 2024)
- Corporate alternative minimum tax and stock buyback excise tax proposed regulations



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