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Biden FY2025 Budget Calls for Corporate, Individual Tax Increases

President Biden’s FY2025 Budget proposal released March 11 includes previously advocated and some new tax proposals under a broader message calling for lowering costs for families, protecting and strengthening Social Security and Medicare, and reducing the deficit by making big corporations and the wealthy “pay their fair share,” which is essentially the underpinning of Democratic tax policy goals going back at least a dozen years, to the Obama administration.

The Budget, a traditionally aspirational document that in this case represents a roadmap of what a second Biden term could look like on tax if the Democrats win the requisite control in Congress to make the proposals a reality, includes tax items outlined in the State of the Union and related materials such as:

- increasing the corporate alternative minimum tax (CAMT) to 21% (from 15%)
- quadrupling the stock buyback tax to 4% (from 1%)
- raising the corporate income tax rate to 28% (from 21%)
- a 25% billionaires’ tax
- ending corporate deductions for the compensation costs for any employee (not just top executives) of more than \$1 million per year
- longer depreciation of, and higher fuel taxes on, private jets
- a new tax credit for first-time homebuyers and people who sell their starter homes

The document describes the President’s legislative accomplishments and says, “the Administration looks forward to building on this progress with responsible investments that continue to grow America’s economy from the middle out and bottom up while improving the long-term budget outlook. The Budget proposes another \$3 trillion in deficit reduction over the next 10 years by making the wealthy and large corporations pay their fair share, closing tax loopholes, cutting wasteful spending on Big Pharma, Big Oil, and other special interests.”

President Biden also further defined the parameters of how he would approach the 2025 TCJA individual and pass-through tax provision expirations, which he said in his address last Thursday that he supports continuing as they apply to those earning less than \$400,000. Similar to the FY2024 Budget, the FY2025 document said “The President:

- Opposes increasing taxes on people earning less than \$400,000 and supports cutting taxes for working people and families with children to give them more breathing room;
- Opposes tax cuts for the wealthy – either extending tax cuts for the top 2% of Americans earning over \$400,000 or bringing back deductions and other tax breaks for these households; and
- Supports paying for extending tax cuts for people earning less than \$400,000 with additional reforms to ensure that wealthy people and big corporations pay their fair share, so that the problematic sunsets created by President Trump and congressional Republicans are addressed in a fiscally responsible manner.”

Below is a table of select provisions from the Treasury Green Book with revenue estimates over 2025-2034.

Business	FY2024 Budget	FY2025 Budget	Revenue
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Corporate tax rate increase	Increase rate to 28%	Same proposal	\$1.35t
Corporate alternative minimum tax (CAMT)	No proposal	Increase to 21%	\$137b
Stock buyback excise tax	Increase rate to 4%	Same proposal	\$166b
Tax corporate distributions as dividends	<ul style="list-style-type: none"> - Basis in any distributed high-basis stock doesn't reduce E&P - leveraged distribution from corporation to shareholder treated as receipt of dividend directly from related corporation - repeal boot-within-gain limitation in reorganization transactions in which shareholder's exchange treated as distribution of a dividend 	Same proposal	\$2b
Inappropriate leveraging in divisive reorgs	<ul style="list-style-type: none"> - Create an excess monetization amount that if breached would cause contributing to recognize gain in an otherwise tax-free reorganization - New section 355 requirements 	Same proposal	\$43.8b
Limit losses recognized in liquidation transactions	Rules allowing recognition of losses on taxable liquidation within controlled group denied	Same proposal	\$547m
Prevent basis shifting by related parties through partnerships	Changes to the partnership election under section 754 that allows the partnership to increase basis of its non-distributed property	Same proposal	\$14.87b
Conform definition of "control" with corporate affiliation test	Conform control test to require ownership of at least 80% of the total voting power and at least 80% of the total value of stock of a corporation	Same proposal	\$6.76b
Excess business loss limitation	TCJA provision was slated to expire after 2025; American Rescue Plan Act (ARPA) extended the provision through 2026; Inflation Reduction Act extended for two more years, through 2028; FY2024 Biden Budget proposed	Same proposal	\$75.7b

	permanency and treat losses carried forward from prior year as current-year business losses instead of NOL deductions		
Executive compensation	TCJA included, as covered employees, principal executive officer and principal financial officer; ARPA expanded to 8 highest paid, plus CEO and CFO, after 2026; and FY2024 Biden Budget proposed accelerating to after 2023	Expanded to end corporate deductions for all compensation costs (not just for top executives) over \$1 million/year	\$271.9b
Aviation	No proposal	Longer depreciation of, and higher fuel taxes on, private jets	\$1.5b
Small insurance company election	Impose ownership diversification requirement	Same proposal, with language providing that two diversification requirements under current law would be repealed	\$11.5b
Business-owned life insurance	Repeal the pro-rata interest-expense-disallowance rule for contracts covering employees, officers, or directors, while the exception for policies covering a 20% owner of a business would be retained	Same proposal	\$7.1b
Modify rules for insurance products that fail the statutory definition of a life insurance contract	Rules would be modified in several respects for insurance products that fail the statutory definition of a life insurance contract, focusing on so-called frozen cash value (FCV) contracts. Taken together, the changes are designed to ensure that all future earnings credited to FCV contracts owned by US person would be included in the US policyholder's "income on the contract" for the taxable year.	Same proposal aside from language regarding effective dates	\$185m
Limit tax benefits for private placement life insurance and similar contracts	No proposal	Limit tax benefits by defining a class of contracts that are predominantly investment oriented and denying these contracts most of the tax benefits that are generally	\$6.9b

		granted to life insurance and annuity contracts	
Correct drafting errors in the taxation of insurance companies under the TCJA	<ul style="list-style-type: none"> - Change the capitalization rate of net premiums for group life insurance contracts from 2.05% to 2.45%, and the capitalization rate for other non-annuity specified life insurance contracts from 7.70% to 9.20% - Include international and nonproportional reinsurance lines of business in the list of long-tail lines of business that are explicitly identified in the statute 	Same proposal	\$682m
International	FY2024 Budget	FY2025 Budget	Revenue
Revise GILTI, limit inversions, and make related reforms	<ul style="list-style-type: none"> - Country-by-country - repeal QBAI - 21% rate (25% deduction) - 5% haircut - repeal high-tax exemption - broaden the definition of an inversion transaction 	Same proposal	\$374b
Adopt UTPR	<ul style="list-style-type: none"> - Consistent with UTPR OECD Pillar Two Model Rules, including a global annual revenue threshold, de minimis exclusions and allocation among jurisdictions - US domestic minimum top-up tax to protect US revenues from the imposition of UTPR by other countries - UTPR would primarily apply to foreign-parented multinationals operating in low-tax jurisdictions and would not apply to income subject to the Pillar Two IIR, including income subject to GILTI 	Same proposal, with language added providing when a UTPR in another jurisdiction comes into effect, the QDMTT would ensure that taxpayers continue to benefit from tax credits and incentives that promote US jobs and investment, <i>including clean energy tax provisions enacted in the IRA</i>	\$136.3b
FDII	Repeal foreign derived intangibles income (FDII) and utilize the revenue to provide other unspecified incentives to encourage R&D	Same proposal	+\$158b/ -\$158b (revenue neutral)
Revise the rules that allocate Subpart F income and GILTI between taxpayers to	Modify existing pro rata share rules to require a US shareholder of a CFC that owns, directly or indirectly, a share of stock of the CFC for part of the CFC's taxable year, but not on the last	Same proposal	\$2.7b

ensure that Subpart F income and GILTI are fully taxed	relevant day, to include in gross income a portion of the foreign corporation's Subpart F income allocable to the portion of the year during which it was a CFC		
Require a controlled foreign corporation's taxable year to match that of its majority US shareholder	No proposal	Eliminate the election for a CFC to use a taxable year different from the taxable year of the CFC's majority US shareholder	(negligible)
Limit foreign tax credits from sale of hybrid entities	Apply the principles of section 338(h)(16) to determine the source and character of any item recognized in connection with a direct or indirect disposition of an interest in a specified hybrid entity and to a change in the classification of an entity that is not recognized for foreign tax purposes	Same proposal	\$4b
Restrict deductions of excessive interest of members of financial reporting groups	Limit interest deduction for a member of a "financial reporting group" if the group has net interest expense for US tax purposes and member's net interest expense for financial reporting purposes exceeds proportionate share of IFRG's net interest expense	Same proposal	\$40b
Conform scope of portfolio interest exclusion for 10% shareholders to other tax rules	No proposal	Modify the definition of a 10% shareholder, in the case of interest paid on an obligation issued by a corporation, to mean any person who owns 10% or more of the total combined voting power of all classes of stock of such corporation entitled to vote or 10% of the total value of shares of all classes of stock of such corporation	\$184m
Fossil fuels	- Repeal exemption from GILTI for foreign oil and gas extraction income (FOGEI)	Same proposal	\$75b

	<ul style="list-style-type: none"> - For a dual capacity taxpayer, limit the amount of a levy that would qualify as a creditable foreign tax to the amount of tax that the dual capacity taxpayer would have paid to the foreign government if it were a non-dual capacity taxpayer 		
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	<ul style="list-style-type: none"> - A new general business credit would equal 10% of the eligible expenses paid or incurred in connection with onshoring a US trade or business that is linked to reducing or eliminating a trade or business or line of business currently conducted outside the US or starting up, expanding, or otherwise moving the same trade or business within the US, to the extent that this action results in an increase in US jobs. - Deductions would be disallowed for expenses paid or incurred in connection with offshoring a US trade or business, including denying deductions against a US shareholder's GILTI or subpart F income inclusions for any expenses paid or incurred in connection with moving a US trade or business outside the United States. 	Same proposal	+\$71m/ -\$71m (revenue neutral)
Housing & energy	FY2024 Budget	FY2025 Budget	Revenue
NMTC	Make permanent the New Markets Tax Credit	Same proposal, but would also add a third allocation priority to favor CDEs that intend to concentrate their qualified low-income community investments on populations, geographies and/or businesses that are identified by the Secretary as having significantly deeper levels of economic distress beyond the baseline	-\$9.1b

		requirements for eligible NMTC low-income communities	
Neighborhood homes credit (NHC)	New allocated tax credit to encourage (a) new construction for sale, (b) substantial rehabilitation for sale, and (c) substantial rehabilitation by existing homeowners who will remain in their communities	Same proposal, with new language about determination of area median family income	-\$18.8b
LIHTC changes	Increase housing credit dollar amounts (HCDAs), reduce the 50% PAB financing requirement, repeal the qualified contract provision	Same proposal	-\$36.6b
Eliminate fossil fuel preferences	Includes repeal of expensing of intangible drilling costs, repeal of percentage depletion with respect to oil and natural gas wells, and repeal of the increased geological and geophysical amortization period for independent producers	Same proposal	\$35.3b
Digital asset mining energy excise tax	Any firm using computing resources, whether owned by the firm or leased from others, to mine digital assets would be subject to an excise tax equal to 30% of the costs of electricity used in digital asset mining	Same proposal	\$7.7b
Individual	FY2024 Budget	FY2025 Budget	Revenue
Expand Net Investment Income Tax (NIIT)	Apply to pass-through business income of high-income taxpayers	Same proposal	\$393.2b
	Increase NIIT rate and additional Medicare tax rate for high-income taxpayers		\$403.8b
Increase top individual rate	Increase rate to 39%	Same proposal	\$246b
Capital gains tax	Tax long-term capital gains and qualified dividends of taxpayers with taxable income of more than \$1 million at ordinary rates, with 39.6% generally being the highest rate, or 44.6% including the net investment income tax (as stated in the Treasury Green Book)	Same proposal	\$288.6b
Billionaires' tax	25% on total income, including unrealized capital gains, for taxpayers with wealth exceeding \$100 million	Same proposal	\$502.7b

Prevent excessive accumulations by high-income taxpayers in tax-favored retirement accounts	<ul style="list-style-type: none"> - Require a high-income taxpayer with an aggregate vested account balance under tax-favored retirement arrangements that exceeded \$10 million to distribute a minimum of 50% of that excess - Prohibit a rollover to a Roth IRA of an amount distributed from an account in an employer-sponsored eligible retirement plan that is not a designated Roth account (or of an amount distributed from an IRA other than a Roth IRA) for a high-income taxpayer 	Same proposal	\$23.7b
Digital assets	Apply wash sale rules, require information reporting, mark-to-market treatment	Same proposal	\$42b
Child tax credit	<ul style="list-style-type: none"> - Increase the maximum credit per child to \$3,600 for qualifying children under age 6 and to \$3,000 for all other qualifying children - Phase out the portion of the credit in excess of \$2,000 above income thresholds - Increase the maximum age to qualify for the CTC from 16 to 17 - Make the CTC fully refundable, regardless of earned income 	Same proposal	-\$310b
First-time home buyers' credit	No proposal	Equal to 10% of the purchase price of a home, up to a maximum credit of \$10,000	-\$31b
Sellers' credit	No proposal	Equal to 10% of the sales price of a home, up to a maximum credit of \$10,000	-\$16.3b
Carried interest	Tax as ordinary income	Same proposal	\$6.6b
Grantor trusts	Require remainder interest to have minimum value of 25% of assets transferred or \$500,000, etc.	Same proposal	\$83.8b
Revise rules for valuation of certain property	Require consistent valuation of promissory notes, and revise valuation of partial/fractional interests in certain assets transferred intrafamily	Same proposal	\$12.2b



Like-kind	Repeal deferral of gain from like-kind exchanges	Same proposal	\$19.7b
Real property	Require 100% recapture of depreciation deductions as ordinary income for certain depreciable real property	Same proposal	\$7.3b
Charitable	Limit use of donor advised funds to avoid a private foundation payout requirement; exclude payments to disqualified persons from private foundation payout requirement	Same proposal	\$277m

The Treasury Department Green Book is at <https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf>