

Katten

IAP Private Clients 2025 – Recent U.S. Developments

15 May 2025

Matthew Sperry

Partner

Katten Muchin Rosenman LLP

+44 (0) 7789 912924 (UK Mobile)

+1 312.208.8652 (US Mobile)

matthew.sperry@katten.com

The “Big Beautiful Bill”

- Bill reflects Trump’s insistence that Congress address multiple policy initiatives in one large bill
- The current iteration of the “Big Beautiful Bill” aims to address:
 - Tax Cuts
 - Immigration / Border Policy
 - Energy Policy
 - Healthcare
- Currently in the House of Representatives - the House has responsibility for introducing tax legislation
- Will need almost unanimous Republican support given their extremely thin margins in the House and Senate (Democrats will vote against).

In Summary

Key proposals would:

- Make permanent many provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) before they are scheduled to expire at the end of 2025.
- Restore more favorable tax treatment of various business expenses, including those for qualified property, research and development, and business interest.
- Accelerate the phaseout of most of the Biden clean energy business tax incentives that have been enacted in recent years, terminate most energy credits for individuals, and phase out credit transferability.
- Respond to certain unfair taxes, which include discriminatory and extraterritorial taxes that a foreign government imposes on U.S. persons or certain foreign entities owned by U.S. persons.

The proposals are subject to change as the budget reconciliation process continues in the weeks to come.

Key Tax Proposals

- Make 2017 Trump cuts on tax rates **permanent**
 - Without extension, top rate would increase from 37% to 39.6% in 2026
 - Without extension, approximately 62% of U.S. taxpayers would see tax increases in 2026
- **Estate planning**: Increase the estate, gift, and generation-skipping tax exemption amounts to **\$15 million, adjusted for inflation**, and make them **permanent**, compared to the TCJA's temporary \$10 million exemption that was adjusted for inflation to \$13.99 million in 2025.

Key Tax Provisions

- **Tax Relief for Partnerships / Passthroughs.** Raises the passthrough deduction to 23% from 20%
 - Reduces the effective tax rate for partnerships, S corporations and sole proprietorships that are in the top income category from 29.6% to 28.5%
- U.S. passthrough deduction, also known as the Qualified Business Income (QBI) deduction or Section 199A deduction, is a tax break created by the TCJA.
- Its primary goal was to provide tax relief to owners of pass-through businesses, aiming to make their tax burden more comparable to that of C corporations, which saw a significant reduction in their corporate tax rate under the TCJA (from 35% to 21%).

Key Tax Proposals

- **International taxation**: Make permanent certain U.S. international tax rates currently in effect—specifically, the global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII) and base erosion and anti-abuse tax (BEAT) rates
- **Phaseout clean energy tax credits and incentives**: Accelerate the phaseout for most clean energy tax incentives that have been enacted in recent years, with most energy credits for individuals terminated. The proposal also would terminate credit transferability within approximately two years.
- **Capital expenditures and investments**: Reinstate 100% expensing of qualified assets in the year they were put into service—also known as bonus depreciation—for property acquired between Jan. 20, 2025, and 2029. The proposals would expand the scope of qualified assets to cover manufacturing buildings.

Key Tax Proposals

- **Innovation and research and development**: Reinstate immediate expensing for domestic R&D expenditures incurred in tax years 2025 through 2029. The proposal would not provide full expensing for foreign R&D expenditures but would provide some relief.
- **Increased penalties for disclosure of private tax information**. Boosts maximum sentence for unauthorized disclosure of taxpayer information from \$5,000 fine and up to five years in prison to \$250,000 and up to ten years.

Key Tax Proposals

- **Tax-Exempts**. Terminates tax-exempt status of organizations that support terrorism – Headline: “Republican tax bill could slap ‘terrorism’ label on non-profits opposed to Trump”
- **No tax on tips**. Eliminates Taxes on Overtime and Tipped Income (a Trump campaign promise) - 2025 through 2028
 - Qualified tip is “any cash tip received by an individual in an occupation which traditionally and customarily received tips on or before December 31, 2024”

Key Tax Proposals

- **Boost to domestic auto industry.** Temporarily make auto loan interest deductible for itemizers and non-itemizers for autos **with final assembly in the U.S.** for tax years 2025 through 2028; deduction limited to \$10,000 and phases out by \$200 for every \$1,000 of income above \$100,000 for single filers and \$200,000 for joint filers
- **SALT deduction increase.** Increase in state and local tax deduction from \$10,000 to \$30,000 (with new income phaseout)
- **Increase debt limit.** Authorizes a further \$4 Trillion increase to the U.S. debt limit

Global Tax Competitiveness – New Section 899 of the U.S. Tax Code

- Proposed IRC Section 899, "Enforcement of Remedies Against Unfair Foreign Taxes," represents a **potentially transformative development** in U.S. international tax policy. If enacted, it would equip the U.S. government with a formidable array of **unilateral measures to penalize foreign countries whose tax regimes are deemed "unfair," "extraterritorial," or "discriminatory" towards American companies and interests.**
- The core of the proposal lies in its detailed definitions of offending foreign taxes—including specific aim at **Digital Services Taxes, Undertaxed Profits Rules, and diverted profits taxes**—and the establishment of **significant retaliatory U.S. tax consequences.**
- These consequences include **increased U.S. tax rates on the income of individuals and entities connected to designated "discriminatory foreign countries," the imposition of additional withholding taxes, and the denial of certain tax benefits to foreign governments.** The graduated nature of these penalties, designed to escalate over time, underscores the provision's deterrent intent.

New Section 899 (Cont')

- The implementation of Section 899 would grant **substantial discretionary authority to the U.S. Treasury Secretary**, who would be responsible for identifying unfair foreign taxes, designating countries, and administering the retaliatory regime. This concentration of authority, while providing flexibility, also **introduces potential for uncertainty and politically influenced enforcement**, which could significantly impact international business planning and investment.
- **The proposal's assertive and unilateral stance has profound implications for the global tax landscape**. It signals a U.S. willingness to act independently of, and potentially in direct challenge to, multilateral tax reform efforts, such as the OECD/G20 Framework. This could reshape international tax diplomacy, potentially leading to increased tax disputes, retaliatory actions from other nations, and a more fragmented and contentious global tax environment. U.S. multinational corporations and their foreign counterparties will face new compliance burdens and strategic challenges in navigating a world where Section 899 is an active component of U.S. law.
- **Ultimately, Section 899 is more than a technical tax provision; it is a statement of U.S. economic policy, reflecting a robust approach to protecting national tax sovereignty and commercial interests in an increasingly complex global economy**. Its passage and subsequent implementation would warrant close attention from businesses, tax practitioners, and governments worldwide.

What the Proposed Tax Bill Does Not Cover

The package of tax proposals approved May 14 do not address the following areas:

- **Corporate tax rate**
- **Tax rate for domestic manufacturers**
- **Carried interest**
- **Capital gains tax rate**
- **A higher tax rate for high income individuals**

What's Next

- While the proposed tax changes and revenue raisers provide businesses and individuals with some insight into how Republicans may reshape the tax landscape, **the process is in its early stages.**
- House Republicans, with their narrow majority, hope to approve the tax bill by Memorial Day, but the process could linger into June or beyond.
- After House approval, the Senate will take up the legislation, and additional changes are anticipated. To become law, the House and the Senate need to approve an identical version of the bill. Senate Republicans hope to pass their version of the bill with a simple majority through the budget reconciliation process, which requires the legislation to meet strict budgetary and topical criteria. **July 4th is their working deadline.**
- In the meantime, there remains considerable uncertainty about the tax provisions in the final bill and the timing for potential enactment.

Katten Locations

CHARLOTTE

615 South College Street
Suite 1700
Charlotte, NC 28202-3354
+1.704.444.2000 tel
+1.704.444.2050 fax

CHICAGO

525 West Monroe Street
Chicago, IL 60661-3693
+1.312.902.5200 tel
+1.312.902.1061 fax

DALLAS

2121 North Pearl Street
Suite 1100
Dallas, TX 75201-2591
+1.214.765.3600 tel
+1.214.765.3602 fax

LONDON

Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
United Kingdom
+44 (0) 20 7776 7620 tel
+44 (0) 20 7776 7621 fax

LOS ANGELES

2121 Avenue of the Stars
Suite 1100
Los Angeles, CA 90067-5010
+1.310.788.4400 tel
+1.310.788.4471 fax

NEW YORK

50 Rockefeller Plaza
New York, NY 10020-1605
+1.212.940.8800 tel
+1.212.940.8776 fax

ORANGE COUNTY

300 Spectrum Center Drive
Suite 1090
Irvine, CA 92618-4992
+1.714.966.6819 tel
+1.714.966.6821 fax

SHANGHAI

Suite 4906 Wheelock Square
1717 Nanjing Road West
Shanghai 200040
P.R. China
+86.21.6039.3222 tel
+86.21.6039.3223 fax

WASHINGTON, DC

1919 Pennsylvania Avenue NW
Suite 800
Washington, DC 20006-3404
+1.202.625.3500 tel
+1.202.298.7570 fax

Katten refers to Katten Muchin Rosenman LLP and the affiliated partnership as explained at katten.com/disclaimer.

Attorney advertising. Published as a source of information only. The material contained herein is not to be construed as legal advice or opinion.