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## A Tax Gamble Is About to Pay Off

Tuesday's results will help the GOP extend tax cuts that are set to expire

BY RICHARD RUBIN

President-elect Donald Trump and his fellow Republicans stand within reach of gaining enough power to extend trillions of dollars in expiring tax cuts, and they are preparing to move quickly in 2025 if election results continue to go their way.

Republicans won control of the Senate early Wednesday and are in a strong position to retain the House. With full control of Congress, they could push through tax changes without needing Democratic votes, just as they did in 2017. Back then, they set the bulk of those tax cuts to expire after eight years—at the end of 2025—teeing up next year's debate and gambling that a future Congress would extend them. That bet is on the brink of paying off. \*

At a minimum, in a divided government, Trump and the new Senate Republican majority will be able to block tax increases and hold a firm negotiating position against a narrowly controlled Democratic House.

"Dramatic tax increases are off the table," said Rohit Kumar, a former Senate GOP aide now at accounting firm PwC. "The idea that the corporate rate is going to 28% or even 25% no longer seems like a real thing."

U.S. stocks climbed Wednesday on hopes for deregulation and dissipating fears of tax hikes. \*

The election victories by Trump and congressional Republicans make survival more likely for most of the expiring Republican tax cuts—a higher standard deduction, bigger child tax credit, a 20% deduction for some closely held businesses and a larger estate tax exemption. House Republican leaders have been saying they would aim to move a tax bill within the first 100 days of the new Congress starting in January. \*

Still, even full Republican control wouldn't guarantee any particular outcome, and lawmakers would quickly face difficult choices.

"In calendar year 2025, they're very certain to get something" if they have full control, said Andrew Lautz, associate director of the economic policy program at the Bipartisan Policy Center. "In the first 100 days, I think the outlook is a little murkier."

A complete extension would increase budget deficits by more than \$4 trillion over a decade, and Republicans would have to decide how much red ink they are willing to tolerate. Senate Republicans, generally, appear more willing to extend tax cuts without offsetting tax increases or spending cuts. House Republicans are less willing to do so. \*

"The deficit hawks, even if they only number in the single digits, that will be enough to have leverage," Kumar said. "The administration is going to really have to put its shoulder to the grindstone to try to convince House and Senate Republicans to reach a common understanding."

If they sweep, Republicans would have to decide how to incorporate Trump's campaign-trail ideas, all of which add up to be nearly as big as extending the expiring tax cuts. Trump said he wanted to eliminate taxes on tips, Social Security benefits and overtime pay. He offered new deductions for car-loan interest and home generators and touted a special tax rate for domestic manufacturers. And he said he would restore the state and local tax deduction, or SALT, which Republicans capped at \$10,000 in 2017. \*

Trump's newer proposals all increase the potential budgetary impact of the tax cuts, and many Republicans are wary of targeted tax-cut carve-outs and restoring the full state and local deduction. Republicans could address the 2025

expirations first, then push some of those issues into a subsequent bill. They also will have to grapple with the impact of any tariffs Trump imposes, which would raise revenue and, according to economists, raise prices on goods bought by middle-income households.

To chart their path on tax policy, Republicans will need to resolve internal philosophical differences. Some Republicans place a greater emphasis on increasing the child tax credit as a way of helping families while others are focused on driving down marginal tax rates to encourage investment.

House Republicans from New York, New Jersey and California are adamant that the \$10,000 SALT cap must be raised or repealed while others want to keep that limit as a way to curtail federal subsidies to those states.

“The SALT caucus becomes very mighty in the House,” Lautz said.

Some Republicans, including Trump, have called for repealing many of the clean-energy tax breaks that Democrats created or expanded in 2022. But those credits are funding projects in Republican districts, and many GOP lawmakers are wary of full repeal.

To get a Republican-only bill through Congress, using the so-called reconciliation procedures, negotiators would have to agree on a budgetary target, vote on a budget and then write and pass a tax bill that hits that mark. They would, again, consider temporary extensions of many provisions because the reconciliation rules don’t allow them to expand budget deficits beyond a 10-year period. Such a bill would require a simple majority in both chambers to pass.

A 52-48 Senate would make more moderate Republicans such as Susan Collins of Maine, Lisa Murkowski of Alaska and Todd Young of Indiana the pivotal votes. If the GOP takes a few more seats in uncalled races, they would have a larger cushion.

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**Rohit Kumar, a former Senate GOP aide who is now at PwC**

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