

# **The Expiration of the Tax Cuts and Jobs Act (TCJA) and the Future of Tax Policy**

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**Northwestern**  

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THANK YOU

# Presentation Outline

I. The (Long) Road to the TCJA

II. Precedents & Historical Analogs

III. The Reconciliation Process

# Trump 1.0 on Taxes

- From 2015 Campaign Rhetoric ...
  - Initial claims to raise taxes on the rich “like me.”
    - By eliminating certain (unspecified) tax breaks
    - NOT by increasing top marginal income tax rates
      - Dramatic across-the-board cuts
  - Reviving high tariffs
- Rationale: Addressing continued post-Great Recession economic recovery & U.S. global competitiveness

# Trump 1.0 on Taxes

POLITICO

EUROPE PRO

POLITICO  
**West Wing Playbook**  
Transition of Power

The preparations, personnel  
decisions, and policy deliberations  
of Trump's transition

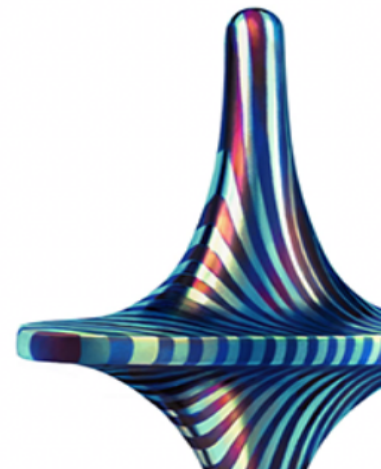
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## Trump: My tax plan is 'going to cost me a fortune'



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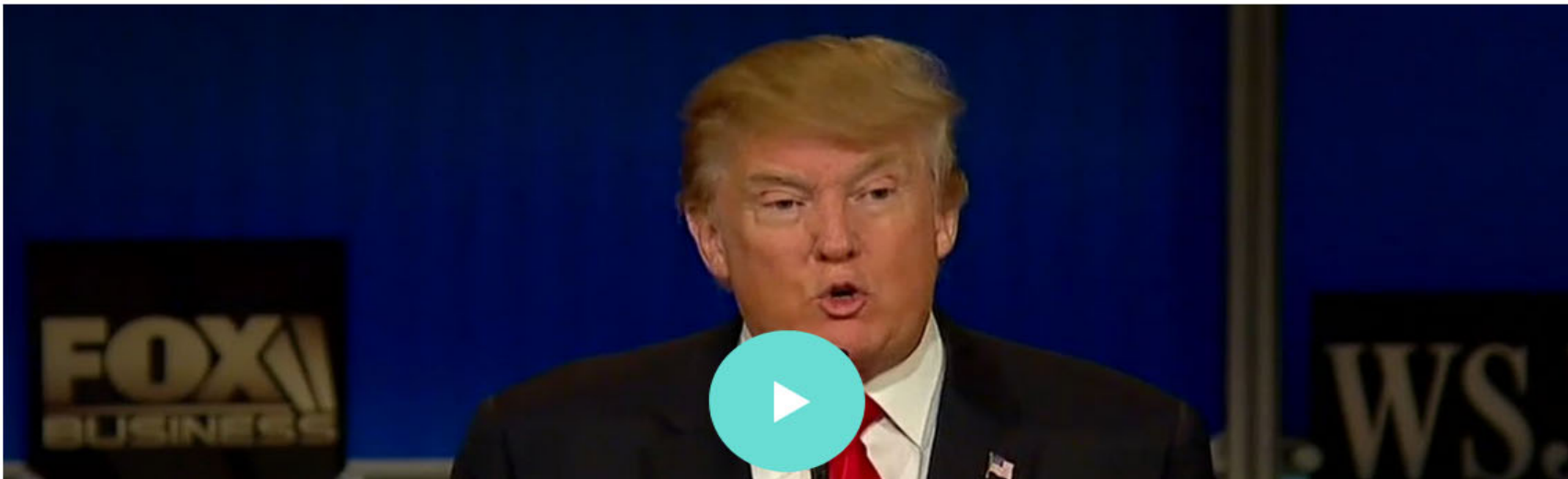
# Trump 1.0 on Tariffs

POLITICS / 2016 PRESIDENTIAL ELECTION

## Donald Trump says “I love free trade,” contradicting all his prior statements on trade

by **Dylan Matthews**

Nov 10, 2015, 9:50 PM CST



# Trump 1.0 on Taxes

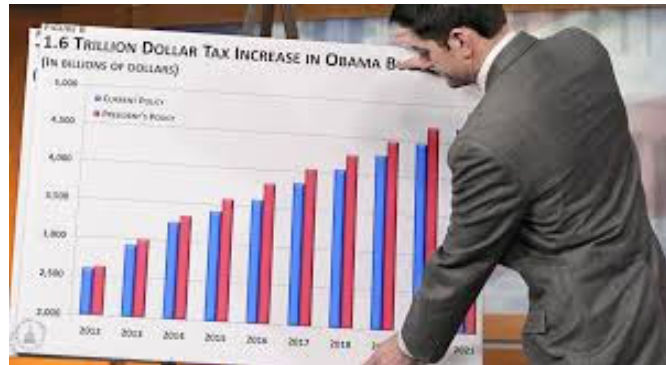
- ... To 2016 Campaign Promises
  - Revised tax plan that would
    - Continue tax cuts, but not as dramatic as earlier plan
    - Less rhetoric about taxing the rich
    - Reviving tariffs
    - **Aligned with GOP House Speaker Paul Ryan's “A Better Way”**





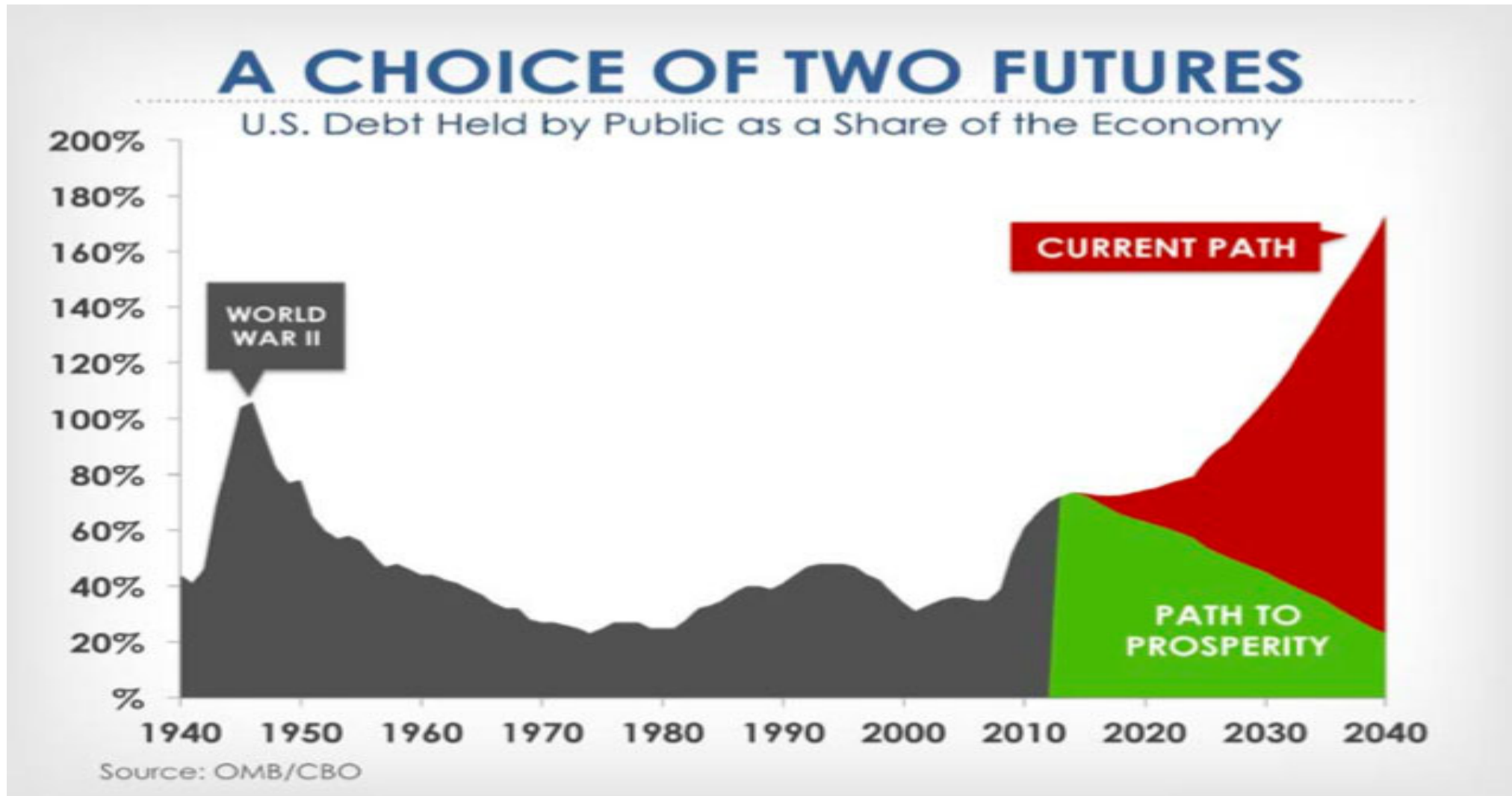
# Ryan, Brady & Deficit Reduction

- Proposals in Ryan/Brady “A Better Way”
  - Individual Tax Cuts – more modest than Trump
  - Simplification – doubling the standard deduction
  - Business Tax Cuts – reduce corporate rates & shift to territorial system and a border adjustment tax (BAT)





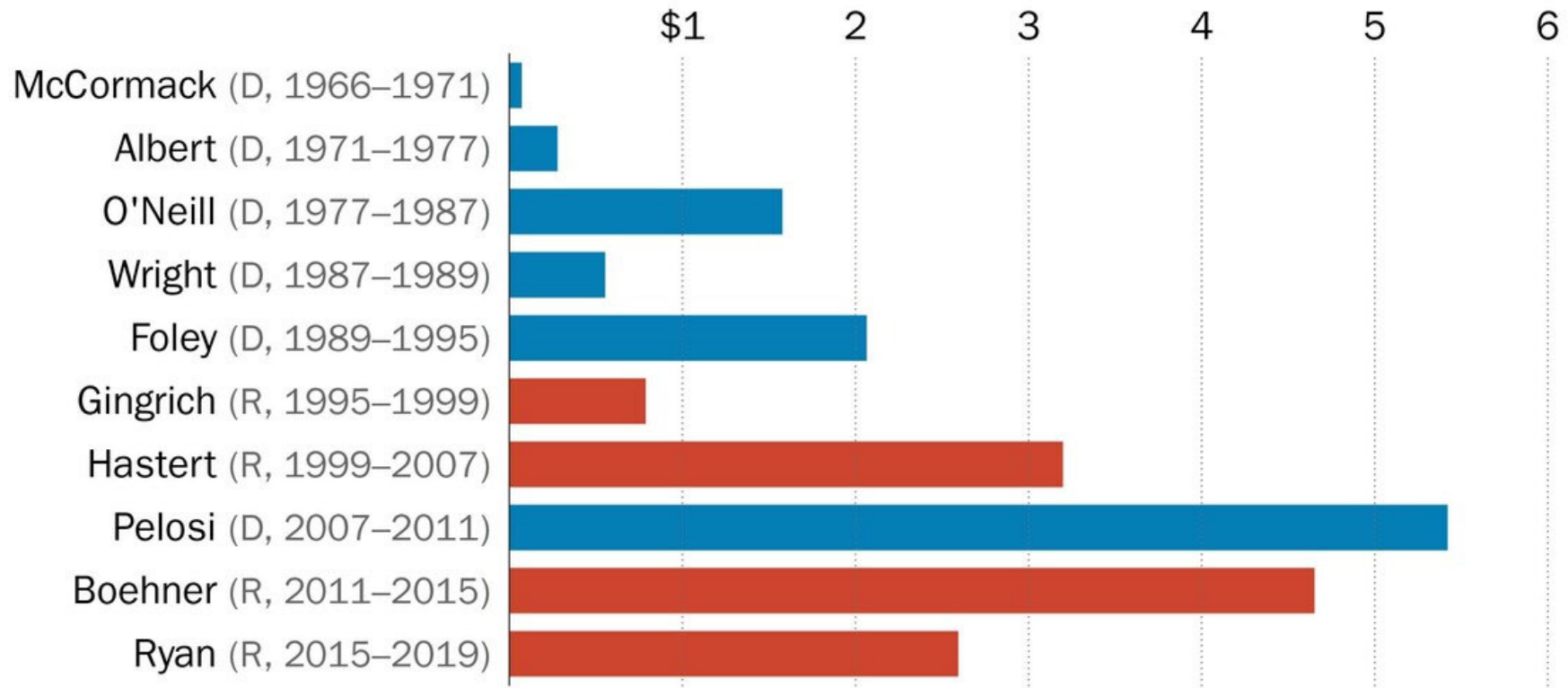
# Paul Ryan's “Scary Charts”



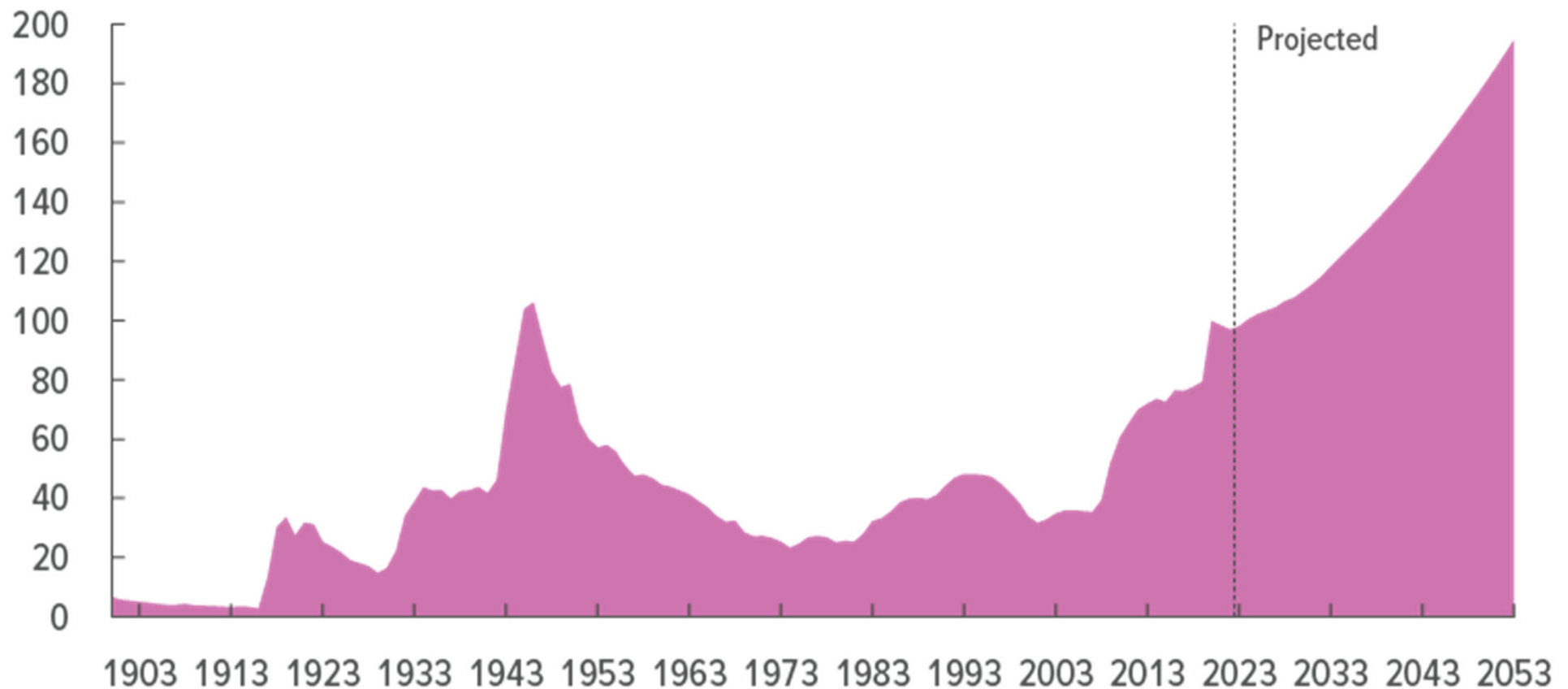
# Paul Ryan's Legacy

## Increase in debt during speakership

Figures in trillions. Data from the Federal Reserve.



# Recent CBO Debt Estimates



# Origins of the TCJA

- April 2017 Tax Plan
  - One-pager with bullet points:
    - Tax cuts for individuals and corporations
    - Eliminating specific tax expenditures
    - Transition to territorial system
    - Repeal estate tax
  - Stark contrast with '86 Act and Treasury I and II Report

# The Key Players: “Big Six”

- U.S. Congress:
  - Ryan/Brady and Orrin Hatch (Chair, Senate Fin.)
  - Sen. Majority Leader Mitch McConnell
- White House and Treasury:
  - Gary Cohn, Director of Nat. Econ. Council
  - Treasury Secretary Steve Mnuchin
    - “tax cuts will pay for themselves”

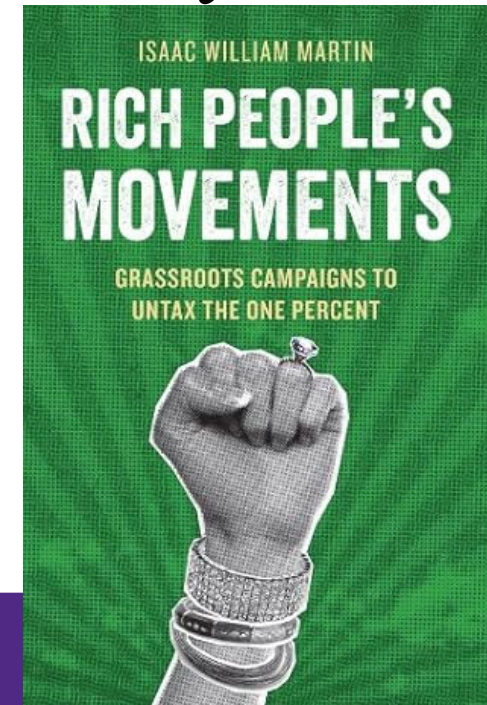
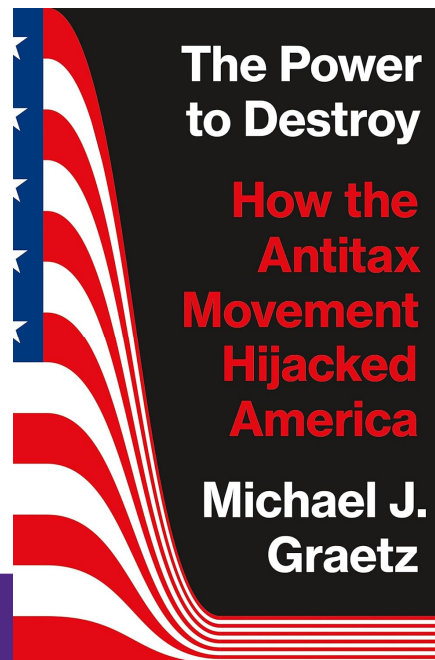
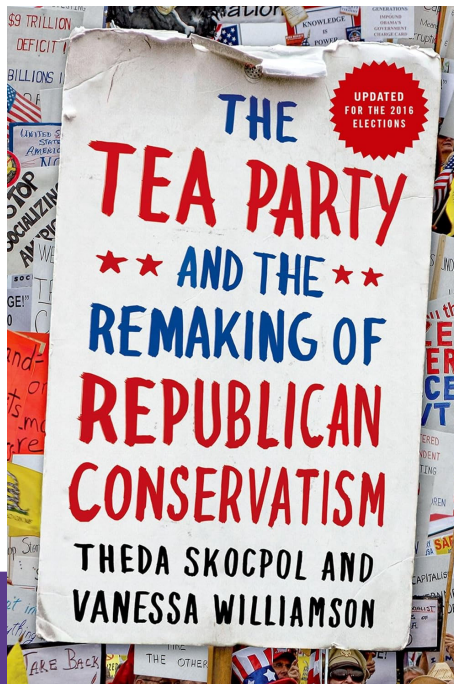


# Enactment of the TCJA

- Passed on purely partisan lines – no Dem. support
- Final Dec. 2017 Act:
  - Cuts in individual and corporate rates
  - Standard deduction doubled
  - Territorial tax system & GILTI
  - New deduction for pass-through businesses
  - Child tax credit increased
  - Estate tax exemption increased
  - SALT Cap and other tax break limits
  - Immediate expensing of certain capital invest.

# The Longer View

- Trump/GOP Allegiance to Antitax Movement
  - Tailwinds of the Tea Party Movement
  - Post-1965 Rise of Antitax Movement
  - Long 20<sup>th</sup> Century Tax Resistance by the Rich





# Presentation Outline

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# Some Caveats

- Trump  $\neq$  precedents
- Limits of historical comparisons given changing conditions
- “Usable Past” v. Ignoring History:

“The only thing we learn from history is that we learn nothing from history”

- G.W. Hegel



# The Bush II Tax Cuts

- Response to budget surpluses & campaign pledge
  - “The surplus is not the government’s money. The surplus is the people’s money.” (Bush 2000)
- 2001 and 2003 Tax Acts:
  - Cuts in individual income tax rates
  - Increased standard deduction and exemptions
  - Estate tax reduction
  - Enacted through the Reconciliation process
    - Many provisions set to expire in 2010

# The Obama Extensions

- 2008 Presidential Campaign
  - McCain: making Bush tax cuts permanent
  - Obama: extending cuts only for families earning less than 250K
- 2010 Context of Great Recession & Midyear Elections
  - Obama extends cuts for 2 years
- 2012 “Fiscal Cliff” Deal
  - Cemented most of the Bush tax cuts with bipartisan support

# Other Analogs/Lessons

- Not many that match current conditions
- Counter Example: 1993 Omnibus Budget Reconcil. Act
  - Enacted on purely partisan lines
  - Growing anxiety of the bond markets
  - Increased tax rates and reduced spending (Clinton's "reforming welfare as we know it")
    - **Led to first budget surplus since 1960s**
- Reforming entitlement spending?
  - 1981-2 Greenspan Commission on Social Security
    - James Baker, White House Chief of Staff
    - Robert Ball, Former SS Commissioner
    - Bipartisan compromise with payroll tax increases and reduced benefits

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# Origins of Reconciliation

- Created by the 1974 Congressional Budget Act
  - Aim: streamline budget process giving greater control to Congress
  - Allows Congress to set and adhere to budget targets
  - Expedites certain **tax, spending, and debt limit** laws
    - Avoids (Byrd) filibuster rule in the Senate
    - Only simple majority needed
- Evolved into a partisan tool used by both parties
  - E.g. Biden's Inflation Reduction Act



# How Reconciliation Operates

- Initial Budget Resolution
- Reconciliation Instructions
- Drafting Legislation
- Expediting the Legislative Process
- **Significant Limitations**
  - Only for provisions directly related to budget
  - Social Security is off limits

# Implications for 2025

- Reconciliation as the main or only path
- Pushing the boundaries of conventional limits
  - How dynamic is dynamic scoring?
- Discord among GOP lawmakers:
  - Jason Smith: “one big reconciliation bill”
  - John Thune: two-step process with tax reform reserved for later
  - Trump: wavering between the two



THANK YOU

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