



CAPITOL TAX
P A R T N E R S

Tax Policy and Legislative Update

The View from Washington

October 27, 2025











Van Leeuwen

- 1 PICK CUP OR CONE
- 2 CHOOSE FLAVORS
- 3 ADD TOPPINGS
- 4 ENJOY!



\$6.25

\$8.35

\$10.45

CAL
250-450

CAL
360-650

CAL
540-980

C
Mo

SP

BI
TO
BL

VA
CH
ST
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BR
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MA
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Agenda

- Recap of OBBBA
- Treasury Regulatory Agenda
- Legislative Developments
 - Government Funding Showdown (Recap)
 - Possibility of a Second Tax Bill?
- OECD Discussions
 - Pillar Two
 - Pillar One
- Trade and Tariffs
- Mid-Term Election Early Preview
 - Redistricting Battles



Learning Objective

Provide an overview of key federal legislative and regulatory tax issues for the balance of 2025 and 2026. We will review the passage of the One Big Beautiful Bill (OBBB) and the regulatory guidance priorities for Treasury/IRS as a result of its passage. We will also focus on the possibility of a second tax bill, what the potential driving forces could be, and what other items might be included. Finally, we will discuss the ongoing negotiations regarding Pillar Two.



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Recap of OBBBA

- Extension (and some modification) of expiring individual tax items from TCJA (rate reductions, enhanced CTC, standard deduction, estate and gift, 199A, etc.)
- Campaign priorities: no tax on tips; no tax on overtime; Trump Accounts; car loan interest; expensing for manufacturing facilities
- Business extenders: Permanent extensions of full expensing; R&E expensing; 163(j) EBITDA limitation
- International: slight increases in GILTI, FDII and BEAT rates; permanent extension of CFC look-thru; other reforms
- Maintain corporate rate at 21 percent and no significant corporate offsets other than 1% floor on charitable deductions
 - No corporate SALT changes or stock buyback excise taxes
- Elimination and modification of various clean energy credits from IRA
- Traditional extenders: CFC look-thru; NMTC; LIHTC; Rum cover-over



Treasury Regulatory Agenda

- Looking to get something out in 2025 on provisions which have retroactive or current effective dates.
- No tax on tips (transition rules and preliminary guidance); no tax on overtime; car loan interest (already put out some guidance)
- R&D expensing (how to make method change)
- Bonus depreciation transition guidance; factories preliminary guidance
- Opportunity Zones --define rural and a process for identifying eligible census tracts
- Energy: 45U Nuclear; 45Z clean fuel production regs (working with DOE and USDA); FEOC guidance
 - Notice 2025-42: response to wind and solar executive order regarding beginning of construction
- Trump accounts (enormous amount of legwork before they are eligible for contributions next July 4, 2026)
- Not planning on updating withholding tables or putting out updated W2s or 1099s for 2025.



Treasury Regulatory Agenda

- New priority guidance plan (PGP): more focused than in previous years
 - Reduced from 231 items in 2024 to 105 items in 2025
 - Focused on OB3 and "de-regulatory"
- Limited resources: Brain drain
 - While several political appointees have joined OTP, there is still a significant shortage of resources
 - IRS has lost numerous experienced staff, funding challenges
 - Will cause challenges/concerns over filing season



Treasury Regulatory Agenda

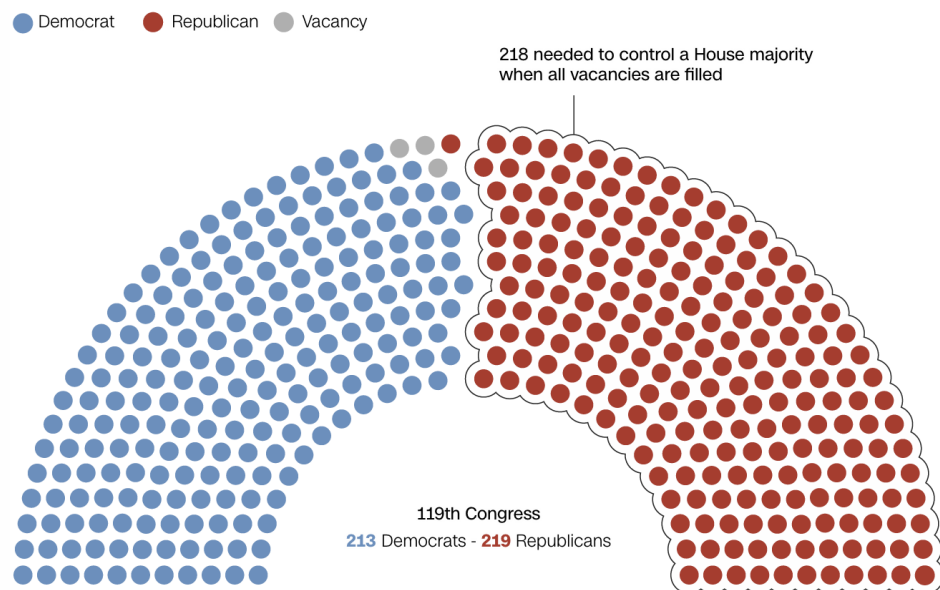
- Deregulatory agenda: Executive order (10 eliminated for every one added)
 - CAMT Guidance
 - Three Notices issued
 - Significant paring back from 2024 Proposed Regulations
 - DCL/DPL Notice
 - Others: FTCs, 367, BEAT?



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Legislative Current State of Play

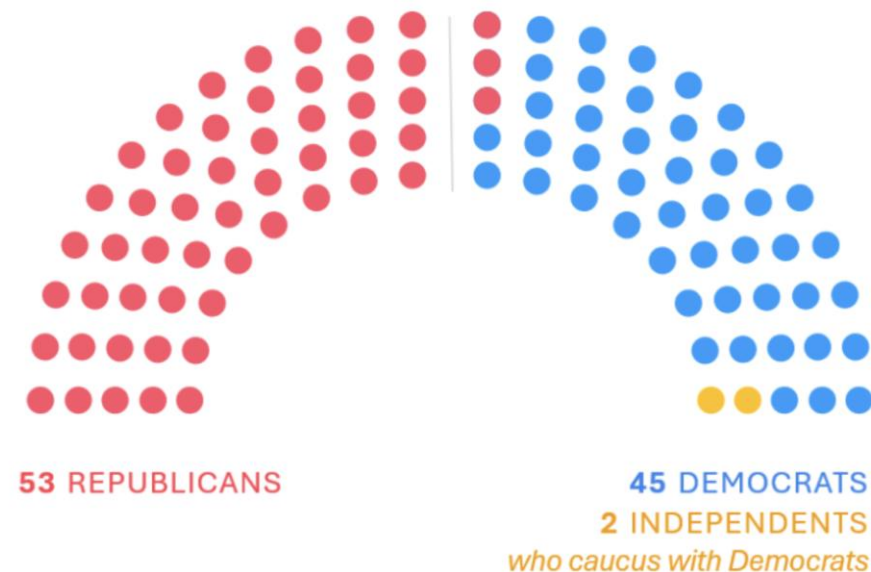
• House



Note: Data is as of September 10, 2025.

Source: US House of Representatives
Graphic: Annette Choi, CNN

• Senate



Source: Bloomberg News

Legislative Outlook - Margins

- In the House, Republicans hold a 219-212 margin, with 2018 needed for control
 - 4 vacant House seats due to deaths and retirements (3 Ds, 1 R)
- In the Senate Republicans hold a 53-47 margin
 - Certain matters can pass by majority, for example nominations
 - Certain matters require 60 votes, for example continuing resolutions on government funding
 - Bills can pass with majority vote via special reconciliation procedures, but limits on usage and content of legislation

Government shutdown

- Today is day 27
- What opens this back up?
 - ACA subsidiaries – Nov. 1 open enrollment
 - House CR only runs through 11/21
 - Appropriators don't want full year CR
 - Freedom Caucus doesn't like year-end CRs
 - Need 7 Democratic Senators for passage



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Legislative Outlook - 2025/2026

- Spirit of cooperation is not high – even beyond shutdown
 - OBBBA
 - Rescissions package/pocket rescissions
 - “Can’t be the only ones playing by the rules”
 - Nominations fights/potential changes to rules
 - Redistricting
 - Epstein files
- Are there any bipartisan priorities or issues left?



Legislative Outlook – 2nd Tax Bill?

- Speaker Johnson: Seeking a second tax and spending reconciliation (“not as big, but hopefully as beautiful.”)
 - Stated purpose: Fiscal restraint, rewrite provisions that failed the Byrd rule or otherwise fell out of OBBBA.
 - Senate is less enthusiastic.
 - Narrow margins + nothing existential = skepticism
 - Will President Trump weigh in?
- Chairman Smith: Floated possibility of bipartisan tax bill
 - Will Democrats want to cooperate?
- Potential drivers/inclusions:
 - Expiration of ACA premium tax credits
 - Capital gains relief – sales of residences (President Trump); indexing for inflation (Sen. Daines)
 - Tariff rebate checks (Sen. Hawley)
 - CTC expansion a la Smith-Wyden bill
 - Fixing OBBBA issues: limitation on gambling losses; CAMT/R&D; charitable contribution floors.
 - Traditional extenders: WOTC; section 181 expensing; NASCAR
 - Taiwan quasi-treaty legislation
 - Digital asset tax issues
- Need and appetite for spending/tax offsets?



OECD Pillar Two - Timeline

- July: U.S. presentation to other countries showing the U.S. system is robust compared to Pillar 2 and that the reporting requirements imposed on U.S. companies are sufficient such that U.S. companies should be excused from filing the GloBE Information Return as well. OECD Secretariat presentation on how a Side-by-Side System would operate at a high level.
- August: Working Party 11 received documents to review and provide feedback on to move toward a political agreement.
- September: Working Party 11 and the Steering Group will both meet to discuss what the safe harbors will look like, including the criteria to qualify.
- October: Work will begin toward administrative guidance implementing the political agreement, with the goal of having agreed-to administrative guidance by the end of December at the latest.
- Notably, this timeline presumes that other events, such as trade negotiations and other possible irritants, do not derail the negotiations.



OECD Pillar Two – Proposed Fix

Three items represent the current focus of negotiations:

- **Exempting eligible side-by-side regimes** from pillar two IIRs and UTPRs if three criteria are met: (i) taxing of in-scope MNE groups at or above an agreed rate on a “comprehensive measure of income”; (ii) taxing UPEs of in scope MNE groups at or above an agreed rate on the UPE’s share of a CFC’s income, whether distributed or not; and (iii) providing relief for tax payments made under QDMTTs.
 - This is intended to exclude U.S.-parented groups from application of UTPRs or intermediate IIRs on their domestic and foreign profits (consistent with the G7 statement).
 - The US is also pushing to exempt US UPEs from GloBE reporting requirements.
- **Securing the permanent simplified ETR safe harbor** (previously known as the CbCR safe harbor) in administrative guidance.
- **Better aligning the treatment of refundable vs. “substance based” nonrefundable credits** (e.g., US research credit).
 - Only expenditure-based incentives would qualify.
 - Need to determine whether the incentive must be substance-based or based on the total substance in the jurisdiction, based on payroll and tangible assets.

The latter two workstreams to secure a permanent simplified ETR safe harbor and to address the treatment of refundable vs. nonrefundable credits would be mostly relevant to foreign-headquartered companies with U.S. income.



Trade and Tariffs

- Tariffs may be the new long-term reality
- Legal status
- Interactions with the tax system
 - Impacts on international negotiations
 - Tax planning impacts

Tariff Status (subject to change (at any minute))

- Novel use of IEEPA:
 - Impose reciprocal tariffs on 60 trading partners (trade deficits)
 - SCOTUS hearing first week in November
 - Mexico; Canada; China (fentanyl)
- Sectoral Tariffs pursuant to Section 232 National Security Rationale
 - Steel, Aluminum, Autos
 - Open investigations: pharmaceuticals, aircraft, lumber, copper, semiconductors, wind turbines
- Tariffs pursuant to Section 301 Discrimination Rationale
 - China
 - Pending: Ships
 - Possible: Digital Trade and Digital Services Taxes (used in 1st Trump Admin)
 - Will DSTs be resolved as a trade or tax matter?



Midterms Preview

- Redistricting
- Retirements
- Recession?



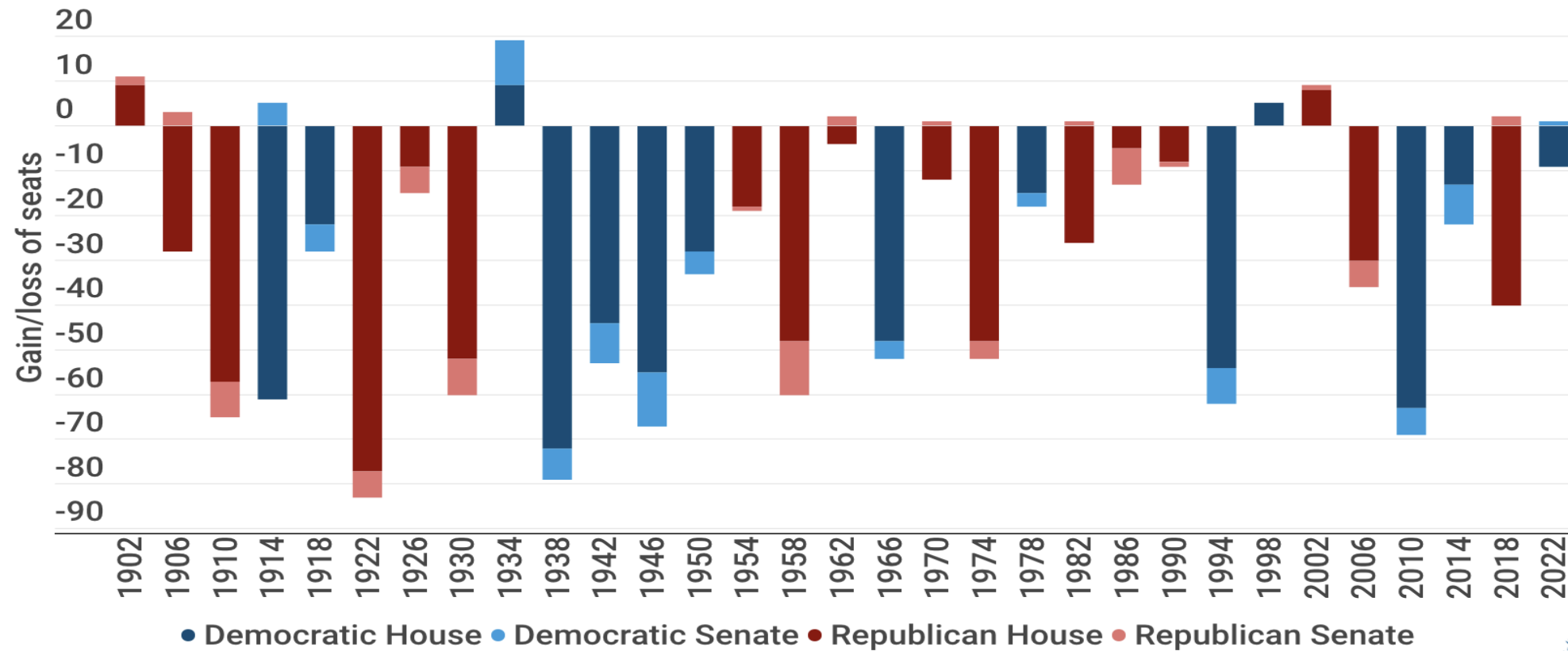
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Midterm Historical Trends

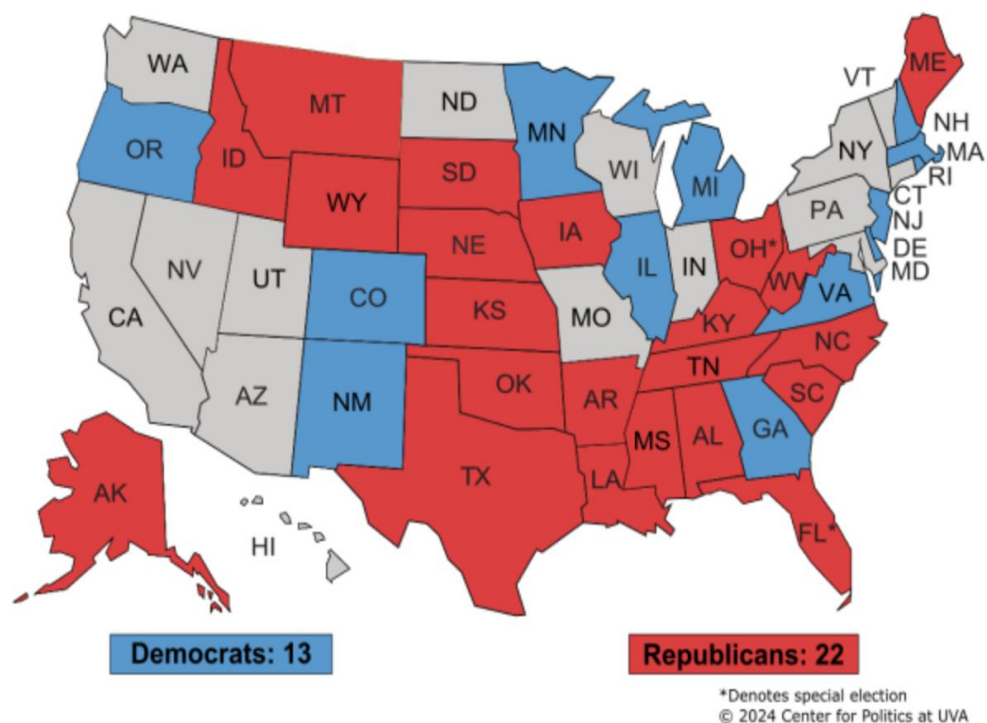


Midterm U.S. Elections: House and Senate Seats Lost and Gained by the President's Party, 1902–2022

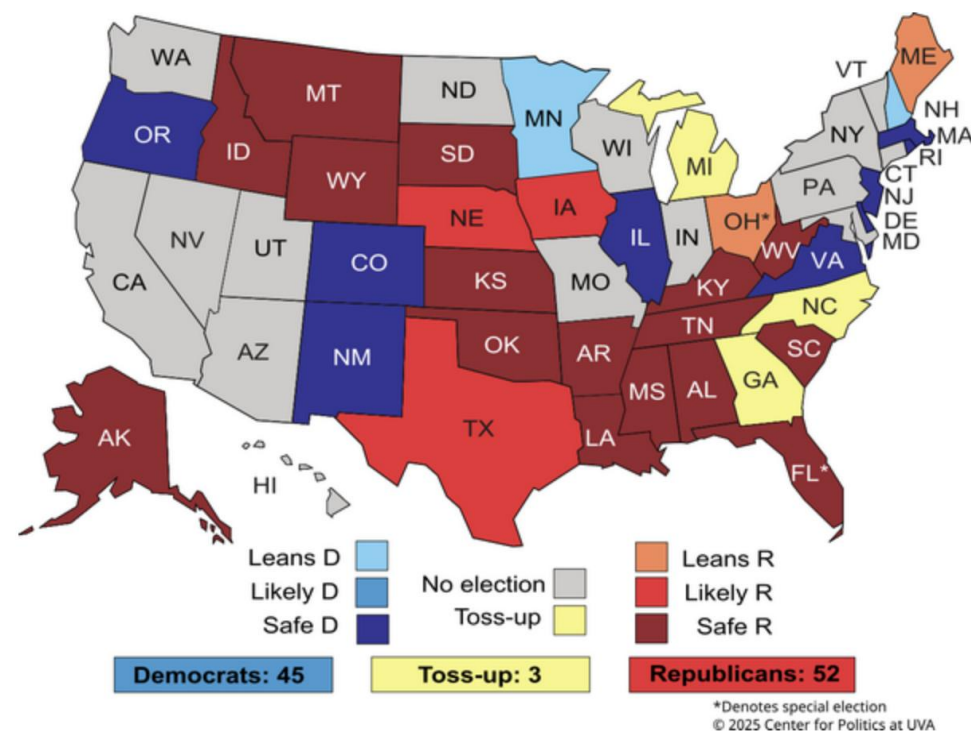


2026 Senate Math – tough for Dems

- Senate Races



- Current Ratings



Redistricting and Other Dynamics

- President prods Texas to redistrict, setting off a mid-decade redistricting fight.
- Republican targets:
 - Texas – gain of 3-5 seats
 - Ohio – gain of 2-3 seats
 - Florida – gain of 2-3 seats
 - Others with possible 1 seat gains: North Carolina, Indiana, Kansas, Missouri.
 - Kentucky, New Hampshire unlikely to redistrict.
- Democratic targets:
 - California – gain of 3-5 seats
 - Others with possible 1 seat gains: Maryland, Utah (ct. case)
 - Illinois, Oregon, Wisconsin (lost ct. case) unlikely to redistrict.
- Voting Rights S. Ct. case unlikely to impact mid-terms
 - Louisiana and Alabama maps in question
- Historic number of retirements already
 - 10 Senators and 25 House members
 - 3 Senators leaving to run for Governor



Macro Issues

- National debt = \$38 trillion
 - Grows by \$5.1 billion/day
 - Equal to \$280,000 per household
 - Equal to value of the entire economies: China, Germany, Japan, India, and U.K. combined
- Interest rates have spiked
 - 2017 – 2021, average net interest cost was \$332B/year
 - In 2024 = \$880B, 2025 = \$970B, rising for next decade
- OB3 added \$4+ trillion over the next 10 years



Macro Issues

- Equal to:
 - 633,333 years of Dak Prescott's contract (maybe able to reach an NFC Championship game given this many chances)
 - 542,857 years of Shohei Ohtani's contract
 - 152,000 White House ballrooms
 - 61,093 Truist Parks



Q&A



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