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# Tax Policy

March 20, 2025



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# Polling *Question*

Which topic are you most interested in learning more about?

- TCJA sunset provisions
- Budget process
- Potential revenue raisers in next tax bill
- Strategies for dealing with tariffs
- Flexible tax planning strategies in times of policy change



# Recap: TCJA Sunsetting - Key Provisions

## Effective in 2026\*:




- 👎 Individual tax rate reverts from 37% to 39.6%
- 👎 20% 199A QBID deduction eliminated
- 👎 Standard deduction cut in half
- 👍 \$10k SALT cap eliminated
- 👍 Mortgage cap reverts to \$1M/\$100k from \$750k
- 👎 Cash contribution limit drops from 60% to 50%
- 👎 Pease limitation reinstated for itemized deductions
- 👎 Lifetime estate/gift exemption cut in half (\$13.99M in 2025 to \$7M)
- 👎 AMT changes

*\*List is not all-inclusive*



# Recap, cont'd.

## Already expired\*:

-  Bonus depreciation
-  R&D expensing
-  Section 163(j) business interest expense depreciation addbacks



# Budget reconciliation

## Legislative focus

- Revenue, spending, and debt limit

## Advantage

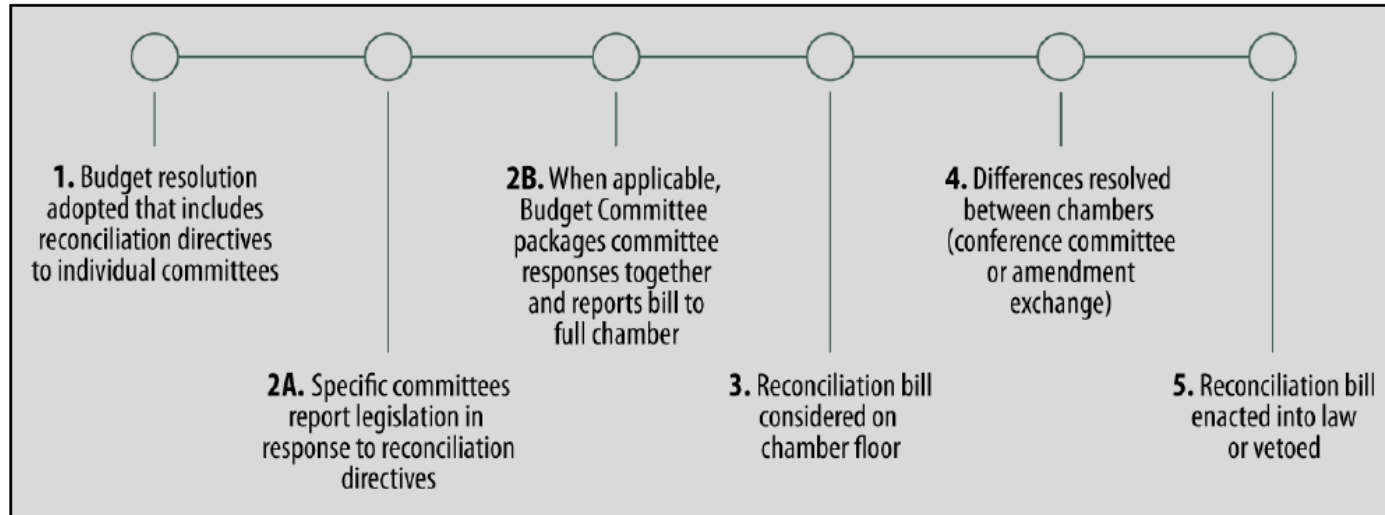
- Simple majority vote (51) needed in Senate, not supermajority (60)

## Disadvantage - Byrd rule on “extraneous” provisions

- Cannot create deficits in fiscal years outside budget window
- Limits ability to change policy
- No changes to Social Security



**Figure 1. Major Stages of the Reconciliation Process**



**Source:** Congressional Research Service.





# One Bill or Two Bills?

## Senate

- Two-bill approach
- First bill – focus on border security, energy, military (budget resolution passed 2/21/25)
- Second bill – tax

## House

- One-bill approach – focus on border security, energy, military, and tax (budget resolution passed 2/25/25)
- Preferred by President Trump

*Winner? House's 1-bill approach...for now!*



# House Budget Resolution (subject to change)

## Key mandates

- \$4.5T net deficit increase over 10 years, allocated to House Ways and Means Committee (HWMC) for tax breaks
  - *Senate wants to make TCJA extenders permanent!*
- \$4T debt limit increase
- \$1.5T - \$2.0T spending cuts



# Cost of “headline” tax breaks

Source:

[The Fiscal Impact of the Harris and Trump Campaign Plans-Mon, 10/28/2024 - 12:00 | Committee for a Responsible Federal Budget](#)

[Budget Options.pdf](#)

Provision	Projected cost, in billions (2026 – 2035)
TCJA extenders	\$4,500 - \$5,500
<i>Trump’s campaign pledges:</i>	
No tax on tips, overtime pay, Social Security	\$3,600
Reduce corporate tax rate on domestic manufacturing	\$200
Repeal SALT cap	\$1,000
<b>Total potential outlays</b>	<b>\$9,300 - \$10,300</b>



# Cost of TCJA extenders

**Table 4. Detailed Revenue Effects of TCJA  
Permanence**

Conventional (amounts in billions)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	through
Lower rates and wider thresholds on certain brackets	\$0.0	-\$257.7	-\$282.0	-\$292.1	-\$300.8	-\$312.8	-\$325.7	-\$339.4	-\$354.5	-\$371.7	-\$2,836.6
Larger standard deduction	\$0.0	-\$126.6	-\$137.4	-\$140.5	-\$143.3	-\$147.3	-\$152.2	-\$157.5	-\$161.0	-\$167.3	-\$1,333.0
No personal exemptions	\$0.0	\$202.1	\$217.1	\$220.3	\$225.4	\$230.3	\$235.8	\$241.9	\$247.3	\$254.6	\$2,074.8
Child tax credit and other dependent tax cred	\$0.0	-\$93.6	-\$97.0	-\$96.4	-\$95.8	-\$95.7	-\$95.7	-\$96.0	-\$95.6	-\$96.1	-\$861.8
Limitation on SALT	\$0.0	\$98.3	\$105.8	\$108.0	\$109.8	\$112.5	\$115.4	\$119.1	\$123.8	\$127.8	\$1,020.4
Other limitations on itemized deductions and	\$0.0	\$13.9	\$15.4	\$15.9	\$16.3	\$17.1	\$18.1	\$19.1	\$19.0	\$19.5	\$154.2
Section 199A pass-through deduction and no	\$0.0	-\$72.5	-\$77.0	-\$77.4	-\$74.8	-\$76.9	-\$82.0	-\$87.6	-\$83.7	-\$88.3	-\$720.2
AMT exemption and exemption threshold cha	\$0.0	-\$106.3	-\$115.8	-\$118.3	-\$120.4	-\$123.7	-\$127.8	-\$134.5	-\$132.6	-\$136.7	-\$1,116.0
Larger estate tax exemption	\$0.0	-\$17.1	-\$24.0	-\$24.9	-\$25.5	-\$26.5	-\$27.9	-\$29.5	-\$31.4	-\$33.5	-\$240.3
R&D Expensing	\$0.0	-\$63.6	-\$43.3	-\$30.0	-\$18.9	-\$10.0	-\$5.7	-\$6.3	-\$6.7	-\$7.0	-\$191.4
100 Percent Bonus Depreciation	\$0.0	-\$83.8	-\$85.8	-\$56.4	-\$43.0	-\$30.8	-\$26.8	-\$24.7	-\$24.4	-\$22.3	-\$398.1
EBITDA-based interest limitation	\$0.0	-\$4.6	-\$4.3	-\$5.2	-\$6.1	-\$5.6	-\$6.9	-\$8.4	-\$8.9	-\$8.6	-\$58.4
<b>Conventional total</b>	<b>\$0.0</b>	<b>-\$511.5</b>	<b>-\$528.4</b>	<b>-\$496.9</b>	<b>-\$476.9</b>	<b>-\$469.4</b>	<b>-\$481.3</b>	<b>-\$503.7</b>	<b>-\$508.6</b>	<b>-\$529.5</b>	<b>-\$4,506.3</b>
<b>Added Interest Costs</b>	<b>\$0.0</b>	<b>-\$20.1</b>	<b>-\$39.8</b>	<b>-\$60.2</b>	<b>-\$81.1</b>	<b>-\$102.8</b>	<b>-\$125.4</b>	<b>-\$148.3</b>	<b>-\$170.4</b>	<b>-\$193.3</b>	<b>-\$941.3</b>
<b>Conventional Total With Added Interest Cos</b>	<b>\$0.0</b>	<b>-\$531.7</b>	<b>-\$568.2</b>	<b>-\$557.1</b>	<b>-\$558.0</b>	<b>-\$572.1</b>	<b>-\$606.7</b>	<b>-\$652.0</b>	<b>-\$679.0</b>	<b>-\$722.8</b>	<b>-\$5,447.6</b>

Source: <https://taxfoundation.org/wp-content/uploads/2025/02/Revenue-Table-for-Download.xlsx>



# Observations



- \$4.5T HWMC allocation covers TCJA extenders, without offsets
  - Still short by \$3.8T - \$5.8T!
- Budget scoring magic: “Current-law” vs “Current-policy” baseline
- What about revenue raisers?

# Potential Revenue Raisers

**Other “pay-for” candidates:  
DOGE government efficiencies; cuts in  
mandatory spending (Medicare,  
Medicaid, Social Security)**

*Source:*  
[The Fiscal Impact of the Harris and Trump Campaign Plans-Mon, 10/28/2024 - 12:00 | Committee for a Responsible Federal Budget Budget Options.pdf](#), [Gluesenkamp Perez, Beyer Introduce Bill to Close Carried Interest Loophole, Create Fairer Tax System for Working Families - Marie Gluesenkamp Perez](#)

Provision	Projected cost, in billions (2026 – 2035)
IRA repeal	\$700
Tariffs	\$2,000
Limit or eliminate business SALT deduction	\$300
Repeal carried interest tax break	\$6.5
<b>Total potential revenue raisers</b>	<b>\$3,000</b>



# Where To From Here?

## Next step in budget reconciliation process?

- House and Senate need to reach agreement on budget resolution instructions

## Timing of tax bill?

- TBD – our prediction is 4Q 2025

## Government shutdown

- Continuing resolution passed March 15; US Govt funded through Sept. 30.



# Polling *Question*

What is your biggest concern regarding the upcoming changes in tax policy?

- Uncertainty in policy changes
- Increased tax rates
- Elimination of deductions
- Impact on business decision making
- Compliance challenges
- Other





## How to navigate *2025?*

### ***Stay informed***

CLA's webcasts and news insights

### ***Stay connected***

Meet with your CPA at least quarterly

### ***Be patient***

Assume the legislative process will take several month

### ***Be nimble***

Develop action plan once a tax bill takes shape





# Tariffs



# Presidential Authority to Impose Tariffs



- Constitutional Basis: Article I, Section 8 gives Congress the power to impose tariffs and regulate commerce, but Congress can delegate some of this authority to the President through legislation.
- Key Statutes Granting Presidential Tariff Power:
  - Trade Act of 1974 (Section 301)
  - Section 232 of the Trade Expansion Act of 1962

# Presidential Authority to Impose Tariffs

- Section 201 of the Trade Act of 1974 International Emergency Economic Powers Act (IEEPA, 1977)
- Practical Limits:
  - Congressional Oversight.
  - Judicial Review.
  - WTO Rules.
  - Political and Economic Blowback.



# What Has Been Announced To-Date?

**On February 1, 2025**, President Trump announced significant tariffs under IEEPA and the National Emergencies Act (NEA).

These included:

- A 25% additional tariff on all imports from Canada, with energy resources (oil, gas, potash) at a 10% tariff.
- A 25% additional tariff on all imports from Mexico.
- A 10% additional tariff on all imports from China.
- These were set to be effective from February 4, 2025, aiming to address national security risks associated with immigration and illicit opioids.



# What Has Been Announced To-Date?

**On February 3, 2025**, following diplomatic engagements, Trump announced a one-month pause on the 25% tariffs for Canada and Mexico, effective immediately, to facilitate negotiations.

- The 10% tariffs on China proceed as scheduled on February 4, 2025.

**On February 10, 2025**, Trump announced the restoration of Section 232 tariffs, focusing on steel and aluminum, under the Trade Expansion Act of 1962, for national security reasons.

These tariffs were set at:

- 25% on steel imports.
- 25% on aluminum imports, previously at 10% for some countries.





# What Has Been Announced To-Date?

**On February 13, 2025**, Trump announces the “Fair and Reciprocal Plan” on trade, designed to address trade imbalances and promote fairness in global trade for the United States.

- The plan is scheduled to begin implementation on April 2, 2025.

**On February 27, 2025**, Trump affirmed the resumption of the 25% tariffs on Canada and Mexico, effective March 4, 2025, following the pause's expiration.

- Simultaneously, he announced an additional 10% tariff on Chinese goods, effective March 4, 2025, increasing the total tariff on China to 20%.

**On March 4, 2025**, the 25% tariffs on Canada and Mexico take effect.



# What Has Been Announced To-Date?

**On March 6, 2025**, in response to industry and diplomatic pressures, Trump signed executive orders pausing tariffs on goods from Canada and Mexico that comply with the USMCA agreement, effective until April 2, 2025.

**March 10/11, 2025:** Ontario begins charging a 25 per cent export tax on electricity it sells to over a million households in Michigan, Minnesota and New York as a response to U.S. tariffs. Trump says he will increase his steel and aluminum tariffs to 50 per cent on Canadian exports in response, leading to a cancellation of the export tax and a pause on the 50%.

**On March 12**, the EU announced that it was imposing up to \$28 Billion in retaliatory tariffs on United States goods, because of the steel and aluminum tariffs.





# Polling *Question*

I'd like CLA to follow up with me on:

- Tax planning strategies
- Transfer pricing consultations
- Navigating tariff impacts
- Another topic
- Nothing at this time



# Strategies For Dealing With Tariffs

## 1. Reduce *value* against which tariffs apply

- First Sale
  - If there import transaction includes a middle entity, so long as the three criteria are met, importer can declare to CBP the price paid by the middle entity to the factory/supplier.
- Transfer Pricing
  - Can provide flexibility for reducing the landed value and for adjusting COGS/declared value.
  - CBP has detailed requirements associated with related party pricing.
  - Importers encouraged to consider transfer pricing programs and adjustments from both a tax and customs perspective.
- Buying Agent Fees
- Stripping Non-Production Costs from Transaction Value
  - For example: Exclusivity/exclusive distribution rights fee.



# Strategies for Dealing With Tariffs

## 2. *FTZs/Bonded* Warehouses

- Can provide deferral/cash flow management benefits, even if cannot be used to avoid tariffs.
- FTZs are a good option for regional DC, and potential tax/fee savings

## 3. Chapter *98*

- U.S. Goods Returned (both unadvanced and advanced in value)
- Agricultural Use Provisions
- Prototype Duty Exemption
- TIB



# Strategies for Dealing With Tariffs

## 4. Country of *Origin* Determination

- Tariffs are origin specific
- Primary rule of origin for tariff avoidance is “substantial transformation.”
- Can attempt to transform, e.g., a Chinese sub-assembly in a third country prior to importation in the United States, or
- Can perform final assembly/finishing operations in, e.g., China, for a product that incorporates a non-Chinese essential character component.

## 5. Tariff *Engineering*

- Primarily, at this point, for avoiding 232 derivatives lists.



*Thank you!*



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