

Client Alert

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Tax Proposals in Manchin-Schumer Reconciliation Bill

Senator Joe Manchin (D-W.Va.) and Senate Majority Leader Charles Schumer (D-N.Y.) agreed on July 27 to a reconciliation package to address climate change and energy security, health care, and the rising budget deficit.

To fund the climate change and other initiatives, the bill includes certain tax hikes and additional funding to the IRS for improved enforcement. The bill, however, leaves intact some of the tax changes enacted under the 2017 Tax Cuts and Jobs Act (“TCJA”) that were under reconsideration in the Build Back Better Act.

As part of the deficit reduction plan, the bill imposes on large corporations a minimum annual income tax of 15%, in general, based on their earnings reported for financial statement purposes. By imposing a minimum tax based on the net income reported in financial statements, the bill aims to increase taxes collected from corporations that are able to reduce their taxes with favorable tax credits and deductions. The bill, however, leaves the regular corporate income tax rate at 21%. Additionally, the bill aims to curtail the favorable tax treatment enjoyed by fund managers and other investment professionals on gains from carried interest, by generally taxing such gains at ordinary income tax rates. The bill also seeks to enhance IRS’s enforcement and auditing capabilities, and provides additional funding to the IRS, which is anticipated to generate \$124 billion in additional tax revenue from improved enforcement.

Prospects for final passage of the bill remain uncertain at this time. The bill will be considered by the Senate and then by the House and may be revised. For example, the bill does not address the \$10,000 state and local tax deduction cap enacted under the TCJA, which among other tax items, was a concern for House Democrats.

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