United States – U.S. Administration Releases Fiscal Year 2025 Revenue Proposals

On Monday, March 11, 2024, the U.S. Treasury Department released the "Green Book" ("General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals").[1] This *GMS Flash Alert* highlights the tax proposals contained in the Green Book most likely to be of interest to global mobility programs and international assignees.

WHY THIS MATTERS

The Green Book contains the administration's tax priorities and provides valuable technical details that may serve as a framework for lawmakers in crafting future legislative proposals. Most of the administration's revenue proposals are familiar, having been included in previous budgets. However, the administration is unveiling some new proposals that may impact businesses and individuals. The proposals would increase and reform corporate taxation, as well as increase individual taxes on those with annual earnings exceeding $400,000. If the proposals in the Green Book were adopted by Congress and eventually enacted into law, they would have a significant impact on global-mobility programs and international assignees.

Individual Income Tax Proposals Included in the Green Book

The Green Book includes the following individual income tax proposals (proposed to be effective for taxable years beginning after December 31, 2023 unless otherwise noted):

Increase the top marginal income tax rate for high-income earners: The proposal would increase the top marginal tax rate to 39.6 percent. This top marginal tax rate would apply to taxable income over:

- $450,000 for married individuals filing a joint return and surviving spouses,

- $400,000 for unmarried individuals (other than surviving spouses and head of household filers),
- $425,000 for head of household filers, and
- $225,000 for married individuals filing a separate return.

These thresholds would be indexed for inflation after 2024.

Reform the taxation of capital income: The proposal would tax long-term capital gains and qualified dividends at ordinary tax rates for taxpayers with taxable income in excess of $1,000,000, but only to the extent that the taxpayer's taxable income exceeds $1,000,000 ($500,000 for married individuals filing separately), indexed for inflation after 2024. The proposal would be effective for gains required to be recognized and for dividends received on or after the date of enactment. The proposal would also treat transfers of appreciated property by gift or bequest as realization events.

Impose a minimum income tax on the wealthiest taxpayers: The proposal would impose a minimum tax of 25 percent on total income (inclusive of unrealized capital gains) for all taxpayers with wealth (assets minus liabilities) greater than $100 million.

Provide tax credits for certain first-time homebuyers and home sellers: The proposal would provide both a refundable credit for qualified first-time homebuyers (10 percent of the purchase price of a U.S. home, up to a maximum credit of $10,000) and a refundable credit for qualified home sellers (10 percent of the sales price of a U.S. home, up to a maximum credit of $10,000). The first-time homebuyer's tax credit would be available for homes purchased in tax years 2024 and 2025. The home sellers tax credit would be available for homes sold in tax year 2024.

Apply the net investment income tax (NIIT) to pass-through business income of high-income taxpayers: The proposal would expand the NIIT base to ensure that all pass-through business income of high-income taxpayers is subject to either the NIIT or SECA tax.

Increase the net investment income tax rate and additional Medicare tax rate for high-income taxpayers: The proposal would increase:

- the additional Medicare tax rate from 3.8 percent to 5 percent for taxpayers with more than $400,000 of earnings (threshold would be indexed for inflation).
- the NIIT rate from 3.8 percent to 5 percent for taxpayers with more than $400,000 of income (threshold would be indexed for inflation).

Expand the child tax credit (CTC), and make permanent full refundability and advanceability: The proposal would make several changes to the CTC. For taxable years 2024 and 2025, the proposal would:

1) increase the maximum credit per child:
    - $3,600 for qualifying children under age 6
    - $3,000 for all other qualifying children
2) phase out the portion of the CTC in excess of $2,000 with modified adjusted gross income in excess of:
    a. $150,000 for married joint filers or surviving spouses,
    b. $112,500 for head of household filers, and

    c. $75,000 for all other filers

    The above rule would be modified for large families.

3) increase the maximum age to qualify for the CTC from 16 to 17.

For taxable years beginning after December 31, 2023, the proposal would make the CTC fully refundable (regardless of earned income).

For taxable years beginning after December 31, 2024, the proposal would allow taxpayers to receive the CTC as a series of advance monthly payments during the year rather than as a lump sum when they file their income tax return in the following the year.

The proposal would also replace the historical "qualifying child" standard with a new "specified child standard" that considers the source of care received by the child.

Simplify foreign exchange gain or loss rules and exchange rate rules for individuals: For individuals living and working abroad, the proposal would allow use of an average exchange rate for the year to calculate compensation received in foreign currency. The proposal would also increase the personal exemption amount for foreign currency gain from $200 to $600, to be indexed annually for inflation. Individuals, whether or not working abroad, would be permitted to deduct foreign currency losses realized with respect to mortgage debt secured by a personal residence to the extent of any gain taken into income on the sale of the residence as a result of foreign currency fluctuations.

The proposals would be effective for tax years beginning after December 31, 2024.

Address compliance in connection with tax responsibilities of expatriates: Under the proposal, effective for tax years after December 31, 2024 the time for assessment of tax where a taxpayer is required to file Form 8854, *Initial and Annual Expatriation Statement*, would not expire until three years after the date on which Form 8854 is filed with the IRS. The proposal would also grant the Secretary of the Treasury the authority to provide relief from the covered expatriate rules for certain lower-income dual citizens with a tax home outside the United States. The proposal would also repeal the requirement for an alien to obtain a sailing permit.

Make the adoption tax credit refundable and allow certain guardianship arrangements to qualify: The proposal would make the adoption credit fully refundable and would allow taxpayers with unused carryforward amounts from eligible expenses from earlier adoptions to claim the full amount of this carryforward on their 2025 tax return. The proposal also would allow families who enter into a qualified guardianship arrangement to claim a refundable credit for expenses related to establishing the arrangement.

Other Proposals of Interest

The Green Book also includes the following proposals that may be of interest to assignees and employers.

Assignees:

- Tax carried interests (profits) as ordinary income
- Repeal deferral of gain from like-kind exchanges
- Apply the wash sale rules to digital assets and address related party transactions
- Require reporting by certain taxpayers of foreign digital asset accounts

- Amend the mark-to-market rules to include digital assets for dealers and traders in those assets
- Prevent excessive accumulations by high-income taxpayers in tax-favored retirement accounts
- Make permanent the Inflation Reduction Act expansion of health insurance premium tax credits
- Modify rules for insurance products that fail the statutory definition of a life insurance contract
- Make permanent the income exclusion for forgiven student debt
- Extend tax-preferred treatment to certain federal and tribal scholarship and education loan programs
- Increase the employer-provided childcare tax credit for businesses
- Expand TIN matching and improve child support enforcement
- Restore and make permanent the American Rescue Plan expansion of the earned income tax credit for workers without qualifying children
- Make repeated willful failure to file a tax return a felony for those with significant tax liability
- Improve tax administration for trusts and decedents' estates
- Limit duration of generation-skipping transfer tax exemption
- Modify income, estate, gift, and generation-skipping transfer tax rules for certain trusts
- Revise rules for valuation of certain property.

Employers:

- Expand limitation on deductibility of employee remuneration in excess of $1 million
- Improve the design of the work opportunity tax credit to promote longer-term employment
- Impose penalties for inaccurate or fraudulent employment tax returns
- Define control of the payment of wage.

KPMG INSIGHTS

KPMG will be releasing a report that provides a complete overview of the Green Book. A *GMS Flash Alert* will be issued when the KPMG report on the Green Book is released.

FOOTNOTE:

1 For additional information, see KPMG *TaxNewsFlash*: Treasury releases "Green Book" explanation of tax proposals in FY 2025 budget, a publication of the KPMG International member firm in the United States. The full text of the Green Book can be found at: General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals (treasury.gov).

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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