***NEBRASKA TAXPAYERS FOR FREEDOM* ISSUE PAPER:**

NEBRASKA TAXPAYERS WILL SUFFER IF TRUMP TAX CUTS ENDED.

BACKGROUND. All U.S. taxpayers will face the largest federal tax increases in history, if the temporary Trump tax cuts from his 2017 Tax Cuts & Jobs Act (TCJA) sunset after 2025. The TCJA was the most consequential tax legislation signed into law since the 1980s. If the expiring provisions lapse, Americans will face more than $4 trillion in net tax hikes over 10 years, according to the Congressional Budget Office.[1] While taxes will increase on Americans of all income levels, the bulk of this tax hike, about $2.6 trillion, will fall on those earning less than $400,000 per year. To comply with the budget reconciliation process used to create the law, many of the TCJA provisions were temporary. These reforms were the product of many hours of work and analysis to identify and resolve major problems that existed in the tax code. Implementing the tax extensions might seem more difficult because of congressional runaway federal spending since the COVID-19 pandemic. This reckless spending has boosted the national debt by $13 trillion since January, 2020 and stoked the higher inflation and interest rates that have caused a major burden for families and businesses.[2] Not only did the 2017 Trump tax cuts lower the tax burden on workers, families, farmers, and small businesses, but they also simplified the U.S. tax code for millions of Americans while sharpening American competitive advantage internationally, yet liberal congressmen and their leftist allies perpetuate the fiction that these tax cuts benefited only the extremely wealthy and devastated the poor.

TRUMP TAX CUT BENEFITS. The 2017 tax bill increased take-home pay and generated a growing economy. Individuals in all income brackets received a tax cut, not only the extremely wealthy. The tax cuts made the tax code more progressive, meaning the highest income earners now pay a greater share of all income taxes than they did before 2017. The majority of benefits accrued to working middle-class families. Between 2017 and 2021, the bottom 50% of wage earners received the largest reduction in average tax rates at 17.3%. A growing economy helped median household income reach an all-time high. The labor market improved, workers saw wage growth, and the unemployment rate fell precipitously to 3.5%, the lowest in 50 years. Lowest-income workers experienced the largest wage growth. In the 2 years that followed these tax cuts being signed into law, real median household income increased by $5,000, and real wages increased by 4.9%. With the increased costs of everyday living, the last thing taxpayers need is another massive tax hike on top of inflation.[3] The TCJA significantly reduced tax compliance burdens for U.S. taxpayers. This burden fell from over 8 billion hours in 2017 to 6 billion hours in 2020, a time savings worth over $50 billion.

GENERAL PAIN. If the TCJA not extended, the average NE taxpayer will suffer a 22% tax hike. The average NE family of 4 will see a $1,700 increase. NE small businesses will face a massive tax increase. The Congressional Budget Office projects that, with a smaller standard deduction, higher tax rates, and narrower tax brackets, Americans will experience a sobering tax increase. Almost every NE taxpayer will suffer guaranteed deductions decreased by 50%.[4] Standard deductions would shrink for all categories of income. Additional taxpayers will face the surtax on higher incomes and the alternative minimum tax (AMT).[5] The tax code again will become more complex.

INDIVIDUAL INCOME TAX RATES. The TCJA retained the 7-bracket structure of the individual income tax but lowered 5 of the 7 rates and widened the tax brackets. Facing a lapse, the median individual taxpayer will face a marginal tax rate that is 3 percentage points higher in 2026 compared to current rates. The top rate will increase from 37% to 39.6%, the middle bracket will increase from 24% to 28%, and the second-lowest bracket will increase from 12% to 15%. Though the bottom rate of 10% will remain unchanged, individuals in that bracket will face significantly higher taxes because of the reduced standard deduction and in several cases the reduced child tax

[1] Congressional Budget Office (CBO), Budgetary Effects of Alternative Assumptions About Spending and Revenues, by Fiscal Year, May, 2024, https://www.cbo.gov/publication/60271, accessed October 22, 2024.

[2] U.S. Treasury Department, "Debt to the Penny," https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny (accessed December 10, 2024).

[3] U.S. Senate Finance Comm., Feb. 20, 2025.

[4] Congressional Budget Office, Tax Parameters and Effective Marginal Tax Rates, 2024.

[5] Erica York, Tax Foundation, How 2026 Tax Brackets Would Change if the TCJA Expires, Oct. 24, 2024.

credit. The standard deduction will drop by almost 50%, from $15,000 to about $8,100 for single taxpayers (the deduction doubles for married joint filers). A $6,900 reduction in the standard deduction will raise the taxes of single filers claiming the deduction by as little as $690 or as much as about $2,730, depending on if they are in the 10% bracket, the 39.6% bracket, or somewhere in between. For married joint filers who do not itemize, losing the standard deduction will become twice as costly within any given tax bracket. Figuring your taxes will become more complicated.

CHILD TAX CREDIT. This credit will drop from $2,000 to $1,000. For low- to middle-income taxpayers facing tax rates below 20%, $1,000 of lost child tax credit will result in a larger increase in taxes than the decrease in taxes enabled by the $5,200 personal exemption, if the TCJA expires. Additional middle- to upper-middle income taxpayers will fall subject to the phaseout of the child tax credit. The TCJA lifted the phaseout thresholds from $75,000 and $110,000 of modified AGI for single and married filers to $200,000 and $400,000 respectively. The refundable portion of the child credit is for taxpayers who have zero or negative net income tax liability now commonly referred to as the *additional child tax credit* (ACTC) to distinguish it from the non-refundable *child tax credit* amount, which does not reduce tax liabilities below zero. The TCJA expanded the ACTC in addition to the child tax credit. Prior to the TCJA, the ACTC limited to $1,000 per child and phased in at 15% of earned income above $3,000. The TCJA lifted the ACTC cap to $1,400 per child and introduced inflation adjustments that increased the ACTC cap to $1,700 in 2024. Under a permanent extension of the TCJA, the *full amount* of the child tax credit eventually will become refundable at $2,000 per child, because only the refundable ACTC amount adjusted for inflation. The TCJA also lowered the start of the ACTC phase-in from $3,000 to $2,500 of earned income. If the TCJA expires, the ACTC will revert to the less generous pre-TCJA amounts. Also eliminated if repeal, the requirement that a taxpayer claiming the child tax credit or ACTC provide a child Social Security number, a policy meant to limit fraudulent payments and benefits going to illegal aliens.

ALTERNATIVE MINIMUM TAX. Congress created the AMT in an effort to stop the ability of very wealthy individuals to use such large tax deductions and exemptions to pay almost zero in taxes. However, over the years, because of inflation, the reach of the AMT grew to impact millions of taxpayers beyond its original intent, including many small businesses that file taxes under the individual tax brackets and discovered their tax burden rising and the complexity of their tax filing growing worse. Failing TCJA extension, over 7.2 million taxpayers will become subject to the AMT in 2026, a jump from the 5.08 million currently impacted by the policy. Such would force families and small businesses to figure their taxes twice in order to determine if they are liable for a higher tax burden. More Americans thus required to determine if their AMT liability exceeds their ordinary tax liability. The TCJA increased the AMT exemption amount, blunting the impact of this complicated tax.[6] Otherwise, the increase in the individual AMT exemption, which was a crucial simplifying tax cut, will shrink. The AMT exemption will fall by about $19,000 for single filers and by about $29,000 for married filers. The AMT exemption also will begin phasing out at about $154,300 for single filers and $205,700 for married filers instead of the current phaseouts of $626,350 and $1,252,700 respectively. Since the passage of the TCJA, the number of Americans paying individual AMT taxes dropped by 96%.

ESTATE & GIFT TAXES. Without the TCJA, the estate and gift tax exemption amount will drop by 50% in 2026. The TCJA temporarily doubled the estate and gift tax exemptions, allowing a total of $11.18 million in 2018 in lifetime gifts or transfers upon death untaxed before the estate and gift taxes take effect. The exemption amount Trump adjusted for inflation and stands at $13.99 million as of 2025. However, the top estate tax rate still 40%, unchanged by the TCJA. The higher tax exemption amounts scheduled to expire after 2025. Despite the steep 40% top rate, estate and gift tax revenues represent a comparatively small revenue source, averaging about 0.6% of federal revenues in the past decade. Estate and gift tax collections fell by about $6 billion each in the 2019 and 2020 fiscal years compared to 2017 and 2018, but these collections did rise in 2023 by about $11 billion compared to 2017. The estate tax can have severe ramifications for family farms and family businesses. Owners of family farms are often land rich but cash poor, so the family members who inherit them often unable to raise the funds needed to pay the estate tax, unless they sell off inherited property.

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[6] HOUSE WAYS & MEANS COMMITTEE, Millions of Taxpayers Will Have to Do Returns Twice While Paying Higher Taxes if Key Trump Tax Reforms Expire, Jan. 7, 2025.

RETURN OF ITEMIZATION OF DEDUCTIONS. The TCJA almost doubled the standard deduction but eliminated or restricted many itemized deductions from 2018 through 2025. For the 40 million American taxpayers who itemize their deductions, they do not benefit from the simplification of using the higher standard deduction. Though various miscellaneous itemized deductions will return if the TCJA sunsets, including deductions for unreimbursed work expenses, tax preparation fees, subscriptions to professional journals, union dues, and dues to professional societies, these deductions allowed only to the extent that they exceed 2% of average gross income.

BIG BUSINESS DEDUCTIONS. The president has pushed to reduce the 21% corporate tax rate to 20% or 15%, with the goal of generating growth. He also supports eliminating the 15% corporate alternative minimum tax imposed by the Biden Inflation Reduction Act. It applies only to the largest C corporations. The TCJA made several changes to business tax deductions, including adding a new deduction for individuals with pass-through business income and changes affecting the timing of business deductions. The TCJA temporarily replaced the system of depreciation schedules of up to 20 years and instead allowed businesses to fully deduct the cost of equipment and machinery in the tax year that the assets purchased and used. The law also required 5-year amortization of research and experimental (R&E) expenditures and placed an annual limitation on how much non-business income individuals could offset with business losses in a particular year. With no TCJA, the 20% pass-through deduction would sunset after 2025. This deduction allows sole proprietors and individuals with pass-through business income to deduct 20% of qualifying business income. The deduction effectively reduces the bottom individual tax bracket for qualifying small businesses from 10% to 8% and the top individual tax bracket from 37% to 29.6%. The pass-through deduction limited to the greater of 50% of the company W-2 wages related to the business or 25% of W-2 wages plus 2.5% of unadjusted basis in qualifying business property. The TCJA included the pass-through deduction for owners of businesses perceived as being small or midsize to balance the TCJA reduction in the corporate rate. If the TCJA expires, sole proprietors and pass-through businesses in the top tax bracket will appear at a competitive disadvantage to corporations. The top pass-through tax rate of 39.6% will be similar to the combined corporate and long-term capital gains rate, but owners of pass-throughs would pay their full tax rate up-front on all earnings, including earnings retained by the businesses. In contrast, corporate shareholders can defer investor-level taxes on earnings retained by corporations, paying taxes only after they ultimately realize income from their investments, e.g., through dividends or stock sales. A key TCJA business provision, full and immediate expensing for machinery, equipment, and other assets with useful lives of up to 20 years, has partly expired since January, 2023. The provision, also called "bonus depreciation," allowed businesses from 2018 to 2022 to deduct 100% of the value of qualifying capital assets in the year those assets placed in service instead of following IRS complex rules for depreciation of various asset classes. Under current law, the bonus depreciation percentage will decrease by 20% per year from 2023 to 2026. Assuming no extension of the TCJA, a company could fully and immediately expense 40% of the basis of a qualifying asset purchased in 2025, while the remaining 60% of the asset subject to regular depreciation up to 20 years. Typically, businesses can deduct legitimate expenses as incurred, but depreciable assets, deducted over time, are the notable exception. By allowing full and immediate expensing for most capital assets, the TCJA shifted the business tax system closer to a cash flow tax system, whereby a company taxable income base in each period is the difference between business revenues and business expenses.

SMALL BUSINESSES. 26 million small businesses would suffer a 43.4% top tax rate, if the Section 199A Small Business Deduction of the TCJA expires. One of the major changes that will affect many small businesses and the self-employed is the elimination of the qualified business income (QBI) deduction. The QBI is a deduction of up to 20% for pass-through businesses such as partnerships and S corporations, which also includes sole proprietorships. Self-employed people who qualify for this deduction include independent contractors, artists, restaurateurs, freelancers, and various other small business owners.[7]

INTERNATIONAL BUSINESS. Before the TCJA, the U.S. was one of the few developed countries to impose a worldwide corporate tax, meaning that U.S. multinationals with foreign operations paid U.S. taxes on both

[7] The Hill, Jeremy Tanner, Trump tax cuts set to expire – will you be affected? March 24, 2025.

domestic and foreign income. The TCJA established a hybrid international system, shifting toward a territorial tax system in which American companies taxed only on their income earned in the U.S. However, foreign corporate income still subject to U.S. taxation in specific, limited circumstances. Products made internationally and sold in the U.S. included in the U.S. tax base, but products made in the U.S. and sold abroad excluded from the U.S. tax base.[8]

RURAL TAXPAYERS. In the U.S., 96% of our 2 million farms family-owned, 88% small family farms. These 2 million family-owned farms will see their Death Tax Exemption slashed in half next year,[9] if the TCJA lapses. The TCJA lowered taxes for most farms and ranches, because 98% of their operations are organized as pass-throughs, and there were specific provisions included in the bill that benefit pass-through businesses, including wider brackets and lower rates, the enhanced estate tax exemption, and the 199A qualified business income deduction that brings more rate parity between the top rates that small businesses pay and the 21% corporate rate. A new Economic Research Service report shows that if TCJA provisions expire, tax bills will increase for farmers and ranchers. Farmers will face over a $9 billion tax increase in 2026 between increased income tax liability and the increased estate tax liability. The expiration of 199A itself would see specific farm tax liability increased by up to 20%.[10] The loss of provisions like the reduced marginal tax rates and the qualified business income deduction will lead to higher tax bills for many farm households. Additionally, the reduction in the estate tax exemption could increase the number of farms subject to tax, potentially forcing families to sell off land to pay these increased liabilities. More grieving families will fall under its provisions, forced to sell a long-held family farm or business only to pay a 40% tax bill. Moderate-income farm households projected to experience the largest percentage increase in tax liability. The USDA estimates that these changes will increase farm household federal income tax liabilities by $8.9 billion and estate tax liabilities by $647 million in 2026.

THE ECONOMY. If we allow the Trump tax cuts to expire, 6 million jobs would disappear, $540 billion in employee compensation will disappear, and U.S. GDP will drop by $1.1 trillion. Small manufacturers disproportionately will suffer from tax increases. Manufacturers will delay investment and job creation decisions because of the uncertain outlook. Because of the TCJA, manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019 respectively, compared to the anemic 1.4% growth in 2017. Manufacturers added 267,000 new jobs in 2018, the best year for job creation in manufacturing in 21 years and the best year for wage growth in 15 years. Manufacturers have used the savings from tax reform to expand their businesses, create jobs, raise wages, add new benefits for employees, fund research and development, purchase new equipment, expand their facilities, and invest in their communities. Maintaining competitive tax policy is essential to sustaining this momentum, enabling manufacturers to invest in cutting-edge technologies, expand operations, and provide jobs with good wages.[11]

MORE TAX RELIEF. Regarding tax cuts for individuals beyond TCJA extensions, Trump favors eliminating the estate tax, which currently applies only to estates worth more than $13.99 million, repealing or raising the $10,000 cap on the deduction for state and local taxes, creating a deduction for vehicle loan interest, and eliminating income taxes on tips, overtime for specific workers, and Social Security benefits. Trump would create a tax credit for family caregivers.

HOW TO PAY FOR IT. The Biden Inflation Reduction Act created or expanded various tax credits encouraging unreliable renewable energy use, including tax credits for electric vehicles and residential clean energy improvements, such as solar panels and heat pumps. Trump would repeal these IRA provisions or strictly limit deductions. Premium tax credits are currently available for households with income above 400% of the federal poverty line. Revenue would increase by limiting such subsidies to the poorest Americans. Trump will reduce spending on Medicaid and food programs for the undeserving. Suggestions include eliminating the mortgage interest deduction or lowering the current $750,000 limit to $500,000. Elimination of the head of household status,

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[8] Preston Brashers, The Heritage Foundation, What If the Trump Tax Cuts Expire? A Primer on What Is at Stake, Feb. 25, 2025.
[9] HOUSE WAYS & MEANS COMMITTEE, Millions of Taxpayers Will Have to Do Returns Twice While Paying Higher Taxes if Key Trump Tax Reforms Expire, January 7, 2025.
[10] Utah Farm Bureau Federation, Letting Tax Cuts and Jobs Act Expire Would Hurt Family Farms, April 2, 2024.
[11] National Association of Manufacturers, 6 million Jobs Will Be Lost Unless Congress Renews the Trump Tax Reforms, Jan. 14, 2025.

which provides a higher standard deduction and specific other tax benefits to unmarried taxpayers with children, compared to single filers.

TAKE ACTION NOW. Socialist Democrats in Congress and their liberal allies across the nation are mobilizing to kill extension of the 2017 Trump tax cuts. Our families, businesses, and rural homesteads all depend on these tax cuts to maintain our current financial lifestyles. A tax cut sunset would devastate our savings and the economy. Using the above content, lobby your congressman and 2 senators to extend the TCJA indefinitely. Email netaxpayers@gmail.com for Capitol Hill contact information and join our NTF *President Watch Project.*