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Jan. 30, 2024, 4:30 AM EST

# Bipartisan Tax Plan Would Trim Business Burden if IRS Delivers

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*Michael D'Addio of Marcum says a pending tax bill's provisions could reduce tax burdens for many businesses and families, but the IRS's ability to facilitate the changes will determine the impact.*

The Tax Relief for American Families and Workers Act of 2024, released on Jan. 16 by the House Ways and Means Committee, has a range of provisions that could profoundly impact taxpayers.

Overall, the bill would reduce tax burdens for US families and businesses through changes to the child tax credit, research and development expenses, and employee retention credit; restoration of 100% bonus depreciation; and an increase in the potential business interest expense deduction, though its effectiveness will largely depend on the IRS's administrative capacity.

**Child Tax Credit**

Millions of families could be affected by changes that would temporarily expand access to child tax credits already on the books. If the bill passes, the average family eligible for the credit could see the credit's value rise beyond its current level of $2,000 per qualifying child under 17.

The proposed adjustments to the CTC would index the base child credit to inflation for 2024 and 2025 to protect the value of the credit from being eroded by inflation, ensuring that the financial support provided to families keeps pace with cost of living. However, this doesn't apply to the 2023 tax year, potentially leaving families without additional relief in the immediate term.

Retroactively changing the refundable portion of the CTC could result in a larger financial benefit for families, especially those with multiple children. The option to elect the previous year's earned income for calculating the refundable portion for 2024 and 2025 may be particularly advantageous in situations where a taxpayer's income has decreased from the previous year.

The IRS's mandate to automatically recompute the CTC for taxpayers who have filed before the bill's enactment may result in additional refunds, providing a cash infusion without the need to file amended returns. Nevertheless, there's uncertainty about the IRS's capacity to promptly implement these changes, which may delay these benefits.

**Business Provisions**

The Tax Cuts and Jobs Act, effective Jan. 1, 2018, introduced temporary tax incentives supporting US businesses. Most of them have phased out or soon will. The pending reform package breathes new life into some TCJA provisions that proved most effective and addresses some of the less popular changes to the tax code.

In February 2023, the American Institute of Certified Public Accountants urged Congress to defer the effective date of the capitalization-amortization rule for domestic research expenses under Section 174 of the tax code (whose treatment was affected by the TCJA) until after Dec. 31, 2025. The pending bill proposes exactly that.

The deferral would be a welcome reprieve for companies investing in research. Reducing the immediate tax burden could lead to increased research and development activities in the US. However, the distinction between domestic and foreign research expenses suggests a deliberate effort to incentivize domestic innovation over foreign expenditure.

The bill would also reverse the adjusted taxable income computation under Section 163(j) to include depreciation, amortization, and depletion add-back and would significantly affect the business interest expense deduction. This change could lead to a larger deduction for businesses, potentially improving cash flow and investment capacity. The option to elect this definition of adjusted taxable income retroactively could provide immediate tax relief for certain companies.

The proposed extension of 100% bonus depreciation—another popular tax change introduced by the TCJA—will likely stimulate investment in new assets by allowing businesses to deduct the total cost immediately. This provision could catalyze economic growth by encouraging capital expenditure.

However, the reduction of bonus depreciation to 20% in 2026 and 0% in 2027 for most depreciable assets may prompt businesses to accelerate their investment timelines over the next couple years to capitalize on the full benefits.

### Employee Retention Credit

Along with the Paycheck Protection Program, the employee retention credit was introduced to assist businesses negatively impacted by the Covid-19 pandemic. Much like the PPP, the ERC has been subject to considerable scrutiny—including from the IRS, which has identified widespread patterns of fraud associated with the program.

Proposed changes to the management of ERC claims could give the IRS more time to investigate fraud claims while protecting borderline cases from the harshest punishment.

Setting a firm deadline of Jan. 31, 2024 for ERC claims and extending the IRS's assessment period to six years could have mixed repercussions. While it provides clarity and a definitive timeline for taxpayers, the increased assessment period could lead to prolonged scrutiny and potential audits.

The bill does include a provision permitting income tax deductions for wages related to invalid ERC claims that fall outside the normal statutory period for claiming refunds. This offers a safety net for taxpayers who may have inadvertently fallen afoul of the complex ERC requirements.

### ERC Enforcement

The IRS has called out fly-by-night promoters of fraudulent ERC services as the primarily culprit driving the abuses associated with the program. The proposed bill includes several provisions designed to ensure the worst of these offenders are held accountable, while protecting businesses that may have had trouble navigating the ERC program on short notice or otherwise made mistakes without ill intent.

The increased enforcement and penalties for Covid-19 ERC promoters indicate a robust approach to compliance and deterrence against abuse. Taxpayers who engaged with such promoters may need to reevaluate their claims and prepare for potential challenges.

### Outlook

The comprehensive tax reform package would usher in significant changes for taxpayers if enacted. The bill's potential to recalibrate the financial landscape warrants close attention from taxpayers, businesses, and tax professionals, as they may need to adjust their tax planning strategies to align with the new provisions.

The impact of the provisions will largely depend on the specifics of their implementation and the readiness of the IRS to facilitate a smooth transition.

**Author Information**

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