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TAX NEWS

PODCAST: US TAX POLICY POST-ELECTION

Special Episode - December 2024

Zoe Andrews	Welcome to this special edition of Slaughter and May's "Tax News" podcast, in which we focus on U.S. tax policy following the elections at the start of November 2024. I'm Zoe Andrews, PSL Counsel and Head of Tax Knowledge.
Tanja Velling	And I'm Tanja Velling, Tax PSL Counsel and we're delighted to welcome our guest Arvind Ravichandran, tax partner at U.S. law firm Cravath, Swaine & Moore LLP. Hello and welcome. We're so excited to have you, Arvind. Please tell us a bit about yourself and your experience as a U.S. tax lawyer.
Arvind Ravichandran	Hi. So, thanks for having me on. This is Arvind Ravichandran. As you mentioned, I'm a partner here at Cravath, Swaine & Moore LLP. I'm very fortunate to be able to practise in a variety of areas in the tax law from representing clients from M&A, private equity, restructuring, financings as well as planning, controversy type issues.
Zoe Andrews	Following the election, it's obviously a time of change and uncertainty in the U.S. and something we're very interested in across the pond is what tax policy changes might we see that would impact on international tax and how soon could they be implemented. But we should probably start with the election result, shouldn't we?
Arvind Ravichandran	Absolutely. And this is an opportunity for me to make a brief disclaimer. To be as helpful as possible, this conversation necessarily has to discuss in fair detail U.S. politics. However, I don't want anything I say to be misconstrued as endorsing any particular political party or position. With that in mind, on your question, Donald Trump won the U.S. presidential election. The Republican Party also achieved what's known as a trifecta. By way of background, we have a bicameral legislature here in the U.S., we have an Upper House called the "Senate", and a Lower House called the "House of Representatives". The Republicans won control of the Upper Chamber with a 53-47 majority and, in the lower chamber, in the House, they also won control, a very close majority of the House, but one nevertheless, where the Republicans control. And that's why we call it a "trifecta". They have the Presidency, they have the Senate, and they have the House as well.

Tanja Velling	My understanding is that this is not necessarily that unusual because the last five presidents, I think, have had periods of trifecta. But my question to you is, what does that actually mean in practice?
Arvind Ravichandran	The occurrence of a trifecta is not rare, but it's also not the norm. Each trifecta is actually a little bit different. Obama's trifecta in 2008 - that was actually a filibuster-proof majority - the Democrats had sixty votes in the Senate for a period of time, whereas the Biden trifecta in 2020 was the narrowest possible majority: he had fifty votes in the Senate, exactly. And so, the exact shape of your control is going to be informing how policy gets made. Of particular relevance to this trifecta is that we are in a very unusual world where it may be that the Republicans have a narrower majority in the House than they do in the Senate. I'm actually not familiar with any circumstance in which that's occurred before. The Senate has only 100 members, whereas the House has 435. So, practically, it's rare to have a majority that's smaller in the House than in the Senate. That's going to be a new thing for all of us in the U.S.
Tanja Velling	With this trifecta, can Republicans now expect to be able to enact their policies in tax and other areas for the duration of President-elect Trump's second term?
Arvind Ravichandran	The answer is "no" - for a couple of different reasons. We're going to get back to the filibuster in a moment, but most legislation in the Senate requires 60 votes in order to be enacted. And of course, Republicans do not have a filibuster-proof majority of the Senate. But there's also other differences, particularly for those folks who are familiar with parliamentary systems. In the U.S., our political parties, although important, are sometimes, at least in my experience, somewhat less active drivers of all issues than they might be in a parliamentary system where the party takes on a little bit more importance. Split ticket voting, for example, is very common in the U.S., where somebody is voting for Trump for the presidency and voting for a Democrat for the Senate. That's relevant, again going back to our split in Congress; it's not just going to be, hey, the Republican Party says XYZ is what we're going to be doing. Each individual member is going to be relevant and have a potential say in the outcome of legislation.
Tanja Velling	And how would such voting patterns then influence what legislation may be passed?
Arvind Ravichandran	In the U.S., we always have this sort of running joke that the next election begins as soon as the previous one ends. Our election just ended. So, we're already thinking about the next election and that really influences what people are thinking about in terms of legislation and policies and priorities in the current Administration.
Tanja Velling	And when is that next election?

Arvind Ravichandran	I mentioned that we have a bicameral legislature and, in the U.S., the House, the full House, is up for re-election every two years. But in the Senate, only a third of the Senate is up for re-election every two years because senators serve six-year terms, whereas House members only serve two-year terms. And so, the next election in the U.S. is the 2026 midterms. The thing that's, I think, a little unique to the U.S. is this notion of off-cycle elections. So, the 2026 midterm is off-cycle in the sense that there is no presidential candidate that is up for election because our presidential elections are every four years. And I think, as many folks will be aware, there's a tendency for the party in power to do poorly in those midterms. That's why we talked earlier about the trifectas being not an uncommon occurrence, but also not being the common case because often the trifecta occurs and, then in the next midterm, one or both portions of our legislature goes against the ruling party. As an example, most recently, 2020, Biden had a trifecta in the House and in the Senate. But in 2022, the Republicans actually took back the House, and so that's how the trifecta was lost. So, the next election for us, as I mentioned, is the 2026 midterms. It seems like the Republicans are likely to still retain the Senate, and I think that's the general expectation. So, what that means for tax reform is that there may be less of a swing Senator in the Senate that says, look, I'm not going to be able to get re-elected and you guys are going to lose your majority unless you go along for what I'm saying. And again, just to give you an example of a contrast in the 2020 Biden Administration. The 50-50 majority included both Kyrsten Sinema from Arizona and Joe Manchin from West Virginia; Joe Manchin again, Democrat senator in a State, West Virginia, that historically votes for Republicans. They had an enormous amount of say in what legislation was going to get passed just by virtue of that. So, in the House, you look at things a little bit differently in U.S. politics because House districts are not typically state-wide except for the smaller states. Practically, when you have the majorities the way that we do, no individual Senator, no individual House Member, can sort of say, hey, look, you know, it's my way or the highway like we saw in 2020 with Joe Manchin and Sinema in the Senate when it was a 50-50 Senate. Instead, what we're going to be looking for is groups coalescing around particular issues. So, we've already seen that with an issue like State and local tax deductions, we’ve seen House member coalesce around that.
Tanja Velling	We will talk a bit more about potential tax policy proposals. But first, just think about the timing. Se we’ve just heard that it may be the case that the Republicans could retain the trifecta after the midterm elections, but obviously there's a risk that they don't. So, in that case, there might only be a two-year window to get through flagship policies. And what do you think about tax? Is this going to be a priority within perhaps the first 100 days?
Arvind Ravichandran	I think tax will definitely be a priority. TCJA, the Tax Cuts and Jobs Act of 2017, which is more popularly known as the Trump tax reform, involved a variety of changes to the U.S. tax code, including changes to our international system as well as some substantial rate reductions as well. What was interesting about the TCJA is, it had to

	be structured to expire actually after a period of time and that period is generally 2025, although a few provisions expired earlier and some were permanent. And so, there is an impetus to extend those tax cuts because otherwise they will expire without legislation. So, I think tax will definitely be a priority. The Trump campaign has identified it as a priority. Many Senate members have identified it as a priority. Some have gone on to say it is a 100-day priority, meaning something that they want to get done in their first 100 days. In the U.S., the first 100 days is considered a very important milestone in U.S. politics and setting forth the key administrative aims of the incoming Administration and reflecting on their performance. So, that 100-day window has been identified. Now, the TCJA itself does not expire this year, doesn't expire in the first 100 days. And so, I think, that does not necessarily mean that it needs to be resolved in the first 100 days. Where I think that kind of comes together is that it is definitely going to be prioritised by the Republican Party to pass something. You're going to see momentum, but whether it ends up being something that's done in the first 100 days versus something that's done maybe a little bit later in the year, I think that's a little bit harder to gauge.
Zoe Andrews	And before we dive deeper into potential U.S. domestic policy, let's go back to the point I mentioned earlier: international tax reform and more specifically the global minimum tax under Pillar Two. It really only works if the Income Inclusion Rule, the IRR (that's the top-down rule where additional tax is collected at the parent company level, similar to a CFC charge) is either widely enacted, or implementing countries enforce a backup rule, the undertaxed profits rule (or UTPR) which allows additional tax to be collected through subsidiaries lower down in the group. What's the incoming Trump Administration's stance on Pillar Two likely to be, and how likely is it that they will support the Pillar Two project and, for instance, amend GILTI, the U.S. equivalent rule, to turn it into a Pillar Two compliant IIR?
Arvind Ravichandran	Highly unlikely is the answer to both questions. The general, I think, the approach by this Administration to the OECD project is not a favourable or an accommodating one. There's a few different questions that the U.S. faces relative to Pillar Two. So, the first question is the UTPR that you mentioned, and whether another country will be permitted to impose UTPR on really what is U.S. domestic income. On that, there is extreme hostility towards that notion. There are already bills in Congress that would impose punitive taxes on any country that attempts to collect UTPR on U.S. income. The second question is our GILTI system, right? So, we have our GILTI system that involves tax on foreign operations. Right now, GILTI comes effectively before IIR, and so our GILTI revenue comes first. There's been less attention on that aspect, but I think it's something that I expect to kind of remain in place.
Zoe Andrews	I agree that GILTI comes first under the OECD's current rules on the interaction between Pillar Two and blended CFC taxes, but these rules are set to expire at the end of 2025, which would take you back to the question of conforming GILTI to the OECD's rules which I think you are saying the Trump Administration would likely be hostile towards.

Arvind Ravichandran	I do think that, to the extent that the OECD project would work a change to the U.S. tax system or would work to reduce revenues that we would otherwise collect, I do think there would be hostility towards that.
Zoe Andrews	That's pretty much what we were expecting you to say, I think. Another area of interest for our clients is digital services taxes and the risk of U.S. retaliation there. Progress on Pillar One (which was to create a new taxing right to be applied instead of unilateral digital services taxes) has stalled. There was a moratorium on U.S. trade sanctions in retaliation for digital services taxes which expired in June 2024. So, we were wondering what would happen next from a U.S. perspective?
Arvind Ravichandran	It's a good question, but one… very candidly, remains to be seen.
Tanja Velling	Going back to the Republicans' legislative programme and how things might pan out in Congress, we've already touched on points around the midterm elections, but what else should we be aware of in relation to the legislative process? And I think you already touched on filibuster…
Arvind Ravichandran	Yes, yes, I teed that up because the filibuster is one of the most important things to understand about the U.S. legislative process. So, in the U.S., most legislation, to pass the Senate, must get 60 votes in the Senate. There's something known as the filibuster. The filibuster permits the minority party to effectively prevent a bill from being voted on by the whole Senate, unless you have what's called a cloture motion. And that says we're going to stop debate and we're going to finally vote on this bill. And so, the filibuster is effectively a way by the minority party to say, you know, unless you get us on board, we're not going to vote in favour of this legislation. And so, you need 60 votes in order to pass almost all legislation of the U.S. with one very important exception - there's actually two exceptions; one exception is related to judges and justices, which was a change a few years ago, but that's not as relevant in our conversation. The important change to our conversation is that there's something known as Budget Reconciliation. So, Budget Reconciliation is a process that permits legislation to be passed with only a majority vote. Budget Reconciliation is not a general end-run around the filibuster; there is a specific set of rules around what Budget Reconciliation permits you to do. There's something called the Byrd rule. The Byrd rule says Budget Reconciliation has to effectively be limited to revenues and outlays. That means, you know, raising money, spending it. It can't address social security and, in addition, a rule that has an incidental effect on revenue, even if it does have an effect on revenue, can't be included. An example of that, I think that occurred, I believe, in 2020, was immigration reform. Although there is an effect on revenues and outlays when you do immigration reform, the revenue effect was incidental to the policy and so, it was not permitted. The TCJA, that was an example of a bill that was passed through reconciliation.
Tanja Velling	So, Budget Reconciliation in a nutshell…?

Arvind Ravichandran	What it really is: you effectively pass a resolution that says over an X year window, I will be willing to raise the deficit by Y number of dollars. Historically, the budget window has been 10 years. So, I believe, the TCJA was passed under a 10-year budget window. But the deficit numbers again, it's just up to the parties to decide. There's no apparent limit in the rules themselves. The limit appears to be, you know, a political one. And that can be relevant, depending on how much political interest there is to what we call being a “deficit hawk”, not wanting the U.S. debt to increase, not wanting to spend money in excess of revenues. But once you have that, the instructions are sent out to the committees (so each of the House and the Senate have various committees that are actually responsible for drafting legislation, and each committee is told within the scope of its jurisdiction to draft the legislation that will get to this ultimate outcome, right, over X number of years, X trillion dollars), the committees draft bills, then it comes back to the House, comes back to the Senate, and the House and the Senate are permitted to vote under abbreviated procedures. Again, those abbreviated procedures are more relevant in the Senate because of the filibuster to pass that actual bill that came through the through the Budget Reconciliation process.
Zoe Andrews	OK, let's have a look at some of the tax policy options that have been mooted so far and here I should probably note that we're recording the podcast on the 26th of November 2024. Shall we start with some of the potential tax cuts for business?
Arvind Ravichandran	Sure. One of the interesting things about reconciliation is, we use different terminology. We use the terminology of “spenders” and “raisers”. When we're thinking about reductions in taxes, that's usually a “spender”. When we're thinking about increases, that's usually a “raiser”. So, what we were thinking about business spenders, there's a handful that have come up relatively frequently in the literature: • This includes our 174 immediate expensing of R&D deductions. • Bonus depreciation and high amounts of bonus depreciation. • We have our interest deductibility rules that moved from an EBITDA cap to an EBIT cap, which is more restrictive; talking about moving it back to the EBITDA cap. • The rates on GILTI would go up unless the legislation keeps the rates down. So, we think of that as a spender. So, there's GILTI rates, BEAT which is our base erosion, anti-abuse tax, and then we also have our export incentive, FDII (foreign derived intangible income); all of those have been discussed. • And then one that’s a new one, that's not sort of extending what's already in the TCJA: the 15% corporate rate for domestic production. So, our default corporate rate is 21%, but an idea that has been floated, I think, by President-elect Trump himself as well as others, is this notion of an even lower rate for domestic production.

	• And, before I forget, one additional point that was in the TCJA is the 199A deduction. That's the deduction for businesses having a pass-through form of 20% of that income subject to limitations related to wages and investment in the business. Now just to give you an idea of numbers, all of these business provisions together end up with about a $1 trillion range.
Tanja Velling	One quick question on this proposed 15% rate for domestic production. Do you think that non-U.S. headed groups could also benefit from that if they locate their production in the U.S.?
Arvind Ravichandran	I think it's too early to know for sure, but I don't see a particular reason why they shouldn't be; I mean, there's no reason to believe that that wouldn't be permitted.
Tanja Velling	I think there are also proposed tax cuts or spenders, as you say, in relation to individuals. And do you think it would be possible to implement all of those proposals in addition to the business spenders?
Arvind Ravichandran	Focusing on the individual ones is really important here. Now, of course, these don't directly affect businesses, but just by way of numbers, preserving the TCJA's lower rates for individuals and just extending that out for another 10 years or so costs $3.3 trillion – so, more than three times all of the business tax reforms that I just identified. We've also heard politically State and local tax deduction relief. So, one of the policies in 2017 is that income taxes paid to State and local governments are not deductible against federal taxes. That was a change in policy in 2017. There's a small cap; you can deduct up to $10,000, but practically, it's a very low cap. Many congressmen and women from States that have higher State income taxes and, in fact, Trump himself, have said that they would like to change that approach. And so, if you were to preserve the lower tax rates, but also permit people to deduct State and local taxes, just the State and local tax cap relief has been estimated at another $1 trillion. Now, we add in a few of the other policy proposals that have been mentioned in the election. • So, we heard no tax on tips (which was actually a proposal by both Donald Trump and his opponent Kamala Harris). That's another $100 billion. • We've heard no tax on overtime. That depends a lot on how exactly it's structured, but that's a potentially $700/$800 billion amount. • We've heard no tax on social security. That can add up to a trillion dollars. • There's been a deduction for auto loan interest, child tax credit, which can also run into the trillions.

	So, the point here is the individual spenders are obviously going to be the ones that are more politically sensitive. That's what people have campaigned on. That's what affects people on a day-to-day basis. And as you can see, they vastly dwarf the business tax incentives in terms of the amount of money. That can kind of go both ways. It can go in the direction of well, you know, the business stuff is on the smaller end. So, you know, if we're already at $5 trillion on the individual side what more is it to add $800 billion on the business side?! Or it can go in: we've got to get $5 trillion on the individual side and we just don't have enough money left over on the business side. My view is probably somewhere in between about how all of this gets resolved and it's similar to actually what we saw the TCJA itself. In the TCJA, the individual tax cuts were sort of the longest duration but the rule on EBITDA, the rule on bonus depreciation, the rules on R&D expensing, for example, those had an earlier sunset that was partially to offset the revenue cost of those rules.
Tanja Velling	As you're mentioning offsetting revenues, let's look at the other side of the equation, what revenue raises might be included in the new Administration's proposals?
Arvind Ravichandran	We can think about the raisers in two ways. There's ones that are probably less politically sensitive and ones that might be a little bit more politically sensitive. Unfortunately, what you'll find is the less politically sensitive ones, as you might expect, raise less revenue; more politically sensitive ones, raise more revenue. Now, I'm going to throw out a handful of raisers that we've heard. Another disclaimer here is this is all stuff that has been put out into the public sphere of thinking. Not really clear what the support is for any particular proposal. I don't want anybody to be alarmed if there's a proposal here that they really don't like and think that it's going to be added. This, the raiser portion of this is really, really, really hard to figure out. But just as an example, some potential raisers we've heard on the easier side: there is a view on what we call round-tripping, that is a U.S. company that has IP abroad but is using that IP to support goods that are coming back into the U.S. There is a belief that you can sometimes take advantage of a rate differential to effectively kind of round-trip goods and pay less U.S. tax than is appropriate on that. So, that's a potential sort of a technical type fix that you might expect. We've heard of something called a corporate SALT cap. So, what's a corporate SALT cap? It's exactly like what I mentioned about the individuals. But it's for corporations, they would not be permitted to deduct State and local income taxes in excess of a certain cap. There's also ones that have actually even showed up on a bipartisan basis, by the way, some things that have showed up in like, you know, President Biden's Build Back Better Act plan from a few years ago. That includes relative limitations on corporate interest between the U.S. and abroad. So, to the extent you're trying to put more interest in the U.S., there would be a limitation on that to sort of preserve the U.S. tax base. There's also—we have a provision in our code called 162M which limits the deductibility of compensation paid to certain highly compensated individuals; possible to extend that notion to a larger class of taxpayers and reduce the amount of that compensation that's deductible. That has a similar effect of raising revenue while actually not raising tax rates.

	But to be perfectly blunt, even under the best expectations, these smaller type issues get you to several $100 billion of raisers, which is vastly short of several trillion dollars of raisers. So, now we move to the more politically sensitive ones and the bigger potential raisers. So, there's a few of those. Tariffs, if they're enacted, are a potentially very significant source of revenue in the $3-$4 trillion range. Another one we've heard a lot about: the repeal of the IRA credits. The IRA is short for the Inflation Reduction Act which was a Biden Administration priority. So, it's possible that a repeal of all of those credits would be worth about a trillion dollars. However, there has been a discussion about what exactly can be repealed, and there's a belief that the full IRA credits would not be repealed. Again, one that I don't want people to get alarmed about, but just observing because it's been in some of the more, I would say, aspirational tax reform type literature: denying deductibility of employer benefits above a cap. In the U.S., employer-provided health insurance is subject to very favourable treatment. It is neither income to the employee, but it remains deductible to the employers, and so there's long been talk about whether this is something to be addressed. It was considered even during the Obama Administration in connection with the Affordable Care Act. And that's a potential very substantial revenue raiser if you cap that.
Zoe Andrews	But also extremely politically sensitive. Can you tell us some more about tariffs?
Arvind Ravichandran	One aspect of that is whether tariffs count as revenue raisers in the reconciliation process. I think, the current belief is that legislative tariffs, which are those passed by Congress, do count, whereas tariffs that are introduced by the President don't count. Again, this remains to be resolved, and part of the reason it hasn't been resolved is because we haven't really had major tariffs in almost 100 years. Now, we're recording this on November 26th and just last evening, President-elect Trump announced on social media that he, on his first day in office, would impose 25% tariffs on Mexico and on Canada as well as incremental 10% tariffs on China, and in his Truth Social post, he identified that there is a flood of fentanyl and illegal immigrants into the United States that both Canada and Mexico have the power to stop under their own laws and, unless they do so, those tariffs would be put in place. That is instructive to us in thinking about tariffs because it tells us a number of different things. Tariffs can exist for different reasons. One reason to have a tariff is just to fund the government, and then that kind of tariff needs to be a relatively low amount in order to actually raise revenue. Another reason you can have tariffs is to discourage certain behaviour. We want to bring domestic production back into the U.S. So, we want to make production abroad much more expensive. And a third reason you can have tariffs is not really related to tax at all. It is related to geopolitics. We don't like a particular country. We don't like particular actions. And so, in order to change that behaviour, we want to impose a tariff. So, this tariff that was announced last evening sort of sounds like option #3 but it has a little bit of flavours of option sort of #1 and #2 a little bit also, in the sense that there is a desire expressed in

	other contexts to bring manufacturing back from Mexico to the U.S., and there's a desire to raise a little bit of revenue. Now, it also tells us something else, which is a question that candidly is the trillion-dollar question: What is actually going to happen with tariffs? Are they actually going to be imposed? And I don't know. But the Truth Social post is telling us how the president thinks about these tariffs. We could see that from the presidential perspective, it is sort of a geopolitical tool in some sense, in addition to potential revenue raising.
Tanja Velling	So, we've heard now quite a lot about potential tax policy options. But then if we go back to the process, you have the budget resolution, which tells you the numbers. How do you then get to the legislation?
Arvind Ravichandran	What we have to do, as we mentioned, is meet this concept of Budget Reconciliation. So, I mentioned raisers and spenders before. So, what we have with our budget resolution is we're going to have this number. We have to meet that target in order to get the bill through the Budget Reconciliation process and pass it with a majority vote. How do we do that? Well, the most obvious way, of course, is to have raisers that offset the spenders. But that may be difficult to do because raising revenue is raising taxes, and that may be politically unpopular. Another thing you can do is carefully calibrate the spenders. I mentioned overtime before. If you exempt all overtime, well, maybe that's more expensive, but what if you only exempt overtime for people making less than a certain amount of money? That reduces the amount of the spending and may also be politically viable. The next thing you can do is what we call “manage the scoring”. An example of that is—I referenced \$3.3 trillion to extend the individual rate brackets in the TCJA. When you are scoring the revenue or spending effect of a bill, you have to score it against a baseline. Currently, that baseline is what we call “current law”. So, in looking at, say, 2026, we say what's the law? Well, because the TCJA tax cuts expire, the tax law in 2026 is a higher rate. And so, against that higher rate, we have a spender. But there's another way to do scoring. It's called “current policy”. Current policy says we're not looking at the law in 2026. Rather, we're looking at what the current policy is today, and we assume that's extended out. Well, that's a big difference because, if we take the current policy, that's the lower TCJA rate, and now all of a sudden, that \$3.3 trillion spending that I just said is actually zero because we're measuring the baseline against current policy. Whether you can use current law or current policy, that actually remains to be resolved. There's a few other examples of ways you can manage the scoring. You can have a provision such as immediate expensing that, if you run that in your budget window (remember we said it's a 10-year budget window) that can actually have zero effect. What do I mean by that? Let's say you've got a provision that says what would otherwise have been deductible over five years can be deducted in the first year, but you let that provision expire. All that's done is shifted deductions that would arise in later years into an earlier year, so that's actually not had any budget impact at all. And then you can include revenue raisers that you don't expect to actually occur; you expect to deal with them later. Or you can mismatch your raisers and your spenders. You can also have a budget window that's longer. Let's say you have a budget window that's 10 years. You say you're going to spend \$3-4 trillion over the 10 years, but your policies don't actually extend the full 10

	years. So, you could have your tax cuts expire after three or four years. So, although the budget window is 10 years, you're actually spending all of that in three or four years, and the theory there being again, maybe there's political incentive to not let that expire over the course of the window.
Zoe Andrews	This sounds far from straightforward and as if there might be some need for compromise. What could a tax package look like?
Arvind Ravichandran	There's a very real way to get to a deal and, in fact, there's a few different deals that could be reached. One possible way to solve this problem is, what I call, a "transformational" bill. I don't view this as likely, but I just want to identify it as a possibility. So, a transformational bill is one that fundamentally reshapes the approach to U.S. tax policy. So, we would move away from individual and corporate income taxes, move towards more tariffs as the source of our revenue. Assuming we don't go down that route, then I think what you would see is a world in which a lot of the current tax code is extended or modified in various ways. What I think about when I think about this world is kind of three different possible forms of bills. The first is, I call, the "everything, but not for long" bill. So, what I mean by that is: you get all of these things that we've been talking about, but you do it for a very short period of time. So, it keeps your deficit number down. And then what you are facing is the potential that in three or four years, you've got to relitigate all of these issues. There's always a concern with a short-term bill that it will be undone very quickly, right? Let's say you make it four years and the Democrats have a trifecta in 2028. Well, they're probably not going to extend all of your priorities, but what's actually been kind of interesting is, even with these tax bills, there's been bipartisan agreement on very, very significant portions of them. So just by way of example, there was bipartisan agreement on extending the tax rates for people making under $400,000, which is actually the vast majority of that $3 trillion cost that I mentioned earlier. And so, what you could see is that there's actually a potential for preserving a large portion of the reform, even if you don't have control of Congress. So, that's the "everything, but not for long." That's one option. Option two: "everything but for a long time". That's exactly what I kind of described, but rather than being four years, you can be eight or nine years. There is a view by many Members that you do need a longer-term policy window in order for your changes to be effective. Because if the business provisions expire very quickly, that's not a sufficient incentive to invest over the long term and an important part of the business provisions is to encourage that long-term investment. The downside to that is pretty obvious. You need to either come up with a lot of revenue or you need to accept a rather large deficit amount. And then the last one is something that I call "smaller and permanent". That's not desirable because you're using up a lot of political capital to not really make a very big change, but you could imagine a smaller, more permanent bill if that's the only way to kind of get everything past the House and the Senate - because of what we talked about earlier, right? We have a House that has just such a small majority; it's going to be an unusual feeling for some Members of the House where they have that much sway because they are not used to it; historically, House majorities have been 15, 20, 30 seats.

Tanja Velling	That's quite a range of options. What should we be looking out for in the near term?
Arvind Ravichandran	In the initial days of the Administration, we want to see where the legislative branch and the executive branch are devoting their time and their attention. In the U.S., we have this concept called H.R.1. Historically, it used to be the first bill that was introduced in the House. Now, the speaker can just designate a bill as H.R.1. But what it was intended to do, was signify the highest priority for that particular legislative session. So, by way of reference, the TCJA was H.R.1, so it signified the highest priority of that legislation. One thing to look for really is to see whether this H.R.1 will be reserved for a tax reform bill. That would signify a very high priority. Again, not every H.R.1 is passed, but that tells you that that's a very, very high priority. Second: when the Budget Reconciliation resolution is actually introduced, you can look at the budget number. If they have a $6 trillion deficit window, we're probably going to my everything, you know, for a long time type plan. If you see a $1 or $2 trillion, that's not everything for a long period of time. To be clear, by the time that resolution is introduced, it's not like we don't know what the policy's going be. The details will of course be worked out. But our legislative process is not one where, you know, lots of bills are now introduced and people debate them; not really how it works. Rather, a lot of the debating and the thinking about the bill will be done in advance and will be done through public forum. So, you may see members of the Trump Administration in some sort of public forum talk about, you know, these are the things that are important to us; these are the things that we are trying to push. Similarly, members of Congress will, when they really have a position that they don't want to back down from, they're going to say that publicly. We've seen that, as I mentioned with the SALT cap. What you'll also see are more in-depth proposals potentially by think tanks that are aligned with the relevant political party. Then the last thing you can look for is what I call "battle lines", just by virtue of reading the American tax news. Let me give you an example of that. Let's say you see an article that says, you know, no tax on overtime should only apply to people who make less than $150,000. That actually tells us something. That tells us that no tax on overtime is probably going to be in the bill. What we're debating about is not whether that's going to be in the bill, but where we're drawing the line.
Zoe Andrews	It sounds like it's a very interesting time to be a U.S. tax lawyer. Thank you very much, Arvind, for joining us today.
Arvind Ravichandran	Thank you very much for having me.

Tanja Velling	And that leaves me to thank you for listening. If you have any questions, please contact Zoe or me, or your usual Slaughter and May contact. Further insights from the Slaughter and May Tax department can be found on the European Tax Blog - www.europeantax.blog.

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