

The Biz Beat Podcast – Episode 09: House vs Senate: Breaking Down the Proposed Tax Bill Changes for Business Owners

Lee: Hey everyone, and welcome back to The Biz Beat by SVA, the podcast that helps business owners stay sharp when it comes to taxes, business trends, and smart strategies. I'm your host, Lee Schwartz, Director of Business Development and Sales, and joined, as always, by my trusty confidant, Eric Trost, Tax Principal and, of course, President here at SVA Certified Public Accountants, Eric we got, we got a big week. You ready to get this thing started?

Eric: I'm ready to rock and roll Lee.

Lee: All right. So, we usually, we follow a format here. We talk about a main topic. We talk about the tax bill. We answer a question from our inbox. But there's a lot of other news out there that we don't want to touch. Politics, that's not our, that's not where we're going with this. But there is big, big news in the Senate's version of the tax legislation.

Lee: So we are going to dedicate today's episode to just talking about that. Eric, let's just get started from a super, super high level. Talk to us about where that's at, what you saw in that and then we can maybe drill down into some of the differences between the House and the Senate Bill.

Eric: Yeah. Yeah. So let's recap where the progress of this bill is at. So initially, this bill, the One Big, Beautiful Bill, as it's been called, was started in the House. So the House of Representatives went through, they did their negotiation, and they passed their version of the bill. So we have a House passed One Big, Beautiful Bill, then they send that over to the Senate, and the Senate can choose to pass the House version, or it can make its own adjustments and pass its own version.

Eric: So once that's done, if the House, if the Senate would have passed the House version, it can go to the President, if the Senate passes its own version, then it goes back to the House, and there's negotiation back and forth to try to come to a compromise bill. That's the whole reconciliation process that this is going to.

Eric: The Senate chose not to pass the House bill, so they didn't bring it up for vote. What they did is they've created their own version of the One Big, Beautiful Bill, and they've released that version, but they haven't voted on it yet. So we're in a process where the Senate has chose to do their own bill, and they've released it, and now they've not yet scheduled a vote, but they hope to vote between

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July 4, I'll say between now and July 4, or if after July 4 sometime before eternity. So somewhere in that timeframe, the Senate said they're going to call a vote on their version of the bill.

Lee: All right, so get your calendars out, and you got to mark July 4 as the first and then just keep going forever into the future. I gotcha. So, and originally Eric, President Trump said, Hey, we want to pass this July 4. What I'm hearing you say is that the chances of that have gone down to maybe nil.

Eric: Yeah, I would describe the chances right now as zero. So that's the best odds I can give you on that.

Lee: A lot more specific than end of eternity. I like that. All right, okay, so, so potentially that you're saying the Senate could have their bill ready to vote on by July 4. That's kind of what they're targeting at the moment.

Eric: Yeah, that's what they're targeting for it. So you might see a vote next week, but I don't think they're even going to get to that point because of what the Senators are saying. So I think it's not going to make the July, their own July 4 deadline. And again, that's just for them to pass their own version of the bill, which, when they finally do, assuming they finally do, still has to then go to the back to the House and do reconciliation before it gets to Trump's desk. So Trump who had an original due date, or let's call it goal date, not due date, original goal date of July 4. That's not happening.

Lee: Okay, so, Eric, let's think about this from a business owner, business's perspective, there's a lot of big differences here between the House and the Senate Bill. Let's kind of, let's pick off a few of these and go through them one by one. Talk about the gaps between those two. Let's start maybe with R & D. Can you talk a little bit about the difference between the House version and the Senate version?

Eric: Yeah, so I think R & D this is a big one, but let's go back to 2017 because when the original tax bill that we're currently living under passed in 2017, there was a provision put in place for R & D expenses in that they couldn't be all deducted in the year that those R & D expenses were spent. So that was a change. Prior to 2017 everyone could deduct their R & D expenses in the same year they spent the money. Going forward, from 2017, going forward, um, there was a bill change that actually went into effect in 2022. It was delayed with COVID, but that R & D expenses had to be written off over five years. So that means, if you spent \$1 in 2022, your deduction was 20 cents in 2022, 20 cents in 2023, etcetera, for five years to get your R & D expenses deducted. That really affected companies that spent on R & D and what their taxable income was going to be.

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Eric: So the House bill said we're going to correct that. We're going to fix that. And the House bill said you can start deducting your R & D expenses right away in 2025. So that's the House version that's out there, but we're going to do it temporarily, meaning that we're going to go back to this five year rule after 2029. So the House put their bill out there.

Eric: The Senate bill is actually even friendlier, and it says we're going to let you deduct those starting in 2025 and we're going to do it permanently, so you can deduct these expenses forevermore. We don't have to worry about this in the tax law anymore. And not only that, there are some provisions that we're going to allow you to accelerate the deductions that you otherwise haven't deducted yet from expenses in '22, '23, and '24, so you get, like a good kicker of deductions in 2025 if the Senate version passes.

Eric: I think the other important thing though here, so that's a difference between the two, is the sameness between the two is this: I think some version of R & D expensing that's going to help out businesses is going to be in a final version. Now, I think that's a very high likelihood that this is not going to get cut. It's got a lot of support in the House and the Senate, so at the end of the day, if something hits the cutting room floor on this, I don't think it's going to be R & D expenses. I think R & D expenses, and the cut to these, and the more favorable deduction for these is going to make it into a final bill.

Eric: Now whether it's the Senate version, which is much more business friendly, or the House version, which is just somewhat business friendly, one of those two versions, I think it's going to be either somewhere in the middle or one of those two. Either way, it's good news for businesses that have R & D expenses. What they're pulling for right now is just that the bill passes with it in it, and so I think it will be in it. They're just, hey, let's get this thing to the finish line now. Let's make sure that this happens. And you know, the other stuff, I don't necessarily have to care about some of this other stuff, if this is important to us, and it's in there right now, let's move this thing along.

Lee: Yeah, and Eric, I know there are a lot more companies that actually qualify for R & D than you would think offhand. R & D is sort of can be a lot of different things can qualify and so there are a lot of a lot of businesses that are pulling for this.

Eric: Yeah, and I think especially if you talk to the R & D consulting firms that charge you to tell you how much R & D you have, those firms definitely will find some R & D within your business.

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Lee: Right. Okay, so it as we go through this, so let's this is what I'm hearing you say, is, this is sort of a check mark on the Senate side, if you're a business owner right now. That's, this is sort of a, if we're keeping score, it's Senate one, House, House nothing, or maybe House point five.

Eric: Yeah, this is one you like the Senate version of, but, and ultimately, you know you're following this, you want this to be in, and I think that both the House and the Senate having these provisions in there is a is a very good sign, because the Senate version is even friendlier than the House version.

Lee: Great. All right, let's talk about the pass-through deductions and what both of, what both bills have for specifics there?

Eric: Yeah, this is one. I think that's going to be a question mark. So what the House did in their version of the bill is they took the top rate for business income for flow through entities, that's like S corporations and partnerships, which is a structure a lot of small businesses use. They took that top tax rate and they lowered it. So the top tax rate is about 30% for those businesses right now, they lowered it to about 28 and a half percent, so a little more than one and a half percent or so. They lowered that top rate. The Senate version does not address that, so the House version has a tweak of a tax cut, essentially, for business owners, the Senate version does not include that.

Eric: I think this is one that could hit the cutting floor, the cutting room floor, because it's just not addressed in the Senate version. So this might be a place, as they come to compromise, and again, the compromise is going to be, how much deficit do we allow to grow with this new tax bill?

Lee: Right

Eric: Yeah. Each version has an amount to grow, and it's quite a bit. At some point the what they call the deficit hawks are going to be saying, Hey, we can't let it grow that much. So what gets cut? And I think this one has a chance to get cut.

Lee: Okay, as it stands now, though, if you're a business owner, this is maybe one in the House, column, is what I'm hearing you say.

Eric: That's correct.

Lee: Okay, all right, moving on, keeping score. So it's one, one. Let's talk about the state and local tax deductions.

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Eric: Yep, so the state and local tax deductions, and this is a rather contentious point, and to recap the state and local tax issue, in 2017 the law changed so that the state income taxes, real estate taxes, those deductions that you would otherwise get as an individual, were capped at \$10,000. This had a significant impact on folks that live in higher tax states, they lost their deductions. Higher tax states include California, New York, New Jersey, and so the representatives from those states were not too keen on this part of the tax bill back in 2017 and have been trying to change it ever since then, with no success.

Eric: They tried to change it under the Biden regime. Didn't get it done. They're trying to change it again. And in fact, the House version did change it. They increased that cap from \$10,000 of a maximum deduction for state taxes and local taxes to \$40,000, so a pretty big differential there. So now you can add up to deduct up to \$40,000 of taxes under the House version. The Senate version goes back to \$10,000 which is where the current law is. So this is another area that I almost expect a compromise on, because there's a lot of strong support in the House for that increased \$40,000 cap. And in fact, part of how I think the House eventually got their bill passed and passed by just a very slim margin of one vote, was that they included this higher cap in the state and local tax deduction area. So the House moved it to \$40,000 the Senate said, No, we're putting it back down to \$10,000.

Eric: What will the compromise be, somewhere between there? Or does the Senate win out on this one, and just they keep the \$10,000 cap? Which is just going to make some of those representatives from New York, California, New Jersey, probably a little irate.

Lee: Yeah. So for this one, if we're keeping score, is this sort of, I don't, does nobody get credit for this one?

Eric: This depends what side you're on.

Lee: Yeah.

Eric: If you're deficit hawk, you're like, Hey, I like the Senate version. That's one for them. If you live in one of those high tax states and by the way, Wisconsin's edging to try to get to high tax states sometimes, and in some areas, they are high tax. So if you're trying to alleviate some tax burden for those living in high tax states, which Wisconsin, frankly, is closer to New York than it is to Florida when it comes to taxes, this might be a loss, right? So you might like the House version better. The Senate version is a loss.

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Lee: Okay, all right, so we're, for those keeping score at home, I've already lost count, but we'll, we'll get there. We'll get there at the end. Okay, next on the list, Eric, let's talk about the pass-through entity tax. How does that look in both bills?

Eric: Yeah. So the pass-through entity tax, you can make an election as a business owner to deduct your state income taxes at the pass-through level, so at the business level. That's a workaround that was put in place to try to get around this \$10,000 cap we're talking about. And what it means is, you know, as an individual, you have a \$10,000 cap on your tax return, on how much you can deduct in state and local income taxes, but a business entity doesn't have that cap. So if there's a way to pay your state income taxes related to that business income at the business entity level, there is no cap on that deduction.

Eric: So what happened is a lot of states put in place a way to pay state income taxes through their business entity, their pass-through business entity. This is a totally new thing, and was created in response to this \$10,000 cap. And so states put that in place, Wisconsin being one of the first and does have that in place as well. That pass-through entity tax deduction is limited in the House version of the bill. What the House did is said, hey, for some businesses, we're not going to allow this pass-through entity tax deduction, and specifically they pointed at some businesses such as professional services that said, we're not going to allow you to get around that. Why they picked professional services, such as the business I'm in, as opposed to other businesses, I don't know. I think we, just, professional services don't have a great lobby that has been successful in molding the tax code. Other lobbies, like the real estate lobby, they got it going on. I think we can learn something from that.

Lee: I'll make some calls. I'll see what I can do. I got some, I got some hands I can grease. Don't worry. Well, we'll get that taken care of.

Eric: Very good. We're looking forward to that.

Lee: Okay, so, so as you look at both of those bills, this is, this is another one that what so, and forgive me, you, I think you said Senate, the Senate wins this one.

Eric: Well, again, it depends what side you're on. The House version is better for, if those that are trying to cut the deficit. So the House version, again, is kind of a this is where the deficit hawks would say, Yeah, we like provisions that limit that deduction, because that was the intent of the '17 bill, is to limit your tax deduction. And these pass-through entity tax elections get around that. So we like to limit it. The Senate version doesn't address it, so it basically leaves the pass-through entity tax

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elections alone and doesn't put any restrictions on any kind of businesses to take those so in my mind, it's a win for the Senate version versus the House version. But I'm acting, as, you know, within my profession there, not as a deficit hog.

Lee: Right, right. But no, again, I think, thinking about this as a as a business owner, you know, primarily, hey, how am I going to pay the least amount in tax? It's the Senate Bill. If, you know, if you're thinking about, there's a lot of different hats we all wear, right? And we're not going to ask you to put on your you know, your father hat, or your citizen hat? Let's just, let's just do, let's just stick to the vision of a business owner.

Eric: I have a good corporate citizen hat. You want me to just leave that aside for the purpose of this conversation?

Lee: Exactly.

Eric: And put on my selfish it's my business, and how much less taxes can I pay?

Lee: Right. You got it. You got it.

Eric: Okay, I'll wear that the rest of the of this podcast.

Lee: You got it. You got it. So I think the last major, major piece, and I can open it up to you to cover anything here, but one of the things that we've been hearing from the get go, and even in in the, you know, during the campaign, no taxes on tips, no taxes on overtime. Talk to us about how that's breaking down in both bills.

Eric: Yeah. So the House version has exactly what you said incorporated. No taxes on tips, no taxes on overtime. The House version does have some phase outs for income. So if you make too much income, you're going to lose out on those deductions. You're going to lose out on the free taxability, let's say, of overtime and tips. The Senate version not only has some income caps as well, but they also limit the amount of those deductions. So they cap those deductions at \$25,000, so if you have tips or overtime and it exceeds \$25,000, you're not going to get the no tax on tips and no tax on overtime.

Eric: So essentially, this Senate version curbs that deduction for individuals, definitely a win for the House bill versus the Senate bill when it comes to how much tax do I have to pay. So the Senate

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version is cutting that tax benefit that the House version is provided for by putting that cap on the amount of the deduction.

Lee: Okay, so, Eric, as you know, I'm not a CPA. Once we start counting over two maybe three, I lose count. So I don't know exactly how we ended up, but I heard a little bit in both columns. As far as what, how a business owner would look at this, some versions House, some version Senate. Is that kind of where, where you see it?

Eric: Yeah, I think if I'm just got the business hat on, I like the Senate version better.

Lee: Okay.

Eric: You know, just in general, I think the Senate is a little more business friendly. Now, as it so happens, the Senate version also has a higher deficit need, deficit spending need. So it needs a little more, so the Senate version does increase the deficit more, at least under current projections.

Lee: Right. And there were a lot of aspects of this bill that we didn't talk about that maybe a business owner is not going to be as concerned about as it affects their business, that there's still a lot of gaps here, so a lot of, we'll see how this all plays out. Hopefully we were able to give you a good sense of what those main differences were. As you might look at it from a business's perspective, Eric, anything else that stuck out to you that you wanted to cover as far as major differences?

Eric: Well, yeah, not even differences. But I'm just curious to see how this bill goes. As I said at the beginning, it's not passed yet through the Senate. The Senate has 53 Republican senators. They need 50 to pass it, and there's been a couple outspoken Senators, including Wisconsin's Ron Johnson, against the Senate version of the bill for what it does to the deficit. So I think the question is, can the Senate even pass their own version of the bill? That's where it's got to start. If they can't get there, they are really back to square zero or square one, wherever you're supposed to...

Lee: Yeah, wherever the starting point is, yeah. All right, that's great. Thank you, Eric, that I know that was a lot of, and that just got released yesterday, so I know you've, you've been studying this. I hope...

Eric: That's all I do.

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Lee: That's what you do. That's 100% of your job. You have no other responsibilities. So that must be easy.

Eric: Yeah, I love it. I love my job.

Lee: All right, everybody, that's a wrap on this special edition of The Biz Beat by SVA. We will be back next week with our usual format but just wanted to take some time today to unpack these sort of competing tax bills while the news is still fresh. If you found this helpful, subscribe on Apple Podcasts, Spotify or YouTube. Please pass it along to another business owner that you think might find it helpful.

Lee: And as always, the ideas we share here today are general in nature. Before you make any moves, talk to your advisor. And if your advisor isn't at SVA, let's fix that. You can reach out to me. We can talk about how to make you a client. Thanks again for tuning in, and we will see you next week on The Biz Beat by SVA.

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