

 ParallaxesCapital  
**TRAILblazing**



A Parallaxes Capital Podcast

S01 E05 – 2024 Election with Bloomberg Tax Policy Analyst, Andrew Silverman (March 8, 2024)

Andrew Silverman



Host – Andy Lee



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00:00

Welcome to TRAIblazing: capitalizing on Tax Receivable Agreements. A Parallaxes Capital podcast that is here to guide you through the world of tax receivable agreements. It's time for TRAIblazing.



### Intro – 00:13

Today we have on Trailblazers, my friend Andrew Silverman. Andrew Silverman is a tax policy analyst at Bloomberg News, and he's done a phenomenal job to sharing with us today some of what the upcoming election in 2024 has to bring from a news perspective for both Republicans as well as Democrats. Prior to Bloomberg, Andrew worked at firms including the likes of Simpson Thacher, Deloitte, as well as PwC. So he has a unique vantage point from which you would be sharing with us his point of views as to what each side cares about. Welcome to the pod, Andrew.



00:55



Thanks. I appreciate it. It's great to be here.

00:58

Amazing. And why don't you tell us, how did you come into the wonderful world of tax?



### Background of Andrew - 01:14

Oh gosh. Well, so a long time ago, oh gosh, maybe more than a decade ago, I was working for an asset management company and my boss really did not like tax issues, and so I used to get from time to time tax questions and I discovered that I just really liked tax. I'd taken one tax class in law school but hadn't really delved into it, and I discovered I really, really liked it. And then it was the midst of the financial crisis and decided to go back to school and just specialize in tax and discovered that I liked it even more than I thought I did. So I've been doing that for about a decade now, and it's been an absolute pleasure, especially what I'm doing now. I just love the policy stuff.



01:49

Amazing. And how did you, as you think about the world of tax, it's a large, complicated world. Might that be international, domestic, where do you spend your time and what are some of the issues that you engage on in your new role?



02:03

Well, yeah, my bandwidth is pretty broad, so most of what I cover is federal tax, but I also cover international tax and foreign tax as well, and occasionally state and local tax. So it's really any tax issue under the sun falls under my umbrella.



02:19

What is the issue that people most care about from your reader-based perspective?



**Biggest reader fascination – 02:23**

That's a good question. They care about a few things. I think sort of niche issues like cryptocurrency is something that people care about and marijuana taxation, and whenever I bring up state and local tax, that just gets a ton of hits, especially the state and local tax deduction. That is a big reader fascination issue. Even if there's nothing to talk about, you just say salt in the headline and you just get a thousand hits right off the bat.



02:51

Interesting. I guess everyone cares about what hurts their pockets.



02:55

Exactly. That's right. Yes, yes, yes, that's right.



02:58

Very cool. And so as you see it today, the Republicans obviously today have both Donald Trump as well as Nikki Haley still in the race TBD, where RFK stands from an independent perspective, and obviously we have the incumbent Joe Biden, I mean, what are their biggest policy pushes on either side of the equation from a Republican and Democrat perspective?



### Republicans on taxes – 03:20

So what the Republicans want most of all is to make the tax cuts and jobs act permanent. And as part of that, there are a couple of pay fors in the Tax Cuts and Jobs Act that paid for the corporate tax right deduction and the partnership tax deduction, like the interest expense deduction that they would like to shift back. Right now, in order to deduct your interest expense, you use EBIT. Just a couple of years ago you were able to use EBITDA, and so by taking amortization out of the calculation, it reduces the ability of companies to reduce their interest expense. So that's one of the things they want to switch back. They want to be able to allow companies to expense their R&D. Again, these are all things that are actually in the tax framework that the chairman of the ways and means committee Chairman Smith and the chairman of the finance committee, Chairman Wyden have discussed and the house now has passed and it's in the Senate right now. And then I think, some of the, well... also a capital expensing is something that the Republicans, Republicans want. But then sort of more broadly, Trump has said he wants to reduce the corporate tax rate to 15%. So in order to do that, he would have to come up with some enormous revenue raiser. It's equivalent to about a hundred billion dollars over 10 years to reduce the corporate tax rate by one point. So you'd have to come up with some way to pay for all of this. And his proposal was to institute a broad tariff for all products coming into the United States. So it sort of bring us back to a pre 20th century tax position for the United States. We used to have something like that. Obviously, we haven't had that in a really, really long time. The other thing that Republicans want is they want to reinstitute a lot of the tax extenders that have now gone expired.



05:07



So for example, the Democrats were able to get a lot of the things that they wanted and then tax extenders already in the Inflation Reduction Act, the Republicans weren't able to get anything because the Democrats were able to pass the Inflation Reduction Act on their own. So things like expensing for mine, safety equipment, things like that, and faster depreciation tax rate for race horses, Senator McConnell's favorite tax extender. But broadly speaking, the Republicans have also said that they want to completely repeal the Inflation Reduction Act and get rid of all of the energy perks that the Democrats have put into place. I think that's probably something that would be unlikely for them to accomplish unless they have just an enormous majority in the House and the Senate. And there are federal Republicans that a lot of what's in the Inflation Reduction Act, so saying that they would repeal the entire thing, it's probably going to come down to a couple of small provisions. Maybe clean hydrogen is something they could repeal, but the solar tax deduction, the wind tax deduction, those things are pretty popular. So I don't know if they could get rid of that completely. They've also talked about indexing the capital gains tax to inflation, repealing the estate tax and permitting the unlimited carryback of NOLs. And I should point out also that Nikki Haley has said that she wants to end the state and local tax deduction completely and get rid of the federal gasoline tax. So I think that's for the most part, that's where Republicans –

06:37

That's a very full agenda



06:39



Yeah. It is a very full agenda. So they have a lot that they like to accomplish that they are able to win large majorities in the house in the Senate.

06:48

And how about the Democrats? What do they care most about?



## Democrats on taxes – 06:51



The two big things are the child tax credit, making that bigger obviously, and then improving housing. So they would like to bolster the low income housing tax credit. There's also actually a middle income tax credit they would like to get adopted. They also want to extend some of the things that were either in the Inflation Reduction Act or that didn't make it into the Inflation Reduction Act that were in the Build Back Better bill, like for example, expanding the ability of publicly traded partnerships to operate as right now, they are essentially just energy and natural resource companies that Democrats would like to expand that to clean energy companies as well. And in terms of increasing tax rates, President Biden said he wants to quadruple the stock redemption tax rate, the 1% rate that's in the Inflation Reduction Act. He wants to increase that to 4%, and he said he wants to increase the corporate tax rate to 28%, although in the Build Back Better bill, the Democrats had only increased it to 26.5%.

So a pretty huge increase over what we have right now, the 21% tax rate. The Democrats also talked about getting rid of the ability of companies to mix their foreign tax credits. And this sounds like kind of a minor issue, but companies being able to take their high tax foreign tax credits and their low tax foreign tax credits and mixing them together allows them to reduce their total taxes by 6 billion dollars a year. So it's actually a pretty big amount that they're able to reduce their taxes by just sort of mixing those credits. And the Democrats would say, no, you have to do it on a country-by-country basis. Another thing that the Democrats have proposed is capping the amount of debt that a company can push off in a spinoff. So they're essentially trying to come up with a lot of ways to raise the amount of income that's coming into the federal government's coffers.

08:46

Understood. One of the things that is always a big question, it sounds like there's a lot going on. I would just hit on what you shared on foreign tax credits. What are both sides thinking about the more recent OECD bill on both pillar one and pillar two?



## OECD – 09:00



So that's a great question. Generally speaking, the Democrats and the Republicans both are opposed, I would say to pillars one and two, even though President Biden and Secretary Yellen have expressed support for what the OECD is doing, especially the Republicans. But a fair number of Democrats as well are not at all supportive of what Europe is, and mostly Europe is trying to do with pillar one and pillar two because they think that those taxes are aimed at US companies. And in fact, the Democrats had the ability to adopt Pillar one tax or put in pillar two measures in the Inflation Reduction Act. They chose not to do that. And so, the Chairman of the Ways and Means Committee went to the OECD and tried to push them to not adopt these measures. Countries are already adopting pillar two measures to increase the amount of minimum tax that companies have to pay, especially if we have Republicans in administration. I think that's probably going to result in a pretty bad outcome. Either the OECD or the EU are going to probably have to accept the fact that the US already has a minimum tax that fits the requirements for a global minimum tax, or we might just get a huge trade war because the US is probably not going to stand for other countries adopting a minimum tax that are solely applied to or mostly applied to US companies.

10:24

Got it. From a sector specific point of view, I mean, you shared some of the items that were pretty interesting as it pertains to might that be a racetrack or racehorse deduction among others, which sectors in your mind are the most benefited as a result of a Republican or Democrat nominee for the president?



10:45



Well, certainly clean energy companies would be the biggest beneficiaries of the Democrats winning large majorities in the House and the Senate and maintaining the presidency. The sectors that the Republicans said got the biggest benefit from the Tax Cuts and Jobs Act, generally speaking, were industrials and financials, mostly because those companies have an effective tax rate that's closest to the statutory tax rate. So, when you bring down the statutory tax rate, those companies, effective tax rates also fall pretty substantially as well. Yeah, I guess in terms of other sectors, tech companies, pharmaceutical companies have low tax rates regardless of who's in control of the House and the Senate, but higher tax companies, natural resource companies would benefit more from having Republicans in control of the presidency and the House and the Senate, I would say.

11:40

Got it. And as you think about the items, might that be, what are items that they're most willing to play ball on that they are necessarily utilizing as a negotiation on a go forward basis? As you about the various parties? It sounds like a big baby of the Democrats is the clean energy revolution, and for the Republicans, they are utilizing primarily tariffs in order to balance their budgets. What do you think is core issue that they are most likely to be willing to give on in order to achieve ultimate policy outcomes?



### **Inflation Reduction Act – 12:14**

Yeah, and that's a good question. I think the Democrats would be willing to give on some of the smaller clean energy credits that they were able to adopt the new ones that they were able to adopt in the Inflation Reduction Act. Like I said, clean hydrogen is something I think the Democrats would give on maybe the zero emission nuclear power production credit. Those are some things that the Republicans had proposed in their, I think it was the Build and Save Act, their proposal to repeal the inflation reduction act. Smaller things, I think are points that the Democrats might be willing to give on in terms of what the Republicans would be willing to give on. I think that they probably think that they've already given a lot. Another big issue that the Democrats might be able to negotiate with the Republicans is the ability for companies to receive distributions from individuals who receive distributions from e-commerce platforms.

This concept that used to be under the old law, you could receive \$20,000 in aggregate payments and 200 transactions annually without that distributor making a filing to the IRS. Now under current law, there's a much lower threshold of \$600 in aggregate payments at no minimum transaction ceiling. So one of the aspects of the framework that the Republicans and the Democrats have agreed to is that they would raise that to a thousand dollars annually. So that's one aspect. I think that the Republicans, the Democrats have sort of agree on that they would raise it slightly. I mean, the other big thing of course, is funding the IRS. The Democrats have added an enormous amount of money to the IRS coffers and the Inflation Reduction Act. The Republicans would like to repeal the entire thing. So I think settling somewhere in the middle is probably something they would be willing to do. And I think the Democrats and Republicans can both agree that, for example, the employee retention credit has been kind of a mess. I don't know if you know about this.





14:14

ERTC



14:15



Relative debacle. There was a federal credit for 50% of employee salaries in 2020 and 70% of wages in 2021, and the government now says that it's resulted in somewhere around 78 billion dollars of fraud. So I think both parties can agree that that's something they're going to be a little bit, that's something that they can use to bring some revenue back. And they've sort of stalled the process of companies getting those rebates, and now I think they're going to go after companies and try to claw back some of the money that they've distributed since the pandemic.

14:51

Absolutely. And on the IRS front, the need for talent is acute. How we're going to fill that void is going to be incredibly challenging. What is something that in— you are an incredibly talented tax professional— how do we get tax professionals to speak English and for the next generation in terms of advice on the next generation of tax professionals?



### **IRS problem – 15:12**



Well, that's a good question. I think the simple answer is they're probably going to have to pay more to get people that would want to work at the IRS, and they need more people. They need people that can speak tax a little bit better, but the salaries that they're paying are pretty low. When Chairman Reddick got in front of Congress and they asked him about hiring, he said, look, I was in Arby's not too long ago and realized that the amount of money that they're paying their starting employees at Arby's was more than we're paying our starting employees at the IRS. So I think the IRS probably have to pay more than they pay at a fast food restaurant in order to attract the best talent.

15:57

Absolutely.



15:59

But their training program has sort of taken a hit. They need more money to hiring, but they also need more money to allocate to training, and they need people in order to do the training. I can't remember the exact numbers, but it's something like 50 or 70% of the IRS is at the age that they're ready to retire. And so not only do we have a gap in the number of people that are already working at the IRS, it's just going to get worse over time, and those are the people that are the most experienced and that can do the best training, and they're sort of on the threshold of leaving. So even though the IRS get all this extra money, we're poised to be in a situation in which the IRS could actually do worse than it's doing right now. Not better.



16:32

What is it about tax education that results in many tax professionals struggling to connect the business side of the equation to the tax side of the equation?



### **Understanding tax code – 16:42**

Well, it's tough. It's tough to understand. And I think most companies, when they think about tax, they think about tax accounting. They don't think about cash taxes, and tax lawyers think about what's in the Internal Revenue Code not gap accounting, and so there's a divide there. The tax lawyers and the accountants aren't exactly speaking the same language. So that's confusing for companies. And what you read in SEC filings is the accounting stuff, not the tax stuff, even though it says tax. So that's confusing. Obviously the code itself is thousands, thousands of pages. The treasury regulations are a hundred times as long, I don't know, much longer, tens of thousands of pages, and it's not written in the easiest language to understand. And then those are just the regulations and the tax code. You also have guidance from the IRS, guidance from the Treasury Department, and you have decades of case law as well. Right?

And so tax people and accountants have a pretty good handle of that stuff. But trying to explain all of that to somebody that's running a company in short period of time is difficult to do, right? They don't want to sit around listening to their VP of tax talking about these issues for hours and hours. They just want a clear answer. And tax is one of those things where it's really hard to get a clear answer. So I mean, it just makes it very complicated. It's a difficult topic. It's hard to understand and you don't get clear cut answers. So it makes it difficult. It makes it difficult to communicate, I think.



18:13

Amazing. And how can our listeners get in touch with you, Andrew?



**Contacting Andrew – 18:17**

Yeah. Well, I mean, you can look me up on the terminal. I can give you my email address if you're interested in asking questions. It's just my first initial and then my last name: asilverman38@bloomberg.net. If you have questions about things I've written or just want to talk about tax, I'm happy to answer questions. And even though that acting is a tax lawyer just on policy issues. But yeah, love to hear from people and love talking about tax.



18:46

Thank you for the time, sir.



18:49

Thank you.



18:49

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## **Further Reading**

### **Intro – 00:13**

[Bloomberg News](#)

[Simpson Thatcher](#)

[Deloitte](#)

[PWC](#)

### **Republicans on taxes - 03:20**

[Tax Cuts and Jobs Act: A comparison for businesses | Internal Revenue Service \(irs.gov\)](#)

### **OECD - 09:00**

[OECD Pillar One](#)

[OECD Pillar Two](#)

### **Inflation Reduction Act - 12:14**

[Build Back Better Act](#)

[Inflation Reduction Act](#)

### **Contacting Andrew - 18:17**

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