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House GOP leadership election postponed as McCarthy withdraws from speaker's race

Rep. Kevin McCarthy, R-Calif., the House majority leader and leading candidate to become the next speaker of the House, stunned his Republican colleagues October 8 by announcing just before the party's internal vote to nominate a candidate for speaker that he was withdrawing from the contest. Current Speaker John Boehner, R-Ohio, subsequently announced that the House GOP leadership election has been postponed until further notice.

McCarthy's decision comes just two weeks after Boehner abruptly broke the news that he would relinquish his gavel and resign from Congress at the end of this month. In the wake of McCarthy's announcement, however, Boehner stated that he would remain in his leadership position until a new speaker is elected by the full House and that he is confident that will occur "in the coming weeks."

McCarthy told reporters that he even though he is no longer a candidate for speaker, he intends to remain in his role as majority leader.

The presumptive winner, but with how much support?

Going into the October 8 Republican leadership election, McCarthy was seen as the likely winner of a three-way race with Rep. Jason Chaffetz of Utah and Rep. Daniel Webster of Florida to be the Republican nominee for speaker. The 40 or so members of the House Freedom Caucus – a group of conservative Republicans whose strong opposition to Boehner's leadership was seen as a key factor in the timing of his retirement – were backing Webster in the contest, but this was not expected to prevent McCarthy from winning the necessary majority within the party.

However, the speaker is formally elected by the full House of Representatives. After winning nomination by the majority party, the candidate must then win a majority of the full House – 218 votes – to take the gavel. This is often a pro-forma process, with the minority party voting for its own leader – in this case, Rep. Nancy Pelosi of California – and the majority candidate winning the requisite votes from within his or her own party. Despite the current divisiveness among Republicans, McCarthy may have believed he could garner enough votes on the House floor for an outright win. But in his remarks to reporters McCarthy indicated that he did not want to assume the speakership with only a narrow margin of support in the chamber.

"I don't want to go to the floor and win with 220 votes," he said.

The new leadership race

The week's developments leave House Republicans in a period of uncertain leadership. As questions immediately rose about potential candidates to unite the conference in the aftermath of McCarthy's announcement, Rep. Chaffetz, the chairman of the House Oversight and Government Reform Committee, told the press gathered in the House that he would remain in the speaker's race and hoped he could become the consensus choice for the party. Rep. Webster also reportedly plans to remain in the race.

Additional candidates are expected to make a bid for the speakership in the coming days.

Drafting Chairman Ryan?: One lawmaker who repeated his lack of interest in the position is House Ways and Means Committee Chairman Paul Ryan, R-Wis., who is frequently mentioned by many Republicans as a popular choice for speaker. Ryan declared that he would not be a candidate when Boehner announced his resignation and promptly issued a statement reiterating that decision following McCarthy's withdrawal from the race.

"While I am grateful for the encouragement I've received, I will not be a candidate. I continue to believe I can best serve the country and this conference as chairman of the Ways and Means Committee," he said. (Ryan's communications director followed up with a similar statement on October 9.)

Despite his stated reluctance, however, key Republicans have been imploring Ryan to reconsider. If Ryan were to enter the race for speaker, he would be widely expected to prevail, which in turn would open up the coveted position of Ways and Means chairman.

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Schumer downplays prospects for international tax reform-highway deal; Ryan eyes Senate transportation offsets

Despite recent reports that their discussions had reached an impasse, House Ways and Means Committee Chairman Paul Ryan, R-Wis., and Senate Finance Committee member

Charles Schumer, D-N.Y., continued talks this week on a possible deal to pay for a six-year highway spending bill using certain one-time revenue from international tax reform. But Schumer indicated that prospects for an agreement appear dim and Ryan reportedly is now considering a highway funding bill that incorporates Senate-approved pay-fors to keep the Highway Trust Fund solvent.

Ryan has been developing a plan that would overhaul US international tax rules – including an innovation box that would provide corporations a preferential tax rate for income generated by certain intellectual property – and use certain one-time revenues from deemed repatriation to cover the shortfall between dedicated Highway Trust Fund revenues and anticipated trust fund spending. He has been working with Schumer and Finance Committee member Rob Portman, R-Ohio, (the co-chairs of the Finance Committee's international tax reform working group) in an effort to craft his proposal in a way that could win support on the other side of the Capitol.

But talks broke down late last week after Ryan and Schumer were unable to agree on the level of highway funding to be included in the package. According to an aide, Ryan directed the House Transportation and Infrastructure Committee "to move forward with a highway bill that does not assume a contribution from international tax reform." (For prior coverage, see *Tax News & Views*, Vol. 16, No. 33, Oct. 2, 2015.)
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/151002_1.html

Schumer 'not optimistic'

Although Ryan and Schumer agreed to move ahead with their negotiations, Schumer told *CQ Roll Call* October 6 that the two still were "not close" to consensus and that disagreements over the level of highway funding in the package remain the chief sticking point. (Most multi-year highway reauthorization plans advanced or supported by Republicans have not called for spending significantly above what is projected in the Congressional Budget Office's current-law baseline. Democrats generally would prefer levels similar to those included in President Obama's recent budget proposals, which endorse using revenue from international tax reform to pay for infrastructure spending at levels considerably above the baseline. These differences could have a dramatic impact on the required deemed repatriation rate that would be needed to finance each vision.)

"[W]e need a robust highway increase to justify the whole endeavor. Chairman Ryan I think would like to get there, but he is constrained by all kinds of Republican rules and politics, so it's hard. Right now, I'm not optimistic," Schumer said.

Ryan looking to 'DRIVE Act' offsets

For their part, Ryan and House Transportation and Infrastructure Committee Chairman Bill Shuster, R-Pa., reportedly told the House's New Democrat Coalition October 7 that they are considering crafting a House highway bill that incorporates revenue offsets from the Senate-approved Developing a Reliable and Innovative Vision for the Economy (DRIVE) Act. The DRIVE Act, which cleared the Senate in July, would extend highway programs for six years, while financing about three years of the shortfall between Highway Trust Fund spending and dedicated revenues – or roughly $50 billion – with an assortment of budget offsets ranging from selling oil in the Strategic Petroleum Reserve to reducing the dividend rate paid by the

Federal Reserve on stock held by certain member banks. (For details on the Senate plan, see *Tax News & Views*, Vol. 16, No. 25, July 24, 2015.) The DRIVE Act also contained several tax compliance revenue raisers; however, those provisions were subsequently folded into the Surface Transportation and Veterans Health Care Choice Improvement Act – the three-month Highway Trust Fund patch that Congress approved and President Obama signed in late July – so they are no longer available as offsets and would need to be replaced if lawmakers target a similarly sized general fund transfer this fall. (For prior coverage, see *Tax News & Views*, Vol. 16, No. 24, July 31, 2015.)
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/150724_1.html
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/150731_2.html

Rep. Gerry Connolly, D-Va., the vice chair of the New Democrat Coalition, told reporters that "Ryan's strong view is that the Senate offsets are inevitably in our future. Actually, he said 'get used to them.'"

But whether that approach can gain support in the House is unclear. Talking to reporters on October 7, Ways and Means Committee member Charles Boustany, R-La., expressed reservations about the Senate-approved offsets – notably, the proposal to sell oil in the Strategic Petroleum Reserve – and House Republican taxwriter Robert Dold of Illinois criticized the Senate bill for providing only three years' worth of offsets.

In his interview with *CQ Roll Call*, Sen. Schumer stated his preference for a longer-term highway agreement similar to the one he was attempting to reach with Ryan, but conceded that the Senate approach may be the best available option.

"Is [the Senate bill] as good? No. It's only three years. That's not a way to run a highway system. The increases are much too small given the needs of our infrastructure and given the need for jobs in America, but it's better than nothing," he said.

Limited timeline

House Transportation and Infrastructure Committee Chairman Shuster has indicated that his panel will mark up a highway spending package sometime after Congress returns from the upcoming week-long Columbus Day recess. (Both chambers are in recess the week of October 12. The House will be back in session on October 20; the Senate is set to reconvene on October 19.)

The most recent short-term extension of spending authority for the Highway Trust Fund is set to expire on October 29, although the Transportation Department has indicated that the latest transfer of revenue from the general fund may be enough to keep the highway fund solvent until sometime in 2016.

Senate Finance Committee Chairman Orrin Hatch, R-Utah, told reporters October 5 that he was not inclined to support another temporary Highway Trust Fund patch and called on the House to put forward a long-term highway bill of its own.

"We've already sent over a highway bill. …I think we ought to bring that to fruition. We put our bill over there; they need to put a bill up," Hatch said.

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