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Hatch planning corporate integration discussion draft

Congressional taxwriting leaders continued to lay down markers for tax reform this week as Senate Finance Committee Chairman Orrin Hatch, R-Utah, confirmed plans to release a discussion draft of a corporate integration proposal and announced a Finance Committee hearing on retirement security issues. Meanwhile, House Ways and Means Committee Chairman Kevin Brady, R-Texas, scheduled a hearing for that panel to examine issues related to economic growth.

Corporate integration

Hatch's corporate integration proposal, which he told *Politico* would be released "in about a couple weeks," reportedly will call for giving corporations a deduction for dividends paid out to shareholders. Such a change, if proposed, also would likely revise the tax treatment of dividends received by corporate shareholders, including currently tax-exempt entities.

Under current US tax rules, corporate income is taxed once at the entity level when it is earned and potentially a second time at the individual level when it is paid out as a dividend to shareholders. Eliminating this double taxation "would go a long way toward stopping some [corporate] inversions," Hatch said.

The proposal is still being drafted and details of exactly how it would work – or how its cost would be offset – are unclear. Sources have told Deloitte Tax LLP that in addition to legislative language, the draft proposal may include revenue scores and a list of open questions intended to elicit feedback from stakeholders.

The issue of corporate integration has been under study at the staff and member levels in the Finance Committee in recent years. The *Finance Committee Staff Report on Comprehensive Tax Reform for 2015 and Beyond* (prepared by the panel's GOP staff and released in

December of 2014) includes an extensive discussion of corporate integration which generally argues that publicly traded entities should be taxed at the entity level, while other business entities should be taxed at the individual level. The report explores ways that this could be achieved through a dividend exemption or deduction system. (For prior coverage, see *Tax News & Views*, Vol. 15, No. 39, Dec. 12, 2014.)
URL: http://www.finance.senate.gov/imo/media/doc/91797.pdf
URL: http://newsletters.usdbriefs.com/2014/Tax/TNV/141212_3.html

A July 2015 report from the Finance Committee's bipartisan working group on business tax reform (co-chaired by Sens. John Thune, R-S.D., and Ben Cardin, D-Md.) includes a discussion of "partial corporate integration," in which undistributed income would be taxed at the corporate level and income distributed to shareholders would be taxed only once. Noting the numerous challenges in each of the options the working group considered, the report does not endorse any specific corporate integration proposal. (For prior coverage, see *Tax News & Views*, Vol. 16, No. 23, July 10, 2015.)
URL: http://www.finance.senate.gov/imo/media/doc/The%20Business%20Income%20Bipartisan%20Tax%20Working%20Group%20Report.pdf
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/150710_1.html

Finance hearing to address retirement security

Also this week, the Finance Committee announced that it will hold a hearing on January 26 to address "increasing access, participation, and coverage in retirement savings plans." Joint Committee on Taxation Chief of Staff Thomas Barthold is among the witnesses scheduled to appear.

In a report issued last year, the Finance Committee's bipartisan tax reform working group on savings and investment (co-chaired by Sens. Mike Crapo, R-Idaho, and Sherrod Brown, D-Ohio) identified a number of potential actions the panel could take to strengthen private retirement savings. (For prior coverage, see *Tax News & Views*, Vol. 16, No. 23, July 10, 2015.) It is currently unclear whether – or to what extent – that report will be a focus of the hearing.
URL: http://www.finance.senate.gov/imo/media/doc/The%20Savings%20&%20Investment%20Bipartisan%20Tax%20Working%20Group%20Report.pdf
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/150710_1.html

Ways and Means to examine economic growth

Across the Capitol, the House Ways and Means Committee announced this week that it will hold a hearing on February 2 that, according to Chairman Brady, "will focus on [the committee's] pro-growth ideas and policies that will help create jobs, increase paychecks, and expand opportunities for all Americans." (The hearing had been set for January 26 but was rescheduled because of impending blizzard conditions in Washington.)

A witness list was not available at press time.

Although the hearing announcement did not provide specific details, tax reform is likely to be part of the discussion. Brady frequently cites tax reform as something Congress could do to promote economic growth and has indicated that the panel will hold a series of tax policy-related hearings this year as part of an effort to lay the groundwork for comprehensive tax reform legislation under a new Republican presidential administration in 2017. (Congressional Republicans have acknowledged that they will be unable to move comprehensive tax reform as they envision it while President Obama remains in office. For prior coverage, see *Tax News & Views*, Vol. 17, No. 3, Jan. 15, 2016.)
URL: http://newsletters.usdbriefs.com/2016/Tax/TNV/160115_1.html

Ways and Means Committee Republicans will discuss their legislative agenda for the coming year in more detail at a retreat scheduled for February 2. (The retreat date was changed from January 25 because of expected weather conditions.)

— Michael DeHoff
Tax Policy Group
Deloitte Tax LLP

Year-end 2015 budget deal worsens long-term fiscal picture, CBO says

A summary of projected federal revenue and spending for 2016 through 2026 released by the nonpartisan Congressional Budget Office (CBO) January 19 offers a markedly bleaker picture of the nation's long-term fiscal outlook – a result the agency attributes in part to the enactment of a budget deal late last year that made permanent several tax provisions that had lapsed at the end of 2014 while extending others for two years or more.
URL: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129-2016_Outlook_Summary.pdf

CBO expects to release a detailed 10-year budget outlook on January 25.

Deficit, public debt reach inflection point in 2018

Similar to its recent analyses, CBO sees budget deficits remaining stable over the next few years but beginning an inexorable ascent later in the decade. According to the report, over the next few years, deficits will hover around 2.9 percent of gross domestic product (GDP) – roughly consistent with the 50-year historical average deficit of 2.8 percent of GDP. Over that same timeframe, the publicly held debt will also remain stable, at about 76 percent of GDP, according to the agency.

After 2018, however, CBO projects that budget deficits and the publicly held debt will begin to swell – reaching 4.9 percent of GDP and 86.1 percent of GDP by 2026, respectively – driven mainly by higher outlays attributable to increasing ranks of Baby Boomers becoming eligible for Social Security and Medicare, rising health care expenses, and growing debt service costs due to higher interest rates.

According to CBO, these outlay increases will outstrip a concurrent gradual rise in individual income tax revenues due mainly to so-called "bracket creep" – that is, the tendency of revenues to increase as wage gains outpace the inflation index to which the personal income tax brackets are tied.

Over the course of the 10-year budget window, federal spending is projected to rise from 21.2 percent of GDP this year to 23.1 percent of GDP by 2026 – above its 50-year historical average of 20.2 percent of GDP. Meanwhile, revenues are projected to remain relatively flat – at about 18 percent of GDP – over the next decade as declining corporate income tax receipts (the result of both the year-end tax deal and a broader expectation that corporate taxable profits will decline as a share of the economy due to multiple factors) offset the projected increase in personal income taxes. Over the past 50 years, revenues have averaged 17.4 percent of GDP.

Impact of year-end 2015 budget deal

Pursuant to the Congressional Budget Act of 1974 – the law that established the CBO – the agency is required to make its budget estimates on the basis of "current law," or laws as they are currently in effect. As a result, and as expected, the budget projections released by CBO this week are considerably worse than its previous projections released in August 2015, due in part to changing economic assumptions as well as the enactment of a massive – and largely unoffset – legislative package (H.R. 2029) at the end of 2015 that made permanent several tax provisions which lapsed at the end of 2014, extended dozens of others for two years or more, and set spending levels for government agencies for the remainder of fiscal year 2016. (For prior coverage, see *Tax News & Views*, Vol. 16, No. 44, Dec. 18, 2015.)
URL: http://newsletters.usdbriefs.com/2015/Tax/TNV/151218_1.html

Over the 10-year budget window, cumulative deficits will total almost $9.4 trillion as compared to $7.0 trillion in last year's projections. According to CBO, this increase is attributable to three main factors:

- **Legislation enacted since August 2015:** Laws enacted since August 2015, including H.R. 2029, are projected to reduce revenues by $425 billion and increase outlays by $324 billion;
- **Technical and economic changes:** Revisions to CBO's economic forecast, as well as technical changes in CBO's estimating methodology, will, on net, increase budget deficits by an estimated $800 billion; and
- **Shifting of the 10-year budget window:** CBO's newest projections cover fiscal years 2017 through 2026, whereas last year's projections covered fiscal years 2016 through 2025. As a result, the new window picks up a relatively high deficit year (2026) and leaves behind a relatively low deficit year (2016).

Next step: House and Senate budget plans?

The revenue and spending projections included in the report, known to policymakers as the "baseline," will serve as the benchmark against which the CBO and the Joint Committee on Taxation will measure the budget impact of congressional tax and spending proposals during the first several months of 2016. (The baseline is typically updated later in the year.)

The baseline also will be the yardstick against which congressional budgetwriters will draft their fiscal year 2017 budget plans this spring – should they choose to do so.

House Budget Committee Chairman Tom Price, R-Ga., has indicated that the House will indeed produce a budget plan; however, it remains unclear whether there is sufficient appetite for producing a budget blueprint in the Senate, where Republicans may wish to avoid a round of votes on politically contentious amendments certain to be offered during the so-called “vote-a-rama” which comes at the conclusion of that chamber’s consideration of a budget resolution. Senate Republicans are defending 24 seats in the November 2016 elections (compared to 10 for Democrats) and may be reluctant to expose colleagues facing re-election to a series of difficult votes that could be used against them in campaign advertising this fall.

But other considerations also may factor into congressional Republicans’ decision-making on whether or not to pursue a fiscal 2017 budget blueprint:

- Reconciliation instructions, if included in a congressionally adopted budget resolution, could allow Republicans to bypass a filibuster by Senate Democrats – much like they did last year with legislation repealing key components of the Affordable Care Act, which was vetoed by President Obama.
- The Bipartisan Budget Act of 2015 (H.R. 1314) already set a top-line discretionary spending level for fiscal year 2017, which may reduce the necessity of drafting a budget plan in the eyes of some lawmakers.
- Larger deficits over the next decade, as discussed above, means that achieving balance within the 10-year budget window without raising taxes – a goal of recent Republican budget plans – will now require even more difficult trade-offs.

For its part, the White House is expected to send to Congress its fiscal year 2017 budget plan – the last budget to be proposed by President Obama – on February 9.

A matter of perspective

Congressional Republican leaders and the White House used the findings in the CBO report as an opportunity to make the case for their respective – and disparate – economic policy prescriptions.

In a January 19 news release issued in response to the report, House Ways and Means Committee Chairman Kevin Brady, R-Texas, argued that “[u]nless we change course, Americans’ paychecks will be squeezed even further to cover even more of Washington’s wasteful spending. Instead of accepting President Obama’s anemic recovery, we must support policies that grow our economy, decrease our debt, and help more Americans get back to work. Ways and Means Committee members will continue to develop policies that kick start our economic engine and ensure our country lives up to its full potential.”

At a January 19 White House press briefing, Press Secretary Joshua Earnest responded to a reporter’s question about the new deficit forecast by looking ahead to President Obama’s soon-to-be released fiscal 2017 budget blueprint.

"What the president…will lay out is a budget proposal that properly invests in our national security priorities and in our economic priorities, particularly when it comes to expanding economic opportunity for the middle class, but doing so in a fiscally responsible way. And everybody will have an opportunity to evaluate the strategy that the president puts forward, and it certainly will be consistent with our goal of keeping our deficits under the 3 percent threshold that would allow us to stabilize our debt as a percentage of GDP," Earnest said.

— Alex Brosseau
Tax Policy Group
Deloitte Tax LLP