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## **Brady signals more inclusive approach on tax reform**

In the wake of failed efforts by House Republican leaders to dismantle the Patient Protection and Affordable Care Act, Ways and Means Committee Chairman Kevin Brady, R-Texas, sent signals this week that he intends to take a more deliberative and inclusive approach to moving tax reform legislation – including outreach to various factions within the GOP conference and to the chamber’s Democrats.

### **A more orderly rollout – including hearings**

While still waiting to learn whether the White House will in fact produce a detailed plan of its own and, as officials have promised, “drive the train” on tax reform, Brady continued to nudge the process forward in his chamber, meeting separately with members of his own party, the Democrats from his taxwriting committee, and the moderate New Democrat Coalition.

Ways and Means Committee Republican staff members have been working behind the scenes to turn the House GOP tax reform blueprint into legislative language. To date, that work product has been held close. Committee members have admitted in various conversations earlier this year that they see more risk than reward to releasing draft legislation more than a couple of days before a committee mark-up, since once bill language is put in the public view, individual provisions and the bill as a whole will almost certainly be subject to criticism and lobbying from various stakeholders. However, following vocal complaints from some Republicans who said political journalists and lobbyists received leaked details of leadership’s proposed health care bill last month before members of Congress and that it did

not reflect input from the party's rank and file, Brady this week promised his colleagues that the rollout of tax reform legislation would be more orderly.

This process will include hearings at the subcommittee and potentially the full committee level. Ways and Means Tax Policy Subcommittee Chairman Peter Roskam of Illinois is said to be working on a hearing schedule, and Rep. Vern Buchanan, who chairs the Ways and Means Oversight Subcommittee, said he is looking at sessions to address IRS oversight and entitlement fraud, among other issues.

### **Dancing with Democrats – at arm's length**

Brady also sought this week to bring House Democrats into the discussion – although he reportedly made clear in an April 5 meeting with Democratic Ways and Means Committee members that Republicans still intend to move tax reform using budget reconciliation, which would provide procedural protections that allow the GOP to advance legislation through the House and Senate with a simple majority vote. (Under so-called "regular order," legislation typically requires a 60-vote supermajority in the Senate in order to clear various procedural hurdles.)

Brady also reportedly told the group that he anticipates introducing the bill in late May or June – and that he intends to pitch the legislation as a middle-class tax cut, although it is expected to be a comprehensive vehicle that includes corporate and international changes as well as individual tax provisions.

The chairman is said to have reiterated that the bill will be estimated under so-called "dynamic" scoring rules – which take into account certain macroeconomic feedback effects of tax and spending legislation on the economy and in turn on federal revenue levels – something Democrats have traditionally opposed; but he also reportedly agreed with Democrats that any infrastructure spending legislation should similarly be considered on a dynamic basis. (Infrastructure spending legislation is a Democratic priority that is not currently part of the Republican tax reform plan but has been discussed by others – including President Trump – as a potential addition to the package.) Brady did not, however, commit to keeping tax reform legislation distributionally neutral, which is another key priority for Democrats.

As Brady walked through various items under consideration, his discussion generally mirrored the proposals outlined in last summer's blueprint. (For prior coverage, see *Tax News & Views*, Vol. 17, No. 23, June 24, 2016.) However, one difference reported by those attending the meeting was a plan to tax passthrough entities – currently taxed on the individual side of the code – at a rate of 20 percent, equal to that proposed for corporations, rather than the 25 percent laid out in the blueprint. Brady and other Republicans have not publicly discussed such a change in the plan. [URL: http://newsletters.usdbriefs.com/2016/Tax/TNV/160624\\_1.html](http://newsletters.usdbriefs.com/2016/Tax/TNV/160624_1.html)

Following the meeting, Ways and Means Committee ranking Democrat Richard Neal of Massachusetts told reporters that "[w]hat I would propose now to the Democrats on the committee is that the staff, in terms of their specialties, go through each one of the proposals that Republicans are going to lay out, [and] spend some private time in the committee library here for days or weeks if necessary so we can have a full understanding of the implications of what they're proposing."

Brady also extended his Democratic outreach the beyond taxwriting panel, meeting on April 4 with members of the New Democrat Coalition, a group of about 60 self-described "moderate, pro-growth members."

New Democratic Coalition Chairman Jim Himes of Connecticut said the attendees were receptive to the discussion but had plenty of questions. Members reportedly aired their concerns about specific elements of the GOP blueprint such as the controversial border-adjustment tax proposal and the proposed elimination of the state and local tax deduction, as well as broader issues such as distribution and revenue neutrality.

Himes said after the meeting that Brady "gave us a lot of assurances that [the tax reform process] would be open and collaborative" and not "a re-run of health care." Himes added, though, that "we didn't fall off the turnip truck yesterday, so we'll see."

### **Freedom Caucus leaders weigh in on border-adjustment tax**

Brady this week also had to contend with policy fires breaking out within his own conference – particularly on the issue of his proposed border-adjustment tax.

Two members of the House Freedom Caucus aired their concerns about the proposal, which calls for eliminating US tax on products, services, and intangibles exported abroad (regardless of their production location) and imposing a 20 percent US tax on products, services, and intangibles imported into the US (also regardless of production location). Rep. Jim Jordan of Ohio – who founded the influential conservative House group that claims about 35 members – and Rep. Justin Amash of Michigan said at a *Politico* event on April 6 that they view the creation of a new tax as a dangerous precedent that would allow the government to access an additional revenue stream without shedding the current corporate tax.

“That is just one more tax that can go up over time,” Jordan warned.

Jordan and Amash also noted concern about the way in which such a new taxation system might upend current supply chains and business models.

“People pushing [the border-adjustment tax] haven’t thought carefully enough about how it might affect various parts of the economy,” said Amash.

Freedom Caucus Chairman Mark Meadows of North Carolina, who also participated in the event, said the group does not have an official position on the tax proposal. However, the concerns Jordan and Amash raised have the potential to influence the views of other members.

Brady and House Speaker Paul Ryan, R-Wis., continued to defend the border-adjustment tax in various remarks this week, although in a CNBC appearance on April 4, Brady introduced a new term for the proposal – the “border equalization tax” – and acknowledged that the bill’s drafters will have to address the “valid concerns” of import-intensive industries by ensuring a “very smooth, deliberate transition” to the new system. He repeated, though, that he does not intend to include any industry-specific carve-outs or exemptions.

Brady reportedly told Ways and Means Democrats this week that President Trump will support the border-adjusted tax “with modifications.” To date, the president has not said whether he supports the specific approach taken by the House blueprint, although he has advocated a “made in America” economic agenda. Various factions within the administration are said to be at odds on the Republican proposal.

Across the Capitol, meanwhile, Senate Finance Committee Charles Grassley, R-Iowa, told reporters April 3 that Republicans in his chamber – who have yet to produce their own tax reform plan – are unlikely to embrace a border-adjustment provision even if it clears the House.

“If the Senate starts working on a tax bill of its own, you aren’t going to hear anything about border adjustment in the Senate Finance Committee,” Grassley said.

### **White House casts a wider net**

For its part, the Trump administration – which recently expressed frustration over some of its dealings with the House Freedom Caucus on health care and has stated that it would be “driving the train” on tax reform – showed signs that it was rethinking a majority-only approach to overhauling the tax code.

As one indication of the administration’s willingness to deal, Treasury Secretary Steven Mnuchin recently met to discuss tax reform and other issues with members of the Problem Solvers Caucus, a relatively new bipartisan coalition of roughly 40 House members. In a letter to President Trump, caucus members described their objective as “bring[ing] members together across party lines and find[ing] areas of agreement on key issues like lowering taxes and improving infrastructure to help the American people.” (Details of the meeting have not been widely reported.)

[URL: http://newsletters.usdbriefs.com/2017/Tax/TNV/170407\\_1suppA.pdf](http://newsletters.usdbriefs.com/2017/Tax/TNV/170407_1suppA.pdf)

The group, which was formed in the 114th Congress, is currently chaired by Ways and Means Committee member Tom Reed, R-N.Y., and Rep. Josh Gottheimer, D-N.J. Other leaders include Ways and Means Committee member Carlos Curbelo, R-Fla., and Rep. Kurt Schrader, D-Ore., who serve as senior vice chairmen, and Reps. Mike Gallagher, R-Wis., and Tom Suozzi, D-N.Y., acting as vice chairmen.

Mnuchin was not the only member of the administration reaching out to Democrats. Marc Short, the White House director of legislative affairs, held a closed-door meeting with some centrist “Blue Dog” House Democrats on April 3.

(Although few details of that meeting have been made public, one lawmaker in attendance told *Politico* that Short referred to the House GOP's border-adjustment tax proposal as "dead on arrival" in the Senate.)

Short was optimistic about bipartisan support for tax reform when he addressed reporters during the April 5 daily White House press briefing.

"In many cases, many Democrats have reached out to say that they want to help on this process too," he said. "They recognize it's been 30 years since significant tax reform was done. . . I think there will be bipartisan interest to work on tax reform."

**Substance, timing of White House plan remain uncertain:** Although President Trump had indicated in early February that an outline of his tax reform plan would be released in a few weeks, those details have not yet been made public. White House Press Secretary Sean Spicer told reporters on March 31 that Trump is in the process of "engaging with key stakeholders. And when we feel it's appropriate that the president is given the appropriate amount of feedback, we'll start to put out the appropriate outline and process that we envision."

Spicer said that the president will release "principles" on tax reform that will address "what his goals are and how he wants to drive this as the process moves forward." He did not, however, indicate when that might happen. He added that the administration expects "a robust debate about aspects of that plan" and expects to "work with the House and the Senate on it."

Marc Short told reporters April 5 that the president's plan would "prioritize tax breaks to the middle class that we feel are getting crushed."

**No VAT or carbon tax:** Two items that apparently will *not* be included in an eventual White House tax reform plan are a value-added tax (VAT) or a tax on carbon emissions. Reports in *The Washington Post* earlier this week suggested that the administration was open to considering both options as potential offsets for corporate and individual rate reductions and other tax relief proposals. But the White House quickly dismissed that idea.

"As we have said many times, the president's team is hearing input from experts on all sides of the tax reform debate as we formulate what will ultimately be the president's plan to enact the first significant tax reform since 1986. As of now, neither a carbon tax nor a VAT are under consideration," a statement from the White House press office said.

## Ryan weighs in

In remarks at an event sponsored by WisPolitics on April 5, Speaker Paul Ryan, who unveiled the House GOP tax reform blueprint along with Ways and Means Chairman Brady last June, summarized the current state of play on tax reform this way: "The House has a plan, but the Senate doesn't quite have one yet – and they're working on one. The White House hasn't nailed it down, so even the three entities aren't on the same page yet on tax reform."

Ryan predicted nonetheless that the tax reform process would not succumb to the divisiveness that characterized the recent health care debate, noting that "our DNA as Republicans [is] wired far more similarly with each other on tax issues [than it is] on health care issues." Moreover, he said that tax reform legislation moved under the budget reconciliation rules would be less likely to trigger "Byrd Rule" restrictions in the Senate which block provisions that are deemed to have no effect on the federal budget, or whose effect is merely incidental to the underlying policy. (The Byrd Rules also include a prohibition against legislation that would increase the deficit in any year beyond the budget window, which is typically 10 years.)

"Tax reform from a Republican standpoint is easier than health care because reconciling tax reform, you can put everything you want in tax reform in a reconciliation bill – you don't have to leave things outside of it. Health care, that's not true," Ryan said.

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## A note on our publication schedule

The House and Senate will be out of session the weeks of April 10 and April 17 as lawmakers adjourn for their spring recess. Barring unexpected developments on the tax policy front, the next issue of *Tax News & Views* will be published the week of April 24, when the legislative session resumes.

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