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Ryan sees stars aligning for action on tax reform this year

House Speaker Paul Ryan, R-Wis., this week called on Republicans to unite behind the GOP tax reform plan and expressed optimism that Congress can get a final bill to the president's desk in 2017.

"This tax code is sapping our aspirational spirit and enabling our decline. So this is no time to shy away from taking on the defenders of the status quo," Ryan said in remarks at the Heritage Foundation October 12.

"The special interests who prop up this tax code seek to extract the most value for themselves, even if it means keeping the country on the path of decline. While the last year has brought new hope, if we choose to do nothing, we allow people struggling to get by to become the permanent normal. We allow stagnation to become our way of life," he added.

During a question-and-answer session following his prepared remarks, Ryan indicated that the House is on track to send a tax reform bill over to the Senate in November. That target, he acknowledged, assumes the Senate approves its budget resolution the week of October 16 when it returns from its Columbus day recess; a House-Senate conference committee adopts – and both chambers approve – a unified budget resolution (providing the legislative vehicle for moving tax reform under budget reconciliation protections) the week of October 23; and House taxwriters unveil a formal legislative proposal, mark it up in the Ways and Means Committee, and move it to the House floor for approval shortly thereafter, a schedule that even reform supporters would agree is ambitious but not impossible.

According to Ryan, the advance work done by members of the “Big Six” negotiating team to develop the unified tax reform “framework“ that was released on September 27 should ensure that the Senate does not produce legislation that is radically different from a House-passed measure and that the ensuing bicameral conference negotiations proceed smoothly.
URL: https://waysandmeansforms.house.gov/uploadedfiles/tax_framework.pdf

“By doing four months of spade work ahead of time…that makes the actual process of staying together and hitting our timelines that much easier,” he said. (Members of the Big Six include Ryan, House Ways and Means Committee Chairman Kevin Brady, R-Texas, Senate Majority Leader Mitch McConnell, R-Ky., Senate Finance Committee Chairman Orrin Hatch, R-Utah, Treasury Secretary Steven Mnuchin, and National Economic Council Director Gary Cohn. For prior coverage of the tax reform framework, see *Tax News & Views*, Vol. 18, No. 33, Sept. 27, 2017.)
URL: http://newsletters.usdbriefs.com/2017/Tax/TNV/170927_1.html

Ryan predicted that congressional Republicans would not face the same intra-party obstacles in their attempts to overhaul the tax code that they encountered during their ultimately unsuccessful efforts to repeal and replace the Patient Protection and Affordable Care Act (PPACA) because they are “wired the same way” on tax reform. He also noted that Republican efforts to move PPACA repeal under budget reconciliation protections were hamstrung to a certain extent by a Byrd Rule restriction in the Senate that prohibits the inclusion of provisions in a reconciliation bill that are deemed to have no effect on the federal budget, or whose effect is “merely incidental” to the underlying policy. That restriction meant that certain key regulatory provisions could not be included in the health care reconciliation package and that the PPACA repeal-and-replacement process would have to be carried out in stages, Ryan explained. Since tax reform is by definition a budget-driven exercise, that particular Byrd Rule restriction will not come into play, he said.

“This is a one-and-done effort. The entire tax reform package is in one bill that [moves] through reconciliation [and] cannot be filibustered. And that complete package makes it easier to pass,” he said.

When asked how the extremely tight legislative calendar for the remainder of 2017 would affect action on tax reform legislation, Ryan replied: “We’re going to keep everybody here to Christmas if we have to, I don’t care, it’s that important.”

“We want to wake up on New Year’s Day with a new tax system,” he said.

Tax reform tradeoffs

In other developments this week, House Republican Chief Deputy Whip Patrick McHenry, R-N.C., said that a recent series of listening sessions on tax reform held by GOP leadership for the benefit of rank-and-file Republican House members revealed that the most contentious issues center around current-law tax incentives that will need to be pared back or repealed to offset the cost of rate cuts for individuals and passthrough entities.

“In order to simplify the individual code you have to make serious decisions,” McHenry said at an event sponsored by the Financial Services Roundtable on October 10. (House Ways and Means Tax Policy Subcommittee Chairman Peter Roskam, R-Ill., made a similar point about the difficulties in identifying revenue offsets in tax reform during remarks at an October 11 event sponsored by *The Hill* and the RATE Coalition: “You can imagine over the next two or three weeks as we’re looking for pay-fors, there’s a disposition to be more forward-leaning on some of these sorts of things. Proposals that may not be particularly attractive at the beginning of the tax reform process become more attractive given the alternative,” he said.)

SALT-y talk: The elimination of the state and local tax (SALT) deduction – implicit in the framework’s proposal to remove nearly all credits and deductions from the individual side of the code with only a few specific exceptions – continues to draw opposition from a vocal contingent of Republican members, about two dozen of whom reportedly pled their case to McHenry, Ways and Means Chairman Brady, and other House leaders on October 12.

“This is probably the biggest obstacle they have to overcome to get to 218,” Rep. Peter King, R-N.Y., a leading opponent of repealing the deduction, told *Bloomberg*, referring to the number of votes needed to pass a bill in the House. “Right now, they can’t get there without us.”

King this week raised the idea of limiting the use of the SALT incentive to those earning less than $400,000. Eliminating the deduction entirely has been estimated to raise about $1.3 trillion over 10 years and so is a key offset for lower rates and other revenue-losing changes taxwriters are targeting as part of tax reform. Scaling the incentive back instead would provide less revenue but could prove to be a compromise that brings in Republicans who represent districts where taxpayers disproportionately benefit from the current law.

House Speaker Ryan, however, defended the proposal to repeal the SALT deduction and downplayed the notion that it is a source of friction within the GOP during his appearance at the Heritage Foundation.

"The conservative movement is as unified about this as it has been about anything I've ever seen. …I feel very good [about] where we are with respect to people rowing in the same boat and in the same direction," he said.

Ryan argued that the current-law deduction in essence forces lower-tax states to subsidize high-tax states and that in tax reform the "general interest" should outweigh the "special interests." He also framed the issue as one "where we have to help members see the big picture."

The framework's proposals to reduce individual income tax rates, expand the standard deduction, increase the child credit, and eliminate the marriage penalty mean that even without the SALT deduction, "people are going to be better off no matter what state they come from," he said.

Minimum tax on global income: Also this week, House Ways and Means Committee member Pat Tiberi, R-Ohio, told reporters October 11 that Ways and Means Republicans generally agree that the framework's proposed shift from a worldwide to a territorial system for taxing foreign-source income of US multinationals will need to be accompanied by a minimum tax on foreign income to guard against potential base erosion. (The framework calls for "rules to protect the US tax base by taxing at a reduced rate on a global basis the foreign profits of US multinational corporations," but leaves the specifics of those rules – including the applicable rate – to the House and Senate taxwriting committees.)

But Tiberi acknowledged that the idea of a minimum tax could be a tough sell to rank-and-file Republican lawmakers.

"I think it is always more difficult to get members to embrace issues that they haven't had a lot of time – whatever the subject is – to focus in on," he said.

Trump: Tax reform = Economic 'rocket fuel'

For his part, President Trump told an audience of long-haul truck drivers during a speech in Harrisburg, Pa., October 11 that the GOP tax reform plan "will be rocket fuel for our economy" and provide benefits that primarily would redound to the middle class. Trump's trip to Pennsylvania marks one more tax reform rally in a state that he carried in the presidential race where a Senate Democrat – in this case, Finance Committee member Bob Casey – faces re-election in 2018. The president has held similar events in Indiana (home to Sen. Joe Donnelly), North Dakota (Sen. Heidi Heitkamp), Missouri (Sen. Claire McCaskill), and West Virginia (Sen. Joe Manchin.)

On a broad level, Trump explained that the framework's proposal to cut the corporate rate to 20 percent (from 35 percent) would make US businesses more competitive internationally, which in turn would remove incentives for them to relocate offshore and foster the creation of more US jobs.

"When companies leave our shores, it's the American workers who get hurt. And when companies stay in America, it's our wonderful workers who reap the rewards, including our great truckers who will have more products to deliver and more contracts to fill," he said.

Trump also noted that the framework would "totally eliminate the penalty on returning future earnings back the United States" – an allusion to the proposed shift from a worldwide to a territorial system for taxing foreign-source income of US multinationals – and provide for a one-time repatriation tax (at reduced rates) on previously untaxed foreign-source income as part of the transition to the new regime.

Citing estimates from the White House Council of Economic Advisers (CEA), Trump stated – without elaboration – that the combination of the framework's more favorable international tax regime plus the corporate rate cut "would likely give the typical American household a $4,000 pay raise." (CEA Chairman Kevin Hassett stated in remarks delivered to

the Tax Policy Center and the Tax Foundation on October 5 that if US multinationals repatriated all their foreign-source income over the next eight years, "[t]he median US household would get a $4,000 real income raise.")
URL: https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/TPC%20-%20Hassett%20Speech%20-%20FINAL%20FINAL.pdf

In comments directed more specifically to the trucking industry, Trump said that the framework's proposed 25 percent rate for passthrough income (which is currently taxed on the individual side of the code) would result in a "substantial" tax cut "for the many American truckers who file taxes as sole proprietors, S corporations, or partnerships" and that the proposal to eliminate the estate tax would make it easier for owners of trucking companies to pass their businesses down to their children upon death.

He also touted a temporary proposal in the framework that would give business owners an immediate, 100 percent write-off for investments in new equipment. (The framework calls for the provision to expire after five years.)

"We want our companies to invest and expand, because that means more jobs, more products rolling off the assembly line, and more truckers delivering those products to stores all across our country," he said.

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