In this issue:

Ways and Means Republicans, Democrats dug-in on economic impact of 2017 tax cuts

During a hearing that reflected the tone of last year's tax policy debate on Capitol Hill – and likely foreshadowed the tone of general election debates that will take place in congressional districts across the country this fall – House Ways and Means Committee Republicans this week argued that the tax cut legislation enacted last December is already making US businesses more competitive internationally and fueling job growth and higher wages domestically, while Democrats countered that the new law disproportionately benefits corporations and their wealthy shareholders and will drive up the federal deficit to unsustainable levels.

The May 16 hearing was the first in a planned series that the full committee and its Tax Policy Subcommittee intend to hold to gauge the impact of the 2017 legislation on the US economy. The next hearing – on how the new law has affected small businesses – will be held by the Tax Policy Subcommittee on May 23.

GOP optimism

Ways and Means Republicans offered statistical and anecdotal evidence to demonstrate that the tax cuts enacted last year are already improving the economy. Committee Chairman Kevin Brady, R-Texas, claimed in his opening statement that as a result of the new law "the economic outlook for America has dramatically improved. Already in the first quarter of 2018 we are seeing actual growth of 2.9 percent. And [the Congressional Budget Office (CBO)] projects that this will accelerate to 3.3 percent by the end of 2018." He also noted that CBO has projected that the new law "will create 900,000 new jobs, raise wages by $1.2 trillion, and boost investment by $600 billion."

GOP taxwriters also cited increased economic optimism in the business community and announcements of bonuses being paid out by employers in their districts as further evidence that the new law is working. And those arguments were underscored by the three private-sector witnesses that Republicans invited to appear at the hearing.

Zachary Mottl of Atlas Tool Works told the panel that “the needle appears to be moving in a positive direction” and that “thanks to the tax package, there is a perception that the United States is once again open for business.”

David Farr of Emerson (who also chairs the board of the National Association of Manufacturers) likewise said in his opening statement that the “rocket fuel” of tax reform clearly is continuing to energize manufacturers today with the kind of optimism we have not seen in a very long time.

Douglas Holtz-Eakin, president of the American Action Forum and former director of the CBO, acknowledged it is too soon to have a significant amount of hard data on the impact of the law. However, he argued the indicators we expected to see move quickly have done so and in the “right direction.”

“Those things that could change, have. …Confidence has soared: consumer confidence, small business confidence, CEO confidence,” he said in his opening statement.

Holtz-Eakin also pointed to evidence of increased repatriation of profits that had been held offshore and changes in corporate capital expenditure plans as further signs of an increasingly competitive US business environment.

But the Democrats’ sole witness, Steven Rattner of Willett Advisor LLC (a former Treasury Department official), argued in his opening statement that the US has been in a sustained period of economic growth since 2010 and suggested that the rate of growth actually has declined during the Trump administration.

Democratic skepticism

Democrats on the taxwriting panel largely criticized the bill for its distributional effects and its impact on the federal deficit.

Progressivity: Most Democrats argued that the new law made the US tax code less progressive, meaning the majority of benefits will accrue to higher-income individuals and corporations. Ranking member Richard Neal, D-Mass., contended in his opening statement that in many instances, the rising costs of health care (which he attributed to a provision in the new law that essentially guts the individual health insurance mandate by reducing the penalty for noncompliance to zero) and a spike in the price of gasoline will wipe out any tax savings that lower- middle-income households might otherwise enjoy as a result of lower rates and an increased standard deduction. Other Democrats, including Lloyd Doggett of Texas and Ron Kind of Wisconsin, stressed how the Trump administration’s proposed tariffs on certain imports could lead to higher consumer prices that could further erode tax savings for less affluent individuals.

Buybacks: Neal also cited the uptick in the rate of corporate stock buybacks since the new law’s enactment as evidence that corporations – who saw their tax rates cut from 35 percent to 21 percent – were using their tax savings to benefit their shareholders rather than their employees.

In response to a question from Neal, Steven Rattner cited statistics suggesting that the bulk of corporate profits now being repatriated from overseas is being plowed into buybacks “while comparatively little has been passed on to workers.”

But Douglas Holtz-Eakin, responding to a question from Chairman Brady, cautioned against this interpretation.

“You learn nothing about the efficacy of [the law] by looking at stock buybacks. That’s just a trade of stock for cash and it doesn’t tell you anything about the investment impact in the economy,” he said.

Deficit impact: Several of the panel’s Democrats also took issue with the cost of the new law, which the Joint Committee on Taxation staff has estimated will reach nearly $1.5 trillion between 2018 and 2027.

In response to a question from California Democrat Mike Thompson, Rattner explained that, over the long term, adding the cost of the tax cuts to the deficit will increase the cost of borrowing for the government and for businesses, create additional pressures on the spending side of the budget, and lead to an intergenerational transfer of debt that eventually could require painful cuts to programs like Social Security. He framed the issue as "a question of cost versus benefit."

"Was it really worth $400 billion of business tax cuts adding that much to the national debt? Are we really going to get that much bang for our buck in terms of business investment and benefitting the average worker? I think many of us have concerns about that," he said.

For his part, Holtz-Eakin, in an exchange with Democratic taxwriter Sander Levin of Michigan, acknowledged that the tax cuts Congress enacted will not pay for themselves, but he argued that the benefit of economic growth generated by lower taxes outweighs the additional hit to the deficit.

"When we went into this exercise, we were $10 trillion in debt. There was a dangerous rise in [the debt-to-gross domestic product ratio]. It was my belief that those problems wouldn't be addressed in a stagnant, slow-growth-economy. Those are enormously important problems and we needed to get growth going so that we could also take them on," he said.

Future changes?

Although there was no in-depth discussion of specific provisions in the new law, there were a few brief comments about how the law might be revised going forward.

Ways and Means member Devin Nunes, R-Calif., asked if commercial real estate should be given full expensing like other capital expenditures. Holtz-Eakin said that all capital should be treated the same and added that the growth effects would be larger if the expensing provisions were made permanent rather than beginning to phase out at the end of five years under the law as enacted.

But David Farr of Emerson told Nunes that expensing of equipment was preferable to expensing of buildings. Accelerating depreciation for commercial real estate would be a welcome change, he said, but providing full expensing for buildings was unlikely to be a significant factor in investment decisions.

Zachary Mottl of Atlas Tool Works also suggested in his opening remarks that adding a consumption tax or a destination-based tax (similar to what had been proposed by Republicans in the 2016 tax reform "blueprint") would benefit American manufacturers and level the global playing field.

Brady: Technical corrections likely a no-fly on FAA bill

In a related development, Ways and Means Chairman Brady this week cast doubt on the idea that lawmakers will attach technical corrections to the 2017 law to a must-pass bill that would reauthorize spending authority for the Federal Aviation Administration (FAA).

The FAA's spending authority and the excise taxes on fuel and passenger tickets that supply the agency's dedicated revenue stream are set to expire on September 30 of this year. The House last month approved legislation (H.R. 4) that would extend the FAA's expenditure authority and the related excise taxes through September 30, 2023. Because H.R. 4 is one of the few bills with a tax title that is expected to move through Congress this year, there has been some speculation that it could serve as a vehicle for technical corrections to the tax cut legislation. But Brady told reporters May 15 that discussions between Republican and Democratic taxwriters around technical corrections are still in the early stages and there is no set schedule for advancing a corrections package.

The notion of linking technical corrections with FAA reauthorization also does not appear to have momentum on the other side of the Capitol. Indeed, Senate Commerce, Science, and Transportation Committee Chairman John Thune, R-S.D., whose panel has jurisdiction over the FAA legislation, told reporters last month the he would like to keep the reauthorization bill free of what he called "unrelated, ancillary tax issues." (In addition to chairing the Commerce, Science, and Transportation Committee, Thune sits on the Senate Finance Committee.)

But there's another significant factor weighing against the likelihood of fast action on technical corrections: Republican leaders will need Democratic support to get a proposal through Congress – and Democrats, who object to what they saw as a rushed and secretive process for drafting and moving the tax cut bill last year, so far do not appear inclined to supply the votes for the three-fifths supermajority that a technical corrections bill would need to overcome procedural hurdles in the Senate. (Republicans officially control 51 Senate seats, and with Sen. John McCain sidelined while he undergoes treatment for brain cancer in his home state of Arizona, the GOP as a practical matter can only count on 50 votes. That means if they hold all of their own members, they would have to win support from 10 Democrats to reach the 60 votes needed to avoid a filibuster.)

Tax Cuts 2.0

Also this week, Ways and Means Committee Republicans met on May 17 to lay out plans for introducing a second round of tax cuts that they hope to move through the House ahead of the midterm elections. The package is expected to include permanent extensions of the individual provisions that were enacted last year and generally are scheduled to expire after 2025, but other provisions also could be in the mix.

Ways and Means Tax Policy Subcommittee Chairman Vern Buchanan, R-Fla., told reporters May 17 that the proposal could serve as a vehicle to address the roughly two dozen expired tax extenders provisions that were renewed retroactively through the end of last year as part of the Bipartisan Budget Act of 2018. (For prior coverage, see *Tax News & Views*, Vol. 19, No. 6, Feb. 9, 2018.) Congressional Republican leaders in recent years have argued that these temporary provisions should be evaluated on their policy merits and either be made permanent or deleted from the tax code outright.
URL: http://newsletters.usdbriefs.com/2018/Tax/TNV/180209_1.html

Wenstrup tapped for Ways and Means vacancy

In other Ways and Means news, the House Republican Steering Committee this week recommended Rep. Brad Wenstrup, R-Ohio, to fill the slot on the taxwriting panel that was vacated by Rep. Patrick Meehan of Pennsylvania, who resigned from Congress last month. That recommendation was subsequently approved by the House Republican Conference.

Wenstrup, a physician, was first elected to Congress in 2012 and currently serves on the Armed Forces, Intelligence, and Veterans' Affairs committees.

In a news release, Chairman Brady touted Wenstrup as "a decorated war veteran, small business owner, and doctor [who] brings proven dedication to our country and invaluable experience to the team."

Brady issued a separate release on May 18 with an updated list of subcommittee assignments to reflect the change in the Ways and Means roster.
URL: https://waysandmeans.house.gov/brady-announces-updated-115th-congress-ways-and-means-republican-member-subcommittee-assignments/

— Jacob Puhl and Michael DeHoff
Tax Policy Group
Deloitte Tax LLP