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Ways and Means Democrats, Republicans still dug in on SALT arguments

Lawmakers at a June 25 House Ways and Means Select Revenue Measures Subcommittee hearing showed no signs of budging from their entrenched partisan positions on the economic impact of the \$10,000 cap on the deduction for state and local taxes (SALT) that was enacted in the 2017 tax cut legislation known informally as the Tax Cuts and Jobs Act (TCJA, P.L. 115-97).

Subcommittee Democrats and their invited witnesses contended that the SALT deduction cap should be repealed – or at least modified – because it penalizes middle-class taxpayers, threatens to drive down home values, and deprives localities of revenue that otherwise would be used to fund priorities such as public schools, infrastructure projects, and emergency services. Republicans, for their part, countered that the SALT deduction primarily benefits the wealthiest taxpayers and that the TCJA has left the middle class better off overall thanks to lower tax rates, an expanded

standard deduction, relief from the alternative minimum tax, and the increased economic growth and uptick in employment the new law has generated.

Who's in the 'middle class,' anyway?'

At the crux of much of the debate during the hearing was a disagreement over who would benefit most from repealing the SALT deduction cap and just what constitutes the "middle class." An analysis of issues around the SALT deduction that was prepared for the hearing by the nonpartisan Joint Committee on Taxation (JCT) indicates that that in 2019 – with the current-law limitation in place – "89 percent of the value of the tax benefit [from the deduction] is projected to accrue to taxpayers with \$100,000 or more of economic income...." Repealing the cap would "result in a decrease in tax liability for 13.1 million taxpayers [in 2019] , 94 percent of which would have \$100,000 or more in economic income. Additionally, 99 percent of the decrease in tax liability [would accrue] to taxpayers with \$100,000 or more of economic income," the JCT says. Taxpayers with income over \$1 million would see a combined tax cut of \$40.4 billion, compared to \$36.6 billion for taxpayers with income between \$100,000 and \$1 million, according to the report.

URL: <https://www.jct.gov/publications.html?func=startdown&id=5206>

A perception problem: Republicans argued that the JCT analysis undercuts Democratic claims that hefty SALT payments are a middle-class problem. The GOP's sole invited witness, Nicole Kaeding of the Tax Foundation (a Washington-based think tank), said in response to a question from Republican taxwriter Darin LaHood of Illinois that under IRS definitions taxpayers with annual household income over \$100,000 are in the top 20 percent of the economy. (Kaeding stated in her prepared testimony that "on net, most Americans had a tax cut" under the TCJA. She also argued that among "the small group of individuals with net tax increases, an estimated 6.5 percent in 2018, it is unlikely that the tax increase is solely due to the SALT cap. It is often due to interactions with other provisions, such as the repeal of personal exemptions.")

But Democratic subcommittee members such as Don Beyer of Virginia, Jimmy Panetta and Jimmy Gomez of California, and Tom Suozzi of New York argued that in districts like theirs with expensive housing markets and steep income and property taxes, dual-earner couples with a combined six-figure income generally don't enjoy a lavish lifestyle.

Taxwriter Bill Pascrell, D-N.J., one of the most vocal critics of limiting the SALT deduction, branded GOP claims that the eliminating the cap would only benefit the wealthy as "100 percent poppycock." Residents in all but one county in New Jersey have average SALT payments over \$10,000, he said, and the bulk of these households have less than \$200,000 in annual income. Pascrell also noted that the bulk of the tax benefits from the deduction for charitable contributions – which the TCJA left intact – flow to individuals with income over \$1 million. (Pascrell is not on the Select Revenue Subcommittee but was permitted to speak at the hearing. He did not question witnesses.)

The Democrats' invited witnesses – all local government officials – generally agreed that income alone is not necessarily the best measure of economic status.

David Tarter, the mayor of Falls Church, Va., (located just outside of Washington, D.C.), told the panel that \$825,000 – the median home price in his city – would buy a no-frills, 1950s-era house with a "formidable" property tax assessment. According to Tarter, many families move to the area to take advantage of a well-regarded school system and a high level of municipal services and are willing to make a significant financial sacrifice – in the form of high mortgage and tax payments – as a tradeoff.

"[W]hile our household income may appear to be high, when stacked up against the imposing cost of living, many of our residents struggle to make house payments, pay taxes, and make ends meet," he said in his prepared testimony. Capping the deduction "means that tax dollars that could have gone to the city are now going to the federal government, and there is less money available for essential local services, like schools, police, and fire protection," he added.

Bob De Natale, mayor of Bayville, N.Y. (located on Long Island), contended that "the perception that the SALT deduction cap is only affecting wealthy families is false." Most of his constituents, he said, need two incomes to be able to buy a home in the community and pay an average of \$10,000 a year just in property taxes. Additional county and village taxes bring the total average tax bill to \$20,000, he noted. The cap on the SALT deduction, he argued, has led to an increase in the number of residents who are looking to move out of the area – something that he worried could precipitate a decline in home values.

Christian Yancik Leinbach, a commissioner of Berks County, Pa. (located northwest of Philadelphia), commented in an exchange with subcommittee member Brendan Boyle, D-Pa., that the median income in his community, which includes a significant swath of agricultural areas, is roughly \$50,000, and many residents pay between \$8,000 and \$9,000 a year in property taxes alone, with an even higher total tax burden once income and various other local taxes are added in.

Who's subsidizing whom?: Subcommittee Republican Tom Rice of South Carolina, who noted that significant parts of his district are rural and lower-income, criticized as "a false narrative" the Democratic claim that middle class taxpayers are being squeezed by the cap on the SALT deduction. He argued that repealing the cap would force less affluent taxpayers like many of the ones he represents to subsidize a tax break for a relatively narrow segment of wealthier individuals.

Democrat Linda Sanchez of California, however, commented that rural communities typically receive an outsized share of benefits flowing back from the federal government. And Democrats Tom Suozzi of New York and Brad Schneider of Illinois likewise noted that they represent districts in so-called "net donor" states that send far more money to Washington in the form of tax payments than they receive in federal subsidies.

Tax savings for 'conforming' states?: Subcommittee ranking Republican Adrian Smith of Nebraska questioned the Democrats' position that the Tax Cuts and Jobs Act has left taxpayers facing a net increase in their state and local tax burden. He contended that states whose tax systems conform to the federal system are experiencing an increase in revenue following the enactment of the TCJA.

The Tax Foundation's Nicole Kaeding agreed. She stated in an exchange with Smith that, as a result of the TCJA, conforming states have benefited from a broadening of their tax base as well as increased revenue flows that have allowed them to reduce their tax rates in some cases.

Marriage penalty: But Kaeding also agreed with those Democrats on the panel who criticized the deduction cap as imposing an implicit marriage penalty since the \$10,000 cap applies to single taxpayers as well as to joint filers.

In an exchange with California Democrat Jimmy Panetta, Kaeding commented that if taxwriters were to revisit the cap this should be their area of focus.

Cap the corporate SALT deduction, too?

Several Democratic taxwriters pointed out that while the TCJA caps the SALT deduction for individual taxpayers it includes no such limitation on SALT deductions for corporations and businesses. But in response to a question from Republican subcommittee member Dave Schweikert of Arizona, two of the witnesses representing local governments argued against the idea of capping the corporate SALT deduction.

Falls Church, Va., Mayor David Tarter told Schweikert that the better solution would be to make SALT payments deductible for individuals as well as corporations. Similarly, Paul Imhoff, superintendent of the Upper Arlington School District (near Columbus, Ohio) commented that Congress made "a mistake" when it capped the deduction for individuals and urged the panel not to compound that mistake by limiting the deduction for corporations and businesses.

Repeal the cap, but offset the repeal

A few Democratic taxwriters were adamant that if lawmakers were to repeal the cap on the deduction, they should completely offset the estimated 10-year, \$600 billion revenue loss.

Subcommittee member Lloyd Doggett, D-Texas, stated that the cap needs to be addressed in a way that "is fiscally responsible." Although he did not endorse any specific pay-for, he noted there is a "wide range" of potential offsets – such as increasing the corporate tax rate – to recoup some or all of the cost of repealing the cap.

New York's Tom Suozzi called for reinstating the 39.6 percent top rate for individuals and increasing the corporate tax rate to 25 percent.

New Jersey's Bill Pascrell touted the Stop Attacking Local Taxpayers (SALT) Act of 2019 (H.R. 1142), a bill he introduced earlier this year that would repeal the cap and return the top tax rate for individuals to its pre-TCJA level of 39.6 percent. The JCT staff has not yet released a revenue estimate for this proposal; but according to the Tax Foundation the bill would be a net revenue loser, reducing federal receipts by an estimated \$532 billion between 2019 and 2028. (Eliminating the cap would cost \$643.3 billion, while raising the top individual rate to 39.6 percent would generate \$111.3 billion in additional revenue, the Tax Foundation says.)

URL: <https://taxfoundation.org/salt-act/>

Members' Day highlights

Critics of the SALT cap continued to make their case during a separate "Members' Day" hearing – also held by the Select Revenue Measures subcommittee – later on June 26. (Members' Day hearings allow House members who do not sit on the Ways and Means Committee to weigh in on policy issues and promote their own legislative proposals.) In all, 16 Democrats and 1 Republican provided testimony – all in opposition to the cap. (New Jersey was especially well represented, with seven Democrats from that state showing up to voice their discontent with the provision.)

New Jersey Democratic Rep. Tom Malinowski, who co-sponsored the Stop Attacking Local Taxpayers Act with Bill Pascrell, called on congressional leaders to bring that measure to the floor "to fully restore our SALT deduction and provide relief to taxpayers in my district and across the country."

Freshman Rep. Sean Casten, D-Ill., argued that he won his congressional seat largely due to his constituents' opposition to the 2017 tax cut law – a bill strongly supported by the man he unseated, former Ways and Means Republican Peter Roskam.

"I am here in no small part because my predecessor who served on this committee was widely understood to have sold out his constituents for a tax break to corporations," Casten said.

Casten spoke in favor of legislation (H.R. 1757) he introduced with Illinois Democratic Rep. Lauren Underwood – who also gave testimony at the hearing – that would boost the SALT deduction limit to \$15,000 for single filers and \$30,000 for joint filers and index those thresholds for inflation.

Rep. Lee Zeldin, R-N.Y., the lone Republican witness, alluded to the policy and political trade-offs he made as the 2017 tax cut bill moved through the House.

"In my opinion, reducing the corporate tax rate to 21 percent was great, but I don't believe it should be paid for on the backs of any hardworking taxpayers on the personal income side," said Zeldin, who was one of a small number of congressional Republicans who voted against the TCJA.

Zeldin did not offer a specific proposal to address the SALT deduction cap but indicated he would support legislation – short of restoring full deductibility – that would make the limitation less onerous for middle-income itemizers.

TCJA technical corrections and other issues

In other recent TCJA developments, Ways and Means Committee Chairman Richard Neal, D-Mass., dangled the prospect of legislative action to address drafting errors and other assorted glitches in the 2017 tax cut law during the panel's June 20 mark-up of legislation to extend expired and expiring tax provisions. During a brief exchange with ranking Republican Kevin Brady of Texas near the end of the mark-up, Neal responded affirmatively when Brady asked if Neal "anticipate[d] moving a technical corrections bill this year."

In comments to reporters on June 21, Neal stated that technical corrections are "a pressing matter" for the committee but he did not elaborate on the timing or scope of a possible legislative package.

At the extenders mark-up, Ways and Means Committee Democrats defeated a Republican-proposed amendment to address five technical drafting errors from the TCJA, including fixes that would treat qualified improvement property as 15-year property under MACRS, clarify the tax treatment of legal fees incurred by plaintiffs in certain sexual harassment suits, clarify the effective date of the new net operating loss rules, amend section 965(h) to allow taxpayers to elect to treat claims for refunds or credits separately from their installments of the repatriation tax, and clarify the application of attribution rules under the subpart F controlled foreign corporation provisions.

Advancing TCJA technical corrections has been a top priority for Ways and Means Republicans. In the waning days of the 115th Congress, then-Ways and Means Chairman Brady released draft technical corrections legislation that proposed modifications to dozens of TCJA provisions as well as to other recently enacted tax laws. But since he took the Ways and Means gavel in the 116th Congress, Chairman Neal has been reluctant to move a large technical corrections package until the panel holds hearings on the TCJA and explores policy questions that he argues should have been considered as the law was being drafted and vetted in committee.

URL: https://republicans-waysandmeansforms.house.gov/uploadedfiles/tax_technical_and_clerical_corrections_act_discussion_draft.pdf

Grassley responds to CRS report on TCJA's economic effects: Across the Capitol, meanwhile, Senate Finance Committee Chairman Charles Grassley, R-Iowa, challenged the conclusions in a recent report from the nonpartisan Congressional Research Service (CRS) that suggested the TCJA thus far has had only a modest impact on economic growth.

URL: https://www.everycrsreport.com/files/20190522_R45736_8a1214e903ee2b719e00731791d60f26d75d35f4.pdf

In a June 21 letter to CRS Director Mary B. Mazanec, Grassley questioned "whether CRS subjects its original research to any sort of balanced and objective external peer-review process" and how "Congress and the public [should] interpret research analysis of the economy when faced with differences that arise between CRS and our scorekeepers, the Congressional Budget Office and Joint Committee on Taxation, when all are to be regarded as authoritative voices of Congress." Along with the letter, Grassley submitted an analysis from his professional staff that cites specific concerns with the CRS's findings. Grassley also requested Mazanec to meet with his Finance Committee staff to discuss these issues further.

URL: <https://www.finance.senate.gov/imo/media/doc/CEG%20to%20CRS%20062119.pdf>

The CRS report and Grassley's response are likely to become part of the political discussion in the coming months as Democrats and Republicans continue to debate the merits of the TCJA in Congress and on the campaign trail.

— Alex Brosseau and Michael DeHoff
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Treaty protocols clear Senate Foreign Relations Committee

The Senate Foreign Relations Committee on June 25 favorably reported out signed protocols to US income tax treaties with Japan, Luxembourg, Spain, and Switzerland. The four protocols now await ratification by the full Senate.

Until 2011, the Senate typically ratified treaties by unanimous consent after the committee reported them out, but Foreign Relations Committee member Rand Paul, R-Ky., has blocked that expedited process in recent years, and Senate leaders have opted not to spend the time that would be needed on the standard debate process. Paul's delays stem from his desire to limit the exchange of information between tax authorities included in the treaties. He maintained the same position at the June 25 mark-up and offered a related series of amendments, which were not accepted by the committee, to limit information sharing under the treaties.

Paul told reporters after the committee vote that he would not agree to let Senate leaders move the protocols through the chamber under expedited unanimous consent rules.

"They will have to go through the normal process," he said.

Staff to Majority Leader Mitch McConnell, R-Ky., recently told business representatives pressing for a resolution to the treaty issue that McConnell has agreed to devote Senate floor time to debate and votes on the four protocols. McConnell himself has not publicly committed to moving the treaties, though he noted on the Senate floor June 25 that they are "extremely important to a number of American businesses."

Foreign Relations Committee Chairman Jim Risch, R-Idaho, told the panel's members that amendments to the protocols would cause further delay in US negotiations with its treaty partners, and staff confirmed that the other countries would have to agree to any changes made by the Senate. Paul disputed the assertion that treaty partners might break off negotiations over his concerns.

"It is not my intention to sink the treaties," he told his fellow committee members.

Paul is likely to argue again for his amendments on the Senate floor, but the treaties are expected to pass without amendment, assuming they are in fact taken up by the full Senate – something advocates hope might happen during the July session. Sen. Ted Cruz, R-Texas, a member of the Foreign Relations Committee, told reporters on June 25 that he expects quick action from leadership and said he will support the treaties, despite voting in favor of Paul's amendments during the committee's deliberations.

Risch commented on June 26 that he would "be very surprised if we went to the August recess without having adopted those bills."

There are still three new pending tax treaties – with Chile, Poland, and Hungary – that the Foreign Relations Committee did not take up during the June 25 session. The Treasury Department is seeking to clarify how provisions in those agreements interact with the base erosion and anti-abuse tax (BEAT) enacted in the 2017 tax legislation known informally as the Tax Cuts and Jobs Act (P.L. 115-97).

— Storme Sixeas
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France advances digital services tax, Senate taxwriting leaders urge Treasury to consider retaliatory options

France took a significant step forward this week towards implementing a 3 percent digital services tax (DST) on large technology companies, just days after Senate Finance Committee Chairman Charles Grassley, R-Iowa, and ranking Democrat Ron Wyden of Oregon sent a letter to Treasury Secretary Steven Mnuchin urging him to "consider all available tools under US law to address such targeted, discriminatory taxation."

URL: https://www.finance.senate.gov/imo/media/doc/2019_0624%20%20FINAL%20-%20Letter%20to%20Treasury%20re%20French%20DST.pdf

A unilateral move by France

France's advocacy for a European Union-wide DST was thwarted last year by some members of the trading bloc, leading France to move on a unilateral basis this year over the objections of US officials, among others. In the interim, 127 countries – including France – working through the Organisation for Economic Cooperation and Development (OECD) have begun a multilateral effort to review international taxing rights, including potential ways in which to collect more tax revenue from companies with limited, if any, physical presence in a country but a strong online presence or customer base. (For prior coverage, see *Tax News & Views*, Vol. 20, No. 14, Apr. 12, 2019.) While a number of countries have contemplated unilateral DSTs or similar tax policies in the past year or so, most other than France have shifted their focus to the OECD process and put unilateral measures on hold while they work towards a goal of consensus by the end of 2020.

URL: http://newsletters.usdbriefs.com/2019/Tax/TNV/190412_5.html

On June 26, however, the French Senate and National Assembly announced they had agreed on a final version of their proposed law, and the negotiated text has been forwarded to both legislative bodies for a final vote. If it is approved, as expected, the bill will go to the General Secretariat of the Government and then to President Emmanuel Macron for his signature. The new law would be retroactive to January 1, 2019, and is expected to impact only a few dozen companies in the world – only one of which is French (Criteo, an online advertising company).

Anticipating the French legislature's successful agreement on bill language, Grassley and Wyden wrote to Secretary Mnuchin on June 24, encouraging him "to take all the steps necessary to convince the French government to abandon its unilateral DST provision" and specifically pointing to punitive measures available under US law.

"As you know, the Internal Revenue Code provides tools to address such actions," the letter stated. "Under section 891, a double rate of US tax could be imposed on citizens and corporations of foreign countries engaging in discriminatory taxation of Americans."

US lawmakers piling on

The Grassley-Wyden letter is the latest in a series of statements from US lawmakers protesting unilaterally imposed digital services taxes. Earlier this spring, Grassley and Wyden, along with House Ways and Means Committee Chairman Richard Neal, D-Mass., and ranking member Kevin Brady, R-Texas, issued a bipartisan joint statement decrying unilateral DSTs, without specifically referring to France's efforts.

URL: <https://www.finance.senate.gov/chairmans-news/grassley-neal-wyden-brady-joint-statement-on-unilateral-digital-services-taxes-oecd-negotiations-to-address-the-tax-challenges-of-the-digitalization-of-the-economy>

And earlier this month, two rank-and-file Ways and Means members who co-chair the Congressional Digital Trade Caucus sent their own plea to Mnuchin and US Trade Representative Robert Lighthizer about the proposed French tax.

URL: https://lahood.house.gov/sites/lahood.house.gov/files/6.19.19_Digital%20Tax%20Letter_Signed.pdf

"We encourage you to send a strong message to France that the US agrees global tax rules must be updated for the digital age, but discriminatory taxes against US firms are not an appropriate solution," wrote Reps. Suzan DelBene, D-Wash., and Darin LaHood, R-Ill. "The US must make it clear that such a violation would result in targeted retaliatory action, for France and other countries that discriminate against US interests," they added.

Next steps unclear

There is not a clear way in which Congress can take action as the OECD project moves forward and the French legislative process plays out, but the various letters and statements from US lawmakers demonstrate that they are taking notice of the issue and will likely maintain pressure on the Treasury Department as it participates in global negotiations.

- Storme Sixeas
Tax Policy Group
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CBO: Long-term debt forecast poses risk of 'fiscal crisis'

In its annual Long-Term Budget Outlook published this week, the nonpartisan Congressional Budget Office (CBO) projects mounting federal debt and deficits in the coming decades that – without corrective action by lawmakers – run the risk of, at best, crowding out economic growth and, at worst, prompting a "fiscal crisis."

30-year outlook

The 2019 Long-Term Budget Outlook, released on June 25, extrapolates CBO's typical 10-year "baseline" over 30 years. (For previous coverage of CBO's current 10-year baseline, released in January, see *Tax News & Views*. Vol. 20, No. 5, Feb. 1, 2019.)

URL: <https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf>

URL: http://newsletters.usdbriefs.com/2019/Tax/TNV/190201_2.html

This year's report, which covers fiscal years 2019 through 2049, projects that if current tax and spending laws remain unchanged, the federal budget deficit will increase from 4.2 percent of gross domestic product (GDP) this year to 8.7 percent of GDP in 2049. Both of those figures are markedly higher than the average 2.9 percent of GDP deficit registered over the past 50 years.

These large and growing deficits would push the publicly held debt – that is, debt not held in intragovernmental accounts such as the Social Security and Medicare trust funds – to 144 percent of the economy by 2049, an unprecedented level that would be more than three times the 50-year average debt level of 42 percent of GDP.

Over the same period, revenues are projected to gradually rise from 16.5 percent of GDP in 2019 to 19.5 percent of GDP in 2049 – above the 17.4 percent of GDP average seen over the past five decades. These rising revenues would be mainly attributable to expiring tax cuts (particularly after 2025, when the vast majority of the individual tax reductions in the 2017 tax law are scheduled to lapse); "real bracket creep," or the tendency of revenues to grow as wage gains outstrip the inflation index against which the individual tax brackets are tied; increased draws on tax-

deferred retirement accounts; and the scheduled imposition in 2022 of the so-called “Cadillac” tax on high-cost employer-provided health care plans that was enacted as part of the Patient Protection and Affordable Care Act (PPACA) but has been suspended by lawmakers on multiple occasions and has never come into force.

Nearly all of the projected increase in total revenues would occur on the individual side of the tax code, CBO says.

“Increases in receipts from individual income taxes account for most of the projected 3.0 percentage-point rise in total revenues as a share of GDP over the next three decades,” the report notes. “Receipts from all other sources combined are projected to increase slightly as a share of GDP.”

But these revenue gains would be far outstripped by a concurrent spike in federal spending – an imbalance which would give rise to the aforementioned budget deficits and growing public debt. Between 2019 and 2049, CBO projects total spending would rise from 20.7 percent to 28.2 percent of GDP – an increase driven mainly by demographics (an aging population and declining birth rates translate into more Social Security and Medicare beneficiaries and fewer workers per beneficiary), rising health care costs, and growing debt service costs due to rising interest rates and an accumulating federal debt.

In fact, interest expense alone is projected to more than triple by 2049 (to 5.7 percent of GDP). By 2046, CBO projects debt service costs will exceed all discretionary spending – that is, annual appropriations on defense and domestic accounts.

More likely fiscal forecast could be even worse

Pursuant to the Congressional Budget and Impoundment Control Act of 1974 – the law that established the CBO – the agency is generally required to make its projections on the basis of “current law,” or laws as they are currently in effect. (One exception is excise taxes dedicated to trust funds – highway taxes, for example – which are assumed to be continued beyond any scheduled expiration.) Inherent in CBO’s projections, therefore, is an assumption that all expired and expiring tax provisions – including, most notably, nearly all of the individual tax changes in the 2017 tax cut legislation – will not be renewed, and revenues will be higher as a result.

By contrast, a “current policy” revenue baseline would assume that those lapsing tax cuts will instead remain in effect.

On the spending side, a current policy baseline would assume, most significantly, that annual appropriations (that is, non-entitlement spending) are inflation-adjusted from the current, fiscal year 2019 levels rather than allowed to fall to the levels specified under the statutory “sequester” caps in fiscal 2020 (and adjusted for inflation from that point). The sequester cut would amount to more than \$100 billion in fiscal year 2020 alone.

CBO notes that under an “alternative fiscal scenario” that makes these current policy adjustments – that is, extending the 2017 tax cuts, including with respect to the passthrough deduction under tax code section 199A, estate tax changes, and 100 percent bonus depreciation, and avoiding the sequester cuts to appropriations in fiscal 2020 – and also continues current policy with respect to the so-called tax extenders and the suspension of certain tax increases enacted as part of the PPACA, revenues would be about 1.5 percent of GDP lower each year between 2030 and 2049 while spending would be about 0.9 percent of GDP higher in 2049 than under current law.

Taken together, these current policy adjustments would push the publicly held debt to 219 percent of GDP in 2049, about 75 percentage points higher than under current law.

‘Fiscal crisis’

Even under current law assumptions, which assume trillions of dollars in lower deficits due to expiring tax cuts and lower spending due to the sequester, CBO warns that rising federal debt levels could crowd out investment – and thus dampen economic growth – over time as more and more dollars are directed to financing the government’s deficits rather than invested in private capital.

“If investment in capital goods declined, workers would, on average, have less capital to use in their jobs,” the report notes. “As a result, they would be less productive, their compensation would be lower, and they would thus be less inclined to work.”

Worse, the debt path could increase the risk of what CBO terms a “fiscal crisis,” which the agency says could occur if investors lose confidence in the government’s fiscal position and interest rates rise abruptly to compensate for the perceived risk of investing in US government debt.

— Alex Brosseau
Tax Policy Group
Deloitte Tax LLP

Ways and Means votes to extend Affordable Care Act fees on health insurance plans

The House Ways and Means Committee voted 26-15 on June 26 to approve legislation (H.R. 3439) that would renew through September 30, 2026, the fees imposed on issuers of qualified health insurance plans (under section 4375) and sponsors of self-insured health plans (section 4376) that were enacted under the Patient Protection and Affordable Care Act of 2010 (PPACA).

URL: <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/AINS%20to%20PCORI.pdf>

The two fees help provide the revenue stream for the Patient Centered Outcomes Research Trust Fund, which was also enacted in the PPACA and would be reauthorized through September 30, 2026, under the Ways and Means-approved bill. The trust fund and the related fees are currently scheduled to expire on September 30 of this year.

Under the PPACA, the fee is \$2 for each individual covered under a qualified health insurance plan or self-insured plan and is increased (for fiscal years beginning after September 30, 2014) to reflect increases in the per capita amount of national health expenditures.

Republican-sponsored amendments offered at the mark-up that would have eliminated the fees were defeated along party lines.

H.R. 3439 was one of several health care-related measures the committee approved at the June 26 mark-up. The others were nontax proposals addressing various issues related to Medicare, health care needs in rural communities, and the opioid epidemic.

It is unclear when H.R. 3439 will be taken up on the House floor. The Senate Finance Committee has not yet advanced its own version of the legislation.

— Michael DeHoff
Tax Policy Group
Deloitte Tax LLP

House OKs \$12 billion IRS budget for FY 2020

The House on June 26 voted 224-196 – generally along party lines – to approve a financial services and general government funding bill (H.R. 3351) which, if enacted into law, would provide the IRS a budget of \$12 billion for fiscal year 2020, compared to \$11.3 billion now in effect for fiscal 2019.

Across the Service’s four major program areas, that \$12 billion appropriation calls for:

- \$2.56 billion for taxpayer services (compared to \$2.49 billion in fiscal 2019);
- \$5.16 billion for enforcement (\$4.86 billion in fiscal 2019);
- \$3.99 billion for operations support (\$3.72 billion in fiscal 2019); and
- \$290 million for business systems modernization (\$150 million in fiscal 2019).

The measure also would eliminate a provision in current law that blocks the IRS from issuing guidance related to political activity of tax-exempt section 501(c)(4) organizations.

The Senate Appropriations Committee has not yet indicated when it intends to take up its version of the legislation.

Veto threat from White House

For its part, the Trump administration announced its opposition to the larger House appropriations bill in a June 24 statement of administration policy. The statement noted, among other things, that this and other appropriations measures moving in the House would “put the federal government on track to add nearly \$2 trillion to deficits over 10 years, adding significantly to the national debt, which is already more than \$22 trillion and rising.”

URL: https://www.whitehouse.gov/wp-content/uploads/2019/06/SAP_HR-3351.pdf

The White House did not comment on specific provisions in the bill related to IRS funding.

- Michael DeHoff
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A note on our publication schedule

The House and Senate will be out of session the week of July 1 as lawmakers leave Washington for their Independence Day recess.

Barring any unexpected developments on the tax policy front, the next edition of *Tax News & Views* will be published the week of July 8.

- Jon Traub
Managing Principal, Tax Policy
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36 USC 220506