

Tax Policy Outlook

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The background features a dark green silhouette of a city skyline at the bottom, including a prominent dome and a tall, thin tower. The sky is a lighter green and contains various currency symbols (USD, EUR, GBP, JPY) and bird silhouettes scattered throughout. The Deloitte logo is centered at the bottom in white.

Deloitte.

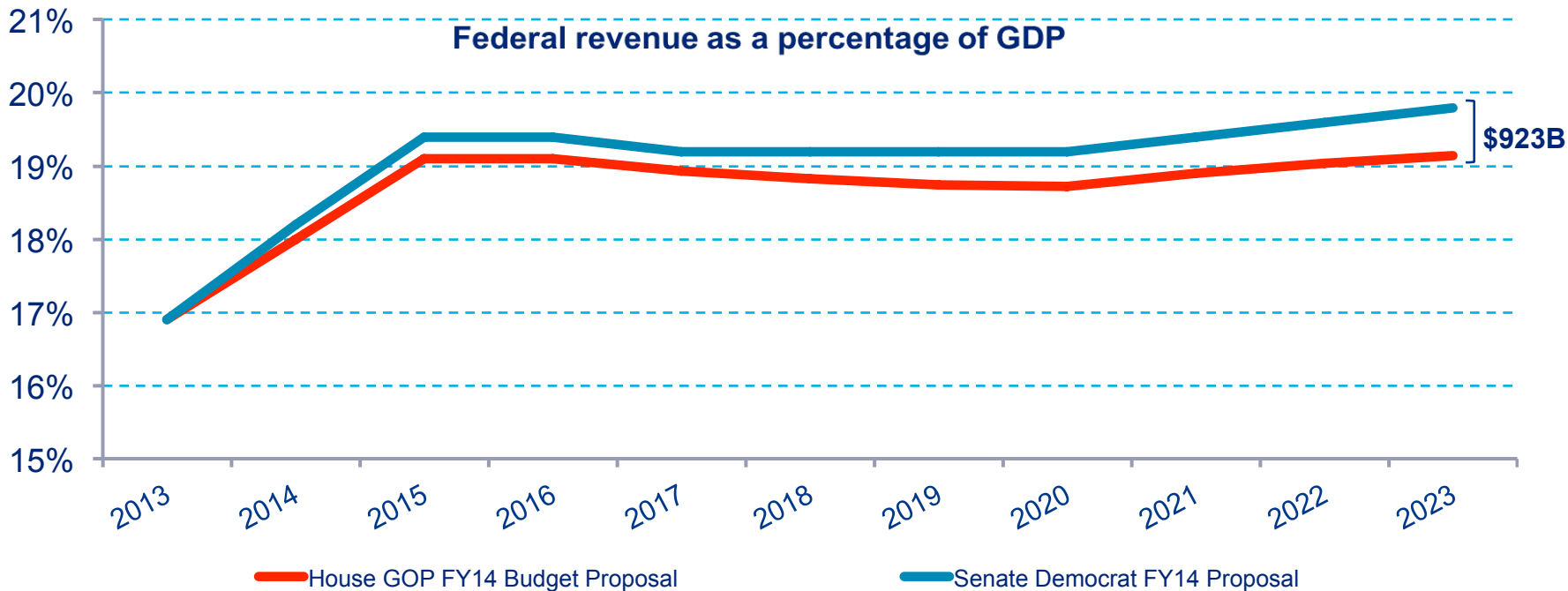
Tax Policy at the Mid-Point of the 113th Congress: Glass Half Full or Half Empty?



Latest Crisis Solved (for a couple of months)

- Government funding must be renewed by January 15 or there will be another partial shut-down of the federal government
- Debt limit increase runs through February 7, but Treasury can use extraordinary measures to extend the “X-Date” for several additional weeks
- Congressional negotiators working to reach longer-term budget agreement – is that a possible silver lining to October’s fiscal mess?

Can We Ever Settle the Question as to Whether Tax Revenues are High Enough or Need to Rise Further?



Note: The updated May baseline for current law basically mirrors the House GOP budget but for some minor technical adjustments.

Source: House Budget Committee, Path to Prosperity (FY14)—Summary Tables (Mar. 2013); Senate Budget Committee, Foundation for Growth (FY14)—Summary Tables (Mar.2013)

Will the Public Have “Sticker Shock” When They See What “Loopholes” Have to be Closed in Tax Reform?

Ten largest individual tax expenditures, 2014	2014 expenditure value (in \$B)
Exclusion of employer health contributions	\$143.0
Exclusion of pension plan contributions and earnings	\$108.5
Reduced rates of tax on dividends and capital gains	\$91.3
Mortgage interest deduction	\$71.7
Earned income tax credit	\$67.0
Exclusion of Medicare benefits	\$66.0
Child tax credit	\$57.9
Deduction for state and local taxes	\$51.8
Exclusion of capital gains at death	\$48.4
Deduction for charitable contributions	\$46.4

Source: “Estimates of Federal Tax Expenditures For Fiscal Years 2012-2017,” Joint Committee on Taxation, JCS-1-13, Feb. 1, 2013.

Business Groups Looking to Lower Rates But Keep Key Domestic Tax Expenditures

Business Groups		Tax Expenditure
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American Petroleum Institute

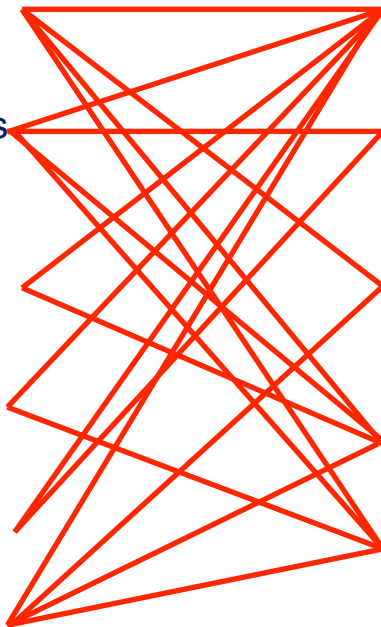
National Association of Manufacturers

National Grocers Association

Real Estate Roundtable

U.S. Chamber of Commerce

American Farm Bureau Federation



MACRS / Cost Recovery

Expensing of R&E expenditures

Deduction for income attributable to domestic production activities

LIFO and other accounting issues

Energy-related expenditures



CAUTION: Potentially Fundamental Shift Afoot in How Capitol Hill Views International Tax Issues:



Consider two statements by Ways and Means Committee Chairman Dave Camp, R-Mich.:

HOUSING: “Before considering any proposal, the Committee must better understand how tax reform might affect the housing sector and this hearing is an opportunity to hear directly from both academic experts and industry stakeholders.”

Source: Announcement of Ways and Means Committee Hearing on Tax Reform and Residential Real Estate, April 18, 2013.

INTERNATIONAL: “The use of tax havens as part of corporate tax avoidance strategies ... requires other taxpayers to pay higher rates ... There is widespread agreement ... that these practices are both unfair to taxpayers who aren’t able to engage in these strategies and harmful to the U.S. economy.”

Source: Announcement of Ways and Means Committee Hearing on Tax Reform: Tax Havens, Base

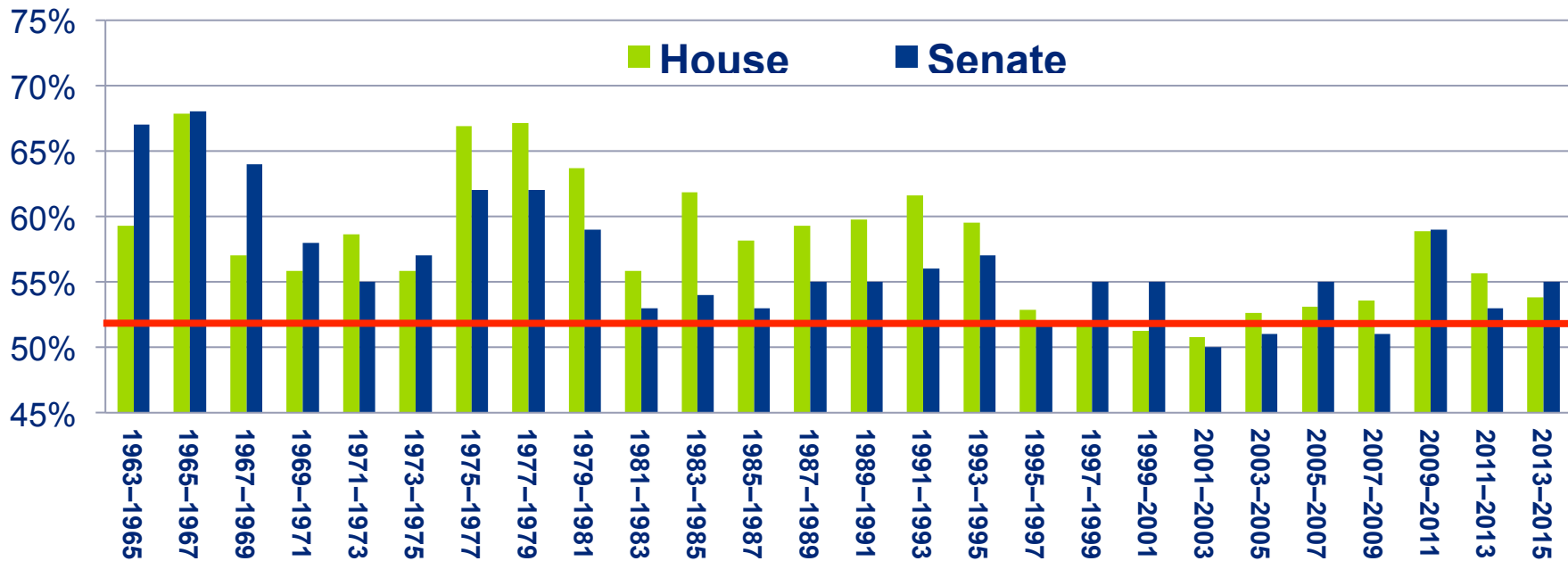
Is the House Caught in a Version of the “Prisoner’s Dilemma”?

- “The Prisoner’s Dilemma” is an example drawn from game theory to show why two rational parties both choose not to cooperate even though they would be better off by doing so.
- Tax reform presents the House with a modified version: Will the House want to act on tax reform if it doesn’t know, in advance, whether (and how) the Senate will take up the bill later?



A Sober Look At the State of Politics Today

Narrow Majorities on Capitol Hill Leave Little Margin for Error; Especially Challenging in Divided Government

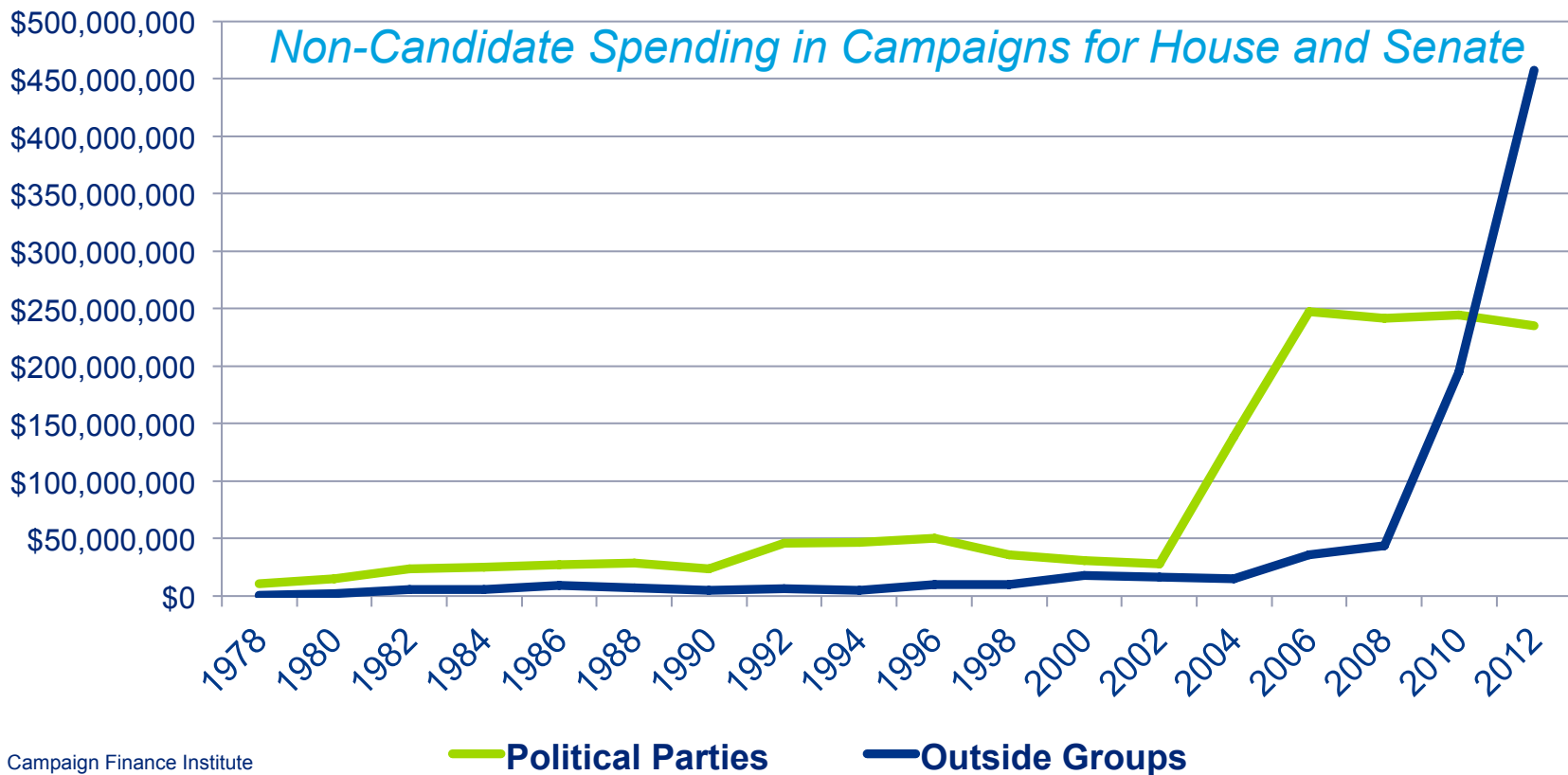


Note: Average 1963-1995: 263.3 (H), 58.4 (S) 1995-2015 (excluding the 111th Congress): 230.1 (H), 53 (S)

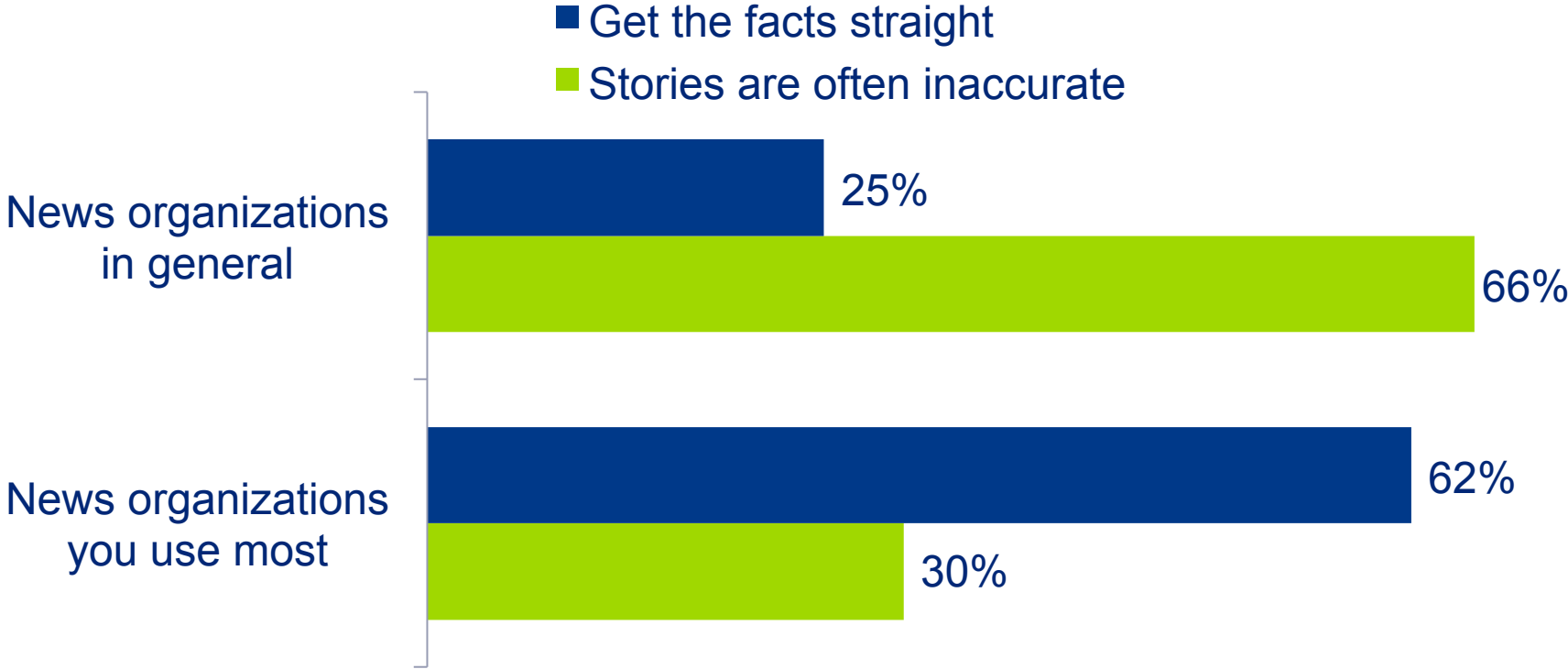
Note: Members are not considered if the position is vacant.

Source: "Composition of Congress, by Political Party, 1855-2015." Information Please Database, available at <http://www.infoplease.com/ipa/A0774721.html> (last visited November 4, 2013).

Increasing Importance of Outside Groups in Financing Congressional Campaigns

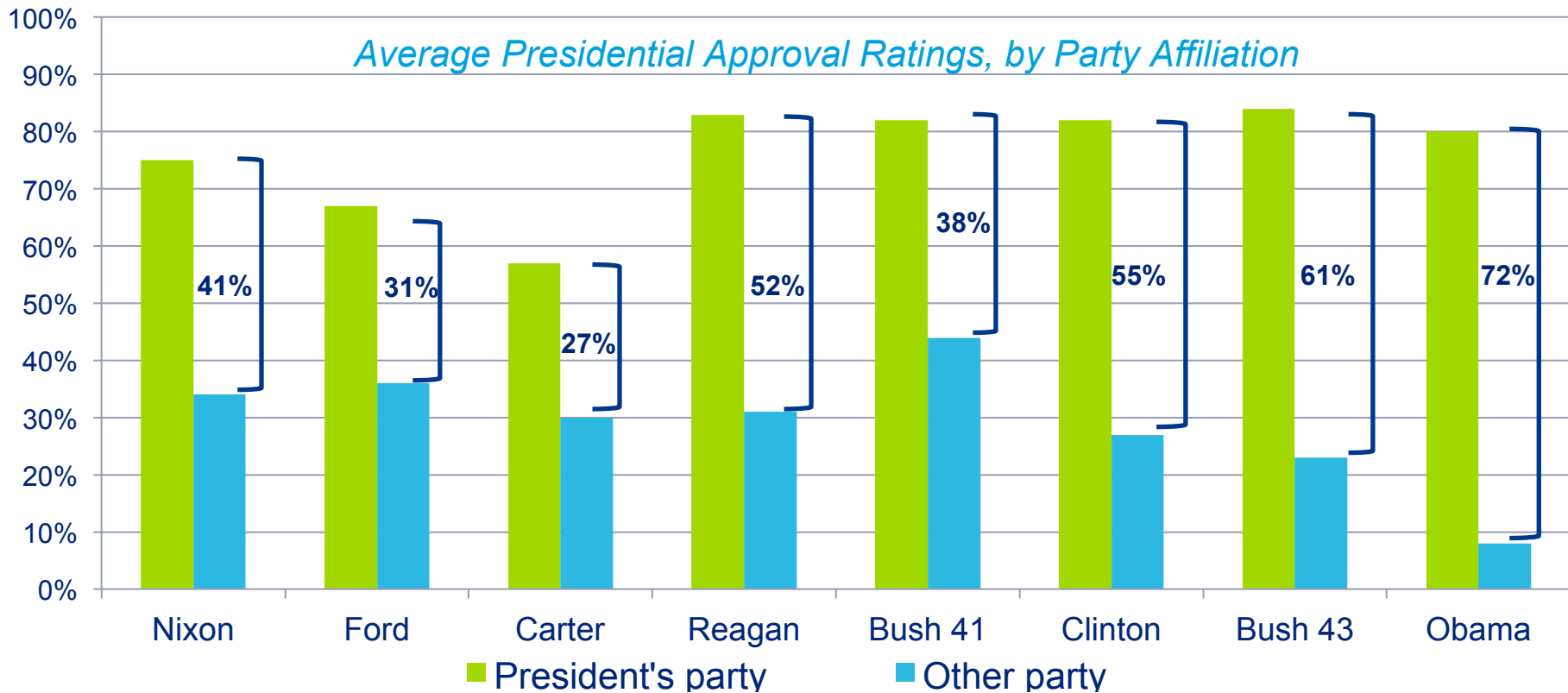


Polarization Fueled By Selective Mistrust of the Media



Source: Pew Research Center, 2011; remaining % selected "Don't know/Refused"

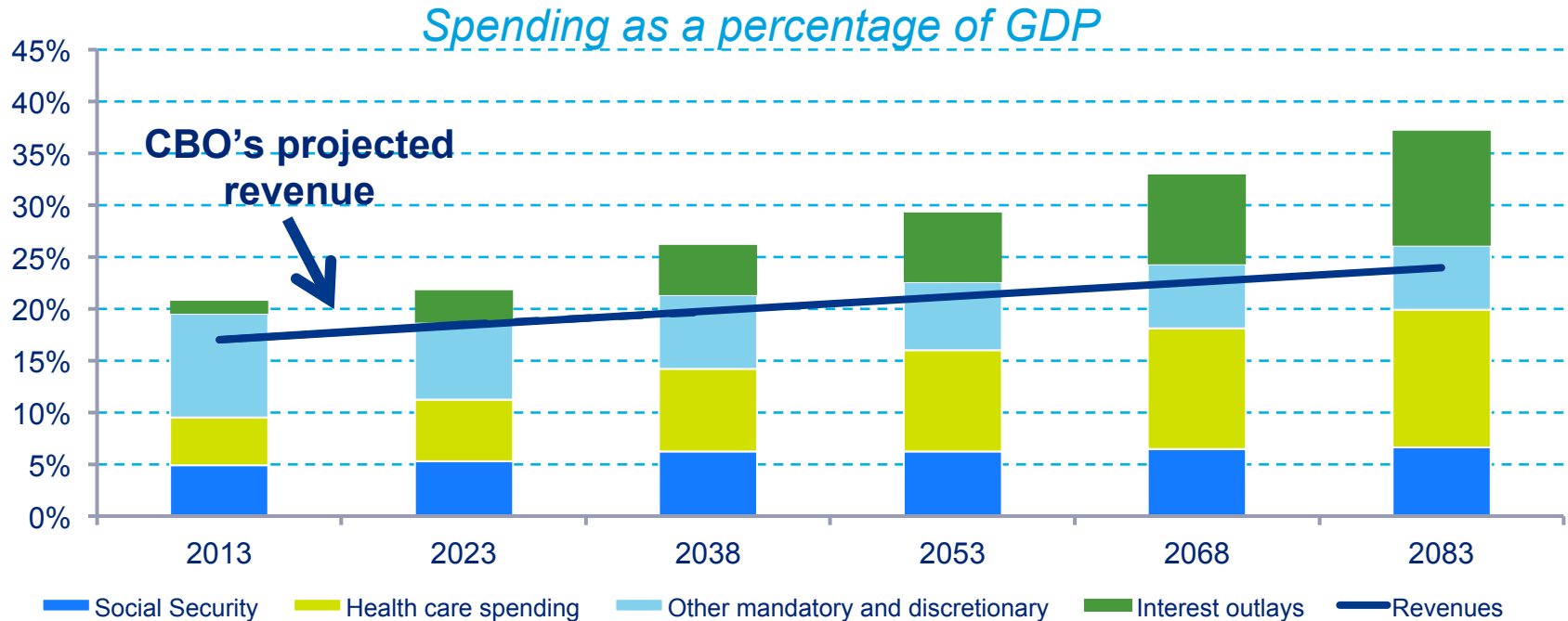
Presidential Leadership Could Help. But ...



Source: Gallup Politics "Obama's Fourth Year in Office Ties as Most Polarized Ever," Jan. 24, 2013, available at <http://www.gallup.com/poll/160097/obama-fourth-year-office-ties-polarized-ever.aspx>. For up-to-date Obama ratings, see <http://www.gallup.com/poll/124922/Presidential-Approval-Center.aspx> (last visited Nov. 8, 2013)

Reality – Hard Policy
Problems Can't Wait for
Political Process to Normalize

Budget Perspective: Fiscal Problems Worsen Over Time



Source: CBO, *The 2013 Long-Term Budget Outlook* (Sept 2013)

Three Takeaways

Three Takeaway Points on Tax Reform

ACTION ONGOING ON TAX REFORM: We saw substantive movement on tax reform the Senate this week; timing of next steps in the House is uncertain

ACTION IS NOT NECESSARILY A SYNONYM FOR PROGRESS: The specific substantive barriers to tax reform, combined with the broader political challenges, make enactment unlikely by the end of 2014

IGNORING TAX REFORM ACTIONS COULD BE A MISTAKE:

- Despite the strong headwinds facing the taxwriters, it would be wrong to say they cannot enact tax reform in the next two years
- Tax reform is likely to be on the agenda for taxwriters until it is actually enacted; work by Camp and Baucus is likely to form the basis of future reform efforts
- If Congress does not enact comprehensive reform, focus may turn back to “loophole closers” not tied to rate reduction