

NARUC Fall 2017 Conference Update on Federal Tax Reform September 13, 2017

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Prominent Failed Tax Reform Attempts Since 1986

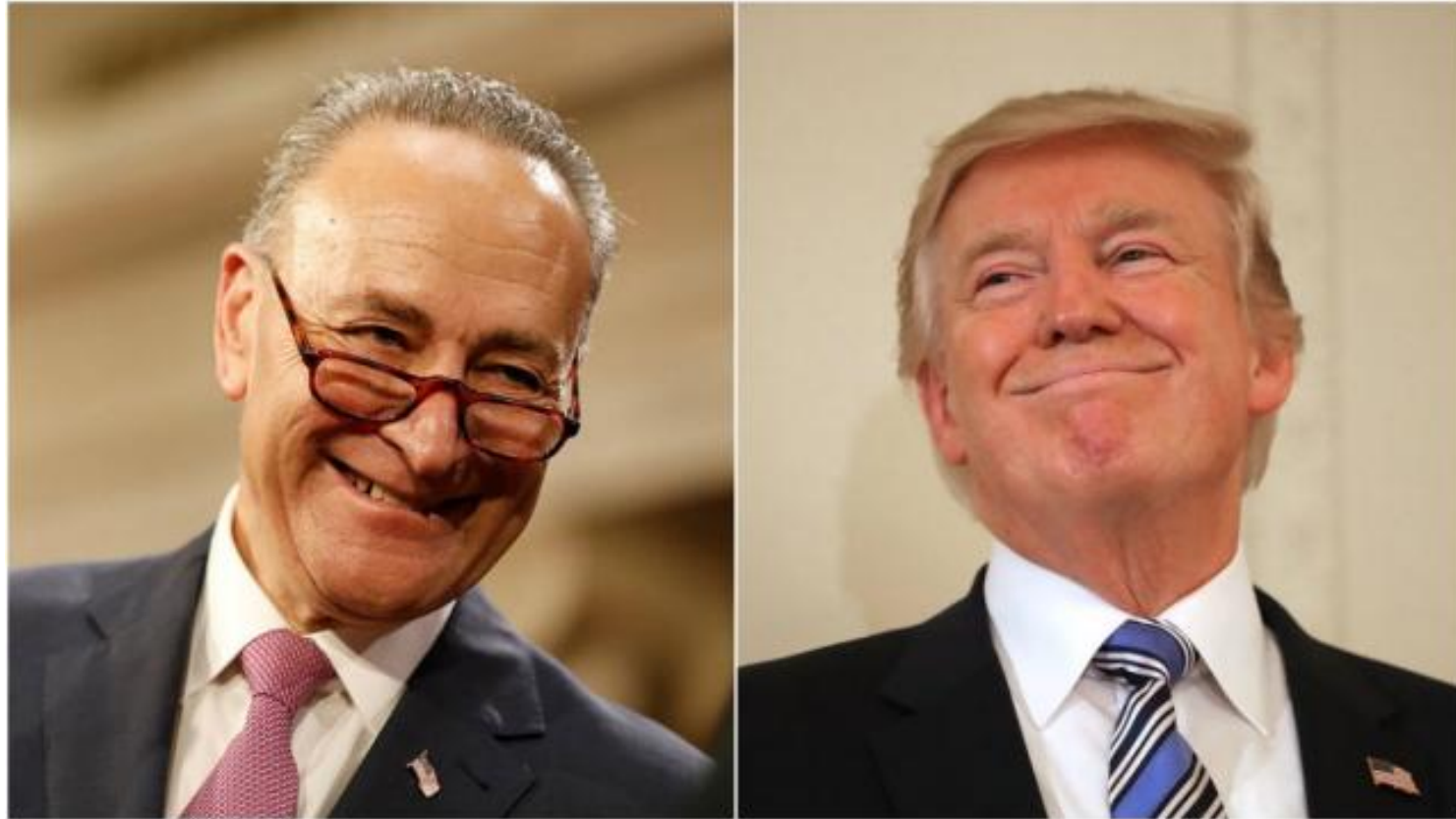
- Treasury Corporate Integration Proposal
- Kerrey-Danforth Comm.
- Danforth-Boren bill
- Archer Consumption Tax
- Gingrich-Dole Comm.
- Nunn-Domenici bill
- The Fair Tax
- Mack-Breaux Panel
- Rangel 'Mother' bill
- Treas. Business Tax Study
- Wyden-Gregg bill
- Bowles-Simpson Comm.
- Camp-Baucus proposals

Gould, "Tax Reform, Politics, and Congress,"
Tax Notes (Feb 23, 2015), p. 983.

TAX REFORM: PATH ONE



TAX REFORM: PATH TWO



TAX REFORM: 1986 PATH



Obstacles to Party-line GOP Tax Reform

Who wants to take a hard vote –
without cover?



Obstacles to Party-line GOP Tax Reform – Continued

- Scant margin for error in building tax-reform majority – 2 votes in Senate, 22 in House.
- Outsized power of small minorities to disrupt the bill.
- Primary importance of local and regional interests for rank and file members of Congress.
- GOP hostility to tax increases of all types.
- Absence of “easy” tax increases – like repeal of investment credit in 1986.

Obstacles, continued

- Prerequisite of budget “resolution” to enable passage of tax reform by simple majority in Senate.
- Procedural restrictions against non-revenue provisions in the bill – i.e., provisions that could help build a majority.
- Lack of experience in tax committees in dealing with stakeholders in enacting tax increases.
- Current lack of broad public support for corporate tax cuts.

Obstacles to Party-line GOP Tax Cut



Procedural Obstacles to Party-line Tax Bill that Would Increase Budget Deficit

- Again, requirement of passage of budget resolution.
- Again, restriction against non-revenue provisions in the bill.
- Requirement of Congressional action to increase federal debt ceiling.
- Requirement that tax cuts not add to budget deficit after the end of applicable budget “window.”
 - May require Congress to sunset tax cuts.
 - May rule out even temporary corporate rate cut.
 - May compromise business certainty and undermine growth effects of tax reform.
- Statutory requirement of automatic offsetting cuts in Medicare and other mandatory spending under pay-as-you go rules.

Other Obstacles to Party-line Tax Cut

- Possible adverse reactions in financial markets.
- Again, limited public support for corporate tax cut.
- Again, narrow margins of GOP control of Congress – thus, ability of small group of members concerned about deficit to derail tax cut.
- Need for votes of Democrats on debt limit and government funding (thus leverage for Democrats on other issues – such as tax legislation).

Trump-Schumer: Observations and Questions

- Completely uncharted territory – not 1986.
- Obvious advantage: Avoid the many roadblocks of a partisan bill.
- What would Democrats seek?
- Could Democrats reach a consensus?
- Is it too late for Democrats to consider working with Trump?
- How and where would a deal be negotiated? In the Senate? Under a bicameral procedure?
- Could Trump keep Republicans on board?
- Could Trump provide cover for hard votes?
- When might a negotiation unfold?

Tax Reform: Key Moving Pieces

- Corporate rate: mid 20s target.
- Top individual rate on business income: parity with corporate rate.
- Foreign business income: Generally exempt from U.S. tax if taxed abroad (“territorial system”).
- Possible partial corporate “integration”: shift of corporate tax to shareholders.
- Improve tax benefits for domestic capital spending.
- Individual income tax: Reduce number of brackets; increase standard deduction; pare back deductions and credits.

Tax Reform and Utilities – Key Issues

- Interest deduction – squarely on the table this time.
- Treatment of excess tax reserves.
- Corporate integration.
- State and local property tax deduction.
- Tax rate on dividends.
- Cost recovery – bonus depreciation.
- Tax exempt finance.