

The Tax Reform Cometh

[Keith Smith](#) and [Armstrong Robinson](#)

Tax Reform is a major agenda priority for 2017. We expect continuous action next year and perhaps beyond.

Chairman Kevin Brady (R-TX) and Speaker Paul Ryan (R-WI) possess the most developed product under active consideration. The House [GOP Better Way Tax Blueprint](#) (the Blueprint) was released in July, 2016. Since then, Donald Trump embraced several of the concepts. The Republican Staff at Ways & Means has been working on details and legislative text ever since.



We have the added emphasis of a Trump victory to spur on this effort. Steven Mnuchin, President-elect Trump's Secretary of the Treasury Designee, says "Our most important priority is sustained economic growth." "To get there, our No. 1 priority is tax reform." **This represents the best chance in decades to accomplish tax reform.**

Most of the Republican tax writers, including early indications from the Trump Administration, have suggested this effort must be revenue neutral, on a dynamic basis¹.

Senate Republicans have been cautious in their reactions to the Blueprint. Finance Committee Chairman Hatch (R-UT) has not released his long awaited Corporate Integration proposal. Democrats in the House and Senate have not released a tax reform proposal of their own since then-Chairman Charlie Rangel's (D-NY) bill from 2007 and then-Chairman Max Baucus (D-MT) tax reform papers from 2014. Early indications from Senate Republican tax writers indicate emphatically their intent to develop their own bipartisan proposal on tax reform.

The newest key player on tax reform in Congress is Rep. Richard Neal (D-MA), the new Ranking Member on the Ways & Means Committee. Rep. Neal is well-liked and respected on both sides of the aisle and both sides of the capitol. He represents a markedly different leader for Democrats in the House. However, his impact will be significantly affected by two things: (1) how much appetite for bipartisanship there is from House Republicans; and (2) how

¹ Key Trump Transition Adviser on tax, Jim Carter co-authored an op-ed with fm. Rep. Geoff Davis (KY-4) in defense of Dynamic Scoring in January 2015. <http://thehill.com/blogs/congress-blog/economy-budget/229386-congress-catches-up-to-17th-century-science>

much leeway he has with House Democrats. Another new Democratic player to watch is Rep. Lloyd Doggett (D-TX) who will be Ranking Member of the Tax Policy Subcommittee in the 115th Congress.

In addition to the bold nature of the Blueprint, the fact the other major players on Tax Reform are not as far along in their own positions, as well as the Senate's finite ability to process legislative throughput indicates that tax reform will not be accomplished quickly.

[Last week, Chairman Brady reviewed the state of play on tax reform and healthcare reform in an interview with C-SPAN's Newsmakers program.](#) He touched on tax reform, healthcare reform and debt limit. On timing for tax reform, the Chairman expected a lot of the work to be done in the next month and that Ways & Means would be ready to move forward with President Trump.

INFRASTRUCTURE

Funding an infrastructure plan through revenues derived from Tax Reform is still considered an avenue for bipartisan cooperation. President-elect Trump proposed a \$1 Trillion infrastructure package. Our colleague [Becky Weber](#) provided [an excellent review of the infrastructure agenda and the nuances of Transportation policy in a Trump Administration that you can read here.](#)

In the context of tax reform – infrastructure spending could grease the wheels for action. Whether by financing direct spending, tax incentives or a new infrastructure bank the two proposals are often linked conceptually.

The rub as they say, is twofold. First, the most aggressive and bold tax reform plans rely on as much revenue or score as they can get to achieve lower rates and a simplified code. Those revenues are not available to fund other priorities. Second, the most fruitful discussions around this idea include corporate and international tax reform – leaving out the individual and small business parts of the code.

Business-only tax reform combined with infrastructure spending is not necessarily an easier path. Beyond leaving out individuals, there is a legitimate fear that business-only quickly becomes corporate-only reform leaving out the bulk of American businesses. There is considerable political will for comprehensive tax reform. However, several advisors to the Trump Administration have voiced support for this type of plan and Senate Democratic Leader Chuck Schumer laid a lot of groundwork on these issues with Senator Rob Portman and Speaker Paul Ryan. Finally, proponents of this avenue note that the individual side of the tax code generally has divided Republicans and Democrats widely over the last decade.

Leader McConnell and Chairman Brady have said that they are interested in pursuing a comprehensive tax bill so as not to leave out individual tax reform.

RECONCILIATION

Reconciliation's compelling virtue is its insulation from the Senate filibuster rules. You can read [a refresher on the arcane process](#) written by [Armstrong Robinson](#). Congressional Leaders are working on two budgets (FY17 and FY18, each with its own reconciliation instructions. The first is intended for Obamacare Repeal. The second could be used for Tax Reform.

Those instructions could only address budgetary effects of tax reform and not policy reforms necessarily. You may recall that Reconciliation was used for the 2003 and 2006 tax reforms by the Bush Administration and it was part of the legislative cocktail that produced the Affordable Care Act in 2009.

The Senate's top tax writer, Chairman Orrin Hatch (R-UT) has said that Republicans may use budget reconciliation to move legislation rewriting the tax code. "It's probably what has to be done," Hatch said. "If you're going to do tax reform, I think it's going to take that."

Republican Tax Writers in the House and Senate would prefer bipartisan Tax Reform outside of the reconciliation process for two reasons. First, it allows for a better and cleaner bill. Second, anytime Congress undertakes big, broad reform support from as broad bipartisan coalition is politically advantageous. However, those same leaders will use reconciliation if they have to.

While we expect House Republicans to move first and fastest, a long road remains and the time for engagement is now. The Tax Reform Cometh.