

TAX IN THE 116TH CONGRESS

By: [Keith Smith](#) and [Congressman John Tanner](#)

The American voters have changed the House three times in the past 12 years and they have changed the Senate four times in the past 18 years. Divided government can be good for America and good the U.S. Congress. Even Senate Republican Leader McConnell (R-KY) noted recently that that possibility exists for progress on some tough issues. He noted that the responsibility for governing has a tendency to make both parties more responsive to some critical needs coming in the near-term future like a new budget agreement, a new debt limit agreement and entitlement reforms for enhance the future security of Social Security and Medicare.

As a result of the November elections, 10 Republicans and two Democrats are leaving the Ways and Means Committee. There are not even enough Republicans left to fill all the seats, in the minority, on the Committee for next Congress. On the Senate Finance Committee there are two Republicans and two Democrats leaving the 27-Member committee.

But before the eulogy can be read, there is work to do in the lame duck session. It is unclear at this moment how many tax agenda items will be in the mix. There is a collection of tax extenders and retirement enhancements that could be offered in the coming weeks and some of these have bipartisan support. We also expect that a tax technical corrections bill will be discussed and/or offered. There is the new middle class tax cut that received some honorable mention in the past few weeks. Then there is the Brady 2.0 package that the House approved before Congress left for the November elections. We continue to believe that any tax proposal that loses much revenue will be the most difficult to pass.

NAMES TO KNOW IN TAX

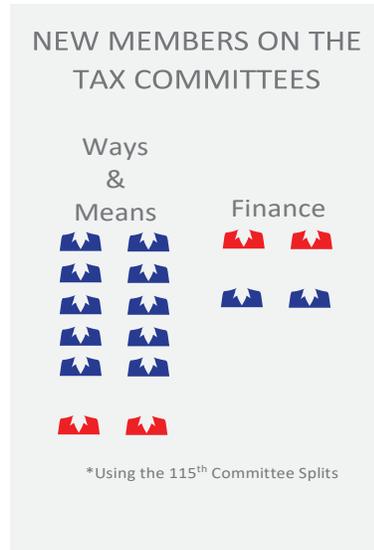
House		Senate	
			
Richie Neal	Kevin Brady	Chuck Grassley	Ron Wyden
<i>Chairman, Ways & Means Committee</i>	<i>Ranking Member, Ways & Means Committee</i>	<i>Chairman, Finance Committee</i>	<i>Ranking Member, Finance Committee</i>

Ways and Means

The Democrats will need to add 10 new Members to the Ways and Means Committee majority in the next Congress. And so many Ways and Means Republicans retired or were defeated this election that they do not have enough Members to fill the 16 Minority seats now to be filled. They will need two new Members if the ratios stay the same on this 40 Member committee.

A eulogy for some of the Ways and Means Republicans that lost their re-election efforts. At least six Republicans from high-tax states lost on Tuesday including Erik Paulsen (R-MN) and Peter Roskam (R-IL). And these Members faced opposition from constituents with high state property tax deductions. Paulsen's district in Minnesota is the wealthiest district in the state and Paulsen's support the cap on state and local property tax deductions in the new tax law, is offered as partial explanation for his loss.

Incoming Chairman Richard Neal (D-MA) is known for his bipartisan and moderate positions on tax and economic growth issues. He has sponsored or cosponsored many specific tax proposals and we do not expect that he will change his openness to. There may be an early attempt to write a tax title for an infrastructure bill. This effort was also mentioned in the first phone call between House Democratic Leader Pelosi and Senate Republican Leader McConnell on Wednesday, the day after the mid-term elections.



There may be an effort to roll back some of the tax cuts from the tax reform bill last year. President Trump mentioned a potential deal on some rate increases in exchange for a middle-class tax cut. He said this at his press conference shortly after the election.

We do expect that efforts to obtain and release President Trump's tax returns will be a focus of House Democratic Leadership and Chairman Neal. We expect numerous hearings on the 2017 tax reform law. Entitlements are not likely to be on the agenda as the Democratic leadership has not been interested much in addressing the near-term crisis facing Social Security and Medicare.

Democratic Members John Larson (D-CT) and Bill Pascrell (D-NJ) are from high-tax states and both favor eliminating the cap on state and local property tax deductions.

Senate Finance Committee

Senator Chuck Grassley will take the Senate Finance Committee gavel next year. Grassley previously served as Chairman of this committee and his bipartisan reputation will be needed again as he negotiates legislation on the Committee and with his Democratic and Republican colleagues in the House.

The Finance Committee's work is likely to include:

- Fine-tuning the massive tax overhaul Republicans pushed through Congress last year, H.R. 1 (115).
- He may want to further review overseas tax shelters, which he was critical of when he ran the committee before
- He supports expanding tax benefits for renewable energy and the expired ethanol/biodiesel tax credits
- He previously scrutinized wealthy colleges, art donations
- Entitlement Reform? With Social Security and Medicare set to double in outlays over the next 10 years, Congress will need to act to provide stability and long-term confidence in these programs. Even interest on the national debt will approach \$1T annually by 2028 according to CBO projections. We do not see the political will to address these issues in a meaningful manner over the next two years.

Make New Friends

There will be about 12 new Members on the Ways and Means Committee for the 116th Congress and as many as 4 new Senators on the Finance Committee. It is indeed time to make new friends and get some things done.