Politics of Tax Reform: Outline

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Perspective as of January 1, 2017: Unified Republican government would move quickly on three major fronts, healthcare reform (to be enacted by Memorial Day); tax reform (to be enacted by the August Congressional recess); and entitlement reform (to be enacted as part of the budget process in the fall).

Current State of Play: Healthcare reform failed after consuming much of Congress’ attention through the August recess; official efforts at tax reform are just starting in November (Congress is scheduled to be in session 14 days in November, 9 in December when a number of must do bills will be considered); and there is little if any movement on entitlement reform.

House Republican Blueprint: Released in June 2016 would have paid for tax cuts with the BAT, denial of interest deduction, and repeal of ACA taxes. The Blueprint was rejected in favor of Big 6 negotiations which produced the tax reform Framework that was released in late September.

Budget Reconciliation: Under the assumption that few if any Democrats will support reform Republicans are operating under a budget procedure that will allow passage with a simple majority in the Senate. But the Byrd rule puts major constraints on tax reform in this context: (1) payfors are requires and (2) pure policy provisions are not allowed.

Budget Resolution: To operate under reconciliation Congress needs to agree on a budget resolution.

Debt Issues: US debt already at $20 trillion has been climbing since the start of 2017; the deficit for FY 2017 came in around $85 billion higher than anticipated. Weather related relief has increased that figure and put pressure on tax reform not to increase debt further.

Policy Debates: Does tax reforms, especially tax cuts, pay for themselves? Does the Framework provide for a tax cut or tax increase for the middle class? Will the proposed international changes keep US companies in the US or further encourage them to leave?

Timing: If tax reform spill over into 2018 how will electoral politics affect the debate and outcome?