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Upcoming Tax Reform Framework Expected to Be 'High-Level'

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A tax reform framework from the Trump administration and GOP congressional leaders slated for release the week of September 25 is expected to provide little in the way of detailed provisions, according to a House GOP aide.

While speculation has varied about the level of detail in the forthcoming framework agreement, the aide said it would be "extremely high-level."

Two Republican members of the Senate Budget Committee announced September 19 that they have reached an agreement on a budget resolution to allow "a path forward" for tax legislation. The lawmakers released few details, but said the deal would "allow for a tax reduction, as scored on a static basis, over a 10-year period." The agreement reportedly would also permit a $1.5 trillion budget deficit increase.

"I am confident the budget agreement I have reached with [Senate Budget Committee Chair Michael B. Enzi, R-Wyo.] and Senator [Bob Corker, R-Tenn.] will give the Finance Committee the headroom needed to write a pro-growth tax plan that reforms the code, causes the economy to surge, and ultimately results in reduced federal budget deficits," said Senate Finance Committee member Patrick J. Toomey, R-Pa., in a joint statement with Corker.

Although details are sparse on the Toomey-Corker agreement, it does signal the upper chamber is "reestablishing its legislative authority," taking the lead on a workable reconciliation vehicle for tax reform, the House GOP aide said.

"I think the Senate realizes the House's current budget doesn't work for tax reform, and they need to fix the House problem, much like they've seen with healthcare. My sense is that this budget deal moves the ball a step" toward a framework for tax legislation, the aide said.

The House's fiscal 2018 budget resolution passed out of committee in July and was expected to receive a floor vote in September. The House resolution includes reconciliation instructions that call for $203 billion in budget deficit reduction over a decade, rather than an increase.

The budget resolution deal "certainly indicates a shift to temporary tax cuts," a GOP tax lobbyist said.

While the deal signals a preference for temporary rate reductions, that does not mean the legislation won't include any reforms or offsets, the lobbyist suggested. "For one, the overall revenue reductions on the candy side that they want to do probably exceed $1.5 trillion, if that's the number. Number two, they will want to make some things like territoriality permanent so offsets will be needed to allow for some portions of the bill to be permanent, and to lend some credulity to the characterization of the bill as true reform."

GOP lawmakers in both chambers are working to reach a self-imposed year-end deadline to enact tax reform legislation, but haven't determined the budgetary baseline the legislation will use or how much dynamic scoring can lower the projected cost of the legislation.

Ed Lorenzen of the Committee for a Responsible Federal Budget told Tax Analysts it's "an open question" whether the Senate parliamentarian would permit dynamic scoring revenues to offset the cost of tax cuts for enforcement of the Senate's "pay as you go" rule.

"I think the answer would probably be yes, but it has never been tested," he said. "However, that is likely a moot issue for tax reform," he added, because the parliamentarian has said lawmakers can't use a dynamic score for budget reconciliation purposes. Lorenzen added, however, that the budget resolution would likely include a provision "exempting reconciliation from the pay-go point of order."

Observers Tout Growth, Blast Distributional Effects

Lawmakers should focus on pro-growth reforms like corporate rate cuts, capital gains tax cuts, and the repeal of the estate tax as they craft tax reform legislation, said Chris Edwards of the Cato Institute.

"Such reforms would expand the federal tax base over time and lose the government little if any revenue," he said. "The administration and some Republicans say they want to focus on tax cuts for the middle class, but that seems to be code for cuts that do not stimulate growth, such as increases in the standard deduction. To boost growth, tax reforms need to improve incentives for productive activities, such as working, investing, and starting businesses."

While Edwards said reforms like increasing the standard deduction wouldn't achieve growth, two observers from other Washington think tanks raised concerns about the distributional effects of the tax plan that would result from the announced budget deal.

William Gale of the Urban-Brookings Tax Policy Center (TPC) told Tax Analysts that the Republican-led tax reform plan is shaping up to be a "sizable, perhaps enormous, tax cut for high-income households."

He noted that the direct benefits of the major tax cuts proposed by Republicans thus far, like repeal of the net investment income tax, individual and corporate alternative minimum taxes, and the estate tax, as well as cuts in the corporate and passthrough business tax rates, skew heavily to upper-income earners.

A budget resolution calling for $1.5 trillion in tax cuts also opens a means of getting the corporate tax rate closer to the targets they've sought, he said. A recent TPC report found that even if Republicans were to eliminate every corporate tax expenditure, it would provide only enough additional revenue to reduce the corporate tax rate to about 26 percent if the bill were to remain revenue neutral. While tax reformers would still have to work to find revenue offsets, getting the corporate rate down in the low 20s is "certainly possible in a $1.5 trillion package," Gale said.

A budget plan with tax cuts resulting in a revenue loss of $1.5 trillion would result in deficits that must be addressed, said Chye-Ching Huang of the Center on Budget and Policy Priorities. The same lawmakers who advocate a budget resolution with tax cuts would likely push for cuts to programs like food stamps and Medicaid that help families afford basic needs, she said.

Huang looked ahead to a fiscal cliff that would likely result from temporary tax cuts, which Corker and Toomey mentioned in their statement about the budget agreement. "This is a bad idea being repeated at an even worse time to do it," she said, referring to tax cuts enacted under the George W. Bush administration. Factors including the Bush cuts and the 2008 recession make the country's current fiscal outlook much different than it was in the early 2000s, she said.