



Friday, 13 October 2017

## Decoding Tax Reform: Advising the Advisor

### *Weekly Update*

Republicans continued to hash out the details of tax reform this week. Ways and Means Chairman Kevin Brady (R-TX) held a 'mini-retreat' with Republicans on his committee yesterday. Intel says the Chairman and staff are walking the members through their options for filling the big revenue hole in the tax reform plan.

Our regular readers know that the [Framework released on September 27](#) outlines a tax proposal that could cost \$5 to \$6 Trillion. Depending on the Budget they finally adopt, tax writers will have to fill a \$4.5 to \$6 Trillion hole.

Lots of discussion in the House this week centered on the State and Local Tax deduction for individuals. Full repeal could be worth \$1.2 Trillion, but a number of lawmakers from high tax states are concerned about the implications of repeal on their middle-class constituents. Compromises are being explored, any of which will curtail the \$1.2 Trillion in expected revenue.

The Senate is expected to take up the FY18 Budget next week. There is no margin for error and passage next week is not certain at this point. Two Republican Senators are battling significant health issues and a number of others have yet to signal their support for the Budget. Once the Senate does pass a Budget (and we believe they will get there eventually) that product will have to be reconciled with the House Budget and then each chamber will have to pass that version. This process could take two to three more weeks.

The big issue is the impact of tax reform on the federal debt. The Senate Budget allows any tax bill to add \$1.5 trillion to the deficit, while the House Budget calls for revenue-neutral tax reform. Sixteen House Republicans voted against the Budget when first on the House floor, and it's unclear how many Republicans could balk at a bill from the

conference committee that adds to the national debt—though the \$1.5 trillion figure is expected to shrink in conference. The Republican Study Committee in the House includes a number of fiscal hawks highly concerned with our debt and deficits. In other words, after a budget compromise emerges, leadership in both chambers will again have to corral the votes to pass that product.

Complicating matters is a challenging Congressional schedule. Chairman Brady will not release a Tax Reform draft until the Budget is done. The earliest we expect to see that product is Halloween, but getting there requires mistake free legislative success in the interim and that is unlikely. That would give them three weeks in November before Thanksgiving. The Continuing Resolution (keeping the government open) expires on December 8 and the budget sequester hits again on January 1. Resolving both of those must-do items will require bipartisanship. However, Minority Leader Nancy Pelosi (D-CA) has said Democrats will not provide any votes unless a fix for Dreamers is included. In addition, President Trump's actions yesterday to undermine the Affordable Care Act will further poison the well of bipartisanship and reinject healthcare into the fall agenda. The risk of a government shutdown is far from trivial.

Other potential distractions include the Iranian nuclear deal, as Administration non-certification of the deal could start a 60 day clock that requires Congress action.

- The Framework's inclusion of estate tax repeal has prompted criticism of the Administration's argument that their plan is designed to benefit the middle-class. This issue is taking on a life of its own in the public discourse:
    - [Opinion | This may be Trump's most insulting scam yet;](#)
    - [No, the Estate Tax Isn't Killing Family Farms](#)
    - [Fact & Fiction About Estate Tax Repeal](#)
    - [Fact Check: "Death Tax" Talking Point Won't Die](#)
  - Discussions over the details of tax reform continued this week, with a number of key issues highlighted:
    - [Republicans look for compromise on the state and local tax deduction](#)
    - [Republicans eye alternatives to a 20% C rate](#)
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We welcome your questions, feedback and intelligence. **Call us at 202.742.4638.** In addition, if you are planning any outreach or interaction with a Member of Congress we are happy to help and would love to hear what you learn.



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AALU Member

**Our mailing address is:**

AALU  
11921 Freedom Drive  
Suite 1100  
Reston, VA 20190