



Friday, 6 October 2017



## This Week in Tax Reform

Yesterday, Congressional Republicans took the first legislative steps towards tax reform. The House passed their FY18 Budget Resolution and the Senate Budget Committee passed their version. The Senate is in recess next week, but the full Senate will take up their budget for a vote the week of October 16. There are significant differences between the two budgets that must be reconciled and passed again in each chamber before the filibuster protection of reconciliation for tax reform is unlocked (giving them a 50 vote threshold instead of 60). While there is a little momentum, none of these steps are automatic.

The final budget will also set some of the contours for the size of the tax reform package. [The Framework](#), while lacking in detail, could represent an almost \$6 trillion package. The House version of the Budget calls for deficit neutral tax reform, while the Senate version allows for up to a \$1.5 trillion loss over the first ten years. Our intelligence suggests the \$1.5 trillion number will shrink as they move towards a final budget. Wherever that number

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ends up the rest of the difference will have to be made up in offsetting tax increases or base broadeners.

Republicans leaders are upbeat about their progress and motivated by the political liability of failure. However, the challenges facing Republicans as they begin to make specific decisions were evident this week. For example, the Big Six Framework ended the deductibility for state and local taxes (SALT)—bringing in \$1.3 trillion—yet pushback from Republicans in high-income states has already forced leadership to focus on changes to SALT deductibility rather than elimination.

Your AALU team continues working with allies in Congress week in and week out, however, it's clear that the current conversation still centers around big thematic decisions and they aren't yet truly in the weeds and details.

- As previously noted, the Framework was all sugar, no spinach. When your reform comes only once every 30 (or more) years, the consistent truth is that reform is HARD. *Read more:* [Warning signs emerge in GOP's tax reform push](#)
  - A handful of Senate Republicans publicly questioned the importance of including estate tax repeal in a tax reform package, including Senators Mike Rounds (R-SD) and Tim Scott (R-SC). *Read more:* [Senate GOP Hits Resistance on Estate-Tax Repeal—From Republicans](#)
  - Senator Bob Corker (R-TN), who recently announced he would not run for re-election 2018, said he would not vote for a tax plan that was temporary or raised the deficit. *Watch:* [NBC Meet the Press](#) | *Read more:* [Warning signs emerge in GOP's tax reform push](#)
  - House Republicans are now leaning towards including a fourth tax bracket for wealthy Americans, but not higher than the current 39.6% top rate. *Read more:* [House tax plan 'highly likely' to include fourth rate on wealthy, likely not higher than 39.6%, source says](#)
  - *The Wall Street Journal* discusses the tradeoffs facing Republicans and they flesh out the details of tax reform. *Read more:* [Talking Taxes: The Sacred Cows of the Tax Code](#)
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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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