

Ways and Means Republicans Want Broad Tax Code Changes That Won't Come Easily, Daily Tax Report...

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Daily Tax Report®

February 02, 2015



Tax Legislation

Ways and Means Republicans Want Broad Tax Code Changes That Won't Come Easily

BNA Snapshot

Development: Ways and Means Republicans settle on comprehensive tax reform agenda at three-day retreat outside Washington.

Next Steps: Making it happen is another story, as resistance awaits at White House and across the aisle.



By **Aaron E. Lorenzo**

Jan. 30 — Republicans on the House Ways and Means Committee have united behind a goal to comprehensively remake the U.S. tax code, but their plan faces long odds.

The reason relates to political possibilities, or a lack thereof.

"It's much more sensible to do it as one big package, but doing one big package requires getting a whole bunch of people together," Roberton Williams, a fellow at the Urban Institute, told Bloomberg BNA.

In other words, although an all-encompassing approach to tax law changes might make mathematical sense, doing so stands little political chance, said Williams and others who support broadly revamping the tax code rather than ignoring individual taxpayers for now. It simply seems too difficult to pull together various factions in the current partisan quagmire.

White House signals indicate President Barack Obama's preference for changes that impact corporations and businesses that file through the individual side of the tax code. But that falls short of the goal Ways and Means Republicans set at their hush-hush huddle outside Washington from Jan. 28-30 in Warrenton, Va.

"Members decided to pursue a comprehensive approach," said one of the attendees, who requested anonymity to more freely discuss the closed-door talks, which focused more on taxes than other issues—such as trade, health care and welfare—under the committee's jurisdiction.

They agreed to focus on helping businesses and individuals, and from that foundation attempt to find common ground with the president.

"Whatever we do, there was strong consensus that we can't do any type of reform that would leave small businesses behind," the attendee told Bloomberg BNA.

Partial or Comprehensive

General Info Notepad

General Information

Topic
Government
Tax & Accounting

Citation
21 DTR G-10 (Issue No. 21,
02/02/15)

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Ways and Means Chairman Paul D. Ryan (R-Wis.) planned the secluded retreat to give those on his side of the aisle an opportunity to weigh in on partially or comprehensively addressing tax changes.

On the other side of the Capitol, Senate Finance Committee Chairman Orrin G. Hatch (R-Utah) has consistently indicated his preference for a comprehensive approach.

Eventually pushing a tax overhaul package through to enactment would require massive public buy-in, having "lots of winners, lots of losers and a better outcome in the end," Joint Committee on Taxation legislative counsel **Viva Hammer** said during a speech the same day in Houston.

"There's going to have to be a monumental marketing campaign," **Hammer** said at the midyear meeting of the American Bar Association Section of Taxation.

But congressional Democrats remain skeptical of Republican motivations. One of their aides was dismissive of the message out of the Ways and Means Republican retreat, which in addition to internal debate also included guest presentations from conservative columnist George Will and former White House and Ways and Means press secretary Ari Fleischer.

"If Republicans were serious at all about tax reform they wouldn't be about to start again down the road of permanent, unpaid-for extensions of big corporate tax breaks," the Democratic staffer told Bloomberg BNA. "But that's exactly where they appear headed."

A markup scheduled for Feb. 4 includes two bills tied to taxes on S corporations and another that would make permanent small business expensing under Section 179 of the tax code. The latter is set for a House floor vote the week of Feb. 9 (see **related story** in this issue).

Not So Easy

Democratic criticisms aside, a comprehensive approach makes more sense for multiple reasons, said John Gimigliano, head of the federal tax legislative group at KPMG LLP.

"There are three problems in doing business-only," he told Bloomberg BNA.

For example, such an approach could cause passthrough companies to rethink their business formation, which he said would be a negative policy consequence for some that shouldn't restructure simply for a lower tax rate. In addition, a narrow, business-only plan would likely trigger political problems and technical complexities instead of simplifying things, Gimigliano said.

In short, Congress can't slice off and overhaul the business side of the tax code as easily as some proponents suggest, **Hammer** said.

A business-only rewrite would ultimately impact taxes on individuals, and some tax provisions impact both individuals and businesses, such as the taxation of financial products. Moreover, there are provisions that can't be classified as business or individual, or that can be classified as both, such as provisions for charities and pensions, **Hammer** said.

That's why the tax overhaul draft from former Ways and Means Chairman Dave Camp (R-Mich.) spanned both sides of the tax code.

"Camp did business and individual reform at the same time for a reason, because businesses are owned by individuals and you can't segregate the two in a world where the boundaries are blurred, as the increased use of passthroughs for business highlights," **Hammer** said.

The Camp draft provided a valuable testing ground to gauge political and public reaction, **Hammer** said, predicting years and decades of similar exercises ahead, since she has little hope of Obama and Congress reaching agreement on individual taxes.

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