

GROWERTALKS

SAF in the Lobby

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Change of Focus in Washington

The Society of American Florists

With the Senate failing to pass its version of legislation to repeal and replace the Affordable Care Act (ACA), the ACA remains the law of the land for the foreseeable future.

Almost immediately, though, Congress turned its attention to the other major issue Republicans have been clamoring about for years—tax reform.

The White House announced that the President hopes to have a tax reform package pass the House in October and the Senate in November.

The White House and Congressional Republican leadership issued a joint statement setting forth the key principles they've agreed upon for tax reform. Significantly, they agreed not to pursue a border adjustment tax (BAT). This is a big shift in position, particularly for Speaker Paul Ryan who, over the last year, despite pushback from inside his own party and from a number of very big businesses and interest groups, had remained a proponent of the BAT.

The BAT was estimated to raise \$1 trillion in new revenue that will now not be available to “fund” tax reductions. In addition, the failure to repeal ACA means that tax revenue will also be unavailable for tax reform.

As a result, Republicans now need to make some tough choices. There seem to be only three options on how to proceed:

1. They could find some other revenue raisers (read: tax increases) to offset the cost (read: loss of revenue to the government) of tax cuts. Ways and Means Committee Chairman Kevin Brady (R-TX) has made it clear that he sees no simple measures to generate significant revenue to replace what was anticipated from the BAT and the elimination of the ACA taxes.

The lack of other good revenue-raising options is one of the biggest reasons Speaker Ryan continued to press for the BAT, despite the controversy. Interestingly, the joint statement said nothing about White House strategist Steven Bannon's proposal to create a new 44% top rate for individuals making over \$5 million annually (which would raise some revenue). Speaker Ryan and Chairman Brady have both rejected the idea

of any tax rate hikes.

Absent a major new source of tax revenue, the only alternative to make the bill anywhere close to tax neutral (government taking in new revenue to offset the revenue lost to tax relief) is to chip away at tax credits and deductions that are important to a number of taxpayers.

2. They could settle for much smaller tax cuts rather than sweeping tax reform and reduction as originally hoped for. According to third-party estimates, under the current tax reform proposal, but without the revenue raised by the BAT, the lowest the corporate rate could go while keeping things revenue-neutral would be somewhere between 26% and 28%. The latest House calls for a 20% corporate rate, while the President calls for 15%.

3. Proceed with bigger cuts that aren't offset with revenue raisers and recognize that those cuts won't be permanent. Because the Republicans are trying to pass tax reform through the budget reconciliation process, any tax cuts must be offset with an equal amount of revenue increases in order to be permanent.

If provisions increase the budget deficit, they will sunset at the end of the budget window, which is currently 10 years.

Despite the apparently ambitious timeline for pursuing tax reform, discussions continue to be held between Republican leadership in Congress and the White House without much detail being shared with rank-and-file members of Congress.

Representatives of the administration and congressional leaders have stated that there's more agreement on key issues among them on tax reform and expect it to be easier to pass than ACA repeal.

However, some members of Congress have already expressed concerns that the leadership is hammering out the details behind closed doors and not sufficiently involving the membership at large.

Political obstacles

In addition to the legislative details that need to be overcome, significant political obstacles exist.

Senate Democrats sent a letter to President Trump and Republican congressional leaders urging them not to use arcane budget reconciliation procedures to shield any tax reform bill from a filibuster. In addition, the letter said that the signers would oppose any bill that would provide tax relief to high earners.

However, the overwhelming amount of tax is paid by high earners. That means that the central Republican goal of reducing tax rates appears to be irreconcilable with the Democratic demand that high earners have no tax relief.

As difficult as the Republican-Democrat split on how to approach tax reform may be, it is to be expected. What's not expected is a hostile relationship between the President of the United States and the Senate Majority Leader of the same party.

Mitch McConnell has publicly said “it's pretty obvious [President Trump] doesn't know a lot about the issues” and that he “had excessive expectations about how quickly things happen in the democratic process.”

President Trump has criticized McConnell on many occasions. When asked if he thought that McConnell should step down, President Trump said, “If he doesn't get repeal and replace done and if he doesn't get taxes done, meaning cuts and reform, and if he doesn't get a very easy one to get done, infrastructure, if he doesn't get them done, then you can ask me that question.”

According to the reports, President Trump and McConnell haven't spoken since early August when a phone call ended in a screaming match between the two.

The open feud between the two men will make passing tax reform, already an extremely difficult task, that much more difficult.

In late August, President Trump began travelling the country to make the case for tax reform. Old hands in Washington have noted that the president's bully pulpit is a necessity when trying to reform the tax system. There has been concern expressed that even if the president can remain focused on the issue, it may be too little, too late. **GT**

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