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Legislative update: Comprehensive tax reform in 2017, predicts Brady

House Ways and Means Chairman Kevin Brady (R-TX), speaking today at an event sponsored by Bloomberg BNA and KPMG LLP, said that comprehensive tax reform will happen in 2017, with the timing to be determined.

Tax reform and “blueprint”

According to Brady, not since the Reagan era and the tax reform of 1986 have the same dynamics for tax reform been present—namely:

- The desire of the American public for a simple, fair tax code
- Lawmakers having put forward ideas for an overhaul of the tax system
- Presidential leadership from the president-elect

Chairman Brady pointed to the House Republicans’ “blueprint” (released in June 2016) as a starting point for tax reform, and one that would focus on economic growth (growth in both jobs and wages) and that would “leapfrog” the United States to a leadership position for those making global investments.

With the blueprint already on the table, Brady said that tax reform could move “in a major way” given the similarities to candidate Trump’s tax reform proposals—including greater incentives for investment and savings, allowing repatriation of profits currently being held overseas, and providing lower tax rates and a greatly simplified tax code. Brady also noted that President-elect Trump has talked about fixing the tax code as a top priority, early in his administration.

Brady explained that the blueprint provides for reforms in three key areas of focus:

- A focus on growth in jobs and wages

- A focus on families and individuals, so that with a fair and simple tax code, 95% of individual taxpayers could file their returns on a postcard
- A focus on a fair and simple tax authority, by reorganizing the IRS into three units with one for business, one for families and individual taxpayers, and one that would provide a “small claims” court for efficient resolution of taxpayer disputes

Brady said that from a Ways and Means perspective, stakeholders are being asked for feedback and that Ways and Means has been aggressively reaching out to taxpayers for a “test drive” of the blueprint. The goal is to improve the blueprint through the end of 2016, with tax reform to follow in 2017 (the exact timing on markup has not yet been determined), he said.

Elements of tax reform

In response to questions, Chairman Brady reported that he expects the following elements would be included as part of tax reform:

- Full and unlimited expensing for business investments
- Tax relief on profits held offshore and repatriated into the United States, but unresolved whether any revenue collected on the repatriated funds would be dedicated to infrastructure projects
- Repeal of FIRPTA to encourage foreign investment in the U.S. real estate market
- Permanent repeal of the estate tax
- A simplified “postcard” income tax return for individual taxpayers, but with certain itemized deductions retained for the mortgage interest deduction, charitable deduction, an expended child tax credit, and an expanded college tax credit

He did not expect repeal of the Affordable Care Act (Obamacare) would be done as part of the tax reform efforts, but would be a separate legislative action.

Extenders, other items

Chairman Brady said that he did not anticipate that “tax extenders” or tax preference items that expire in 2016 to be taken up in the “lame duck” congressional session, but that these would be treated as part of the tax reform in 2017.

When asked about the final and temporary regulations under section 385 (October 2016), Brady said that he hoped President Trump would “stop those regulations cold.” Brady said that the regulations, while revised and “better” for U.S. business, they nevertheless would be damaging to the economy because they would keep investment out of the United States. He said that at the end of the day, there is no need for an exit tax to keep companies in the United States or a wall to keep investment out of the United States.

Chairman Brady also commented on the EU “state aid” investigations, saying that this allowed other countries to “grab” tax revenue that ultimately would be returned to the United States.

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