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Legislative update: Chairman Hatch's remarks on Senate tax reform process

The Senate Finance Committee on February 1, 2017, released the text of a speech Senate Finance Committee Chairman Orrin Hatch (R-UT) delivered at the U.S. Chamber of Commerce regarding the committee's priorities in this Congress.

Chairman Hatch addressed tax reform, as well as healthcare and trade issues, in his remarks. Read text of the [speech](#)

General tax reform principles

Chairman Hatch indicated that Republicans are united in their commitment to tax reform and that Republicans in the House, Senate, and White House agree on "virtually every" fundamental tax reform principle. For example, he noted that:

- Republicans agree that tax reform should be comprehensive and should address both the individual and business tax systems.
- Republicans agree that the tax system should be simplified by reducing the number of special interest credits and deductions and creating fewer tax brackets.
- Republicans agree that a fairer tax system is needed that treats similarly situated taxpayers similarly and picks fewer winners and losers.
- Most Republicans support repeal or reform of the estate tax.
- Republicans agree there is a need to make the United States more competitive by reducing corporate rates and moving to a territorial tax system.

Chairman Hatch then remarked that, because Republicans agree on the fundamental issues and principles, "there is every reason to be optimistic" that they can work through the design details as the process moves forward.

Border adjustability

With regard to the House border adjustability proposal, Chairman Hatch said that “it’s too early” for him to have a definitive position on the issue, but indicated that he had the following questions:

- Who will ultimately bear the tax? To what extent will it be borne by consumers, workers, shareholders, and foreigners?
- Is border adjustability consistent with U.S. international trade obligations?
- Because border adjustability would likely be a significant shift in business tax policy, would adjustments need to be made to ensure that the United States is not unduly increasing the tax burden on specific industries?

Although Chairman Hatch indicated that “we don’t have definitive answers to any of those questions at this point,” he proceeded to state that:

I know that Chairman Brady is very adamant about the proposal, which, in my view, is a mark in its favor. I also know that at least a handful of Senators have serious reservations about border adjustability, and that requires us to consider the bigger picture.

Senate tax reform process

Chairman Hatch then explained the politics of tax reform in the Senate, observing that Republicans only have 52 seats in the Senate. As a result, even if budget reconciliation is used for tax reform (so that tax reform can be moved with less than the 60 Senate votes that might otherwise be required), Republicans only have a “margin of error” of two seats. Thus, he expressed a preference for finding a bipartisan path forward, but indicated that, if “...we don’t get any Democrats on board, we’ll basically need universal Republican support to pass anything through reconciliation.”

As a result, Chairman Hatch observed that producing a bill that can get through the Senate likely will require “a separate Senate tax reform process, which will almost surely end up looking different from what passes in the House.” In this regard, he noted that “no one should expect the Senate to simply take up and pass a House tax reform bill.” He proceeded to state that, “this is not to say that I plan to oppose or disregard Chairman Brady’s bill when it comes out,” but that, far from that, “I am confident that their tax reform plan will provide a strong, legitimate path forward.”

Chairman Hatch then indicated that the Senate is in the early stages of its tax reform process and is considering various proposals. He concluded that:

Our hope is to have a tax reform proposal in one form or another to discuss publicly in the near future. From there, we’ll have to see how the process unfolds, working with our leadership, our colleagues in the House, and, of course, the administration on the next steps.

Health care and trade

Chairman Hatch also discussed healthcare reform, trade, and other issues.

With regard to healthcare reform generally, Chairman Hatch's remarks focused on process—including the expected use of the budget reconciliation process to repeal portions of the Affordable Care Act—and said little about what the proposed replacement for Obamacare will look like. However, with respect to the taxes contained in the Affordable Care Act, he observed that “we need to definitively answer the question about what to do with the Obamacare taxes. Some have argued that we should keep all or some of them in place and use them to pay for our eventual replacement package.”

Chairman Hatch then noted that, in his view, “[a]ll of the Obamacare taxes need to go as part of the repeal process.” Chairman Hatch did not indicate how Congress planned to pay for any future healthcare reform legislation. For more information on the Affordable Care Act tax provisions that may be affected by healthcare reform, read [**KPMG's What's News in Tax: What Does the Future Hold for the Tax Provisions of the Affordable Care Act?**](#) [PDF 72 KB].

KPMG observation

Chairman Hatch, in the past, has expressed interest in “integrating” the tax system, possibly through providing a dividends paid deduction for C corporations.

- For coverage of a previous statement by Chairman Hatch on integration and tax reform, read [**TaxNewsFlash**](#).
- For more information on the tax reform process, read [**Understanding the Tax Reform Process: FAQs**](#).

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