TaxNewsFlash

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House Speaker Ryan's "first major speech on tax reform"

U.S. House Speaker Paul Ryan (R-WI) today addressed tax reform in what was described as his "first major speech on tax reform," and presented at the 2017 manufacturing summit convened by the National Association of Manufacturers.

Read text of Speaker Ryan's **speech**.

Tax reform for individual taxpayers

Speaker Ryan indicated that lawmakers would:

- Eliminate the estate tax and the alternative minimum tax (AMT)
- "[C]lear out special interest carve outs and excessive deductions, and focus on keeping those that make the most sense: home ownership, charitable giving, and retirement savings"
- Consolidate the existing seven brackets into three
- Double the standard deduction
- "[S]implify things to the point that you can do your taxes on a form the size of a postcard"
- Use the savings from eliminating loopholes to lower tax rates

Business tax reform

Speaker Ryan also indicated that "if we are going to truly fix our tax code, we have to fix all of it—both for individuals and businesses." Among other things, he noted the large number of passthrough businesses that pay taxes as individuals. While he did not explicitly call for a "border adjustment tax," he alluded to the House Republican "blueprint" for tax reform, stating that:

Today, U.S. companies are leaving to become foreign companies, when it should be the other way around. We want foreign companies to become U.S. companies.

We must think differently, so that once again we make things here and export them around the world. There are a number of ways to achieve this—we in the House have our own idea—and that is one of the things that we are discussing with the administration.

But the bottom line here is this: We cannot accept a system that perpetuates the drain of American businesses overseas.

In terms of the substance of business tax reform, Speaker Ryan expressed support for:

- Moving to a territorial system that enables businesses to bring back cash stranded overseas without being taxed
- “Slashing” the corporate tax rate as low as possible
- Eliminating special-interest carve-outs and replacing them with lower tax rates for all businesses
- Creating a new, lower tax, specifically for small businesses
- Making tax cuts permanent

Process and timing

Speaker Ryan indicated that the House and the Senate currently are working with the president to turn the administration’s “core principles” for tax reform into a “transformational tax reform plan.” He also expressed optimism about achieving transformational tax reform this year, stating that:

We are going to get this done in 2017. We need to get this done in 2017.

KPMG observation

Enacting tax reform is inherently difficult and can take time. Further, the Senate generally requires 60 votes to approve legislation, unless special “budget reconciliation” rules can be used that provide a process for passing legislation with a simple majority of the Senate. Given that there are only 52 Senate Republicans, achieving 60 votes to move tax reform through the Senate would require some Democratic support unless these budget reconciliation rules were used. Using the budget reconciliation process to pass tax reform with only Republican votes, however, may raise its own set of issues.

As just one example, the reconciliation rules include a requirement that any title of legislation generally cannot increase the federal long-term deficit in any year beyond the “budget window.” Thus, as a very general matter, if Republican leaders want to be able to pass a tax bill in the Senate with fewer than 60 votes, that legislation may need to be drafted so as to not contain a net tax cut in years outside the budget window (which, in recent years, has been 10 years but could possibly be modified to a different timeframe). Thus, using budget reconciliation to move tax reform with just Republican votes could make enacting **permanent** tax reform even more challenging.