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Administration and congressional Republican leaders release statement on tax reform

The "Big Six"—House Speaker Paul Ryan (R-WI), House Ways and Means Committee Chair Kevin Brady (R-TX), Senate Majority Leader Mitch McConnell (R-KY), Senate Finance Committee Chair Orrin Hatch (R-UT), National Economic Council Chair Gary Cohn, and Treasury Secretary Steve Mnuchin—today released a joint statement on Republican tax reform efforts.

The **joint statement** (as posted on Treasury's website) indicates that the Big Six are "confident that a shared vision for tax reform exists" and are prepared for the House Ways and Means and Senate Finance committees to "take the lead and begin producing legislation for the President to sign."

It also expressly states that a decision has been made to set aside border adjustability in order to advance tax reform.

Areas of consensus; process

Areas of consensus

The statement highlights lower tax rates for families and businesses (small and large), "unprecedented capital expensing," and bringing back "profits trapped overseas." More specifically, the statement says:

> *Above all, the mission of the committees is to protect American jobs and make taxes simpler, fairer, and lower for hard-working American families. We have always been in agreement that tax relief for American families should be at the heart of our plan. We also believe there should be a lower tax rate for small businesses so they can compete with larger ones, and lower rates for all American businesses so they can compete with foreign ones. The goal is a plan that reduces tax rates as much as possible, allows unprecedented capital expensing, places a*

priority on permanence, and creates a system that encourages American companies to bring back jobs and profits trapped overseas. And we are now confident that, without transitioning to a new domestic consumption-based tax system, there is a viable approach for ensuring a level playing field between American and foreign companies and workers, while protecting American jobs and the U.S. tax base. While we have debated the pro-growth benefits of border adjustability, we appreciate that there are many unknowns associated with it and have decided to set this policy aside in order to advance tax reform.

Process

The statement indicates that the tax reform process will follow "regular order" in which the Ways and Means Committee and Finance Committee will be responsible for drafting legislation. Specifically, the statement says:

Given our shared sense of purpose, the time has arrived for the two tax-writing committees to develop and draft legislation that will result in the first comprehensive tax reform in a generation. It will be the responsibility of the members of those committees to produce legislation that achieves the goals shared broadly within Congress, the Administration, and by citizens who have been burdened for too long by an outdated tax system. Our expectation is for this legislation to move through the committees this fall, under regular order, followed by consideration on the House and Senate floors. As the committees work toward this end, our hope is that our friends on the other side of the aisle will participate in this effort. The President fully supports these principles and is committed to this approach. American families are counting on us to deliver historic tax reform. And we will.

KPMG observation

Today's joint statement appears intended to build momentum for tax reform; to show that there are areas of consensus between congressional Republicans and the administration and that progress is being made; and to assure members of Congress that the process will follow regular order (rather than being a "top down" process in which congressional leadership largely dictates the substance of the legislation). It also appears designed to send a clear message that border adjustability has been set aside.

The statement does not include technical details regarding the issues on which there is consensus (including details as to how much individual and business rates might be cut). Nonetheless, based on the language of the statement, the general areas of consensus appear to include:

- Lower individual rates
- Lower rates for passthrough entities
- Lower C corporation rates
- Some form of capital expensing

- Some permanent provisions
- Repatriation of existing foreign earnings
- No border adjustability, but an unspecified approach to “ensure a level playing field between American and foreign companies and workers, while protecting American jobs and the U.S. tax base”

The statement does not address possible revenue offsets, including the deductibility of interest and the deductibility of state and local taxes. Nevertheless, the fact that priority is being placed on permanence suggests that some revenue offsets might be on the table. Very generally, this is because if tax reform is moved through budget reconciliation procedures, the revenue costs outside the “budget window” would have to be offset. Read ***TaxNewsFlash*** for more information on the budget reconciliation process.

Notably, today’s statement also does not explicitly address a variety of other tax proposals that have been raised, such as repealing the estate tax or territorial international taxation.

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