Tax Reform, the Budget, and the Budget Process

Tax Foundation University Week 6

Kyle Pomerleau
Director of Federal Projects

Topics

- How the budget rules affect how you craft a tax reform plan
- How the Blueprint’s designers may have had the budget process in mind
- Alternative revenue sources, spending offset, other means of coping with budget issues
- Transition issues

Quick overview of Reconciliation

- Legislative process that allows lawmakers to make changes to spending and revenue levels.
- Needs to be used as part of a budget resolution.
- Can increase or decrease budget deficits over the budget resolution's window
- Avoids filibuster and thus can be passed with only a simple majority
- Reconciliation is subject to a number of restrictions

Quick overview of Reconciliation

- Byrd Rule: Unless overruled by 60 votes, the reconciliation bill cannot increase deficits outside of the budget window
- Senate PAYGO rules still apply, unless waved
- Only one reconciliation bill dealing with revenue per budget resolution

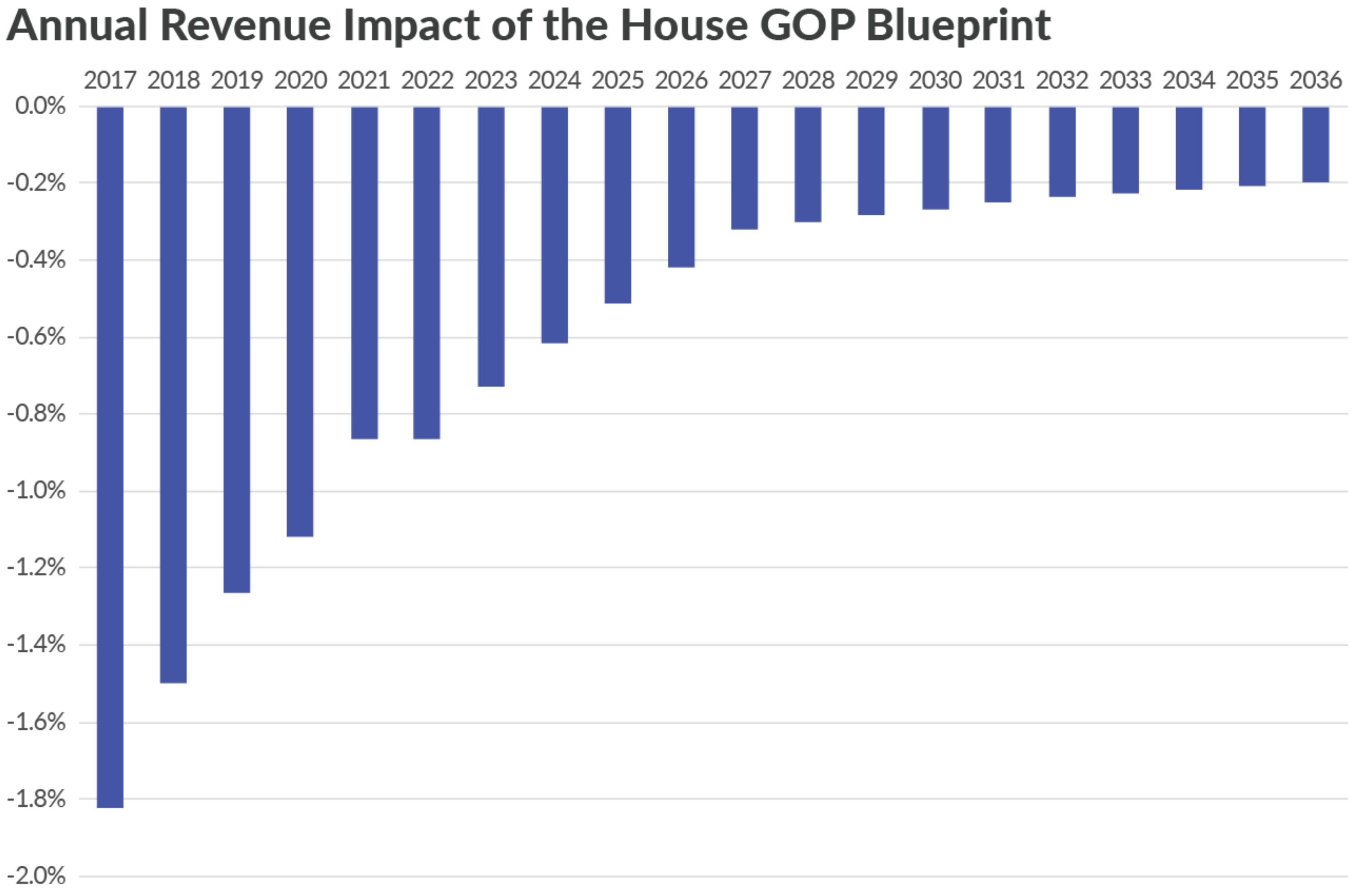
Tax Reform and Reconciliation

- **What do the budget rules mean for tax reform?**
  - Revenue/budget neutrality vs. Tax cut
  - Temporary vs. permanence
  - Static vs. Dynamic Scoring

Tax Reform and Reconciliation

- Revenue/budget neutrality
  - In order not to be "Byrd-able," tax reform needs to be revenue neutral outside of the budget window.
  - House GOP proposal offsets its tax cuts with a few major base broadeners: elimination of the state and local tax deduction, elimination of deduction for net interest expensing, and the border adjustment
  - Trump proposal calls for elimination of S+L, but doesn't specify much more
  - Could also be offset with spending cuts

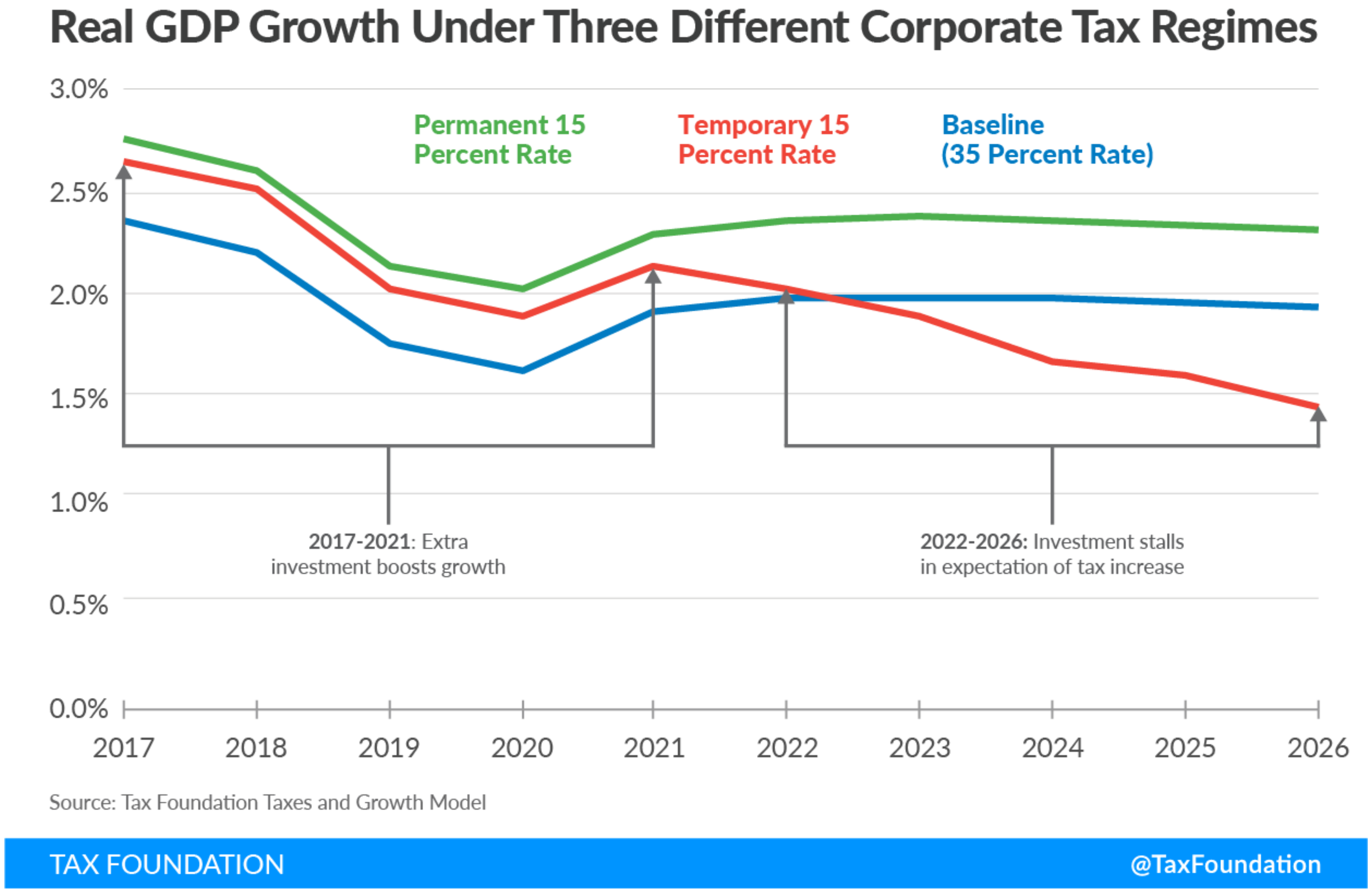
Tax Reform and Reconciliation



Tax Reform and Reconciliation

- Permanence vs. Temporary
  - One way to offset revenue loss outside of the budget window is to have your tax cut expire.
  - See: Bush Tax Cuts of 2001 and 2003.
  - If plan slightly increases deficits in the out-years, it is not necessary to make your whole plan expire.
  - Caution: length of tax cut is not the same as length of revenue impact!
  - What about a longer budget window?

Tax Reform and Reconciliation



Tax Reform and Reconciliation

- **Dynamic Scoring**
  - **Dynamic scoring incorporates economic impacts into revenue forecasts.**
  - **For tax plans, this could provide additional revenue, especially in the later years.**
  - **Caution:**
    - **Dynamic scoring will not completely offset any tax**
    - **JCT's model will penalize significant increases in the deficit**

Remaining Issues in Tax Reform

- Interaction with Healthcare bill
- If lawmakers jettison some of the proposed base broadeners, such as the border adjustment, what will take its place?
- Will lawmakers attempt to make the plan closer to revenue neutral within the budget window?
  - How would they do that?