House Republican budget calls for business and individual tax reform

March 12, 2013

In brief

House Budget Committee Chairman Paul Ryan (R-WI) today released a proposed FY 2014 House budget resolution that calls for comprehensive business and individual tax reform and seeks to eliminate $4.6 trillion in projected federal deficits through spending cuts to achieve a balanced budget by FY 2023.

Meanwhile, Senate Budget Committee Chairman Patty Murray (D-WA) is expected to release a proposed FY 2014 Senate budget resolution later this week. Chairman Murray previously has stated that she expects the Senate budget resolution to call for a "balanced" mix of revenue increases resulting from tax reform, reportedly up to $1 trillion, and spending reductions to reduce projected federal deficits.

The House and Senate are expected to vote on their respective proposed budget resolutions next week. Congressional budget resolutions, which are not subject to signature or veto by the President, set the expected budget levels for discretionary spending, mandatory spending, and revenues for the federal government.

The Obama Administration has delayed the submission of the President's FY 2014 budget until late March or early April. The President's budget is expected to call for increased revenues and spending reductions to reduce, but not eliminate, future projected federal budget deficits. In addition, the President's budget is expected to re-propose certain business and individual tax increase provisions featured in previous budgets.

The outlook for comprehensive tax reform legislation is expected to be influenced by whether the House and Senate can resolve differences over budget policy. President Obama has been meeting separately with Congressional Republicans and Democrats but the prospects for a "grand bargain" on revenues and spending remain uncertain at this time.

In detail

Proposals for "pro-growth" tax reform

The budget outlined by Chairman Ryan incorporates general recommendations on tax reform principles outlined in a March 6, 2013 letter to the House Budget Committee from House Ways and Means Chairman Dave Camp (R-MI).

Key goals for tax reform listed in the proposed House budget resolution include proposals to:

- simplify the tax code
- consolidate the current six individual tax brackets into two brackets of 10 and 25 percent
- repeal the Alternative Minimum Tax
- reduce the corporate tax rate to 25 percent

- shift from a "worldwide" system of taxation to a "territorial" tax system
- broaden the tax base to maintain revenue growth at a level consistent with current tax policy and recent average revenue levels of between 18 and 19 percent of GDP

In the letter to the House Budget Committee, Ways and Means Chairman Camp states that the Committee "intends to develop comprehensive tax reform legislation" that advances the goals set forth by "scaling back tax preferences that distort economic behavior and that often benefit only a narrow group of individuals or businesses." The letter states that the Ways and Means Committee has the "goal of achieving a two rate structure of 10 and 25 percent" for individuals, along with a corporate tax rate of 25 percent and transitioning to a "more competitive system of international taxation."

Chairman Camp states that the Committee "will continue to oppose any and all efforts to increase tax revenue by any means other than through economic growth." Instead, the letter states that pro-growth tax reform policies will result in "higher wages, more job creation, and greater investment stemming from lower tax rates for individuals and businesses of all sizes" that would lead to higher tax revenues, which would address "both the nation's economic and fiscal problems."

Chairman Camp states that individuals and businesses "must navigate a maze" of tax provisions and American corporations "engage in elaborate tax planning because the current tax code puts them at a competitive disadvantage compared to their foreign competitors." He also cites as unfair that some companies are able to use "arcane and complex provisions of the tax code to reduce their tax burden compared to their competitors." Such actions "divert resources from more productive investments."

Note: Chairman Camp has announced plans to release a tax reform discussion draft on small business tax issues later today. The Ways and Means Committee previously released tax reform discussion drafts on international tax issues in October 2011 and financial products in January 2013.

General budget proposals

The draft House budget resolution includes proposals to balance the federal budget by FY 2023 by reducing future growth in federal spending on Medicare and other mandatory programs, and by reducing existing caps on discretionary programs. By contrast, last year's House budget resolution did not project a balanced budget until around FY 2040.

The budget assumes revenue levels resulting from individual income tax rates enacted as a result of the American Taxpayer Relief Act of 2012. The House budget plan does not include any proposals for additional tax increases but incorporates increased revenues from higher economic growth assumed to result from comprehensive tax reform legislation.

The budget assumes repeal of expanded health care coverage under the Affordable Care Act of 2010. Certain provisions from that law reducing health care spending levels would be retained, but such savings would be used to enhance the long-term solvency of the Medicare program.

The budget assumes federal budget savings from the adoption of a Medicare premium support program, which would provide beneficiaries with assistance in purchasing private health insurance coverage in lieu of the current benefit coverage system. The budget also would replace the current Medicaid and food assistance programs with block grants to be administered by State governments.

Fiscal policy deadlines

Debate over House and Senate budget proposals may affect how Congress addresses upcoming fiscal policy deadlines and tax reform legislation.

Congress earlier this year suspended the federal statutory debt limit through May 18, pending action on House and Senate budget resolutions. Total federal debt currently exceeds $16.7 trillion, of which nearly $12 trillion is held by the public (the remainder is held by the Social Security trust fund and other federal funds).

The Treasury Department is expected to be able to rely on "extraordinary measures" to fund the government for at least two months beyond May 18, which means that Congress and President Obama will likely need to act on the debt limit issue again before a scheduled August recess.

Federal debt limit legislation in the past has been tied to broader efforts to address federal budget deficits and could be a factor in debate over tax reform legislation.

Meanwhile, Congress is considering legislation to fund the federal government through the end of the current fiscal year (September 30), beyond the March 27 expiration of the current temporary "continuing resolution." This funding bill is expected to include $85 billion in "sequestration" spending cuts for the remainder of FY 2013; these automatic spending cuts were set in motion by an inability to agree on deficit reduction legislation following a 2011 debt limit increase.

The takeaway

While the proposed House budget resolution calls for business and individual tax reform that dedicates all base-broadening revenue to rate reduction and a "more competitive" tax code, it will be difficult for Congress and President Obama to enact tax reform legislation without reaching some agreement on broader federal budget issues.

Let's talk

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