

# WNTS Insight



## House Budget Committee Chairman proposes 25-percent top tax rate for individuals and corporations

April 5, 2011

House Budget Committee Chairman Paul Ryan (R-WI) today released the outline of a proposed FY 2012 House budget resolution that would seek to reduce federal deficits by \$4.4 trillion over ten years while also proposing to cut to 25 percent the top tax rates for individuals and corporations.

The proposed House Republican budget resolution would leave the details of how to draft legislation reducing individual and corporate tax rates to the House Ways and Means Committee, but the budget plan released by Chairman Ryan states that the individual rate reductions would be offset by "broadening the tax base, eliminating as necessary existing tax deductions, exclusions, and other special provisions." The proposed reduction in the corporate tax rate would be offset by "eliminating or modifying deductions, credits and special carve-outs that leave many companies paying no tax at all."

The budget plan announced by Chairman Ryan assumes that federal revenues will remain at the 40-year historic average of between 18 and 19 percent of GDP. In advance of the proposed rate reductions, the proposed budget also assumes extension of Bush-era tax rates beyond 2012 and extension of individual alternative minimum tax relief.

The deficit reduction plan put forth by Chairman Ryan calls for significant spending reductions and changes to federal entitlement programs, including the Medicare and Medicaid health care programs. The proposed budget also assumes repeal of the 2010 health care reform law.

### Congressional schedule

The House Budget Committee is scheduled to consider Chairman Ryan's proposed FY 2012 budget resolution tomorrow. It is possible that the House could vote on the proposed budget resolution as early as next week prior to the start of a two-week Congressional recess.

It is uncertain when the Senate Budget Committee will act on the Senate version of an FY 2012 budget resolution. A bipartisan group of Senators

led by Senators Mark Warner (D-VA) and Saxby Chambliss (R-GA) is working on their own deficit reduction plan that would build on the recommendations of the National Commission on Fiscal Responsibility and Reform. The Fiscal Commission's report from last December called for spending cuts, reductions in entitlement programs, and tax reform that would increase revenues to 21 percent of GDP. Sixty-four Senators recently signed a letter calling on President Obama to begin deficit reduction talks with Congress using the Fiscal Commission's report as the basis for negotiations.

Under the Budget Act of 1974, the Congress is supposed to approve a joint budget resolution setting goals for spending and revenues. The budget resolution is not subject to Presidential approval. The statutory deadline for Congress to approve a joint budget resolution is April 15, but that deadline often has been missed. Congress last year did not pass a budget resolution.

### **Current negotiations to fund the Federal Government**

Meanwhile, Congressional leaders continue to negotiate a spending bill that would fund the federal government through the six remaining months of current FY 2011. House and Senate leaders remain divided over the level of spending cuts previously approved by the House as well as House proposals to eliminate funding for the 2010 health care law and certain EPA regulations. Without action by Congress, certain federal departments and agencies would shut down after April 8 when the current temporary funding measure expires.

### **Senate approves repeal of 1099 corporate information reporting**

The Senate today voted 87 to 12 to pass a bill (H.R. 4) that would repeal the 1099 information reporting provision from the 2010 health care law requiring corporations to issue reports for purchases of goods and services over \$600. The bill also repeals a 1099 information reporting provision for rental property services. The bill is fully offset by a provision modifying rules for tax credits provided to qualifying individuals purchasing health care insurance through exchanges to be

established under the 2010 health care law.

Senate passage clears the bill for action by the White House. The House originally approved H.R. 4 on March 3. President Obama has expressed concerns about the revenue offset in H.R. 4, but is expected to sign the bill into law.

### **Bipartisan tax reform bill introduced in Senate**

Separately, Senators Ron Wyden (D-OR) and Dan Coats (R-IN) announced plans to introduce today the "Tax Fairness and Simplification Act of 2011." The proposed tax reform bill would reduce the number of individual tax brackets from six to three, with rates set at 15 percent, 25 percent, and 35 percent. The Wyden-Coats bill also proposes to provide a single flat corporate tax rate of 24 percent.

The bill would offset the proposed rate reductions by repealing various tax credits, deductions, exclusions, and preferences. Proposed business revenue offsets include repeal of deferral for active income of controlled foreign corporations, repeal of deferral on active financing income, repeal of the domestic manufacturing deduction, and repeal of depreciation of equipment in excess of alternative minimum depreciation. Senator Wyden, a member of the Senate Finance Committee, introduced a similar bill in the last Congress.

Link to 73-page budget resolution summary released by Chairman Ryan:

<http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf>

Link to revenue offsets proposed by Senators Wyden and Coats:

<http://wyden.senate.gov/imo/media/doc/Offsets%20handout.pdf>

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