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## *Senate Budget Committee calls for tax increase; Senate Finance Committee prepares for tax reform*

*March 14, 2013*

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### ***In brief***

The Senate Budget Committee late today on a party-line vote approved an FY 2014 budget resolution that calls for a \$975 billion tax increase over 10 years as part of a “balanced” package of revenue increases and spending cuts that together would reduce projected federal deficits by \$1.85 trillion by FY 2023. The proposed budget resolution also calls for “deficit-neutral” tax relief and tax reform.

The proposed Senate budget resolution includes ‘fast-track’ budget reconciliation instructions for the Finance Committee to report legislation increasing taxes by October 1, 2013. However, reconciliation instructions – that would allow legislation to be approved with only a 51-vote Senate majority – would only be binding in the Senate if both the House and Senate agree on a budget resolution conference agreement that is then passed by both chambers.

The House Budget Committee on March 13 approved on a party-line vote an FY 2014 budget resolution that calls for revenue-neutral tax reform, and would balance the federal budget in 10 years with only spending cuts and no additional tax increases. For more information on the proposed House budget resolution, see the March 12 [“WNTS Insight – House Republican budget calls for business and individual tax reform.”](#)

The House and Senate are expected to vote on their respective budget resolutions next week. The Senate may consider a large number of tax-related amendments to its proposed budget resolution, while the House is expected to allow only a limited number of alternative budget resolutions to be considered. It appears unlikely at this time that the Republican-controlled House would agree to a joint budget resolution conference agreement that relies on additional tax increases to reduce the federal deficit.

President Obama this week has continued to meet on Capitol Hill with members of both parties in the House and Senate to discuss whether a compromise can be reached on revenue increases, discretionary spending cuts, and changes to federal entitlement programs. It has been reported that President Obama told House and Senate Republicans that he favors “revenue-neutral corporate tax reform,” but left open the question of how additional revenues should be raised for deficit reduction in remarks to Congressional Republicans.

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.

Separately, Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT) today announced that Finance Committee members on March 21 will begin a series of meetings to discuss tax reform topics to “begin developing a proposal to reform American’s tax code.”

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## ***In detail***

### ***Senate Budget Committee revenue proposal***

The budget resolution approved today by the Senate Budget Committee does not identify specific tax proposals that would be needed to raise revenues by \$975 billion over 10 years. In an opening statement, Chairman Patty Murray (D-WA) suggested that new revenue could be raised by “closing loopholes and cutting unfair spending in the tax code for those who need it the most, while locking in tax cuts for the middle class and low-income working families, and protecting them from paying a penny more.”

The proposed Senate budget resolution includes ‘fast-track’ budget reconciliation instructions for the Finance Committee to report legislation by October 1, 2013 that would increase taxes by \$975 billion relative to current tax policy, which would assume the extension of certain tax provisions set to expire at the end of 2013 (\$923 billion relative to current law).

Reconciliation instructions could allow legislation to be approved with only a 51-vote Senate majority, but this process would be available and binding in the Senate only if both the House and Senate reach a budget resolution conference agreement. Assuming the House would not accept a budget agreement that provides for tax increases, Senate rules generally require 60 votes for consideration of legislation.

### ***Deficit-neutral tax relief and tax reform***

The Senate Budget Committee resolution provides separate provisions for “deficit-neutral” reserve funds for tax relief and tax reform.

The resolution would authorize the Budget Committee Chairman to revise budget allocations to provide for consideration of bills that provide tax relief and tax reform that does not increase federal deficits.

The budget resolution specifies that a “deficit-neutral” reserve fund for tax relief could include “extensions of expiring tax relief or refundable tax relief, relief that supports innovation by United States enterprises, or relief that expands the ability of startup companies to benefit from the credit for research and experimentation expenses.”

The resolution separately provides a “deficit-neutral” reserve fund for tax reform to “ensure a sustainable revenue base that leads to a fairer, more progressive, and more efficient tax system than currently exists, and to a more competitive business environment for United States enterprises.”

During debate on the proposed budget resolution, Chairman Murray noted that Finance Chairman Baucus has stated that tax reform would be “very difficult” to accomplish through the budget reconciliation process.

### ***Finance Committee tax reform discussions***

Finance Chairman Baucus and Ranking Member Orrin Hatch (R-UT) today outlined plans for the committee to begin developing tax reform legislation. In a joint statement, they announced that the committee will convene weekly to discuss topics that will form the foundation of comprehensive tax reform, and will collect feedback from members on a wide range of options for taking on tax reform.

Issues to be discussed include the tax treatment of small businesses and corporate investment; families and children; education expenditures; different types of income and tax structures; international taxation; charitable giving and tax-exempt organizations; and many others. The first topic to be discussed at the initial meeting on March 21 will focus on simplifying the tax code for America’s families.

The statement does not address the issue of whether tax reform will be revenue-neutral. Finance Chairman Baucus previously has stated that “any tax reform plan must be developed with a sound budget in mind that reduces deficits and debt.” Many believe it will be difficult for Congress and President Obama to enact tax reform legislation without reaching some agreement on broader federal budget issues.

**House Ways and Means  
Committee tax reform  
developments**

Meanwhile, the House Ways and Means Committee is continuing its consideration of tax reform issues. The Ways and Means Committee recently formed 11 tax reform working groups to seek public input on various tax issues. There is an April 15, 2013 deadline to submit comments to the working groups, with a final Joint Committee on Taxation staff report to be delivered by May 6, 2013.

Earlier this week, Ways and Means Chairman Dave Camp (R-MI) released a “small business” tax reform discussion draft that would affect

large and small pass-through entities. Chairman Camp stated that the pass-through reforms will be considered as part of a broader, comprehensive tax reform package that “significantly lowers rates for individuals, small businesses, and corporations.” For more details, see the March 12 “[WNTS Insight – House Ways and Means Committee releases pass-through tax reform discussion draft](#).”

The House Ways and Means Committee has scheduled a March 19 hearing on tax reform and tax provisions affecting State and local governments. In addition, the Ways and Means Subcommittee on Select Revenue Measures has scheduled a

March 20 hearing on a financial products tax reform discussion draft that was released by Chairman Camp in late January.

***The takeaway***

While Congress and President Obama continue to debate how to address federal deficits, the prospects of significant tax reform legislation being enacted should be carefully considered as businesses and individuals review tax reform proposals and provide input to tax policymakers.

***Let's talk***

For a deeper discussion of how this issue might affect your business, please contact:

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