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# *Senate Finance Committee tax reform working groups issue reports*

July 8, 2015

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## ***In brief***

The Senate Finance Committee bipartisan tax reform working groups today issued reports on international tax, business income tax, individual tax, savings and investment, and community development and infrastructure. The five working groups were established in January to provide tax reform recommendations to Finance Chairman Orrin Hatch (R-UT) and Ranking Member Ron Wyden (D-OR).

In a joint statement, Chairman Hatch and Senator Wyden welcomed the reports of the bipartisan working groups. Chairman Hatch said that he plans to work with Senator Wyden to review the reports and examine how they can be used to advance the Committee's efforts to achieve tax reform.

House Ways and Means Chairman Paul Ryan (R-WI) today issued a statement welcoming the framework for international tax reform proposed by Senators Rob Portman (R-OH) and Charles Schumer (D-NY), who co-chair the Finance international tax working group. While stating that comprehensive reform for both individuals and business is not an option under President Obama, Chairman Ryan adds that "this does not mean, however, that we cannot work to find common ground as a first step to reform." Chairman Ryan says that Senators Portman and Schumer have produced a "bold, bipartisan framework for updating the way we tax American companies doing business in other countries."

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## ***In detail***

### ***International taxes***

The international tax reform working group calls for ending "the lock-out effect" by adopting a dividend exemption system "with robust and appropriate base erosion rules." The co-chairs note various dividend exemption systems used by other countries but do not recommend a specific dividend exemption system for the United States. The 81-page

international tax reform working group report also cites inversions and the OECD base erosion and profit shifting (BEPS) action plan as reasons for reforming US international tax rules.

The international working group co-chairs, Senators Portman and Schumer, state that they are continuing to consider options for a minimum tax and other anti-base erosion measures. They note that former

House Ways and Means Chairman Dave Camp (R-MI) included a minimum tax proposal in his comprehensive tax reform plan (H.R. 1, the Tax Reform Act of 2014), and that the Obama Administration's FY 2016 budget includes another version of a minimum tax proposal. While considering different options around the scope and design of anti-base erosion measures, Senators Portman and Schumer say that any such proposals should

“meet the twin goals of preventing base erosion while ensuring that U.S. multinational companies are more competitive vis-à-vis their overseas rivals.”

The co-chairs also note the differing deemed repatriation proposals offered by Chairman Camp and the Obama Administration. They state that they continue to work on the design of a toll charge with an “appropriate discounted rate, foreign tax credit treatment and ratable transition.”

The international tax reform report cites the increased use of patent box regimes by other countries. The co-chairs express support for further legislative efforts to develop a US “innovation box” to “combat the efforts of other countries to attract highly mobile US corporate income.”

The international tax reform report also examines interest expense limitation proposals. The co-chairs indicate agreement on the need to “discourage excessive leverage” for both US domestic companies and foreign companies operating in the United States, and they state that they are continuing to work on the design of rules that would provide a “level playing field” for outbound and inbound companies. The co-chairs acknowledge concerns “regarding the administrability of the President’s proposed proportionality test” but also said that the reduction from a 50% to 40% limitation in Chairman Camp’s proposal “arguably doesn’t provide sufficient limits in light of international norms and unilateral actions of other countries.”

The co-chairs also identify other international tax reform issues to be addressed, including CFC look-through rules, the active financing exception, the Foreign Investment in Real Property Tax Act (FIRPTA), and foreign affiliate reinsurance.

In an introduction to the report, Senators Portman and Schumer state that the international tax reforms outlined in the report “work best with a substantial corporate tax rate reduction and broader tax reform for all businesses.”

Link: [The International Tax Bipartisan Tax Working Group Report](#)

### **Business income tax**

The business income tax working group, co-chaired by Senators John Thune (R-SD) and Ben Cardin (D-MD), expresses support for principles of business tax reform that include lowering business tax rates, addressing structural issues in the taxation of business income, promoting innovation, and reducing complexity. The 63-page report discusses various issues affecting business tax reform, including the US fiscal situation, the challenge of lowering the US corporate rate through base broadening, and the challenge of treating pass-through businesses equitably. The business working group also issued a 71-page appendix noting recent legislative proposals to address expensing and various business tax issues, including the cash method of accounting, a passthrough entity business deduction, the research credit, publicly traded partnership rules, and corporate integration.

Link: [The Business Income Bipartisan Tax Working Group Report](#)

### **Individual tax**

The individual tax reform working group, co-chaired by Senators Charles Grassley (R-IA), Mike Enzi (R-WY), and Debbie Stabenow (D-MI), calls for action on proposals to address tax incentives for charitable giving and higher education, as well as tax administration and simplification. The 49-page report states that there is “considerable division” among

members of Congress about how individual tax reform should be approached. The report discusses the challenge of achieving comprehensive tax reform that would lower individual tax rates tax and includes details on the magnitude of revenue associated with current individual tax expenditures.

Link: [The Individual Tax Bipartisan Tax Working Group Report](#)

### **Savings and investment**

The savings and investment tax reform working group, co-chaired by Senators Mike Crapo (R-ID) and Sherrod Brown (D-OH), issued a 17-page report that focuses on bipartisan support for proposals dealing with private retirement savings. The report identifies three key goals for policymakers to pursue: (1) increasing access to tax deferred retirement savings; (2) increasing participation and levels of savings; and (3) discouraging “leakage” (e.g., early withdrawals from retirement accounts) while promoting lifetime income.

Link: [The Savings & Investment Bipartisan Tax Working Group Report](#)

### **Community development and infrastructure**

The community development and infrastructure working group, co-chaired by Senators Dean Heller (R-NV) and Michael Bennet (D-CO), issued an eight-page report that focuses on a funding alternative for the Highway Trust Fund, and a 29-page appendix that provides background information on present law regarding the Highway Trust Fund, energy tax provisions, community tax incentives, and tribal tax incentives. The report discusses the deemed repatriation proposals offered by Chairman Camp and the Obama Administration as an interim option for addressing the shortfall in

the Highway Trust Fund. “In the context of tax reform, deemed repatriation could play an important role in achieving a bipartisan solution

to fix America’s roads and bridges, while also overhauling our broken tax code,” the report states.

Link: [The Community Development & Infrastructure Bipartisan Tax Working Group Report](#)

### **Let’s talk**

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

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