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CAPITOL HILL UPDATE

Prospects for tax legislation in 2019

Patti Burquest
October 2019

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Today's presenter



Patti Burquest

Tax Principal

Principal-in-Charge
Washington National Tax

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Agenda

- **Capitol Hill update**

- Economic outlook through 2029
- Impact of the Tax Cuts and Jobs Act (TCJA) on the source of federal revenues
- Tax legislative outlook for 2019
- 2019 tax legislation and legislative proposals

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Polling question

Did you pay more individual income tax in 2018 than in 2017?

- A. Yes, I paid more
- B. It was about the same
- C. No, I paid less

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ECONOMIC OUTLOOK THROUGH 2029

Congressional Budget Office Analysis

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Congressional Budget Office (CBO) – Economic outlook for 2019 to 2029

- Real gross domestic product (GDP)
 - For 2018 and through the first 2 quarters of 2019, real GDP grew at an average annual rate of 2.5 percent
- The unemployment rate is at its lowest levels since the 1960s and wage growth is trending upward, especially at the lower wage levels
Unemployment rate will begin to rise in 2020 due to slower projected growth of real GDP
- Demands for goods, services and labor will exceed the economy's long-run capacity to supply them
 - Upward pressure on prices, wages and interest rates over the next few years
 - Although the CBO projects that interest rates will generally rise over the next 2 years as the Federal Reserve raises the federal funds rate to reduce inflationary pressures, it recently reduced interest rates by $\frac{1}{4}$ of a percent and stated that it will continue to evaluate the economic conditions to determine whether further adjustments will be made

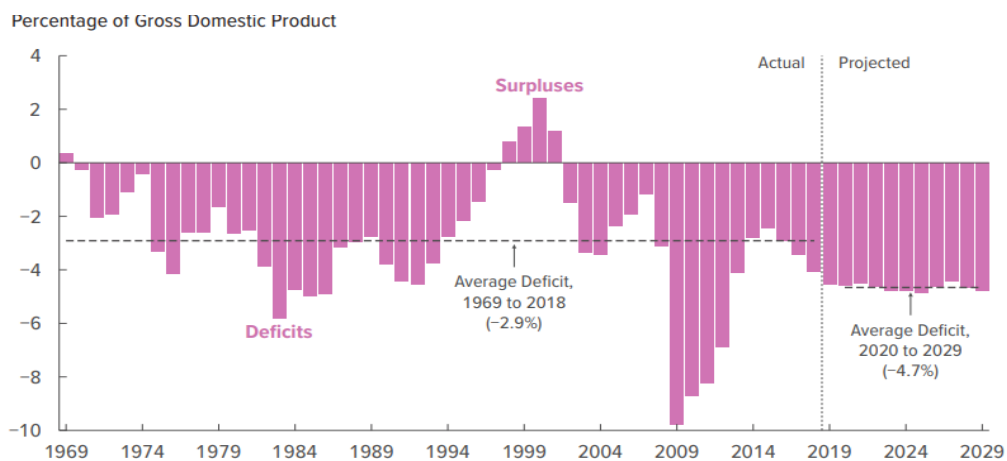
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Deficits as a percentage of GDP



Source: Congressional Budget Office.

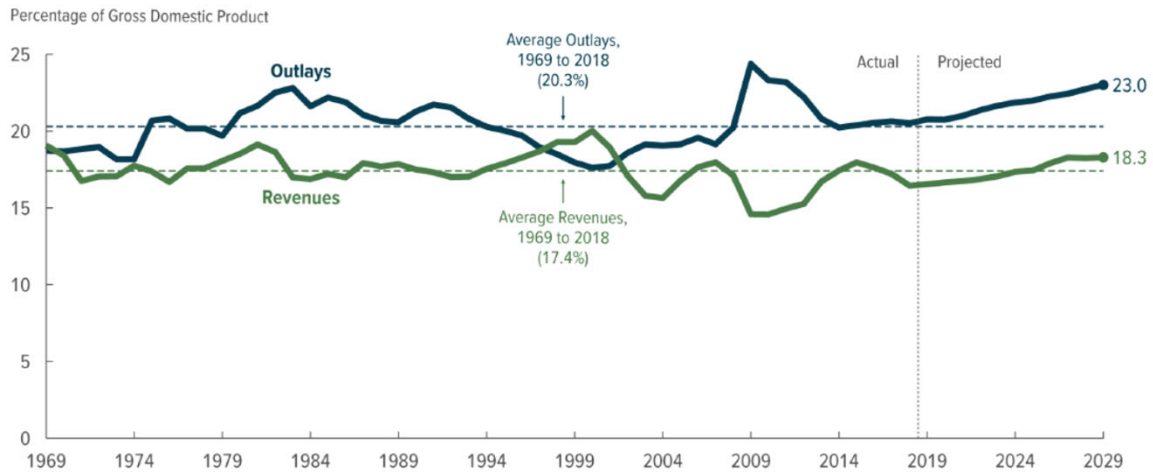
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CBO Report 2019 – Revenues and outlays 2019 to 2029



Source: Congressional Budget Office

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CBO– Economic outlook

Key impacts of the Tax Cuts and Jobs Act of 2017 (TCJA)

Reduction in federal revenues by \$1 trillion over the next decade on a static basis

Spending increases add another \$500 billion

Federal deficit will rise by \$1.5 trillion by 2028

Deficits will slow annual growth by the end of the 10 year budget window due to expiring provisions

CBO estimates that average annual growth will average 1.7 percent on a static basis

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Polling question

Did your company pay less tax in 2018 than in 2017?

- A. Yes
- B. It was about the same
- C. No
- D. Not sure

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IMPACT OF TCJA ON SOURCES OF REVENUE

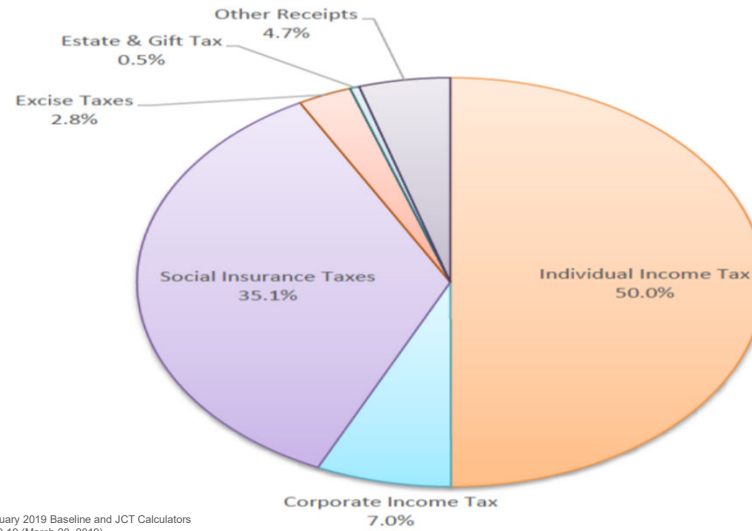
JCT and CBO analysis

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Projected 2019 tax revenues by source

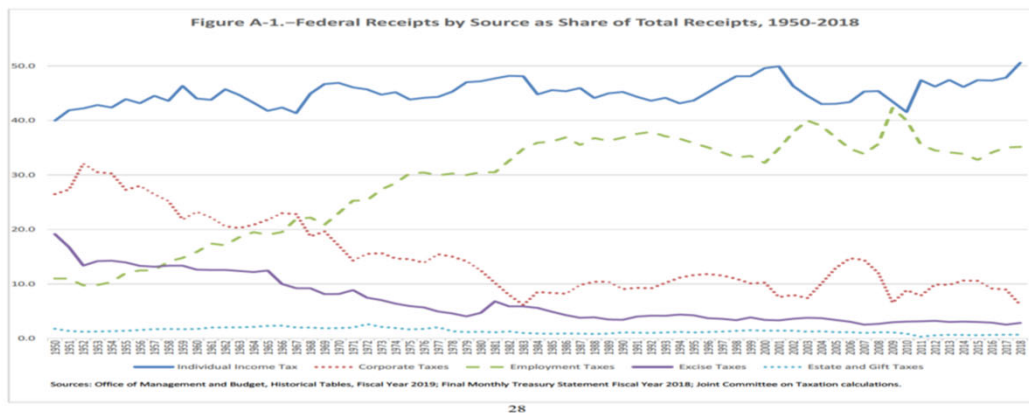


Source: CBO, January 2019 Baseline and JCT Calculators
JCT Report JCX-9-19 (March 20, 2019)
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Federal receipts by source as a share of total receipts, 1950 - 2018



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TAX LEGISLATIVE OUTLOOK FOR 2019

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Debt ceiling

- Congress passed (and President signed) an agreement to raise discretionary spending caps by \$160 billion each year for FY 2020 and FY 2021 and suspend the debt ceiling through mid-2021.
- Upcoming fiscal policy deadlines
 - Nov. 21, 2019
 - Reauthorize temporary assistance for needy families (and related programs)
 - Reauthorize National Flood Insurance Program
 - Reauthorize Export-Import Bank
 - December 2019
 - Funding the government and appropriations bills

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Legislative agenda items or campaign platform issues?

- Topics being discussed/debated
 - Climate change/environment issues (Green New Deal)
 - Medicare for all
 - Raise taxes on the wealthy
 - Universal basic income
 - Work-based tax credits
 - Increased minimum wage
 - Further reduction in corporate tax rate
 - Cutting capital income taxes (adding an inflation adjustment)
 - Permanently repealing taxes introduced in the ACA
 - A balanced budget amendment
 - Extending expiring provisions of the TCJA
 - Energy incentives

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Will we see changes to the TCJA?

- Divided Congress is likely to prevent an overhaul
- Technical corrections possible
 - Qualified Improvement Property
 - NOLs
 - Other items
- Fixing controversial items is possible
 - Loss of personal exemptions increases tax burden on large families
 - SALT deduction limitations burdens voters in high tax states
 - Inclusion in UBIT for fringe benefits (e.g. parking) provided to employees

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Polling question

Did you make additional capital improvements in 2018 or 2019 to take advantage of the bonus depreciation rules?

- A. Yes
- B. No
- C. Not sure

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2019 TAX LEGISLATION AND LEGISLATIVE PROPOSALS

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The Taxpayer First Act

Aimed at restructuring the IRS to meet current needs

Passed by the House on June 10, 2019
Passed by the Senate on June 13, 2019

Enacted into law on July 2, 2019

Legislative highlights

- Independent Office of Appeals
- Improvements to taxpayer service
- Increased penalty for late payment of tax
- Provisions affecting tax exempt organizations
- Enhanced cybersecurity and identity theft resources
- Fortified directives of the National Taxpayer Advocate

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2019 – Tax bills introduced

Passed by House of Representatives



- SECURE Act of 2019
 - Setting Every Community Up for Retirement Enhancement (SECURE)
 - Passed the House on May 23, 2019 (417-3); stalled in the Senate
 - Part-time workers can participate in a 401(k) plan
 - Contributions to traditional IRAs as long as desired
 - Minimum distribution age for retirement accounts shifted from 70 ½ to 72 years old
 - Penalty free withdrawals allowed for special circumstances
 - Required 10 year distribution period for inherited IRAs or defined contribution plans
 - Managers' amendment would repeal the Kiddie tax effective for tax years beginning in 2019
- For The People Act of 2019 (H.R. 1)
 - Aimed at American's access to voting, reducing the influence of big money in politics, strengthened ethics rules, public disclosure of tax returns by President and VP. (Passed House on March 8, 2019 and placed on the Senate calendar on March 13, 2019)

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2019 – Tax bills introduced

Passed by House of Representatives (cont.)



- Rehabilitation for Multiemployer Pensions Act of 2019
 - Establishes the Pension Rehabilitation Administration within the Treasury and creates a trust fund to make loans to certain insolvent or near insolvent multiemployer defined benefit plans
 - Passed the House in July 2019 and sent to the Senate on July 25, 2019
- Middle Class Health Benefits Tax Repeal Act
 - Would repeal the 40 % excise tax on certain high-cost employer sponsored health insurance plans. (Passed house with a vote of 419-6 on July 17, 2019)
- Promoting Respect for Individuals' Dignity and Equality Act of 2019
 - PRIDE Act passed the House and sent to the Senate on July 25, 2019
 - Would amend the Internal Revenue Code to provide for equal treatment of same sex married couples. Permits amending filing status to marked filing jointly. Applicable to tax returns outside of the statute of limitations.

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2019 – Significant tax bills introduced

Proposed - Senate



- Tax Extender and Disaster Relief Act of 2019
 - Senate Bill 617. Provides for a 2 year extension for certain expired/expiring energy credits/incentives as well as certain non-energy credits/incentives. Provides for a 1 year extension of certain provisions expiring in 2019 including the temporary reduction in the medical deduction floor, the oil spill liability trust fund rate, and the black lung liability trust fund excise tax. Also provides for certain disaster relief benefits to individuals and businesses affected by major disasters occurring in 2018, including: access to retirement funds, employee retention credit, deductions for certain charitable contributions, special rules for deductions for disaster-related personal casualty losses and for the measurement of earned income for purposes of qualifying for tax credits. (Introduced Feb. 28, 2019). Read a second time on March 4, 2019 and placed on Senate Legislative Calendar under General Orders)

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Polling question

Did your company evaluate its form of doing business to take advantage of the lower rates or the pass through deduction?

- A. Yes
- B. No
- C. Not sure

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QUESTIONS
AND ANSWERS?

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