

INSIGHTS

## House Republicans Seek to Lock In, Expand Tax Cuts With "2.0"

September 18, 2018

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House Ways and Means Committee Chairman Kevin Brady (R-TX) last week released and ultimately approved a long-awaited package of legislation dubbed “Tax Reform 2.0.” The legislative text fleshes out the “listening session framework” put out by the Chairman shortly before the August recess. In concert with committee members and after discussions with rank and file House Republicans, the effort yielded three pieces of legislation: the [Protecting Family and Small Business Tax Cuts Act](#), the [Family Savings Act](#), and the [American Innovation Act](#). The package was marked up in committee on Thursday, and advanced along party lines, setting up possible floor action for the end of the month.

The first bill, and centerpiece of the effort, would address the scheduled expiration of the *Tax Cuts and Jobs Act*’s individual title, which is slated to lapse at the end of 2025 under current law. One of the primary critiques of the new tax law has long been the optics of permanent tax breaks for corporations in contrast to temporary relief for individuals and families. Some Democrats cited this disconnect as their reason for opposing the original bill, and the campaign has seen attacks charging Republicans with raising taxes on the middle class based on projections for 2026 and beyond. While the *Tax Cuts and Jobs Act* (TCJA) was limited by strict revenue rules pursuant to the budget reconciliation process, House passage of the *Protecting Family and Small Business Tax Cuts Act* faces no such procedural challenge, allowing Republicans to parry these criticisms, force Democrats to once again oppose tax cuts, and remind voters heading into the midterm election of their biggest legislative achievement to of the 115th Congress.

Among other reforms, the bill would make permanent the reduced rate structure and brackets for all income levels, the increased standard deduction, and the expanded child tax credit. The bill would also make permanent one of TCJA’s major sticking points, the \$10,000 limitation on the state and local tax (SALT) deduction, a “pay-for” provision that cost the support of a dozen blue state Republicans when it was originally enacted.

In addition to the impact on individuals and families, the bill would deliver long-term certainty and relief to small, closely-held, and family-owned business. The new 20 percent deduction for qualified business income (QBI) would be made permanent, as would the recently doubled \$11 million death tax exemption that climbs to \$22 million for married couples.

The second bill focuses on reforming family savings and retirement vehicles by expanding multiple employer plans (MEPs), providing flexibility for 401k elections, loosening age, income-

source, and withdrawal restrictions on individual retirement accounts (IRAs), and broadening the scope of 529-eligible expenses. It introduces a series of administrative and technical changes aimed at making it easier for businesses to offer retirement savings options. And it would create a new Universal Savings Account (USA) that an individual could contribute \$2500 per year toward on an after-tax basis, with earnings accruing and distributing tax-free, and no time, use, or income limitations.

The third and final bill of the package is geared toward spurring entrepreneurship. The *American Innovation Act* would allow a deduction of up to \$20,000 for start-up and organizational costs, combining, simplifying, and ultimately doubling existing provisions, while increasing the phase-out threshold to \$120,000 in aggregate expenses. The bill would also reform the code such that a company's net operating losses (NOLs) and credits generating during their start-up period will not be subject to limitation in future, more profitable years should investment in the business trigger a change in ownership.

While the contents of phase two are hardly surprising, the structure of the package is notable for a number of reasons. First, in parceling out the elements into three discrete bills, members can support the effort selectively without being forced into a binary decision. This is particularly important in high-tax blue states, where the aforementioned SALT issue will likely lose vulnerable GOP members from states like California, New York, and New Jersey. These members will be able to support the other two bills and take credit for supporting the second round of cuts without being saddled with the local political baggage of an unpopular provision. Relatedly, it also gives leadership the break-glass option of pulling a single bill from the floor without scuttling the entire package. And finally, with the Senate working on a retirement and savings package of their own—the bipartisan *Retirement Enhancement and Savings Act* (RESA)—this strategic trifurcation keeps alive the possibility that the overlapping elements could ultimately be signed into law. The latter point is key, because Tax Reform 2.0 is otherwise a House-only, Republican-only, campaign-centric enterprise.

Thursday's marathon 8-hour full committee mark-up of the package featured a lively debate over the merits of the tax cuts, if little actual drama. Democrats offered a number of amendments, ranging from a SALT fix to forcing release of the President's tax returns, but all of the proposed changes were either voted down or deemed not germane. The permanence and retirement savings bills passed on party lines, 21 to 15 and 21 to 14, respectively, while the start-up legislation was approved by voice vote.

Now that the package has been favorably reported, the outlook is unclear. The stated goal is to have these bills passed by the end of the month, with a target on the final week in September. But with an antsy conference eager to get back to their districts and campaign, and a series of appropriations bills to process before the fiscal year deadline, the timeline could easily slip. Either way, the introduction and committee-level approval of a second round of tax cuts has given Republicans something to crow about on the trail, which was the primary goal all along.