THE BOND BUYER

# Tax Reform 2.0 passes the House

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WASHINGTON – Three House Democrats broke ranks Friday to join most Republicans in voting to approve a permanent $10,000 cap on the federal deduction for state and local taxes.

The Protecting Family and Small Business Tax Cuts Act of 2018 which passed 220 to 191 isn't expected to become law because it has no chance of being taken up by the Senate this year.

The legislation also would make permanent the lower individual tax rates that are scheduled to expire at the end of 2025.

Ten Republicans – five from New York, four from New Jersey and one from California -- voted against the bill because of their opposition to the cap on the federal SALT deduction.

The three Democrats who supported the bill were Rep. Conor Lamb of Pennsylvania, who won a special election in March, and two House members seeking Senate seats -- Jacky Rosen of Nevada and Kyrsten Sinema of Arizona.

Senate passage would require a 60-vote supermajority because the bill would increase deficits by about $631 billion over the next 10 years, according the latest estimate by the nonpartisan Joint Committee on Taxation.

The economic growth spurred by the tax cuts would be only about $86 billion over the same 2019-2028 period, the joint tax committee said, or a fraction of the additional deficits caused by the tax cuts.

Republicans hold a slim 51-49 majority in the Senate and would need at least nine Democrats who last year opposed the Tax Cuts and Jobs Act to reverse their position.

The 2017 tax legislation passed both chambers without any Democratic support and was able to clear the Senate with only a simple majority vote because

Republicans passed a budget resolution that allowed for an increase in deficit spending.

“The original Republican tax law adds $2.3 trillion to the debt so that big corporations and the highest income earners can receive tax cuts,” Rep. Richard Neal of Massachusetts, the ranking Democrat in the House Ways and Means Committee, said during Friday’s debate. “Now, Republicans want to give the most well-off, and well-connected, Americans even more tax cuts with their new proposal, a policy that would add an additional $3 trillion to the debt.”

Committee Chairman Kevin Brady, R-Texas, emphasized how the legislation would provide permanence to the middle-class tax cuts enacted last year.

Provisions of that tax legislation included a lower individual top tax rate of 37%, an increase in the standard deduction, repeal of the overall limit on itemized deductions known as the Pease limitation and a doubling of the exemption allowed under estate and gift taxes.

The largest revenue increases would result from permanently repealing deductions for personal exemptions, which JCT estimates would increase revenues by $463 billion and reduce outlays for refundable credits by $36 billion over the 2019 to 2028 period.

The repeal of certain itemized deductions, including the new cap on the SALT deduction, would increase revenues by $317 billion, according to the estimate.

Democrats on the Ways and Means Committee tried unsuccessfully during a September vote to repeal the cap on the SALT deduction in a party line vote.

Repeal of the cap on the SALT is supported by many state and local government groups, including the Government Finance Officers Association, the National League of Cities and the National Governors Association.

Those groups also support reinstatement of advance refundings, which were terminated at the end of 2017.