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Senate Republicans face hurdles in getting their tax bill passed

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WASHINGTON – Republicans in the Senate face some hurdles in getting their tax bill passed, such as Sen. Susan Collins' preference for keeping the federal deduction for state and local taxes.

The senator from Maine, speaking on the ABC-TV program This Week on Nov. 19-- two days after the Senate Finance Committee approved the bill -- said a 22% corporate tax rate instead of a 20% rate would help pay for keeping the SALT deduction.

That might be unrealistic give the Trump administration's insistence on lowering the rate to 20% from 35% as a centerpiece of the tax legislation. But it highlights the horse trading that might occur in the coming weeks as congressional Republicans work toward their goal of getting a tax overhaul to the president's desk before Christmas.

Republicans can only afford to lose two votes when the tax overhaul bill comes up for a Senate vote, making every Republican senator's demands worthy of consideration.

Another Republican, Sen. Ron Johnson of Wisconsin, has said he is conditionally withholding support because the provisions for small business are not as favorable as the corporate tax cuts.

"It is important to maintain the domestic competitive position and balance between large publicly traded C corporations and "pass-through entities" (subchapter S corporations, partnerships and sole proprietorships)," Johnson said in a Nov. 15 statement. Johnson said he looks "forward to working with my colleagues to address the disparity so I can support the final version."

So far no Republicans have drawn a line in the sand as a champion of advance refunding for municipal bonds.

But Senate Majority Whip John Cornyn, R-Texas, did tell The Bond Buyer recently he will advocate for retaining private activity bonds. The House-passed tax reform bill would terminate PABs after Dec. 31.

Municipal market lobbyists are hoping to persuade a Republican senator to propose a Senate floor amendment to retain advance refundings or, failing that, get a technical change that would delay their termination date by a year or six months.

The Senate is expected to take up the tax bill next week after a weeklong Thanksgiving recess.

That means the time is ripe to make the case to lawmakers on the SALT deduction and municipal bonds, according to Micah Green, a partner at Steptoe & Johnson in Washington who is a former president and co-CEO of the Securities Industry and Financial Markets Association.

“The core of the philosophy of the budgets coming out of this Congress and this bill is that everything isn’t the federal government’s responsibility,” Green told The Bond Buyer. “And while there are purely private things that aren’t the government’s responsibility, there’s something in between at play where state and local governments fund infrastructure [and] economic development [with] private activity bonds. It seems contradictory to their effort to push things down to the more local level.”

Senate Republicans, in addition, are reconsidering their addition of a provision to the tax bill that would repeal the individual mandate in the Affordable Care Act that imposes a financial penalty on taxpayers without health insurance. The repeal would satisfy the GOP campaign pledge to dismantle Obamacare and would add $338 billion in revenue over 10 years to help finance the tax cuts.

It’s also a stumbling block because Collins wants passage of two other healthcare bills as a precondition to agreeing to the repeal of the individual mandate.

One is the compromise by Sens. Lamar Alexander, R-Tenn., and Patty Murray, D-Wash., on funding insurance subsidies and giving more flexibility to states. Collins also wants passage of the bill she cosponsored with Sen. Bill Nelson, D-Fla., to establish state level reinsurance pools to control premiums that’s modeled after the Maine Guaranteed Access Reinsurance Association.

White House Office of Management and Budget Director Mick Mulvaney said Sunday the administration wants the corporate tax rate “as low as possible.”

“I don't think you will see us interested going above 20%,” he said on CBS TV’s Face the Nation.

Although Trump wants a repeal of the healthcare mandate, Mulvaney said, “If it needs to come out in order for that good tax bill to pass, we can live with that as well.”

Removing the repeal of the mandate, which would be good news for public hospitals, would be complicated, according to William Hoagland, senior vice president of the Bipartisan Policy Center who served as director of budget and appropriations for former Senate Majority Leader Bill Frist.

“It’s not going to be that easy to go back in and take it out,” Hoagland said, explaining that the Senate would need revenue offsets.

Adding the Alexander-Murray and Collins-Nelson bills to the tax legislation also would face obstacles under the Senate rules.

Even if the Senate worked out an agreement to pass the bills separately and then send them to the House as an amendment to the tax bill, Hoagland said, “I have not seen anywhere that the House is willing to take that amendment.”

Collins also said on national TV that she doesn’t like that the individual tax cuts in the Senate bill would be temporary while the corporate tax rate cut would be permanent.