

INSIGHTS

House Republicans Seek a Victory Lap With Tax Cuts 2.0

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With Congress wrapping up its Summer work and August recess rapidly approaching, the tax agenda for the remainder of the year has started to come into focus. With hopes for a ride on the must-pass aviation bill all but dashed, technical corrections and tax extenders will likely have to wait until the end of the year at the earliest. In the meantime, House Republicans will focus on phase two of the recent tax cuts, a long shot for enactment, but one whose messaging potential could pay dividends on the campaign trail this fall. While conversations among the GOP conference are ongoing, the contours of the “Tax Cuts 2.0” package are becoming increasingly clear.

First and foremost, Republicans will seek to make permanent the Tax Cuts and Jobs Act’s cuts for individuals. Under current law, the rates, brackets, credits, and other tax treatment is set to expire in 2025, when policies revert back to the 2017-era code. Tax-writers could only afford 8 years’ worth of the cuts within the parameters of reconciliation, the procedural short-cut Republicans invoked to elide the Senate’s filibuster rule. Without 60 votes in the upper chamber, Republicans were limited to the \$1.5 trillion in deficit addition provided for in their FY2018 budget resolution. Democrats were critical of this temporary treatment at the time, charging that Republicans were giving most of the law’s benefits to corporations who would enjoy permanent breaks, while sticking individuals and families with a default tax hike at the end of the decade. By holding a vote to make the cuts permanent, Republicans hope to turn the tables and put Congressional Democrats on the defensive in the home stretch of the 2018 campaign.

The second category in the package will be geared toward reforming and revamping tax policies related to retirement and savings. The Senate Finance Committee has previously advanced its own bill on the subject, the Retirement Enhancement and Savings Act (RESA), and many of the provisions could be mirrored in the House legislation. Unlike extending the tax cuts, which will play out along party lines, this piece could be viewed as a potential olive branch, and one that is more likely to one day become law.

Third, and finally, will be new tax provisions under the rubric of “innovation.” This category is the least clear, and will be informed by ongoing member discussions. Among other ideas, Republicans are kicking around ways to encourage start-ups and entrepreneurship.

From a messaging standpoint, “phase two” can be thought of as a victory lap for Republicans in the run-up to November’s elections—reminding voters of the biggest accomplishment while

drawing a contrast to their democratic counterparts. But the politics are not without risk. With no illusions that a TCJA permanence bill will become law—Senate Majority Leader Mitch McConnell (R-KY) has already indicated that he will not take it up—House tax-writers needn't worry about making the hard choices of how to pay for the cuts. They will simply argue that it should be judged on a "current policy" baseline. But a spendthrift approach to revenue gives Democrats fiscal cover for opposing the bill, while opening up potential rifts with deficit hawks on the right. With phase one passing narrowly in its own right, and blue state Republicans unlikely to be compelled to make the law's SALT limitations permanent, a messaging bill could quickly turn into a vote-counting headache.

Process-wise, Ways and Means Committee Chairman Kevin Brady (R-TX) has said he intends to release an outline of the plan in the coming weeks. Exactly what will be voted on and when remains in flux, although Majority Leader Kevin McCarthy has indicated that he wants to have something on the floor by the end of September. Such timing would mean hearings and mark-up upon Congress' return from August recess, so a fully fleshed out plan may not materialize until later in the summer. Ideas ranging from universal savings accounts to indexing capital gains for inflation remain in play. Conversations among members will play out in the interim and will likely determine the ultimate form and content of the package. But in the end, the policy will be less important than the politics and the vote's implications for November's elections.