

This Fall's Potential Tax Debate

BY BRIAN FALER AND TAYLOR MILLER THOMAS | 05/10/2023 05:00:00 AM EDT

PRO POINTS

- **It's been awfully quiet on Capitol Hill when it comes to tax legislation, but hopes are growing among lawmakers, lobbyists and advocacy groups that Congress will move a bipartisan agreement before the year is out.**
- **There's a long list of items that could potentially be included, with benefits for both businesses and individuals.**
- **Don't expect much action though until the end of this year, when Congress traditionally finishes up its major business. That includes appropriations legislation that could be a vehicle for tax provisions.**

HOW WE GOT HERE

Republicans passed a slew of tax legislation when they controlled Washington during the Trump administration. Then, when Democrats came to power in 2021, it was their turn to pass everything they could. Now, we're in divided government and the number of tax provisions making it into law has slowed to a trickle.

The most significant tax legislation to clear Congress last year included a batch of retirement-related provisions, a new break for the semiconductor industry and incentives for electric vehicles and other green energy projects. A Child Tax Credit expansion and the revival of a key tax break for businesses were left on the table. Part of the impasse over those breaks is that Democrats, who engineered a now-expired child credit boost in 2021, don't want to be seen helping the business community unless they also have something to offer average Americans. So they're balking at demands to undo restrictions on business research writeoffs ordered long ago by Republicans' 2017 tax cuts, and which took effect last year, unless they get something in exchange — namely, an expansion of the child credit.

Republicans have rejected that, in part because it is much more costly than dealing with R&D. They also note Democrats have long supported the R&D provisions. Sen. [Todd Young](#) (R-Ind.) has tried to break the impasse by proposing to swap an expansion of tax cuts for affordable housing in for the child credit, though many Democrats don't consider those interchangeable and are balking at that idea.

At the same time, a number of other unrelated tax proposals have been circling the airport. Lawmakers still want to deliver a tax cut to auto dealers who complain that pandemic-related shortages of cars sent their tax bills soaring, thanks to the intricacies of so-called LIFO accounting they use to calculate their tax bills. Both sides also want to revisit a tax crackdown on the gig economy requiring companies like Ebay and Doordash to report to the IRS when people make more than \$600 using their platforms. Previously, the threshold was \$20,000.

Democrats used the money that change was projected to generate to pay for legislation in 2021, but the IRS has since suspended new rules governing the reporting for a year. Sen. [Sherrod Brown](#) (D-Ohio) says he's working on legislation to raise the reporting threshold to \$10,000.

WHAT'S NEXT

Many are now looking to the end of this year, when lawmakers might strike an 11th-hour deal. By then, the debt limit fight should be behind them, and lawmakers may be eager to rack up a few more accomplishments before they face voters in 2024.

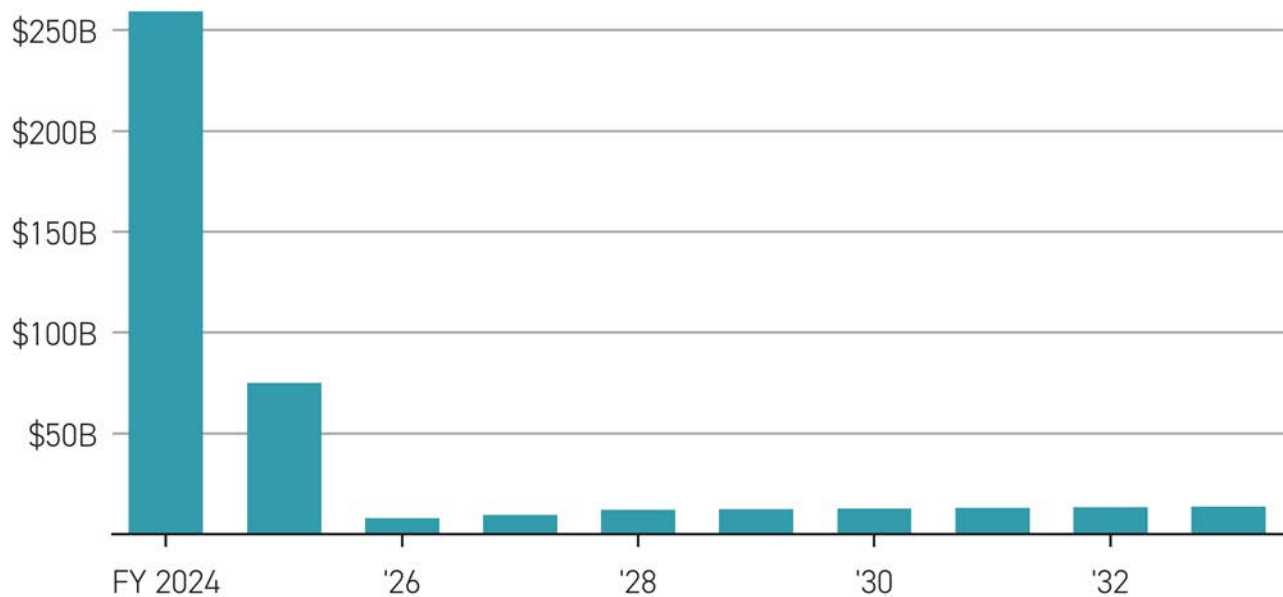
The business community is pushing lawmakers to restore the R&D provisions, complaining the lapse is driving up their taxes, and many now see a deal on the child credit as a prerequisite for that. House Republicans are now working on legislation that would undo the R&D restrictions as well as those on investment and interest writeoffs.

At the same time, Democrats have made some concessions, with some signaling they are willing to accept a less-ambitious expansion of the child credit than what they got in 2021 and conceding that the provision's work requirement is likely to remain.

One potential hurdle is the cost. A deal could potentially be quite expensive and that could be a major problem if lawmakers are still focused on federal red ink. Some expect House Republicans to propose financing the business provisions by rescinding Democrats' green energy tax breaks pushed into law last year, though that will be a nonstarter with many Democrats.

Child tax credit extension would cost \$259B in first year

Projected cost of expanding and making the child tax credit fully refundable, available in advance payments



Source: U.S. Treasury Department
Taylor Miller Thomas/POLITICO

But if they can break the impasse, that should clear the way for other tax provisions as well, like the one benefiting auto dealers.



POWER PLAYERS

- **Senate Minority Leader Mitch McConnell** : The Republican leader balked last year at any expansion in the child credit, and many wonder what the famously taciturn McConnell thinks about taking another run this year at a CTC-for-R&D agreement. Republicans like the business tax provisions, of course, but the child credit splits their caucus. While some, like Sens. Marco Rubio of Florida and Mitt Romney of Massachusetts are pushing to expand the break, others are unenthusiastic, complaining, for example, the credit is prone to improper payments.
- **Senate Majority Leader Chuck Schumer** : Any deal could end up including more business tax breaks than progressives would like. At the same time, it's likely to include a less ambitious expansion of the child credit than many have sought. As Democratic leader, Schumer will be key in deciding what his caucus can support.
- **President Joe Biden**: A year-end bill could end up being the last tax legislation to move before Biden faces reelection. So a key question might end up being what he still wants to get over the finish line, and what he's willing to give up in exchange, so he has some fresh accomplishments to run on next year.