SMALL BUSINESS LEGISLATIVE COUNCIL

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LAME DUCKS FLOCK TO WASHINGTON

The 111th Congress is back in town for its lame duck session. They will meet for a week, take a break for Thanksgiving, and come back for a period of time after Thanksgiving.

The principal piece of official business is funding the government after the continuing resolution expires on December 3rd. I am thinking the Democrats might say, "the heck with this, let's see what you (Republicans) can do when your hands are on the wheel too" and go with another short term continuing resolution, maybe through March.

The principal piece of unofficial business is deciding to what to do about the various expired and expiring tax relief provisions. I am still sticking with the view previously expressed, that they will extend most of the individual tax relief provisions such as reduced rates and the marriage tax penalty relief. I still think they will extend the income "patch" for the Alternative Minimum Tax (AMT). If they do nothing, the income threshold levels for the AMT have already reverted to their lower levels for this year. I expect some extenders such as the Research and Development Credit, which has also expired already, will be thrown into the bill. Something may happen with respect to the estate tax, perhaps a higher exemption than the "currently scheduled to take effect on January 1st" $1 million. Unfortunately, it does not look like permanent relief yet.

I expect a lot of posturing during this one week before Thanksgiving and then the heavy lifting after it.

AN IMPORTANT CHANGE OF MIND

From Senator Max Baucus's (D-MT) press office: "*Senate Finance Committee Chairman Max Baucus (D-Mont.) today announced he would introduce legislation to repeal requirements for businesses to file forms that would report payments made for goods and certain services to the IRS. The proposal was originally written to keep taxes low by giving the IRS more tools to ensure all owed taxes were paid. However, following passage of the law, some business owners expressed concern that when the provision does go into effect, the forms would place too large of a paperwork burden on businesses struggling in a still-recovering economy. In response to those concerns, Baucus said today that he would repeal the new reporting requirements and look for other ways to improve tax compliance and keep taxes low*."

As regular readers know, SBLC identified the problems with this proposals nearly a year before the extra-ordinarily expanded Form 1099 requirement was passed.

Senator Baucus's statement significantly increases the chances for inclusion of the repeal provision in the bill that renews expiring and expired tax cuts during the lame duck session. If not resolved in the lame duck session, repeal surely will be one of the first orders of business in the 112th Congress.

FISCAL RESPONSIBILITY

Apparently, former White House Chief of Staff Erskine Bowles and former Senator Alan Simpson (R-WY) have no qualms about serving as lightening rods. The co-chairs of the National Commission on Fiscal Responsibility and Reform have released a draft of ***their*** proposal for deficit reduction. If the Commission was a Hill committee, it would be referred to as the "chairman's mark," so that is what I will do. When you hear "mark," think "trial balloon" or "he/she who is the first to put it down on paper controls the debate."

The Commission was established by the President and is set to report on December 1st. You may recall that it requires a supermajority of the commission to make a recommendation (fourteen of the 18 Commission members). Congress is not required to act on their recommendations – if the Commission makes any. But Majority Leader Harry Reid (D-NV) said he would try during the lame duck session.

The co-chairs decided to make their mark public before the Commission considered any specific recommendation. Their mark has gotten slammed from the left and the right. Their proposal tracks what I speculated upon in the November 3 post-election Special Weekly. They do not call for direct tax increases. You may recall, "tax expenditures" are the deductions (such as the mortgage interest deduction) and credits found throughout the code. Some of their options call for the elimination or reduction of all or some of those "tax expenditures." They hit all spending hard, and tackle Social Security and Medicare costs.

The five major recommendations in their mark are:

1. Enact tough discretionary spending caps and provide $200 billion in illustrative domestic and defense savings in 2015.
2. Pass tax reform that dramatically reduces rates, simplifies the code, broadens the base, and reduces the deficit.
3. Address the "Doc Fix" not through deficit spending but through savings from payment reforms, cost-sharing, and malpractice reform, and long-term measures to control health care cost growth.
4. Achieve mandatory savings from farm subsidies, military and civil service retirement.
5. Ensure Social Security solvency for the next 75 years while reducing poverty among seniors.

They provide a lot of specifics and examples to back up the recommendations. If you want to read their mark, you can go to http://www.fiscalcommission.gov/.

While SBLC would never embrace tax revenue increases in a vacuum, we understand that good public policy requires balance, and we have said many times there does not seem to be a credible way to achieve true long term deficit reduction without some tax revenue increases. We appreciate the co-chairs' position on the need for spending reductions. Our observation, based on experience, is that we would like to see the spending cuts implemented before we could go along with any tax policy changes. We also welcome the co-chairs' observations about addressing transportation infrastructure needs.

In the spirit of good public policy making, SBLC looks forward to discussions with the commission, particularly as it relates to tax compliance and the elimination of some "tax expenditures." It has been our experience that some of the efforts to close the tax gap have unfairly sought to impose burdens on small business. The latest Form 1099 requirement is one such misguided effort. With respect to tax expenditures, our experience in 1986 was that small business bore an unfair share of the base-broadening and was not a beneficiary of the corporate rate reductions. It is important to understand which "tax expenditures" are more directly tied to small businesses' effective tax rates to strike the correct balance in sound public policy. Finally, we are sensitive to the needs of the many small businesses whose fates have been tied to our nation's commitment to home ownership.