Budget Reconciliation
Promote Resilience and Maximize Returns

TAXPAYERS for COMMON SENSE

Committee on Finance

The budget reconciliation process outlined by S. Con. Res. 14 – the FY2022 budget resolution – enables Congress to spend significant sums and implement sweeping reforms. To protect taxpayers, Congress must ensure the reconciliation package furthers legitimate public needs, includes fiscally sustainable policies, and avoids creating liabilities for taxpayers down the line. Allocating federal dollars alone, however, would limit what the reconciliation package can accomplish. Congress must capitalize on this opportunity to implement overdue reforms that will align revenue with spending, improve the grave budget outlook, and foster resilience instead of dependence on federal subsidies.

The Senate Committee on Finance plays a critical role in developing a responsible reconciliation package. Below are brief descriptions of key principles and policies that must guide the Committee to raise revenue and protect taxpayers in the long term.

Pay for it

Lawmakers must generate enough revenue and savings to offset the package's costs over the long term. Some investments and savings may not score in the 10-year window, but revenue and offsets, as well as liabilities, outside that window must balance. If policies are important enough to receive federal investment, they are important enough to be paid for. With nearly $29 trillion in debt and trillion-dollar annual deficits, taxpayers cannot afford a deficit-financed reconciliation package.

No Gimmicks

The public is best served by federal tax and spending policies that are stable, predictable, and transparent. Lawmakers must cover the costs of this reconciliation package's policies through legitimate revenue raisers and spending reductions. Employment of gimmicks to game the system and dishonestly reduce the calculated cost of the package must be avoided. The Committee on Finance thus must not modify tax rates or create or expand popular and costly tax expenditures and credits "temporarily." Relying on sunsets, outdated economic assumptions, or other accounting gimmicks to avoid accounting for the true cost of the package would do disservice to taxpayers.

Create a More Equitable Tax System by Fixing the 2017 Tax Cut

The Senate Committee on Finance has an opportunity to fix tax policy mistakes that resulted from the reconciliation process that created the 2017 tax law (P.L. 115-97). While the 2017 tax law delivered several important reforms, lawmakers employed numerous gimmicks to reduce the apparent cost of the package. In addition, the bill added $1.9 trillion to the national deficit. The current reconciliation process should instead produce a more equitable, effective, and economically beneficial tax code.

- **Raise corporate rate to at least 25 percent.** Until the 2017 tax law slashed it to 21 percent, the corporate rate was 35 percent.

- **Ensure pass-through entities pay their share**. The 2017 bill made taxation of pass-through entities more complex and vulnerable to avoidance. Congress should lower the qualified business income deduction limit and treat entities equitably, regardless of their industry.

- **Reduce the Estate Tax exemption** to $6 million per individual indexed to inflation for all estates. The 2017 tax law increased the exemption to $11 million per individual indexed to inflation from $5.5 million (not indexed).

- **Adjust and make permanent individual tax rates.** The 2017 tax law's temporary reduction of individual tax rates creates uncertainty for taxpayers. Congress should permanently set individual tax rates at levels sufficient to generate adequate revenue while fostering economic growth.

- **Fix U.S. tax treatment of domestic businesses that invest abroad.** Increase the global intangible low-taxed income provision GILTI rate to 16.6%, assuming a new top corporate rate of 26.5%, will help discourage multinational companies from avoiding U.S. taxation by stashing money in low-tax countries.

Promote Economic and Fiscal Resilience

The reconciliation package must promote resilience instead of dependence on federal spending and tax policies. The Committee on Finance should eliminate policies under its jurisdiction that confer benefits on special interests at the public's expense. In addition, there are numerous changes that could be enacted to generate new revenue while providing a more efficient and equitable tax code. Key policies the committee should include in its reconciliation package include:

- **Global Minimum Tax –** GILTI (described above) is also an attempt to accomplish the same goal, but the package should adopt provisions that working with GILTI meet the global minimum tax requirement agreed to by 136 countries in the Organization of Economic Cooperation and Development/G20.

- **Carbon tax** - A consumption tax worth consideration could be a carefully crafted upstream tax on carbon. A rate within the range applied in other countries would generate considerable revenue. Imposition of a carbon tax could be done in a way that would not require the creation of a large new bureaucracy to measure actual emissions and collect the tax. The IRS already collects a variety of excise taxes under well-established procedures. A tax of $20/ton would generate approximately $1 trillion over 10 years.

- **Eliminate energy tax provisions that fail to address climate change** – Eliminate federal supports for corn ethanol and biodiesel or similar provisions that fail to achieve the goal of mitigating climate risks. Forgo new subsidies for bioenergy such as proposed Clean Fuel Production Credits and Clean Electricity Production and Investment Credits. Reject new calls for sustainable aviation fuel incentives, such as the House Transportation and Infrastructure reconciliation bill's Alternative Fuel and Low-emission Aviation Technology Program. The Committee should not create new subsidies for Carbon Capture and Sequestration or nuclear energy.

- **Continue the SALT cap -** Maintain the existing cap of $10,000 on the deduction for State and Local Taxes (SALT) but index to inflation. Depending on cost, eliminate the marriage penalty of the cap by doubling for couples.

- **Restore User Pays/User Benefits** principle to surface transportation infrastructure through Vehicle Miles Traveled (VMT) tax or modernizing the gas tax rate. Congress should also link state funding to fix it first principles and increased resilience.

- **Eliminate exemptions based on the form of business organization**, including charitable and civic organizations but also such inherently commercial entities such as credit unions and small property casualty insurance companies. Additionally, the code provides exemptions from corporate income tax in the form of pass-through taxation for S Corporations, REITS, Master Limited Partnerships and Cooperatives. The use of these business forms by very large businesses erodes the corporate tax base and disadvantages businesses that are unable to organize in such a manner.