

THIS WEEK IN WASHINGTON

Week of January 23, 2017



This Week in Washington Returns

The Arizona Chamber of Commerce and Industry is delighted to partner with Total Spectrum to provide a weekly report targeted to Chamber members called *This Week in Washington*.

Donald Trump's November victory was a barrier-blasting event. Republicans now control the White House and both houses of Congress, and it's absolutely clear that Washington, D.C. will see a significant, if not unprecedented, transformation in both policy and regulation in a whole host of areas.

There will assuredly be activity in a number of key federal issues that are important to Arizona, including healthcare (including ObamaCare overhaul and Medicaid expansion); taxes; trade; the budget; immigration; defense; regulatory reform; and transportation/infrastructure. We know you will want to stay both informed and involved. We'll provide an overview on each of these issues, and then we will provide weekly updates. The overviews and updates will be written by Total Spectrum professionals who are both experienced and knowledgeable, and are involved in these issues.

Additionally, Steve Gordon of Total Spectrum will write a short column each week entitled *Heard on the Hill*. It will focus on the executive orders, nominations, activities, and rumblings in Washington, D.C. during the Trump

ICYMI: Arizona Issues in the News

[Gov. Doug Ducey: Rural health care a critical component of reform](#)

[Arizona seeks ways to prop up Lake Mead, pending federal cash](#)

[Congressman Biggs: Our first order of business: Replace the ACA with a patient-centered system](#)

[Trumps signs executive actions on TPP, abortion, federal hiring freeze](#)

Cabinet Update

Click the image below for a complete update on President Trump's cabinet nominees, including their confirmation status and hearing dates.

Each article will provide the author's email address so you can initiate questions or comments. Learn more about the Total Spectrum professional team at <http://www.totalspectrumsga.com/>.

We welcome your thoughts, feedback and suggestions for future editions of *This Week in Washington*.

Heard on the Hill, Week of Jan. 23

By [Steve Gordon](#), Managing Director, Total Spectrum

I came to Washington, D.C. in January 1979, so this is quite unbelievably my 10th presidential inauguration. Each inauguration is unique, but this is even more so because one party – the Republicans – now controls both the White House and Congress, and President Trump, who ran as the consummate outsider against Washington, will need to work with Congress to achieve his goals.

My goal is to provide both the facts and a little of the flavor of President Trump's first 100 days. Last Thursday, then President-elect Trump completed his cabinet pick by tapping former Georgia Governor Sonny Perdue to be the next Secretary of Agriculture. Perdue, a former Democrat who switched to the Republican Party before governing Georgia for two terms from 2003 to 2011, has a strong agricultural background and has a doctorate in veterinary medicine. [Read more.](#)

PREPARING FOR TAX REFORM IN THE 115TH CONGRESS

By [Jim Miller](#), Partner, Total Spectrum

With the elections and the Inauguration of President Trump behind us, it is important to assess the new President's plans for tax reform and how they will fit with the House Republican Blueprint for tax reform, as well as what may happen in the Senate. However, before we can make that assessment, it is equally important to gain some perspective as to what is expected to take place in 2017 that will impact when tax reform is taken up. That will help inform strategy for stakeholders in tax reform. The timeline and activities suggested below take into account the desire of the White House and Senate and House Republicans to pass a tax reform bill this year. Everyone interested in tax reform needs to prepare for it. [Read more.](#)

House and Senate Committee Leadership Update

Republicans retained control over the House of Representatives, but there are a number of leadership changes in the House Committees. Key changes include:

- Congressman Rodney Frelinghuysen replaces



On the Calendar This Week (All Times ET)

Monday

3:30 p.m.

[Rep. Roskam discusses tax reform](#)

4:30 p.m.

[Senate Foreign Relations Committee to vote on Rex Tillerson nomination](#)

Tuesday

9:30 a.m.

[Senate Armed Services Committee hearing on defense budget](#)

10 a.m.

[CBO briefing on annual budget and economic outlook](#)

10 a.m.

[Senate Finance Committee confirmation hearing for HHS nominee Price](#)

10 a.m.

[Senate Banking, Housing and Urban Affairs Committee votes on Carson's nomination](#)

10 a.m.

[Senate Judiciary Committee votes on Sessions nomination for attorney general](#)

10:30 a.m.

[Senate Budget Committee confirmation hearing for OMB nominee Mulvaney](#)

10:30 a.m.

[Senate Small Business Committee confirmation hearing for SBA nominee McMahon](#)

2 p.m.

[House Ways and Means subcommittee hearing on ACA's individual mandate](#)

2:30 p.m.

[Senate Homeland Security and Governmental Affairs Committee confirmation hearing for OMB nominee Mulvaney](#)

- Congresswoman Virginia Foxx replaces now retired Congressman John Kline as Chairman of the Education and Workforce Committee.
- Congresswoman Diane Black replaces Congressman Tom Price as Chairman of the Budget Committee.
- Congressman Price has been named to head the Department of Health and Human Services.
- Congressman Greg Walden replaces Congressman Fred Upton as Chairman of the Energy and Commerce Committee.
- Congressman Richard Neal replaces Congressman Sander Levin as Ranking Member on the Ways and Means Committee.

Senate Republicans were in the Majority during the last Congress (2015-2016). Retaining the Majority in the US Senate was a very pleasant surprise. There are a number of leadership changes in Senate Committees. Key changes include:

- Senator Patrick Leahy replaces retired Senator Barbara Mikulski as Ranking Member of the Senate Appropriations Committee.
- Senator Mike Crapo replaces Senator Richard Shelby as Chairman of the Banking, Housing, and Urban Affairs Committee.
- Senator John Barrasso replaces Senator Jim Inhofe as Chairman of the Environment and Public Works Committee.
- Senator Tom Carper replaces retired Senator Barbara Boxer as Ranking Member of the Environment and Public Works Committee.
- Senator Diane Feinstein replaces Senator Patrick Leahy as Ranking Member of the Judiciary Committee.

Click the image below for a complete chart showing all House and Senate committee leadership.

Committee Leadership - U.S. House <i>115th Congress, 1st Sessi</i>	
	<i>Chair</i>
Agriculture	K. Michael Conaw
Appropriations	Rodney P. Freling
Armed Services	Mac Thornberry, I
Budget	Diane Black, TN
Education and the Workforce	Virginia Foxx, NC
Energy and Commerce	Greg Walden, OR

investigation of Russian hacking

Wednesday

11 a.m.

Heritage event on understanding Trump and Trumpism

Thursday

2 p.m.

Hoover event on immigration and enforcement

Friday

12 p.m.

Heritage event on Trump's infrastructure agenda

This e-newsletter is produced by Total Spectrum SGA for members of the Arizona Chamber of Commerce & Industry. The views expressed herein may include subjective commentary and analysis that are the views of the editors and authors alone and do not reflect the views of the Chamber or its members. Information in this e-newsletter is obtained from sources believed to be reliable, but that cannot be guaranteed as independently investigated or verified. Information in this e-newsletter is not an endorsement, advertisement, recommendation, or any type of advice, political, legal, financial, or otherwise. With questions about the content of this e-newsletter, please contact the Arizona Chamber.



For more information visit
azchamber.com.

Tax reform, continued.

THE YEAR AHEAD

JANUARY

The Senate and House have passed a fiscal year 2017 budget resolution that instructs both chambers to meet certain budgetary goals in part by repealing the Affordable Care Act (ACA). This month's action will not repeal the ACA but it establishes the foundation for committee action by January 27 and House and Senate Floor votes in February. At least five Senate Republicans and the President, however, support calling for repeal only if a replacement also is identified. If that approach is to be adopted, the legislative schedule on repeal and replace of the ACA will be thrown off course, as will the schedule for other items on the Republican agenda, including tax reform. The Congressional Republicans currently do not have a detailed replacement plan. Their failure to produce such a plan could hurt them politically and could cause major disruptions in the health industry – principally with insurers and hospitals.

The Senate will continue to hold hearings on the President's cabinet nominations. Most nominees will be approved in January or early February because approval requires only a simple majority, but it is possible that one or two could get tripped up. The hearing for Treasury Secretary Nominee Steven Mnuchin went relatively smoothly and he will be confirmed.

JANUARY-FEBRUARY

President Trump will take action to repeal many of President Obama's executive orders and direct agencies and departments to delay or halt further action on regulations recently promulgated. Congress has already begun the process of repealing certain regulations through the Congressional Review Act with a focus on energy and the environment.

Heard on the Hill, continued.

Following Friday's swearing in ceremony, President Trump issued an executive order instructing federal agencies to grant relief to constituencies impacted by the Affordable Care Act. Senator Lamar Alexander, Chairman of the Senate Health, Education, Labor, and Pensions Committee, said that, "President Trump was right to make the urgent work of rescuing Americans trapped in a collapsing Obamacare system a top priority on his first day in office." President Trump also ordered a freeze on all new and pending regulations from the Obama Administration. Both orders show that this Administration is intent on significantly reducing the impact on business from excessive federal regulations.

President Trump started the week where he left off on Friday by issuing three executive orders on Monday. The first order officially withdrew the U.S. from the Trans Pacific Partnership (TPP) trade agreement. President Obama had negotiated this treaty but it was not submitted to Congress. President Trump's second executive order initiated an immediate hiring freeze for the federal government, with the exception of the military. The third order cut aid to groups that promote or provide abortions overseas. President Trump also met with a number of American CEOs to talk about his plans to promote manufacturing, and he planned to meet with congressional leaders late Monday afternoon.

These executive orders are the first of many that are expected on a steady basis.

Later this week President Trump is scheduled to meet with Republican Senators and Congressmen at their congressional retreat, and then will return to his trade focus by meeting Friday with British Prime Minister Theresa May.

President Trump is expected to nominate someone to fill the vacancy on the Supreme Court once held by the late Justice Scalia. The approval process is expected to be treacherous in the current political environment because, as of now, approval requires 60 votes.

The Senate Finance Committee and the House Ways and Means Committee are expected to hold hearings on tax reform to build a foundation for the advancement legislation later in the year. The process will begin in earnest in February but will be very fluid through most of the year.

The Senate and the House are both expected to vote on legislation to repeal the ACA in early February, which will provide a two or three year transition period to a new system. The House and Senate will consider various replacement options which will be considered later in the year.

President Trump is supposed to submit his first budget for FY2018 to Congress but the timing may slip. His budget will outline in more detail his tax and spending priorities. Congress will write its own budget but will try to meet the President's priorities. The release of the President's budget should provide a clearer idea on the President's views on tax. In addition, he may also address how he proposes to handle his campaign promise to initiate a \$1 trillion program for infrastructure.

President Trump is expected to deliver his first State of the Union address, which will also detail his priorities for the year. This will be another opportunity for the President to address tax reform and infrastructure.

FEBRUARY-MARCH

Dodd-Frank repeal legislation known as the CHOICE Act will begin to move through this process, which will take several months. The legislation will require Democratic votes to move in the Senate, and that is unlikely. The process may produce limited results.

MARCH

The nation's debt ceiling of over \$20 trillion will be reinstated on March 16. This will begin a process that will require Congress to extend the debt ceiling to allow for the government to pay its bills. Action is expected later in the year but the debt ceiling will likely be reinstated.

APRIL

Both the House and Senate will pass another

President Obama flew off to Palm Springs, where rain forced his plane to divert to a nearby airport. Donald Trump flew to Washington, and was inaugurated as America's 45th President. There was a parade on Friday. There was a women's march on Saturday... and the Capitol Grill Restaurant on Washington, D.C.'s Pennsylvania Avenue had a record breaking week.

have reconciliation instructions to advance a tax reform bill to be enacted in the Senate that will need only a simple majority vote. Very few details will be included in the budget resolution.

APRIL – MAY

The Ways and Means Committee is expected to begin the process of marking up a tax reform bill. This process may take weeks or it could be a shorter process, depending on the degree to which Chairman Brady will permit the Minority to participate through the amendment process. The end result, however, is expected to produce a bill passed strictly along party lines.

The bill will then be sent to the House floor where it is virtually certain to pass, notwithstanding any potential defections by the Freedom Caucus. The bill will then be sent to the Senate.

At the same time, the House Transportation Committee and the Senate Commerce, Science, and Transportation Committee may begin addressing how to implement a Trump-devised program to provide over \$1 trillion for transportation infrastructure. If the program requires a tax credit, that program will be considered by the House Ways and Means and the Senate Finance Committees. Its implementation as a tax program has the potential of derailing the House GOP Blueprint due to the revenue involved.

MAY-JUNE-JULY

Senate Finance Chairman Hatch has not yet indicated when he expects to begin his markup process, but a few of his Republican colleagues expect to have their own blueprint on tax reform sometime in either late spring or early summer.

Chairman Hatch is expected to try to produce a bipartisan bill. If he is successful, it is likely to take place after a lengthy drafting and markup process that could stretch into July. In any event, votes in Committee would take place in the June-July timeframe, with the legislation going to the Senate floor for a vote perhaps sometime before the August recess. On the Senate floor, a number of amendments will be offered. The small Republican Senate majority (52-48) will empower moderates like Senators Cassidy, Collins, Murkowski, and perhaps Portman. It will also give willing Senate Democrats a change to achieve changes to gain their votes. Regardless whether the

reconciliation, it will be in their interest to attract Democrat votes.

The issue with this timeframe is that both the House and Senate bills would be left hanging through the August recess, leaving Members to be heavily lobbied in their states and districts, a situation Members usually try to avoid. Nevertheless, in view of the importance of tax reform and the desire to achieve it in 2017, this may be unavoidable.

AUGUST-SEPTEMBER-OCTOBER

Congress will recess in August with or without a final tax bill. If history is a good indicator, it is likely that a final bill will be produced after the August recess.

When Congress returns in September, the House and Senate will need to reconcile the House and Senate tax reform bills. This will be a time of critical lobbying that will involve House and Senate Leadership, the Committee Leadership, and key Senators whose votes can make a difference on the Senate floor. It is difficult to predict when this process will end but it could stretch well into the fall.

THE TAX REFORM PROPOSALS

1. President Trump's Tax Proposals as Set Forth in the Campaign

- Top corporate rate = 15 percent
- No corporate AMT
- Election between full expensing of assets or deductibility of interest expense
- Eliminates all credits except Research and Development
- Taxes capital gains and dividends at 20 percent
- Eliminates the 3.8 percent tax on net investment income
- Foreign Earnings Repatriation at 10 percent
- Per the Tax Foundation, the Trump plan could lose \$2.6 and \$3.9 trillion on a dynamic scoring basis

2. House Republican Tax Reform Blueprint (published June 2016)

- Top corporate rate = 20 percent
- No corporate AMT
- Dividends and capital gains would be taxed at 50 percent of the top individual rate (top individual rate = 33 percent)
- Eliminates the 3.8 percent tax on net

- Preserves the R&D corporate tax credit
- Full expensing of all assets (except land) in the year placed in service
- Interest deductibility limited to interest expense

3. Senate Finance Committee

- Chairman Hatch originally backed what he called a dividends paid deduction approach to corporate tax integration. However, in view of the similar approaches to tax reform taken by President Trump and the House Republicans – focusing on comprehensive tax reform – Senator Hatch no longer is pushing his plan. Instead, he is taking a wait-and-see approach while he develops his own plan in his Committee.

THE PLAYING FIELD FOR TAX REFORM AND PITFALLS

With Republicans controlling the White House and both houses of Congress, the odds of tax reform of some nature being enacted have greatly increased.

The question is “What type of tax reform?” May be corporate only, individual only, both corporate and individual, or international only.

A critical question is whether the legislation will be revenue neutral or whether it will lose revenue.

If the Republicans choose to pass tax reform through the budget reconciliation process, requiring only a majority vote in the Senate, the legislation must not lose revenue beyond the 10 year budget period (the Byrd rule).

If the legislation loses revenue beyond the 10 year budget window, then those provisions in tax reform that lose revenue would end in 10 years and prior law provisions – principally tax rates – would spring back. That is what happened to the Bush tax cuts for higher income families.

President Trump has proposed a net tax cut, while Majority Leader McConnell and Speaker Ryan have said that their tax reform proposals will be revenue neutral.

The House GOP Blueprint currently includes a \$1.2 trillion revenue raise that is labeled a “border adjustment” provision affecting exporters and importers. The proposal is

signed on to it. Resolution of this one provision will be a key issue, although it is expected to be included in final tax reform legislation that will most certainly pass the House. However, if the Senate does not go along, it would leave a huge revenue hole to fill in the tax reform bill.

Every tax preference in the Internal Revenue Code has substantial Congressional support, and key defenders with well-organized and funded advocacy efforts. For example, the National Association of Homebuilders has launched a major effort to protect the mortgage interest deduction. Charities are doing the same thing with respect to the charitable donation deduction. States and localities are also working to preserve the deduction for state and local taxes. These are just three such efforts, and there are dozens more ongoing.

The process will be lengthy and could spill into next year – an election year – which will make decisions much more difficult, particularly when an ACA replacement may not have yet been determined.

If the Republicans ultimately decide to go with budget reconciliation that requires only a majority vote, the tax reform plan that is adopted could suffer the same fate as the ACA: acceptance by only half the people and ultimate repeal efforts.

The GOP could also suffer major losses in the elections.

Going the budget reconciliation route will empower the handful of moderate Republicans: Senators Cassidy, Murkowski and Collins. Senator Portman could also fit this profile and this will empower him on the Senate Finance Committee.

If the Republicans decide not to go with budget reconciliation but seek to attract enough votes to reach 60, that will empower the Democrats in the Senate who may be willing to deal, particularly those in red states which Republicans have carried for several elections. These include Senators Manchin, Tester, McCaskill and Donnelly. However, to reach 60 votes, the Republicans will need at least eight Democrats, and that means significant compromise.