

Congressional Update



Congressman Mark DeSaulnier
Serving the 11th District of California

November 2017

Historical Perspective

- Last major tax reform: 1986
 - **President:** Ronald Reagan
 - **Speaker of the House:** Thomas “Tip” O’Neill (D-MA)
 - **Senate President Pro Tem:** Strom Thurmond (R-SC)
 - Bipartisan effort in both House and Senate
 - Almost 11 months between introduction and it being signed into law
- Since 1986, the U.S. tax code has gone from less than 30,000 pages to over 70,000 pages
- The amount of credits, loopholes, and deductions has increased by 44 percent, from \$844 billion (2013 dollars), to over \$1.2 trillion (2013 dollars)

Republican Tax Plan Overview

- Massive tax rate cut from 35% to 20% for corporations.
- Adds \$1.5 trillion to national deficit over 10 years.
- Shifts burden to middle class:
 - Undermines financial security
 - Cuts benefits for:
 - Health
 - Housing
 - Education
 - Environment
- Vote on House bill (H.R. 1) as early as Thursday this week.
- Senate bill in Committee, vote after Thanksgiving holiday.

Bad deal for California and middle class

- By 2026, 45% of middle class families would see a tax increase over current system.*
- Californians see largest net tax increase at \$12.1 billion in 2027 alone.*
- By 2027, half of all tax cuts go to wealthiest 1%.**

*Institute on Taxation and Economic Policy

**Tax Policy Center

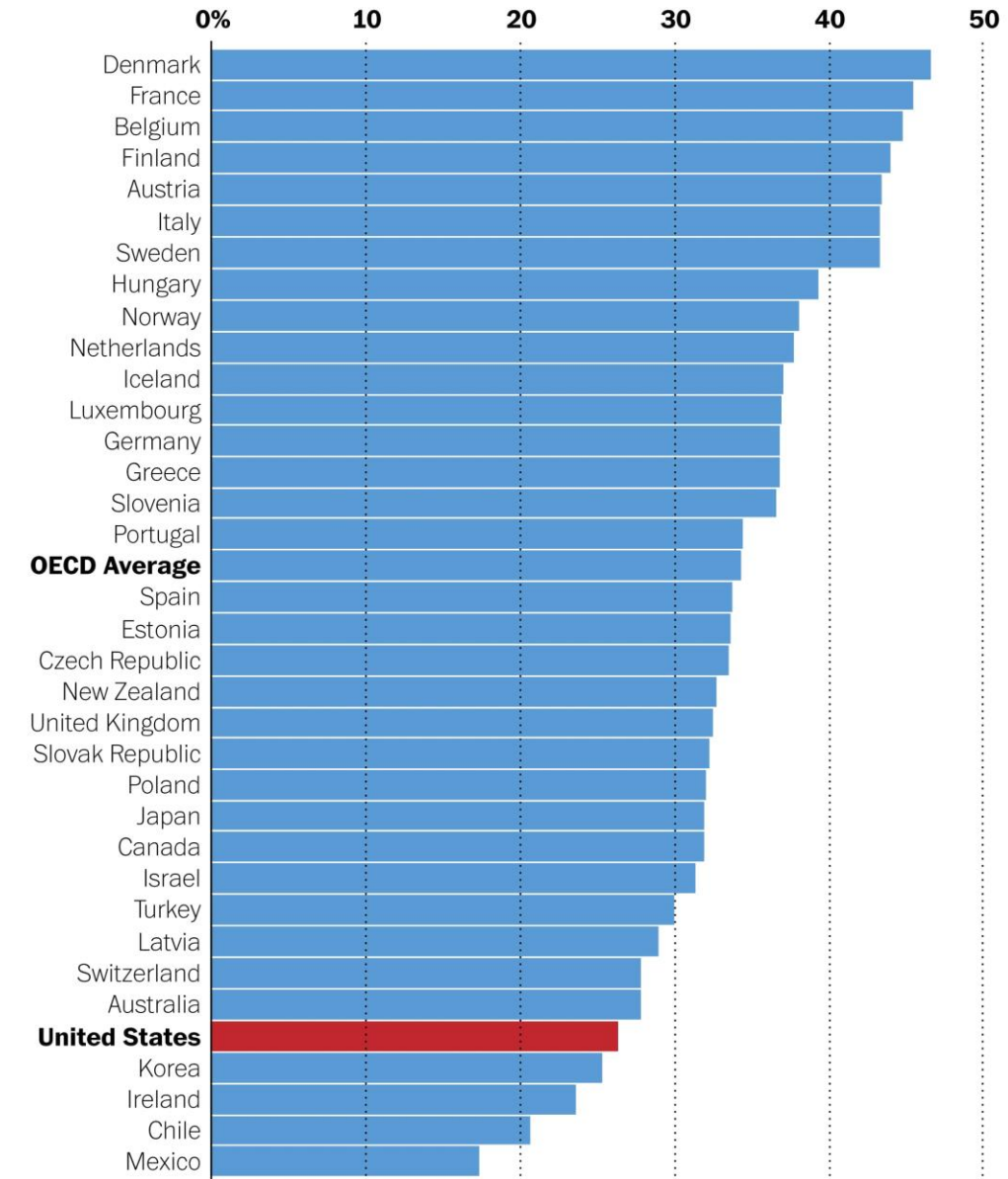
Small Business

- “Pass-Throughs” include LLCs, Partnerships, Sole Proprietorships, and S Corporations.
- They account for 95% of businesses in the country.
- Tax bill establishes a 25% tax rate for pass-throughs:
 - Little difference for 86% of pass-through business owners, who already pay a rate of 25% or less.
 - Top income earners in the 39.6% bracket will get a huge cut.
 - Bill provides a preference for “passive” business ownership. “Active” business owners will be taxed at a higher rate.
 - Most family-run, small businesses would be considered “active.”

U.S. taxes in context

International taxation

Total tax revenue as a percentage of GDP, 2015 (or latest available year)



Source: *Washington Post*

How the Plan is Paid For

Partial list of benefits to be cut

- State and Local Tax (SALT) Deduction
- Personal exemptions
- Mortgage interest deduction
- Medical expense deduction
- Student loan deduction
- Lifetime Learning Credit
- Deduction for teachers to help them purchase supplies for their classroom
- Deduction for moving expenses to take a new job
- Casualty loss deduction
- Deduction for dependent care assistance

State and Local Tax (SALT)

- Limits State and Local Tax Deductions to just \$10,000 in property taxes
- Average deduction in 2015 in our district: **\$18,672**, with **44% of households claiming the deduction**
- Pressure on states and local governments to cut taxes and cut back on services

Health

- Eliminates deduction for certain medical expenses including:
 - Long-term care
 - Preventative care services
 - Surgeries
 - Dental and vision care
- Currently, individuals can deduct medical expenses that exceed 10% of their adjusted gross income in a given year
- Repealing this deduction would cost tax payers **\$10 billion per year**
- Eliminating this deduction disproportionately affects individuals with high out-of-pocket costs such as the elderly, disabled, and chronically ill
 - 50% of current claimers are 50 or older
 - Over 70% have annual incomes of under \$75,000

Education, K-12

- Turns the popular 529 savings plan into a voucher scheme.
- Changes to SALT will negatively impact funding for public schools.
 - Education funding would take a \$250 billion cut over the next 10 years.
 - Would put more than 38,000 education jobs at risk in California.
- Repeals educator expense deduction used by teachers to purchase classroom supplies
 - Underfunded schools cause teachers to dip into their own pockets to pay for supplies their students need. Without this deduction, teachers will either take home less each year or their students will suffer.

Education, Higher Ed.

- Eliminates deduction for student loan repayment.
 - Currently students can deduct up to \$2,500 in interest.
 - **For our district, \$20 million loss of student loan deductions for 19,100 tax filers.**
- Eliminates credits for college savings.
- Requires students to pay taxes on any waived tuition.
- Reduces ability of employer to provide up to \$5,250 in education assistance.

These changes would take \$47.5 billion out of the pockets of students over the next decade and raise the cost of higher education.

Homeownership

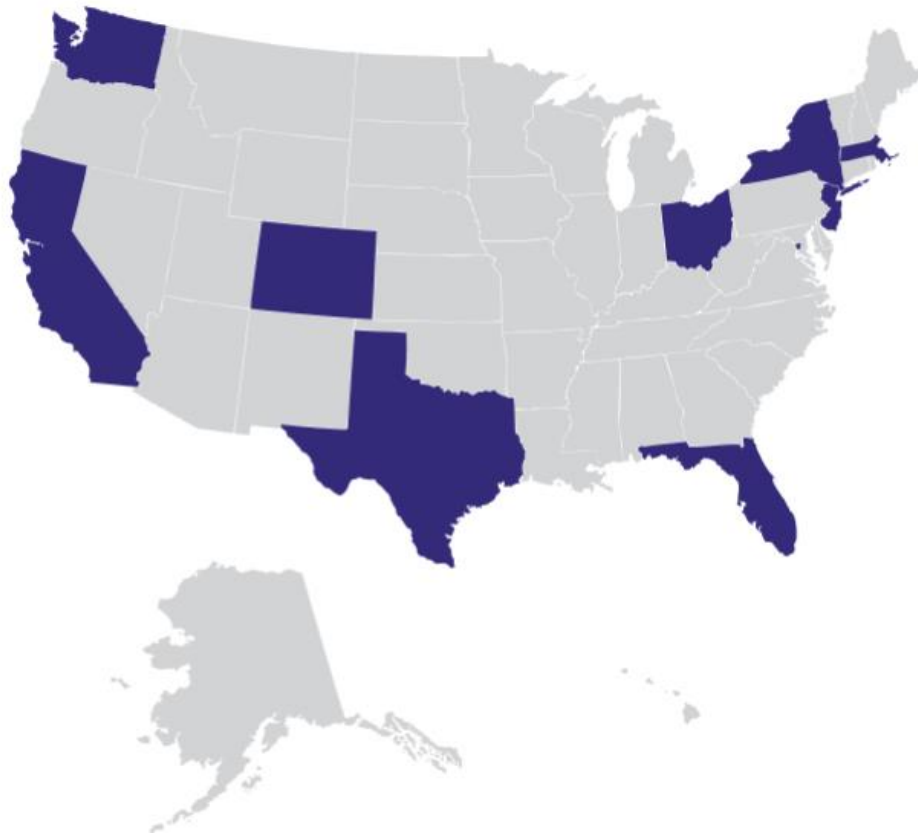
- Limits State and Local Tax Deductions to \$10,000 of property taxes (average SALT deduction in our district in 2015 was \$18,672).
- Cuts Mortgage Interest Tax Deduction to interest on \$500,000, *not* indexed to inflation. Median home value of owner-occupied units in our district in 2016: \$642,600.
- In our high-cost-of-living area, homeownership will become even harder, and young people will have a harder time saving and establishing credit needed for a first mortgage.

Affordable Housing

- Eliminates tax exemption of private activity bonds, including multifamily Housing Bonds. Estimated loss of nearly 1 million affordable housing units across the U.S. over 10 years, 262,000 in California.
- Eliminates New Markets Tax Credit allocation authority.
- Repeals historic rehabilitation credit.

Affordable Housing

The Ten States Poised to Lose the Most Affordable Housing, Jobs under the House Tax Reform Bill



1. California
2. New York
3. Ohio
4. Washington
5. Texas
6. Florida
7. Massachusetts
8. New Jersey
9. Colorado
10. District of Columbia

Environment

- Scales back wind energy production tax credit from 2.3 cents per kilowatt hour to 1.5 cents per kwh before expiring in 2020.
- Eliminates 10% utility-scale solar industry tax credit in 2027.
- Eliminates \$7,500 per-vehicle tax credit for electric vehicle purchases.

Where We Go From Here

Next steps

- House bill (H.R. 1)
 - Passed by House Ways & Means Committee last week.
 - Likely vote on the floor this week.
- Senate bill
 - Markup ongoing in Senate Finance Committee.
 - Possible vote on the floor after Thanksgiving holiday.
 - Operating under budget reconciliation, which expedites the timeline and decreases the vote threshold (simple majority vs. 60 votes).
- Administration's stated goal is to have the bill signed into law by Christmas.

House and Senate Comparison

How the Senate and House Tax Bills Stack Up

☐ Maintain
 ☐ Revise
 ☒ Repeal

House bill
Updated Nov. 9

Senate bill
Released Nov. 9

State and local tax deduction	Mostly repeal, cap property tax	Repeal entire deduction
Medical expense deduction	Repeal	Maintain
Adoption tax credit	Maintain	Maintain
Corporate tax rate	Cut to 20% in 2018	Cut to 20% delayed until 2019
Mortgage interest deduction	Cap at \$500K, limit to one home	Maintain \$1 million cap
Estate tax	Double exclusion, repeal in 2024	Double exclusion
Income tax brackets	Consolidate to 4 brackets	Change rates for 7 brackets
Top income tax rate	39.6%	38.5%
Standard deduction	\$12K individuals, \$24K couples	\$12K individuals, \$24K couples

Sources: U.S. House of Representatives, U.S. Senate

Bloomberg

The future

- Non-partisan Congressional Budget Office (CBO) estimates that the bill would cost \$1.5 trillion over 10 years.
- Current law requires that any new legislation passed by Congress does not increase deficits.
 - This bill would increase deficits by upwards of \$150 billion a year.
- Given the deficit increase, the Office of Management and Budget (OMB) would be required to make up for the deficit.
 - This would result in massive cuts to social programs such as Medicare and Social Security.
 - Medicare would likely experience a \$25 billion cut in 2018 alone.

DeSaulnier Digest

- New weekly newsletter
- Discusses:
 - Key votes
 - Mark Around Town
 - Opinions from the District
 - Bills and letters supported
 - Press update
- Available on our website and in your inbox every Monday morning
- To sign up for the newsletter, visit <https://desaulnier.house.gov/contact/newsletter>

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