

POLITICS

Bill Would Revive Dozens of Tax Breaks

Manufacturers, small businesses and labor unions would get breaks they have been seeking for years



Speaker of the House Paul Ryan gives a news briefing on Dec. 10. A tax-cut package, unveiled late Tuesday, is poised to pass the House and Senate as soon as this week. PHOTO: JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY

By Richard Rubin

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WASHINGTON—U.S. lawmakers unveiled a tax-cut package late Tuesday night that would revive dozens of expired breaks and lock many of them into law permanently.

The measure, poised to pass the House and Senate as soon as this week, would break Congress' habit of extending lapsed tax breaks retroactively and then setting the next expiration date just weeks or months ahead.

To become law, the package will have to withstand opposition from Democrats concerned that it provides too little for families, Republicans opposed to targeted tax breaks and deficit hawks worried about the impact on the country's finances. The tax package could add \$500 billion to \$800 billion to the budget deficit over the next decade; an official estimate wasn't available early Wednesday.

But there are plenty of winners, including large manufacturers, small businesses, restaurants and labor unions, which would all get tax breaks they have been seeking for years. Lawmakers plan to

combine the tax bill with a \$1.15 trillion spending bill, creating a giant end-of-year fiscal deal that will create certainty for businesses and taxpayers—as long as it doesn’t collapse under its own weight.

“This important achievement demonstrates what happens when Congress works for the American people,” said Sen. Orrin Hatch (R., Utah), the chairman of the Senate Finance Committee. “After years of short-term extensions, good faith bipartisan compromise prevailed.”

Mr. Hatch announced the deal with Ron Wyden of Oregon, the top Democrat on the panel, and with Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee.

The bill includes Republican and corporate priorities such as making the research-and-development tax credit permanent for the first time since it was created in 1981 and expanding it so that some small companies that aren’t making profits can take the credit against payroll taxes.

Small businesses would be able to write off as much as \$500,000 in capital costs instead of the \$25,000 they could deduct if Congress didn’t act, and those levels would be indexed for inflation. Banks such as Citigroup Inc. and Morgan Stanley would get to continue deferring U.S. taxes on their foreign income.

Democrats, in turn, would win permanent extensions of some of President Barack Obama’s priorities—expanded tax credits for low-income and middle-class families that are scheduled to lapse at the end of 2017, after he has left office. The child-tax credit, earned-income tax credit and a college-tuition credit would all get extended indefinitely at their current levels, without the indexing to inflation some Democrats had sought. The bill includes language Republicans had sought that would prevent people, including illegal immigrants, from filing retroactive claims for past years after they get identification numbers.

Popular bipartisan tax breaks for charitable donations would also be made permanent, including a provision that lets people move money directly from individual retirement accounts to charities, meaning they never have to include it in their income. Taxpayers would be able to deduct sales taxes instead of state income taxes from their federal income, an important break in states that lack income taxes such as Florida and Texas.

The agreement would also change several of the taxes passed in 2010 as part of the Affordable Care Act. The 2.3% excise tax on medical devices, opposed by companies such as Medtronic PLC and Boston Scientific Corp., would be paused for two years, in 2016 and 2017.

The so-called Cadillac tax on high-cost employer-sponsored health insurance would start in 2020 instead of 2018, providing a win for labor unions and large companies that have been fighting it. That measure is attached to the spending bill. A tax on health insurance may also get suspended.

Each side also got five-year extensions of other key priorities. Republicans won an extension of bonus depreciation, which lets all companies deduct more than usual in the year they buy a capital asset.

Breaks for hiring people from disadvantaged groups and investing in struggling communities would be extended through 2019. Democrats won five-year extensions of tax credits for wind and solar energy, including a change that lets solar projects qualify once they begin construction, instead of when they begin producing energy. Both the wind and solar credits would get phased out, though the details weren't available in the tax bill and would be included in the spending bill.

The bill also includes a prohibition on companies spinning off their property into real-estate investment trusts, blocking a transaction that has become popular among activist investors and was completed last month by Darden Restaurants Inc., owner of the Olive Garden chain. The ban would be effective Dec. 7, but the bill does allow companies that sought private rulings from the IRS before then to proceed.

Republicans hailed the deal as an important step toward the overhaul of the tax code that they've been trying to work toward since they won the House majority in the 2010 election. By making many of these breaks permanent now, Republicans wouldn't need to change them if they want to keep them or could use the revenue from repealing them later to lower tax rates.

Democrats, including House Minority Whip Steny Hoyer of Maryland, warned that the bill would hurt the country's finances by adding to the budget deficit.

"Tax cuts, like everything else, have a cost," Mr. Hoyer said. "And if we fail to pay for them, we will once again increase deficits and debt, which in turn will be used as the catalyst for another round of cuts to the very programs I believe are vital to our economy and to our people."

Many of the provisions made permanent in this week's bill are routinely extended each year or two. The large 10-year revenue estimate for the bill is partly a reflection of Congress' decision to do at once what it would otherwise do in five to seven smaller chunks.

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