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U.S.

‘Big Six’ Policy Group Faces Decision Time on Tax Changes

Schedule calls for passage of system overhaul by year’s end

The GOP’s ‘Big Six’ working on tax policy includes, from left, House Speaker Paul Ryan, Senate Majority Leader Mitch McConnell, Sen. Orrin Hatch (R-Utah), Rep. Kevin Brady (R-Texas) and Treasury Secretary Steven Mnuchin. PHOTO: CALEB SMITH/OFFICE OF SPEAKER RYAN

By Richard Rubin

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WASHINGTON—The U.S. policy makers on taxes known collectively as the “Big Six” gathered Tuesday with President Donald Trump at the White House—and they have some big decisions to make.

Republicans are trying to rewrite significant portions of the tax system by year’s end, giving them little time to agree on policy changes and then muscle them through Congress.

The six are Reps. Paul Ryan (R., Wis.) and Kevin Brady (R., Texas), Sens. Mitch McConnell (R., Ky.) and Orrin Hatch (R., Utah), Treasury Secretary Steven Mnuchin and White House economic policy chief Gary Cohn.

“We are all on the same page for delivering tax reform this year,” Mr. Brady said after the meeting.

Many Republicans are optimistic about getting a tax bill done and are moving "as expeditiously as possible," White House Press Secretary Sarah Huckabee Sanders said after Tuesday's meeting.

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With control of the House, Senate and White House, the GOP is eager for the chance to overhaul tax policy and lower rates. Failure to do so would mark a political setback. But they must contend with inherent trade-offs, competing priorities and a tight time frame.

"I can't imagine they can get to the end of the year without passing something, but I can't figure out what the something would be or how they would get it done," said Leonard Burman, a fellow at the Urban Institute in Washington and a former Treasury official in the Clinton administration.

Mr. Trump is scheduled to head to an Andeavor Corp. facility in North Dakota on Wednesday for his second speech on taxes in two weeks. Both are in states he won in 2016 that also have Democratic senators up for re-election in 2018.

Sen. Heidi Heitkamp (D., N.D.) will travel with the president on Air Force One, according to her office.

Mr. Trump will say, as he did in Missouri, that voters should defeat Democrats who don't work with him on taxes, senior White House officials said. He will be making similar trips to pitch tax policy almost every week, they said.

Ms. Heitkamp was one of three Senate Democrats who didn't sign a letter outlining the party's position against deficit-financed tax cuts and lower taxes for high-income households. That was a signal she might back a tax bill when it emerges.

Asked Tuesday about changes to the tax system, Ms. Heitkamp said, "The bottom line is, is it going to be good for North Dakota? Is it going to be good for North Dakota farmers who are struggling, who now have huge operating loans, and so the interest deduction is important." She added, "But you know, I'm curious about what the plan is."

Getting many Democrats on board will be a lot more difficult. "If Democrats were included in the debate, tax reform would be much more likely to help the middle class," Senate Minority Leader Charles Schumer (D., N.Y.) said Tuesday. "If Republicans are the only ones in the room on tax reform, the vast majority of benefits are likely to go to those at the very, very top."

Republicans are trying to decide how much money they want the government to collect. Mr. Trump uses the terms "tax cuts" and "tax reform" almost interchangeably. "This is more than just tax reform," he said before Tuesday's meeting. "This is tax cutting, to put it in a very simple term. We're going to cut taxes."

Tax cuts generally refer to lowering the tax burden, while "reform" typically means making structural changes and repealing tax breaks to make the system simpler and more economically efficient.

Republicans, particularly Messrs. Ryan and Brady, have long talked about "reform" that would limit or repeal tax breaks. And some Republicans may be concerned about increasing budget deficits.

But tax cuts are broadly popular among GOP policy makers. Republicans could end up splitting the difference by removing some tax breaks but not enough to cover the cost of the tax cuts.

Under budget rules that allow Republicans to pass a tax bill through the Senate without Democratic votes, the bill can't increase budget deficits after its first 10 years.

To hit that target, Republicans could set expiration dates for some tax cuts, muting potential revenue losses for the government beyond the first decade and thus complying with the 10-year rules. Business groups providing public support for Republicans plans, however, want permanent policy that will let them plan investments with relative certainty.

"I don't think there's anybody who really wants temporary policy," said Ray Beeman, a former GOP aide to the House Ways and Means Committee. "It's really a matter of what's more realistic."

Again, Republicans could split the difference, locking in business rules for the long run and setting some individual tax cuts to expire. They would be gambling that a future Congress would vote to extend lapsing tax cuts.

That approach worked in 2001 and 2003, when President George W. Bush's tax cuts were passed and set to expire after 2010. Almost all of them—the biggest exception being tax cuts for high-income households—became permanent in 2013.

To make their plans fit budget rules, Republicans are considering several approaches to reduce the apparent impact on budget deficits.

First, they may assume that expired or expiring tax breaks remain in place. That way, extending them or replacing them with other tax cuts wouldn't count as reducing revenue. This strategy could reduce the estimated fiscal cost of tax cuts by about $450 billion over a decade; that is equivalent to about 1% of projected federal revenue over that period.

Second, they are likely to use what is known as dynamic scoring to measure their plan. That is the assumption that tax changes generate economic growth, yield additional tax revenue and partly pay for themselves.

They may also change rules governing retirement accounts by making it harder for people to put pretax money in retirement accounts such as 401(k) plans, nudging or pushing people toward so-called Roth-style accounts funded with post-tax dollars that could be withdrawn tax-free in retirement. That move would generate money for the government in the near term because a bigger share of income would be taxed.

“It’s a dial they could use and put it at any level they want to and whatever they can sustain politically,” said Mr. Beeman, now at Ernst & Young LLP. Mr. Beeman helped write a 2014 tax plan with a similar provision.

House Majority Leader Kevin McCarthy (R., Calif.) questioned the idea during a Tuesday appearance on Fox Business Network.

“You only tax on them if you want people to do less of it,” Mr. McCarthy said. “I want people to actually save more of their own money.”

Republicans have proposed repealing the state and local-tax deduction, which would hurt high-income residents of high-tax states. They also have proposed doubling the standard deduction, which would help middle-income households but also would have the effect of limiting the number of people who could take advantage of tax incentives for mortgage interest and charitable donations.

—Siobhan Hughes and Louise Radnofsky contributed to this article.

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