

TAX TAKE: Top 10 Questions (and Then Some) Regarding the Reconciliation Package: Part One

Tax Alert

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As the bipartisan traditional [infrastructure package](#) appears on track to pass the Senate and then be considered in the House after the August Congressional recess, tax policymakers will soon turn their complete focus and attention to the "social infrastructure" spending package that will be passed through reconciliation and likely include many of the tax increases proposed in the [Biden Administration Greenbook](#). The scope, timing, and process for consideration of this important legislation is still largely unknown. So, without further ado, we present Part One of our "Top 10 Questions" regarding the reconciliation package – there are actually so many unanswered questions that we will present Part Two next week!

How big will the spending package be? Senate Budget Committee Democrats and the Administration have agreed on a \$3.5 trillion spending package. But it's unclear whether the full Democratic caucus will support that spending level, with moderate Democrats such as [Senator Kyrsten Sinema \(D-AZ\)](#) raising concerns that the package may be too large and perhaps some progressive Democrats still hoping for an even larger package. The size of the spending package will of course dictate the amount that must be financed, which leads us to ask...

How will the package be financed? Democrats will need to determine their tolerance for deficit spending and their tolerance for tax increases in deciding how the package will be financed. What amount of tax increases are practically possible and what amount are politically viable? Will any spending cuts be utilized as part of the package?

What will be the breakdown between business tax increases and individual tax increases? Democrats have focused on business tax increases (including an increase in the corporate rate and international tax changes) and tax increases on the wealthy, which they define as individuals making over \$400,000. Will the package raise an equal amount of revenue from businesses and from individuals?

Which particular tax increases will be used? Presumably, Congressional Democrats are using the Greenbook proposals as a "starting point" for the reconciliation package. Will they look beyond those proposals and, if so, where? Will recently introduced proposals, such as [Senator Ron Wyden's \(D-OR\) bill](#) to limit the Section 199A deduction be considered?

Will there be any tax relief included? There is significant Congressional interest in including targeted tax relief in the package, with a particular emphasis on items like expanding the child tax credit and the earned income tax credit and providing relief from the state and local tax (SALT) deduction cap. How will this tax relief be financed? And does its inclusion open the door for any business tax relief, such as the pending changes to the *Tax Cuts and Jobs Act of 2017* (TCJA) provisions regarding the deductibility of research and development (R&D) expenses and the interest expense deduction limitation?

We are just getting started, so please look for Part Two of our "Top 10 Questions" next week. In the interim, given that a main focus of the reconciliation package will be tax increases, we want to remind everyone that it is important to be engaged with policymakers at the earliest stages of the package's formulation. Once a particular tax increase gains traction, it will be very difficult to have it removed or modified given the revenue pressures associated with the package. **#TaxTake**

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