RAPOZA ASSOCIATES

Lobbying and Government Relations

1331 G STREET, NW | 10TH FLOOR | WASHINGTON, DC 20005
tel. 202-393-5225 | fax. 202-393-3034

News from Rapoza Associates **November 7, 2012**

Broadly speaking, the outcome of the 2012 election is more or less the status-quo. Ultimately, the election did not alter the makeup of Washington's political structure. Nor did it change the key issues facing federal policymakers.

While the White House and Senate remain in Democratic hands, Republicans retain control of the House. The election did result in significant turnover, however, with over 60 newly-elected Representatives in the House and at least 11 freshman Senators. For more information about how the election results impact key Senate and House Committees, follow this link.

Likewise, in the near-term, the President and the current Congress must still address the so-called "fiscal cliff" – a combination of expiring tax cuts and spending reductions that total $600 billion. The fiscal cliff is scheduled to take effect at the end of year, unless Congress and the President can enact changes.

Beyond this, Congress still has the Farm Bill, Tax Extenders, and the FY13 Appropriations bills on its plate. Before the election, some suggested that a split decision by voters – such as the one rendered yesterday – would result in a productive lame-duck session. For example, Congress could likely extend of some of the expiring tax rates and tax extenders, postpone Sequestration − as required by the Budget Control Act − and set a timetable to address Tax Reform in 2013. A productive lame-duck session could also result in the passage of the Farm Bill and the FY13 Appropriations bills.

After the re-elected President and the 113th Congress take office in January and continuing throughout 2013, Deficit-Reduction − including Tax Reform – is very likely to be front and center. The President has made clear that he intends to purse a 'grand bargain' on deficit reduction. And, much has been made of the 10-year, $4 trillion deficit reduction plan recommended by the bipartisan Simpson-Bowles Commission. As you may remember, last year, the President proposed a variation of Simpson-Bowles that placed more emphasis on tax revenue and less on discretionary spending − which has already been reduced by $1 trillion over 10 years.

So far, however, virtually all discussion has focused on domestic discretionary spending. For example, over the last two fiscal years, community development programs have been cut by 17 percent. While there is already a 10-year freeze on all discretionary spending, it is always an easy target for further reductions.

As for Tax Reform, there is widespread interest on Capitol Hill in reducing rates, simplifying the tax code, and raising revenue. As part of negotiations over of the fiscal cliff, Congress and the White House could agree on a framework before the end of the year to set a revenue target and a date for completion in 2013. Doing so

would provide the tax-writing Senate and House Committees the space to develop legislation.

As others have suggested, the goals of tax reform – reducing rates and raising revenues − are likely to be mutually exclusive. As such, this framework would immediately put tax expenditures in jeopardy. When it comes to raising additional revenue, many Members of Congress may simply find it more attractive to limit tax expenditures rather than to raise tax rates.

Under current law, annual tax expenditures for community development – including the Low Income Housing Tax Credit, New Markets Tax Credit, Enterprise Zones, and Historic Tax Credits – amount to $10 billion. Over the past few decades, these tax expenditures have helped fill a hole left by the longer-term reduction in federal support for community development programs. For example, over the last 30 years, expenditures at HUD, EDA, USDA, and the Interior (Native American programs) have fallen by 75 percent. A Tax Reform agenda that prioritizes reducing tax expenditures in order to raise revenue will almost certainly focus on limiting provisions in the tax code that finance housing or community development activities.

Thank you,

Bob Rapoza

Rapoza Associates
www.rapoza.org
email: rapoza@rapoza.org
phone: 202-393-5225