

Congress

Hill Briefs: Tax C Corporations Like Pass-Throughs, Senator Says (1)

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A senator advocates for a legislative change that would treat C corporations and pass-through businesses the same under the tax code; the Senate Finance Committee is set to vote Aug. 1 on the nominees for deputy Treasury secretary and chief counsel of the Internal Revenue Service; and a Republican lawmaker says the 2017 tax law's college endowment tax stems partly from the party's disapproval of skirmishes over campus free speech.

Disparity Between C Corporations, Pass-Throughs

Congress should consider taxing C corporations like pass-through businesses—at the individual owner level—to create a more level playing field between the two types of entities, Sen. Ron Johnson (R-Wis.) said July 31 at an event on Capitol Hill.

The 2017 tax law (Pub. L. No. 115-97) didn't take this approach, but Johnson said he still believes that such a change would offer the best solution for simplifying and rationalizing the tax code. The senator said he hasn't received a revenue score for the proposal but expects it would raise money that could be put toward other tax code changes.

After much deal-making, the tax law included a 20 percent deduction for pass-through businesses—entities including S corporations and limited liability companies in which income flows to the owners, who are taxed as individuals—under new tax code Section 199A. For some owners, the deduction lowers their top tax rate to 29.6 percent from 37 percent. Conversely, C corporations now face a lower top tax rate of 21 percent.

There's an effort among Republican lawmakers in the House to make permanent the individual provisions in the new tax law, including the pass-through provisions, which otherwise expire after 2025. Johnson warned, however, that the push for permanency could come at the expense of taxpayers in the highest income brackets. He pointed to legislation passed in January 2013 in which Congress raised the top tax rate for the wealthiest taxpayers to avert the "fiscal cliff"—the term used to describe the combination of expiring tax cuts and government spending cuts that were scheduled to become effective simultaneously at the end of 2012.

Johnson projected "a lot of peril in the future" if lawmakers don't adequately address the disparity between pass-through businesses and C corporations. He said his proposal to tax C corporations at the individual owner level has the backing of Democrats, including Sen. Tim Kaine (D-Va.), who co-wrote an op-ed with Sen. Angus King (I-Maine) in November 2017 that said the concept warrants a "serious look."

Treasury Nomination Votes

The Senate Finance Committee will convene Aug. 1 to act on the nominations of two individuals for positions within the Treasury Department, according to a July 31 media advisory from committee Chairman Orrin G. Hatch (R-Utah).

Justin Muzinich, the nominee for deputy Treasury secretary, currently serves as counselor to Treasury Secretary Steven Mnuchin. He was appointed to that position in February 2017.

As counselor, Muzinich played a large role in shaping the tax overhaul bill that became law in December 2017. President Donald Trump nominated him to the deputy secretary position in April.

Michael Desmond is the nominee for chief counsel of the Internal Revenue Service and assistant general counsel at Treasury. Desmond is a tax attorney and has had his own law firm in California for the last six years. Prior to that, he worked as tax legislative counsel at Treasury under President George W. Bush.

Republican Free Speech Ire Sparked College Tax: Lawmaker

A new college endowment tax stems partly from Republican disapproval of skirmishes over free speech on campus, according to a GOP lawmaker who's trying to repeal the tax.

"Why would Republicans, who are anti-tax, be for a new tax unless there was something very strong motivating them?" Bradley Byrne, an Alabama Republican who is co-leading a bipartisan effort to repeal the levy, said in an interview.

Republicans have criticized higher education as a bastion of liberalism that's intolerant of free speech, especially when protests on campuses have turned violent. In Byrne's opinion, this put a target on schools during tax negotiations in the Republican-led Congress.

"A lot of us conservatives are pretty upset with the misbehavior we've seen on college campuses, especially regarding free speech," Byrne said.

While Byrne is concerned about free speech, he doesn't want to penalize the 30 private colleges that are likely to pay in the first year. Byrne's co-sponsor, Maryland Democrat John Delaney, said in a separate interview that the endowment tax is "really bad policy." The repeal bill has a dozen sponsors.

Lawmakers were looking for ways to generate revenue to offset the corporate and individual tax cuts, which is a reason universities were targeted. College endowments hold about \$500 billion in assets.

Rob Damschen, a spokesman for the House Ways and Means Committee, which wrote a version of the tax overhaul package, said in a statement that chairman Kevin Brady, a Texas Republican, "consistently seeks input from fellow members of Congress and the public on ways to regularly improve America's tax code."

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