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WHAT THE NEW CONGRESSIONAL LEADERS HAVE SAID:

Since the election, incoming Speaker of the House Nancy Pelosi (D-CA) and House Ways and Means Committee Chairman Charlie Rangel (D-NY) have made restrained comments about bipartisan cooperation and indicated that they do not intend to pursue repeal of the 2001 and 2003 tax cuts. However, they both opposed enactment of those tax cuts and consistently supported efforts to repeal them or roll them back.

Congressman Rangel's recent statements are particularly worrisome:

***9/26/06 -- Congressional Quarterly: “[R]ep. Charles B. Rangel, D-N.Y., who would likely become Ways and Means Committee Chairman if Democrats recapture the House, vowed to put all of President Bush’s 2001 and 2003 tax cuts ... on the chopping block.”

***9/20/06 -- Bloomberg News: “[Rangel] said he 'cannot think of one' of President George W. Bush's first-term tax cuts that merit renewal.”

***9/26/06 -- Congress Daily: "Asked whether tax increases across the income spectrum would be considered, he replied, 'No question about it'.

And there are numerous post-election indications that the tax cuts may in fact be in jeopardy. For example, in a noteworthy speech last week to the Economic Club of Washington, Clinton Treasury Secretary Robert Rubin openly called for tax increases, saying: “You cannot solve this nation's fiscal problems without increased revenue.”

AMT REFORM, “PAY-GO” AND THE “TAX GAP”:

Democratic Leaders say that repeal of the Alternative Minimum Tax (for individuals) is a top legislative priority, but also promise to restore the so-called “pay-go” rules that would require that any tax cut be offset by spending cuts or other tax increases. The “cost” of repeal of AMT in terms of lost Federal revenue would be immense -- about \$50 billion for one year and near \$1 TRILLION over ten years -- so Democrat efforts to enact repeal would require huge tax increases.

Congresswoman Pelosi and others have suggested that they might seek new tax revenue to “pay for” AMT reform by closing the “tax gap” -- the amount of money owed to the IRS but not collected - and taxing big oil companies.

But, as reported by Congressional Quarterly on November 3rd: “[S]everal tax experts said it would be extremely hard to pay for an AMT fix without rolling back some of Bush's tax cuts “.

'I don't think it's realistic to have a permanent fix to that without finding some other revenue to fill the hole,' said Bob Bixby, president of the fiscally conservative Concord Coalition". If you want to do AMT relief and continue to pay for the war and fund the prescription drug benefit,' he said, 'inevitably you have to look at rolling back some of those tax cuts.'

The "Tax Gap"

Few in the business community oppose closing the tax gap -- collecting the taxes owed to the government but not collected. But even here we need to pay close attention to what is proposed to ensure that new taxes or regulatory burdens are not placed on law-abiding taxpayers in pursuit of new revenue. Clint Stretch, managing principal of tax policy with Deloitte Tax, recently said "I think we will see some reforms targeted at getting better compliance from the small business sector." (San Francisco Chronicle, 11/12/06).

WHAT TO EXPECT IN THE NEAR TERM - THE FISCAL YEAR 2008 BUDGET:

While we do not yet know what tax legislation will be considered next year, and although some of the new Democratic Congressional Leadership indicate that they will not propose repeal or roll-back of the existing tax cuts, they will give us an early signal of their intent through the Congressional Budget Resolution early next year.

Most of the Bush tax cuts are scheduled to expire in 2010, resulting in a massive tax increase that year if Congress fails to extend them. Congressman Rangel has said that he does not plan to address those expiring tax provisions next year, since they do not expire until 2010.

However, the annual Budget Resolution which the Congress will adopt next April will be required to include estimates of expected annual revenues for five years -- through the 2010 budget year. In other words, the new Congress will have to include in its next Budget an estimate of what they expect the Federal revenue to be in 2010 -- so we will know whether they plan to have the Bush tax cuts extended, or allow them to expire.

A November 9th Congressional Quarterly report on the incoming Chairman of the Senate Budget Committee, Kent Conrad (D-ND), includes this explanation:

"Conrad is likely to face pressure from many Democrats to allocate more money to domestic programs, even if that requires finding new revenue.

"Conrad has said he will not seek to roll back Bush tax cuts for the middle class. Democrats will have to decide, in drafting their first congressional budget resolution, whether to seek a rollback of tax cuts enjoyed by the wealthiest Americans."

NEXT STEPS AND PLANS FOR TRC:

The mission of the Tax Relief Coalition remains the protection of the 2001 and 2003 tax legislation which helped foster many consistent months of economic growth and job

creation. The President remains committed to permanent enactment of those critical tax provisions, and although permanency is not likely to succeed in the next Congress, it remains the long-term goal of TRC.

In the interim, we must be fully engaged to prevent the new Congress from eroding those essential tax laws. We fully expect efforts to roll back the tax cuts for “the wealthy” and the reduced rates on capital gains and dividends, as the new Congress looks for new sources of revenue to offset their promised spending programs and repeal of the Alternative Minimum Tax.