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Returning to the Debate on Long-Term Highway Funding

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Legislative Activity

Finding a Way to Fund the Nation's Highways…The Debate Continues

Prior to adjourning for the Memorial Day recess, lawmakers passed legislation that extended highway funding authority for a two-month period through July 31. Now, with Congress set to return to Washington this week, lawmakers will yet again be tasked within finding a way to fund the nation's highways. The upcoming extension, however, will be more difficult than the last given that it will require additional revenue. Unhappy with the most recent two-month extension, Senate Finance Committee Chairman Orrin Hatch (R-UT) is soon likely to unveil his $11 billion proposal to fund the Highway Trust Fund through the end of the year, which is expected to be a mix of a General Fund transfer and a hodgepodge of pay-fors – which he has identified, but not yet revealed.

In terms of how to actually pay for a six-year surface transportation reauthorization, it appears that lawmakers on the Senate Finance Committee are likely to propose using repatriation (in the context of international tax reform) as the source of funding. It is expected that such an approach is likely soon to be proposed by the International Tax Reform Working Group, which appears near to reaching an agreement on its recommendations to the full Committee. With regard to the Ways and Means Committee, Representative Charles Boustany (R-LA) is in the process of "trying to write a good bill on international" that will be introduced "in a matter of weeks." Notably, Representative Boustany's focus is in line with Chairman Paul Ryan's (R-WI) plan to prioritize international tax reform as a "down payment on tax reform."

JCT, CBO Move Forward with Dynamic Scoring

As highlighted previously, the Joint Committee on Taxation (JCT) is well under way in its efforts to use dynamic scoring for estimating the cost of certain significant pieces of legislation. Moreover, given that the FY 2016 Budget Resolution directs both the JCT and the Congressional Budget Office (CBO) to prepare macroeconomic estimates of major tax and spending legislation, the CBO recently indicated that it will "devote considerable attention to further developing our capacity to conduct dynamic analysis in the coming year" and has already shifted resources towards that end. Moreover, according to CBO Director , legislative scores that incorporate dynamic analysis "will include all of the information typically presented in cost estimates as well as information on the macroeconomic effects and the uncertainty surrounding those effects."

Regulatory Activity

Treasury Proposes Changes to Model Tax Treaty

The Treasury Department has proposed changes the U.S. Model Income Tax Convention – which was last updated in 2006 – in an effort to, among other things: (1) address “special tax regimes” that provide low tax rates on mobile income, such as interest and royalties; (2) prevent U.S. tax treaty partners from encouraging corporate inversions (as dividends paid by an expatriated entity would be able to be taxed in accordance with the domestic law of the United States for a period of ten years beginning on the date on which the acquisition of the domestic entity was completed); and (3) generally discourage base erosion and profit shifting (BEPS). According to Treasury, “[w]e want the draft to influence the debate at the OECD” on BEPS. Treasury is set to meet with the Organisation for Economic Co-operation and Development (OECD) in June to further discuss the BEPS Project.

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