US midterm elections may impact future tax reform

The US 2014 midterm elections (the week of 3 November 2014) have dramatically changed the landscape for congressional action during both the upcoming lame-duck session slated to begin 12 November, and in the next Congress which will convene in 2015. Republicans will take control of the Senate come January and increase their majority in the House. Republican control of both chambers has led to speculation as to how this will impact the tax agenda in general, and the prospects for tax reform in particular.

During the lame-duck session, Congress is expected to focus on several priority issues, including funding the Federal Government beyond 11 December, extending expired tax provisions, and continuing the Internet tax moratorium, among other issues. There is some speculation that the lame-duck Congress may extend most expired and expiring tax provisions for two years, although it is possible the provisions could be extended for just one year and that some could be made permanent. At this point, it looks unlikely that anti-corporate inversion legislation will be addressed during the lame-duck for several reasons, not the least of which is the fact that Internal Revenue Service (IRS) Notice 2014-52 appears to have put a damper on at least some corporate inversion activity since its release in September.

Looking ahead to 2015, Republican control of Congress has reinvigorated the discussion over tax reform, although Republican majority does not necessarily mean tax reform is likely to be enacted in the short run. Senate Finance Committee Ranking Member Orrin Hatch is expected to become chairman of that committee and has been an outspoken proponent of tax reform. House Ways and Means Committee members Paul Ryan and Kevin Brady have both indicated they are interested in the chairmanship of that tax-writing committee. Rep. Ryan said after the mid-term election that Republican control of Congress will result in a “very bold effort on behalf of House and Senate Republicans for tax reform.”

The political dynamic for tax reform is complex; while Republicans have generally supported the idea of comprehensive tax reform, the Obama Administration has increasingly focused on business-only tax reform. Future Alerts will cover legislative developments.

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