

# **Tax Reform in a Trump World**

## **Government Fleet Expo and Conference**

**Kenneth J. Kies**  
Managing Director  
The Federal Policy Group

San Antonio, Texas  
June 14, 2017

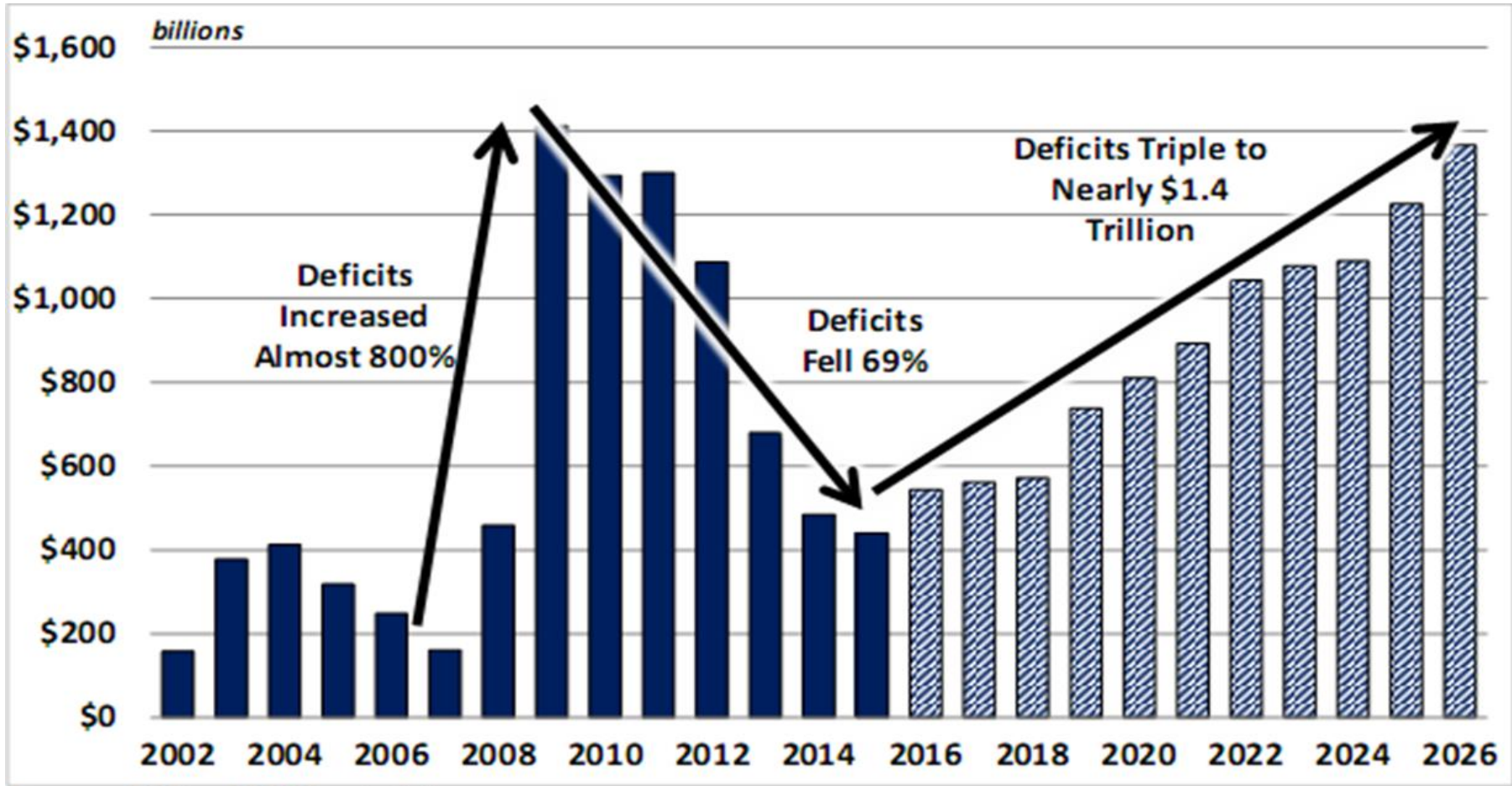
# Overview

- **The 2016 Election did not Change Our Fiscal Crisis**
- **Polarization Grips the Country**
- **Key Take-Aways from Trump Win**
- **The Outlook for Tax Reform in 2017**
- **Key Issues in Tax Reform for Leasing**
- **President Trump is Behind Other First-Term Presidents**
- **The Calendar is Not Our Friend**
- **The Post 2016 Election Pivot to 2018**
- **A Beautiful Wall**
- **Good News from Iraq**



# **The 2016 Election did not Change Our Fiscal Crisis**

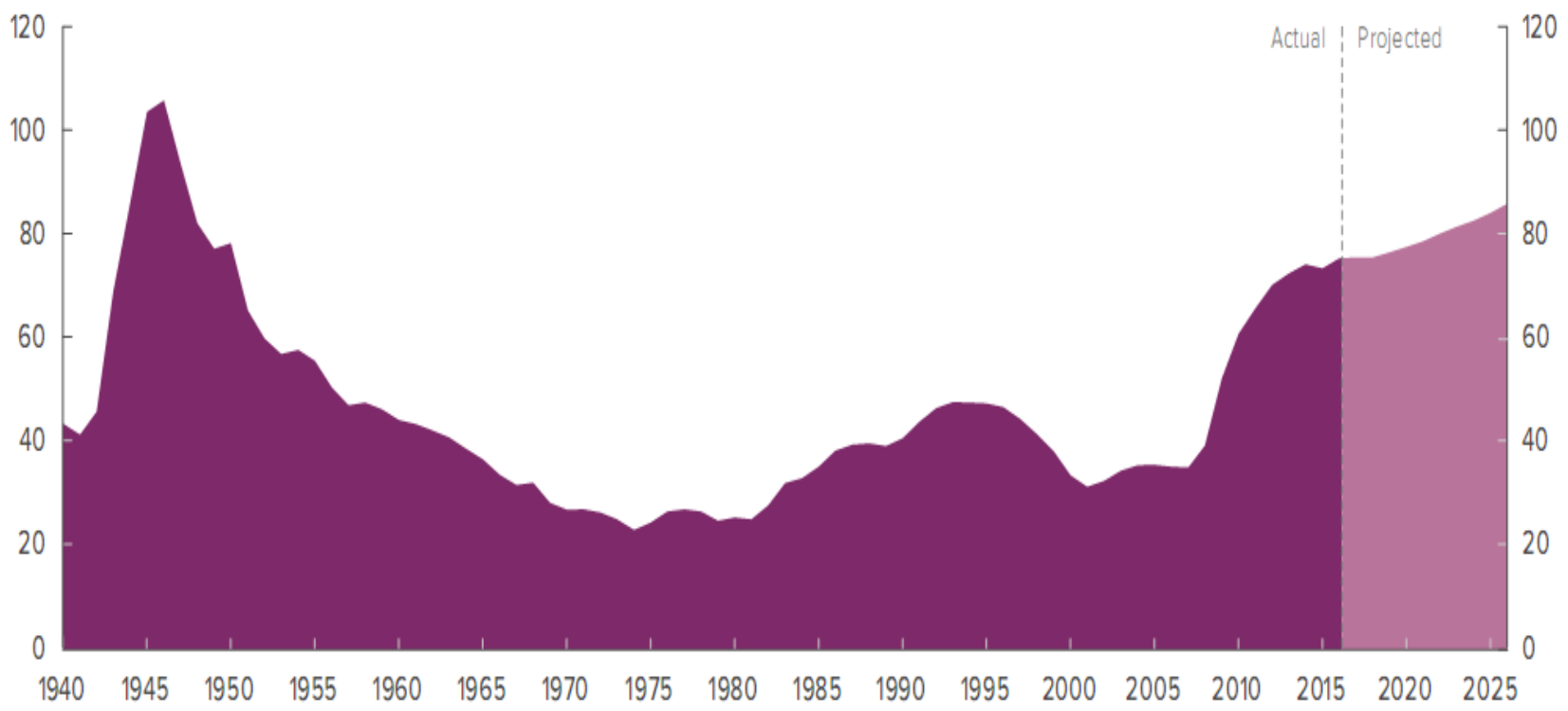
# Trillion-Dollar Deficits Set to Return by 2022



Sources: CBO and CRFB calculations

## Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

## Congressional Budget Office:

### 70% of Total Increase in Outlays Comes from 3 Sources

Source	Percent of Total Increase From 2017 to 2027
Net Interest	19%
Social Security	29%
Medicare	22%
All Other Programs	30%

# The Interest Expense Time Bomb

## Percentage of Total Federal Spending that is Net Interest

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Total Spending</b> (in trillions)	\$3.9	\$4.1	\$4.3	\$4.6	\$4.8	\$5.1	\$5.3	\$5.6	\$5.9	\$6.2	\$6.5
<b>Net Interest</b> (in billions)	\$270	\$295	\$332	\$380	\$435	\$492	\$550	\$604	\$657	\$714	\$768
<b>Percent</b>	7%	7%	8%	8%	9%	10%	10%	11%	11%	12%	12%

## Percentage Rate of Ten Year Treasury Notes

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Interest Rate</b>	2.2%	2.5%	2.7%	3.0%	3.4%	3.5%	3.6%	3.6%	3.6%	3.6%	3.6%

Interest costs on federal debt are projected to grow rapidly: by 2022, they could exceed what the federal government has historically spent on R&D, infrastructure, and education combined, and could exceed them by more than three times by 2050

# State of the Economy



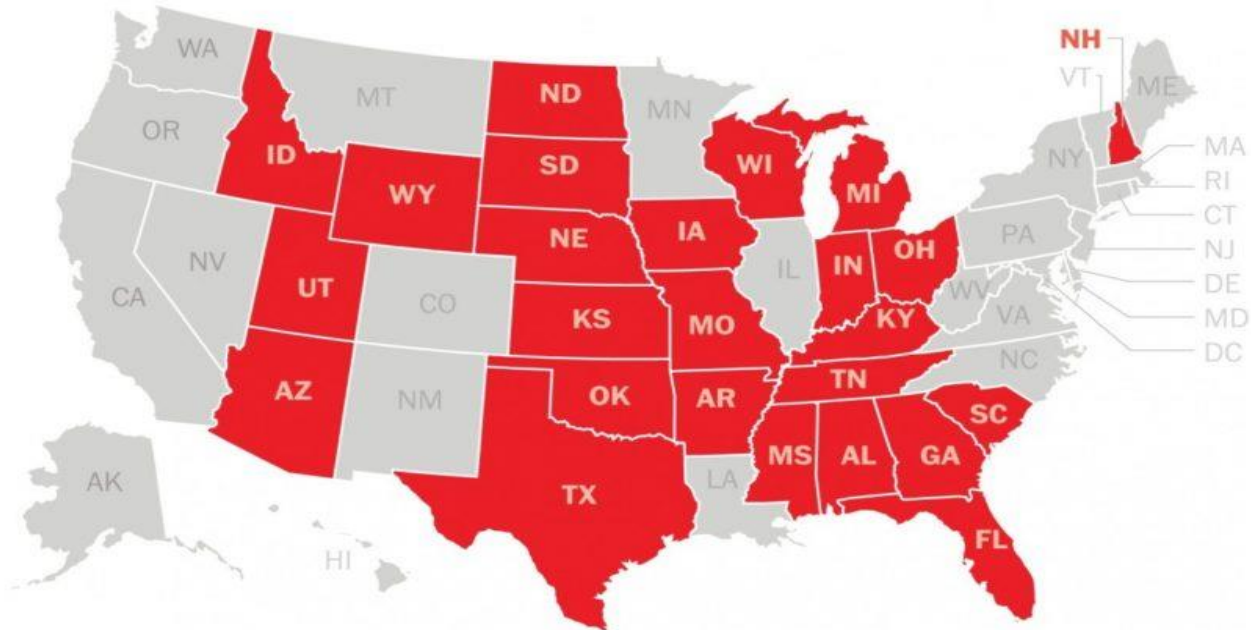




# **Polarization Grips the Country**

## A Red America

● 25 states with a Republican governor and Republican state legislature



\*North Carolina could be on this list, but its governor's race is still undecided. Right now the Democrat is leading by 5,000 votes.

\*\*Nebraska's sole legislative chamber is technically nonpartisan but Republican in practice.

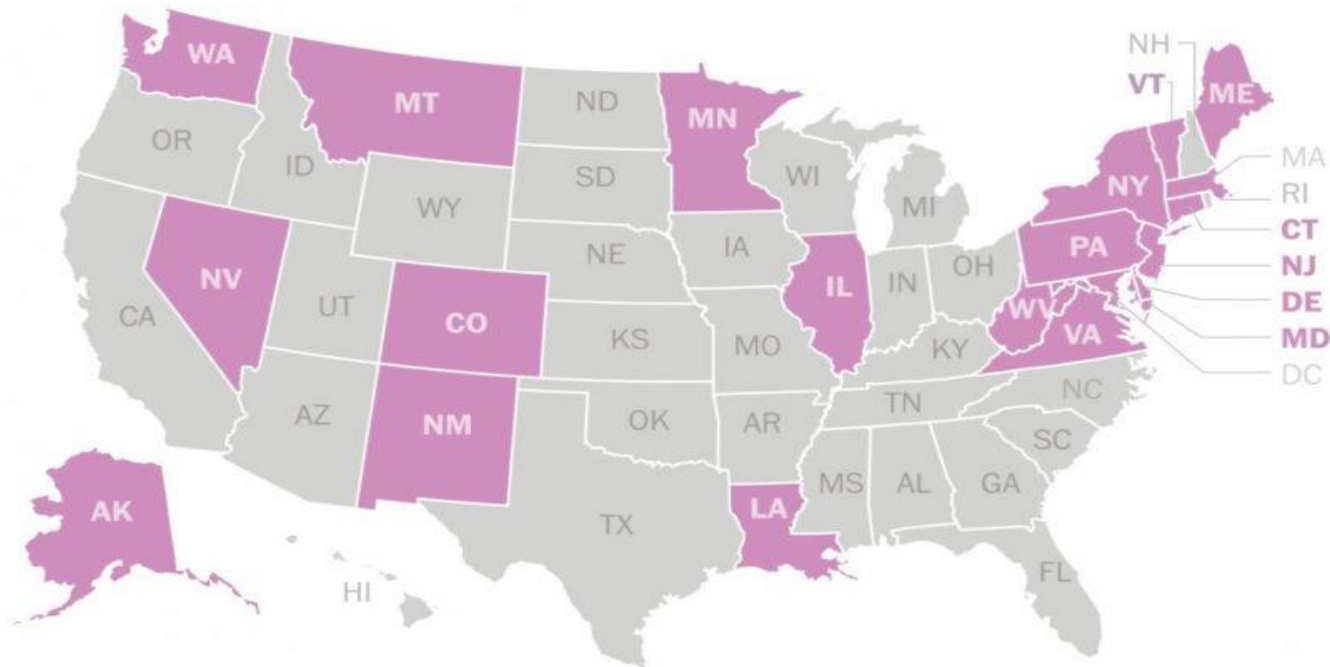
Source: Americans for Tax Reform; 2016 election results

THE WASHINGTON POST

# Split America

As election results stand, 20 states have some form of Republican control, either in one or both chambers of the legislature, or the governor's mansion

● Split control



Source: Americans for Tax Reform; 2016 election results

THE WASHINGTON POST

# Blue America

- Five states with a Democratic governor and Democratic state legislature

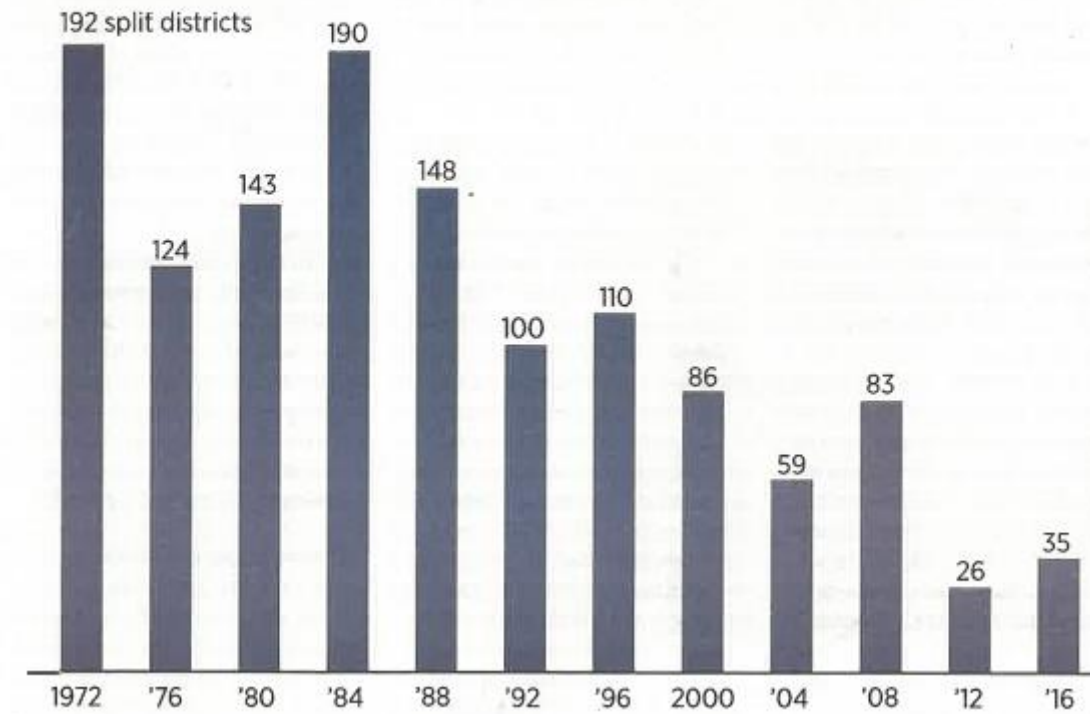


Source: Americans for Tax Reform; 2016 election results

THE WASHINGTON POST

## The Shrinking Split Ticket

Crossover voting peaked in 1972, when Richard Nixon won a resounding re-election even as the Democrats solidified their control of the House because a record 192 districts went one way for president and the other way for Congress. Split-ticket districts have since shrunk in presidential years, especially with a series of polarizing campaigns that followed redistricting of the House this decade.



Source: CQ



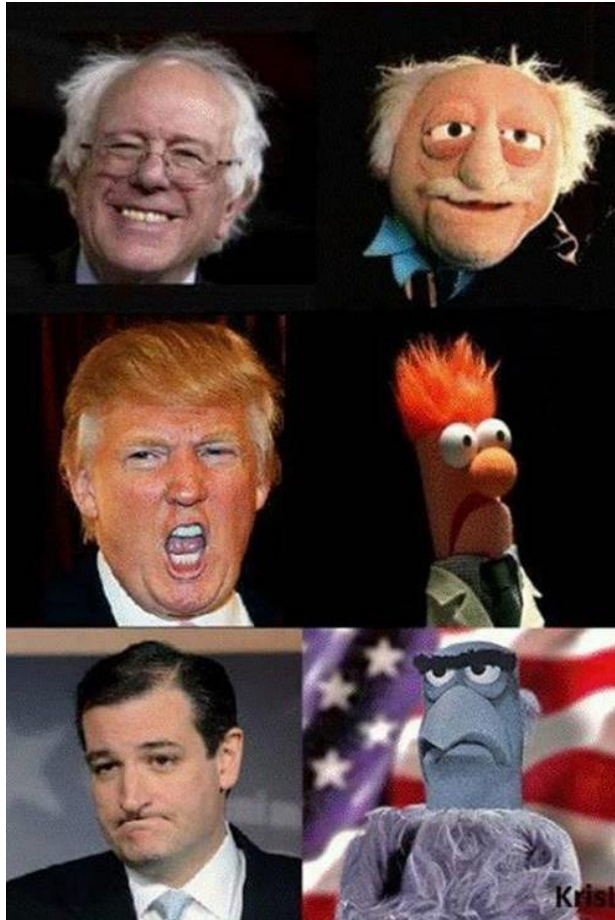
# **Key Take-Aways from Trump Win**

- **The Pundits and Pollsters were Wrong**
- **K Street's Really Bad Bet**
- **Impact on Obama Executive Orders and Regulations**
- **Impact on Obamacare**
- **Impact on the Federal Judiciary**
- **Impact on Obama International Agreements**



# **The Final Observation on the Presidential: Was Jim Henson a psychic?**







# **The Outlook for Tax Reform in 2017**

# Key Factors Impacting Viability of Tax Reform

- **Obamacare Repeal and Replace**
- **House Republican Blueprint**
- **Border Adjustability**
- **Limitation on Deductibility of Net Interest and Expensing**
- **Revenue Neutrality**
- **Trump Administration**
- **The Comey Effect**

# CBO Outlook 2017-2027

## Corporate Income Tax: Shrink Share of Revenue Raised

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Revenue (\$ trillion)	\$3.4	\$3.6	\$3.7	\$3.9	\$4.0	\$4.2	\$4.3	\$4.5	\$4.7	\$4.9	\$5.1
Corp Tax Paid (\$ billions)	\$320	\$340	\$352	\$382	\$377	\$381	\$385	\$396	\$408	\$422	\$439
Percent	9.4%	9.4%	9.5%	9.7%	9.4%	9.0%	8.9%	8.8%	8.6%	8.6%	8.6%



# **Key Issues in Tax Reform for Leasing**

- **Corporate Income Tax Rate Reduction**
- **Individual Income Tax Rate Reduction**
- **Pass-Thru Income Tax Rate**
- **Expensing**
- **Interest Deductibility – Treatment of Lease Payments**



# **President Trump is Behind Other First-Term Presidents**

## Accomplishments of First Term Presidents in the First Year

<b>President</b>	<b>Legislation</b>	<b>Signed into Law</b>
<b>Ronald Reagan</b>	<b>The Economic Recovery Tax Act of 1981</b>	<b>August 13, 1981</b>
<b>Bill Clinton</b>	<b>Omnibus Budget Reconciliation Act of 1993</b>	<b>August 10, 1993</b>
<b>George W. Bush</b>	<b>Economic Growth and Tax Relief Reconciliation Act of 2001</b>	<b>June 7, 2001</b>
<b>Barack Obama</b>	<b>American Recovery and Reinvestment Act of 2009</b>	<b>February 17, 2009</b>

President George H.W. Bush is excluded from this list because while technically he was a first term president, he was really more like the third term for President Reagan.





# **The Calendar is Not Our Friend**

## House and Senate Calendar thru August

- **IN: 2 1/2 Weeks left in June (four weeks total)**
- **OUT: One Week for July 4<sup>th</sup>**
- **IN: Three Weeks in July**
- **OUT: Five Weeks in August**



# **The Post 2016 Election Pivot to 2018**

## Hard Math: Democrats' 2018 Senate Outlook

While most eyes are on 2016, Democrats face as many as 11 tough races next cycle.



Source: CQ Roll Call analysis Graphic by Randy Leonard/CQ Roll Call





# **A Beautiful Wall!**





# **Good News from Iraq**



Here is some GREAT news from the Pentagon...

**The Pentagon announced TODAY the formation of a new 500-man elite fighting unit called the United States Redneck Special Forces (USRSF).**



These Alabama, Arkansas, Georgia, Kentucky, Mississippi, West Virginia, Missouri, Oklahoma, Tennessee, and Texas boys will be dropped off into Iraq and have been given only the following facts about terrorists:

1. The season opened today.
2. There is no limit.
3. They taste just like chicken.
4. They don't like beer, pickups, country music or Jesus.
5. They are directly responsible for the death of Dale Earnhardt.

The Pentagon expects the problem in Iraq to be over by Friday