PRO ANALYSIS

WHAT YOU NEED TO KNOW ABOUT

'Tax Extenders'

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PRO POINTS

- **Nearly three dozen temporary tax provisions,** commonly referred to as "tax extenders," are due for renewal by the end of this year, or they will expire. Chances are the mix of business and individual tax breaks won't go away, though they might not get revived until after lapsing.

- **They're generally set up on a short-term basis to** satisfy budget constraints, since two- to five-year increments obscure their long-term costs. Critics consider this a budget gimmick, but it also can force lawmakers to regularly review their effectiveness.

- **While the cycle doesn't change too frequently, the** composition can change, as happened at the end of 2015 when Congress permanently enshrined several of the most widely used extenders in law while setting up others for elimination.

- **But most stay on the books temporarily, getting** short-term renewals just before or after lapsing, a schedule that can create tax-planning headaches.

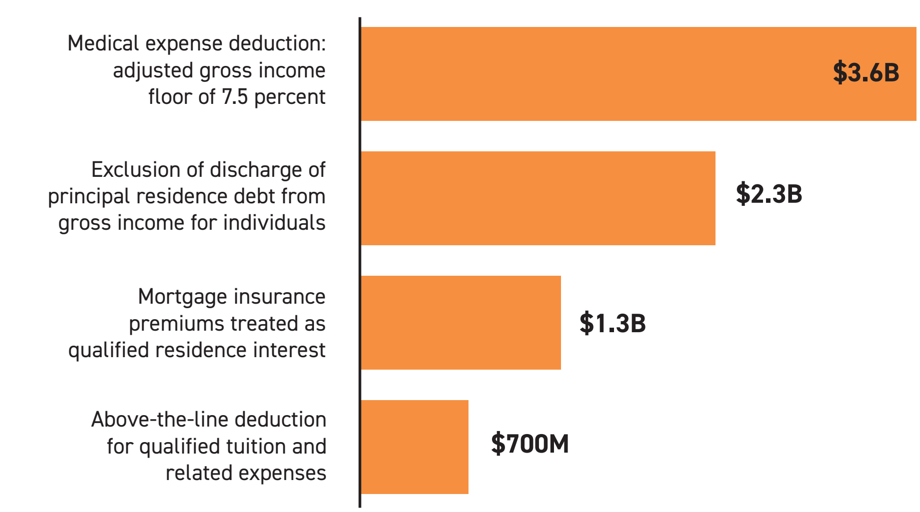
HOW WE GOT HERE

The longer-term history of temporary tax provisions in U.S. law dates to policies put in place to help the economy combat recessions in the 1950s and 1960s. After the recoveries, the tax breaks expired. Other tax changes have also been put in place temporarily, though for longer periods, like lower tax rates for individuals in 2001 and again in 2017.

But the routine exercise of renewing dozens of temporary tax provisions every couple of years is relatively more recent than the recession-fighting tools from the middle of the last century. It started in the early 1980s with the tax credit for research and experimentation, which was initially established on a short-term basis. Also called the research and development or R&D tax credit, it was renewed 16 times before finally being made permanent five years ago. A handful of other extenders were also made permanent that year, including a business tax break on international income and some tax benefits for individuals and families.

Maintaining 7.5 percent floor for medical expense deduction would cost $3.6B

COST ESTIMATES FOR THREE-YEAR EXTENSIONS OF INDIVIDUAL TAX PROVISIONS EXPIRING IN 2020



Note: The Joint Committee on Taxation's estimates showed two individual measures would cost less than $50 million over the ten-year budget window, or would have no revenue effect — a credit for health insurance costs of eligible individuals, and exclusion for benefits provided to volunteer firefighters and emergency medical responders.

Source: Joint Committee on Taxation

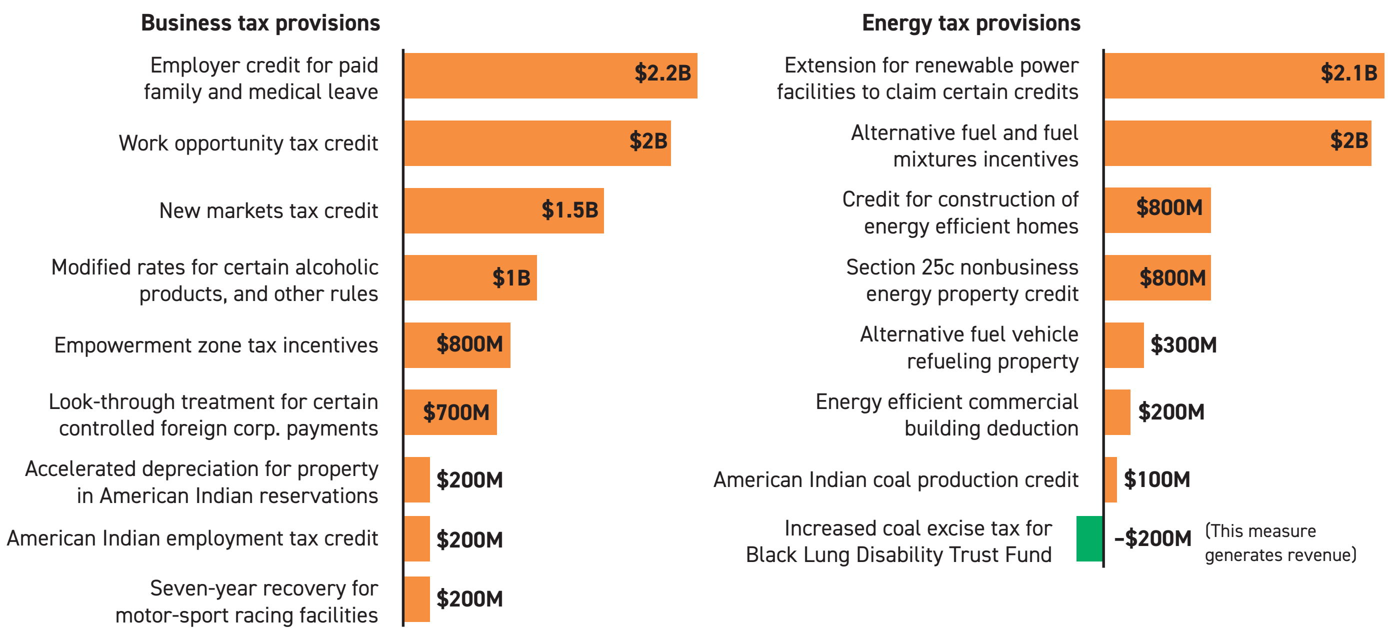
Legislators touted that bill at the end of 2015, known as the PATH Act (Protecting Americans from Tax Hikers), as the end of the regular extenders cycle — a forecast that has since fallen short. Still, supporters now have a tougher time making a political case for reviving their extenders, especially since they lack air cover from the R&D tax credit, which enjoyed a wide base of support from business and lawmakers support.

Last year, Congress renewed a slew of extenders for 2020, including some for nonfossil fuels that the PATH Act had scheduled to phase out for good, over a number of years. Instead, they're still in cycle. Also revived last year were seemingly more targeted tax breaks for racehorses and auto-racing tracks, a couple of niche benefits that have risen and fallen with the extenders cycle for years.

In addition, that deal gave two provisions longer life: tax benefits for biodiesel fuel and short-line railroads received extensions until the end of 2021.

Extending credit for paid family, medical leave would cost $2.2B over 3 years

COST ESTIMATES FOR THREE-YEAR EXTENSIONS OF BUSINESS AND ENERGY TAX PROVISIONS EXPIRING IN 2020



Note: The Joint Committee on Taxation's estimates showed numerous measures would cost less than $50 million over the ten-year budget window or would have no revenue effect. The business measures are: the American Samoa economic development credit; mine rescue team training credit; special expensing rules for film, television and live theatrical production; and the three-year depreciation for racehorses two years old or younger. The energy measures are: the special rule to implement electric transmission restructuring; second generation biofuel producer credit; second generation biofuel plant property special depreciation allowance; two-wheeled plug-in electric vehicle credit; alternative motor vehicle credit for qualified fuel cell vehicles; and the Oil Spill Liability Trust Fund financing rate.

Source: Joint Committee on Taxation

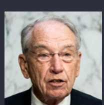
WHAT'S AHEAD

Another mass expiration looms on Dec. 31, 2020. But House Ways and Means and Senate Finance committee leaders have struck an agreement in principle to give another year of life to most of the 33 tax provisions, rather than try to help them out retroactively.

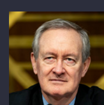
That's thanks to a popular excise tax break for beer, wine and liquor makers that is among those on the chopping block. Allowing that tax break to lapse and then be revived retroactively would blunt its benefits, so if the issue is going to be addressed, it will be in the waning weeks of this year. Renewals appear possible as soon as this week

That would line up the tax breaks for renewal again at the end of 2021, when the popular biodiesel and short-line rail tax benefits are also set to expire. The timeline also aligns with impending changes to some business tax breaks established in the 2017 tax overhaul, including one that would require companies to claim credits for R&D costs over five years instead of allowing them to do so immediately.

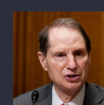
POWER PLAYERS



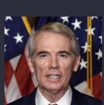
Senate Finance Chair Chuck Grassley (R-Iowa)
He has championed the biodiesel tax break since it came into existence.



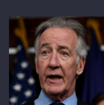
Sen. Mike Crapo (R-Idaho)
If the GOP keeps the Senate after January's Georgia Senate runoffs, Crapo will take the Finance Committee gavel when Grassley moves over to head the Judiciary Committee next year. He is the go-to lawmaker on short-line railroads, which serve as spurs for shipping into and out of local communities from main rail lines.



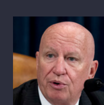
Sen. Ron Wyden of Oregon
The top Finance Committee Democrat has helped lead the way on Capitol Hill for reducing the excise tax rate for adult-beverage makers like craft brewers and large beer producers, as well as wineries and distilleries.



Sen. Rob Portman of Ohio
A prominent Republican on the Finance Committee, Portman has also been one of the main advocates for the alcoholic beverage excise tax cut.



House Ways and Means Chair Richard Neal
The Massachusetts Democrat has said he's pressing to extend and expand a 20-year-old tax break for investing in community redevelopment, the New Markets Tax Credit, which has a long track record of bipartisan backing.



Rep. Kevin Brady of Texas
The top Republican on Ways and Means has a reputation for trying to hold the line on rubber-stamping renewals for every extender on the list, preferring to force Congress to decide which should get made permanent and which should be eliminated.

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