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Tax Topics

2013-12

12/20/13

Budgets, tax reform and “extenders”

As the year winds down, House Budget Committee Chairman Paul Ryan (R-WI) and Senate Budget Committee Chairman Patty Murray (D-WA) have hammered out a budget deal that forestalls – for two years – another government shutdown, and limits some of the forthcoming sequester cuts otherwise slated to go in effect in January. Although neither negotiator is entirely happy with the agreement, both view it as a workable cease-fire in the budget battles; the House passed the agreement 332 to 94 on December 12th, and the Senate passed it 64 to 36 on December 18th. President Obama will sign the bill shortly, thereby making it possible for Congress to draft spending bills so as to allocate the budget dollars that have now been approved. Note, however, that this budget agreement does not address the debt ceiling suspension, which expires in February, and that another fiscal showdown is therefore possible early next year.

As to tax reform, Sen. Max Baucus (D-MT), Chairman of the Senate Finance Committee, has recently put forth several discussion drafts of legislation, generally dealing with corporate and international tax, and energy incentives, while Rep. Dave Camp (R-MI), Chairman of the House Ways and Means Committee, acknowledged that he fell short on his goal of introducing tax reform legislation this year, but that he would rather focus on that than an “extenders” bill.

What is “extenders” legislation, and how might it fit into the tax reform puzzle? Although “extenders” are not defined anywhere, they generally refer to temporary provisions of the tax law that Congress regularly renews – usually for a year or two at a time. For example, the research and development credit is an important business incentive that has been around since 1981 – and is again among the extenders that expire on December 31, 2013 (this year, they number 57). Some of the other extenders on this list are more recent, including the \$250 above-the-line deduction for certain out-of-pocket expenses of teachers, the deduction for state and local sales taxes, and the IRA charitable “rollover” provision for taxpayers who are at least 70½.

Why does the tax law have so many temporary provisions? Several reasons come to mind. If a provision was enacted in response to a natural disaster or specific crisis, it is theoretically a short-term measure

