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POLITICS

Expiring Tax Breaks Face Another Nail-Biter This Year

White House and Congress haven't reached deals on a raft of deductions and credits



Dan Glier, shown pushing a cart of sausages recently, said uncertainty about a small-business write-off 'gives me stomach cramps.' PHOTO: JOSH ANDERSON FOR THE WALL STREET JOURNAL

By **RICHARD RUBIN**

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The slow pace of legislative sausage-making in Congress is causing problems for Dan Glier's actual sausage-making in Kentucky.

Mr. Glier's ability to deduct the costs of new grinders, smokehouses and emulsifiers depends on Congress's ability to revive a small-business tax break that lapsed at the end of 2014. At this point, with the 2015 tax year almost over, the president of Glier's Meats Inc. doesn't know whether he can deduct as much as \$500,000 in capital costs or \$25,000—or have any idea what his taxes will look like in 2016.

"It gives me stomach cramps, I'll tell you," Mr. Glier said of the inaction in Washington.

“At least by law my product has to list exactly what’s in it, in the order of predominance. Laws are anything but that. They’re dishonest, they’re disorganized.”

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The small-business write-off is among the least controversial of dozens of tax breaks caught in an annual Washington ritual of waiting until the last possible minute—and then some. The breaks, known as “tax extenders,” include the individual deduction for state and local sales taxes and business tax credits for wind energy and research and development. Companies rally each fall to prod Congress to act, and cynics see little rationale in the annual exercise beyond a steady flow of lobbyists’ expenses and campaign contributions.






On Dec. 19, 2014, President Barack Obama signed a law extending the breaks only through the end of 2014, and lawmakers in both parties vowed they wouldn’t wait so long again. Now, in late-November, bipartisan talks are just getting started.

“The whole point of tax policy is to ensure that you make decisions that guide future behavior,” said Oregon Sen. Ron Wyden, the top Democrat on the Senate Finance Committee. “We’ve already seen close to a year’s worth of behavior. And you’re in effect passing tax laws to provide incentives, purportedly, for behavior that already took place.”

One option is an extension of all the existing breaks, retroactively for 2015 and forward through 2016, a move that would at least allow tax incentives to have an incentive effect next year. The Senate Finance Committee approved such a bill in July on a bipartisan 23-3 vote. The two-year extension would add \$87 billion to budget deficits over a decade, even after accounting for increased revenue due to projected economic growth.

In Limbo

These are the five biggest tax breaks that expired at the end of 2014, ranked by the 10-year budgetary cost of an extension through 2016.

	WHAT IT IS	WHO BENEFITS	COST
	Research and development tax credit	Tech companies and manufacturers	\$22.6 billion
	Exception for active financing income	Multinational banks and manufacturers	\$13.4
	Production tax credit	Wind energy producers	\$10.5
	Deduction of state sales taxes	Residents of Texas, Florida and other states without income taxes	\$6.7
	Change to discharge of indebtedness rules	Underwater homeowners	\$5.2

Source: Joint Committee on Taxation

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But House Republicans and the Obama administration have their own ideas. Republicans, including new House Speaker Paul Ryan (R., Wis.), want to make some of the business breaks permanent and passed bills through the House to do so.

The administration's priorities include extending expanded tax credits for middle- and low-income families that expire at the end of 2017, avoiding significant increases to budget deficits from making business breaks

permanent, and ending "bonus" depreciation that has been in effect since 2008 as an economic-stimulus measure.

The stalemate puts Congress right where it was last November. That is when the White House scuttled an emerging bipartisan deal between House Republicans and Senate Democratic Leader Harry Reid. The agreement would have made permanent some business breaks and a college-tuition tax credit, but not expansions of the child tax credit and earned-income tax credit that are priorities for Mr. Obama.

This year, there's "a lot of enthusiasm" among senators of both parties for a bigger deal, said New York Sen. Charles Schumer, the Senate's No. 3 Democrat.

It won't be easy. Besides the prospect of a deal that could add hundreds of billions of dollars to budget deficits over a decade, there is disagreement over which breaks should be made into permanent law. And Republicans are pressing to tighten the eligibility requirements for the tax credits for low-income households that the administration wants to continue.

Mr. Glier, whose business in Covington, Ky., has about 25 employees and \$5 million in annual sales, said the uncertainty in the tax code requires him to do extra planning.

"We're running our best guess" scenario that the break will get extended, said Mr. Glier,

a board member of the National Association of Manufacturers. “But we’re also preparing for it to go away completely.”

Lawmakers are aiming to reach a deal before they adjourn for the year in mid-December —acting exactly when they had hoped not to.

“It’s a terrible way to do business,” said Texas Sen. John Cornyn, the Senate’s No. 2 Republican. “If these tax provisions have merit, we ought to make them permanent. And we ought to get rid of the ones that don’t. But that’s not where we are right now.”

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