



Status of Washington's Budget Debates

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This week and next are pivotal weeks in the U.S. Senate as they make big decisions on future spending and tax policies.

The Senate is working on a bipartisan infrastructure bill that would provide new spending of \$550 billion over five years, bringing the total cost of the bill to over \$1 trillion. It is anticipated that the Senate will complete work on the 2,700 page bill before its August recess. Prior procedural votes have all been largely bipartisan with as many as sixteen GOP Senators joining all Democrats.

There are a number of tax provisions associated with efforts to offset spending in the infrastructure bill. The Senate plans to continue GSE user fees and it is estimated that it would raise \$21 billion over five years to help pay for the legislation. Housing associated groups, such as the mortgage bankers and financial institutions, have opposed this provision. Most of the spending offsets would come from unused COVID relief funding and Unemployment Insurance turned back by the states. There are enhanced reporting requirements for cryptocurrency that the congressional budget writers believe will bring in an additional \$28 billion in new revenue.

After passage of the infrastructure bill, Majority Leader Chuck Schumer (D-NY) has said he plans a Senate debate on a budget resolution that would lay the *framework* for a \$3.5 trillion bill on "soft" infrastructure. This resolution, however, unlike the aforementioned infrastructure bill, will be a very partisan battle in the Senate and House over the next few months. Speaker Pelosi has suggested that she will only consider both bills in tandem and not simply the hard infrastructure bill, thus, the Senate Democratic leadership's interest in a running a two track policy.

Both the budget resolution and implementing bill (i.e., the reconciliation) need only 50 Democrats votes to pass, with Vice President Kamala Harris breaking a tie. A few moderate senators and some House Democrats have suggested that is a very high price tag. In order to

pass the Senate, every Democrat senator would have to vote in favor. Even in the House, Speaker Pelosi can only afford to lose five Democrats.

The budget resolution framework would likely provide two years of pre-K learning and two years of community college at no cost. Further, it would invest in the following: affordable housing, making college more affordable, green energy, providing tax credits for working families, and incentive for home health care workers, just to mention a few items.

The actual implementing legislation (i.e., the reconciliation) would provide the details on how all of this is achieved, but this legislation would not be addressed until the fall of 2021, so there is a long road ahead to get anything to the President's desk.

The Senate Democrats' proposal would set framework for tax increases to offset the costs of the bill. As laid out by the Biden Administration, it would raise the marginal rate on incomes over \$400,000. It would increase the corporate tax rate from 21% to 28%. It would increase capital gains taxes for incomes over \$1 million.

Important to the title industry, the proposed budget resolution would limit the use of like-kind real estate tax transfers. The proposal would allow the deferral of gain up to an aggregate amount of \$500,000 for each taxpayer (\$1 million in the case of married individuals filing a joint return) each year for real property exchanges that are like-kind. Any gains from like-kind exchanges in excess of \$500,000 (or \$1 million in the case of married individuals filing a joint return) during a taxable year would be recognized by the taxpayer in the year the taxpayer transfers the real property subject to the exchange. It is estimated that this tightening of like-kind transfers would bring in \$19 billion in new revenue to Treasury.

The Biden Administration has laid out a number of other tax increase proposals that would raise over \$2 trillion in new taxes.

TLTA will continue to closely monitor the important debate on tax and spending taking place over the next few months and their impact on the title industry, housing industry and economy at large.

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