COALITION ON HUMAN NEEDS

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Odds of Year-End Deal on Spending Increase as August Recess Approaches

The Senate Appropriations Committee cleared its final appropriations bills on July 23, marking the first time in six years that all 12 appropriations bills have made it through that chamber's committee (the House Appropriations Committee has also passed all 12 bills, and the full House has passed six of those 12). It looks to be a hollow milestone however, as it is unlikely any spending bills will get full Congressional approval by the September 30 fiscal year deadline.

Members of the House of Representatives headed home for the annual August recess last week, but before they did, House Speaker John Boehner acknowledged that a temporary extension of current spending levels, also known as a Continuing Resolution or CR, would be needed to prevent a government shutdown. As noted in the July 20 *Human Needs Report*, Senate Democrats have said they will block all appropriations bills from moving forward because they adhere to restrictive sequestration spending caps, and President Obama has threatened to veto the bills for the same reason. In addition, the House is scheduled to have only 10 legislative days in September, and the Senate only has 15 days, leaving too little time to work out a larger deal that both sides could agree upon. A CR would be expected to extend current funding into November or December.

This is around the same timeframe that several other spending and revenue decisions will need to fall within, setting up a possible large year-end package. Congress acted this week to stop federal highway fund spending from drying up, but they only extended the funding through the end of October (see separate article in this *Human Needs Report* for more information). The limit on federal borrowing will be reached towards the end of the calendar year. In fact, ***CQ*** reported that House Deputy Whip Tom Cole (R-OK) recently suggested combining a comprehensive FY16 spending bill with a long-term highway bill and a debt-ceiling increase.

The Senate is still in session this week and will start its August recess this weekend. Lawmakers in both chambers will return to DC after Labor Day. Congressional leaders and the White House will need to start negotiations on a spending deal. While there is bipartisan interest in negotiating spending levels that exceed the sequestration caps, there are very different ideas on what that looks like. Advocates for low-income people have been fighting for increases in appropriated programs from housing to education to nutrition, but they insist that these increases must not come at the expense of vital safety net programs like Medicaid, Medicare, SSI, SNAP/food stamps as some conservative legislators are calling for. Democratic leaders are proposing a $125 billion two-year sequester-relief deal or a $75 billion one-year sequester-relief deal, in which spending caps would be raised equally for defense and non-defense spending. This could be paid for using the revenue from a version of an international tax deal currently being called for as part of the highway bill. Senate Minority Leader Harry Reid (D-NV) thinks the timing of Pope Francis' address to Congress on Sept. 24 could help make the case for funding programs that serve the poor and disadvantaged.

In addition, numerous policy riders have been attached to House or Senate appropriations bills, including attempts to block the Affordable Care Act, limit regulations on e-cigarettes, environmental protections and consumer financial protection, and prohibit the study of gun violence. These or other riders later offered as amendments risk controversies so bitter that they increase the chance of impasse and government shutdown.

The ***Human Needs Report*** will take a break in August while Congress is in recess. For updates in the interim, subscribe to CHN's blog, Voices for Human Needs,

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Transportation and Taxes: A Bridge to Somewhere?

The House and Senate have agreed on stop-gap legislation to keep the transportation funding flowing for three months. Authorization to spend money on highways and public transit would have expired at the end of July, and failure to extend funding during the summer highway construction and maintenance season would have been a real job killer. In agreeing on a short extension, Congressional leaders hope to buy time to work out a deal for longer-term funding. The Senate simultaneously passed a six-year transportation bill only funded for three years that leaders hope will form the basis of a later negotiation.

At issue: how will it be paid for? The Senate's six-year plan included about $45 billion to offset three years of transportation spending, with the rest to be figured out later. The largest single item in that pot is more than $16 billion from reducing the dividend payments received by banks with assets of over $1 billion on their required Federal Reserve holdings. Other revenue sources are $9 billion estimated from selling oil in the Strategic Petroleum Reserve and $8 billion from various tax compliance measures. The House approach, being orchestrated by House Ways and Means Committee Chair Paul Ryan (R-WI), would instead combine the highway bill with significant changes to international tax policy. Although the changes would lose revenue over the next decades, they could bring in large sums through a one-time or short-term tax on corporate overseas profits. Some of those extra revenues could pay for the highway bill shortfall. Transportation funding used to be covered by the gas tax, but its value has declined over the years and has not been updated by Congress.

Do the roads to highway funding and sequester relief meet? Extra revenues, even if they come from a policy that will lose revenues in the long run, are always tempting for Congress. Chairman Ryan is looking to a possible deal in which highway funding is secured while meeting his goal of overhauling the U.S. treatment of corporate income gained overseas. Some high-ranking Democrats, including Senator Charles Schumer (D-NY) and Dick Durbin (D-IL), would like to see a short-term revenue gain from another version of capturing corporate overseas income. Senator Durbin has talked about using some of those revenues to pay for a two-year sequester relief deal ($125 billion over two years). (Sequestration refers to lower spending caps limiting annual appropriations for domestic, international, and defense programs. Sequester cuts in FY 2013 resulted in fewer children in Head Start, fewer families receiving housing assistance, and fewer meals delivered to homebound seniors. If Congress does not act, another round of such cuts will be imposed starting in FY 2016.)

Human needs advocates badly want to end sequestration, to avoid continued inadequate funding in education, housing, nutrition, services for children and youth, and more. But some advocates have noted that many of the international tax proposals being discussed now come at a very high cost. Under current law, corporations with overseas income can defer paying U.S. taxes until they bring the money home. This has resulted in about $2.1 trillion in untaxed profits. Proposals to address this issue range from outright repeal of this deferral of U.S. tax payments (which could raise $600 billion over 10 years) to a one-time tax on foreign profits at rates far below the average tax rates actually paid by corporations on their domestic income. Ryan's version of the one-time tax would not raise very much revenue, with most of what is gained put towards overall corporate tax rate reduction and large exemptions of foreign profits from any U.S. tax.

Senators Schumer and Portman (R-OH) released a general framework for international tax reform, but it lacks all-important specifics about tax rate levels. However, its approach was opposed in a letter signed by 56 national organizations. Spearheaded by Americans for Tax Fairness, the letter objected to an expected low rate for the one-time transition tax (called "deemed repatriation"), terming it a "huge giveaway to companies that have engaged in the most egregious international tax-avoidance schemes." President Obama also proposed a version of deemed repatriation in his FY 2016 budget, at a 14 percent rate, to pay for his infrastructure investment plan. Citizens for Tax Justice has pointed out that a 14 percent rate would save ten large companies $82 billion. As long as corporations can count on a lower tax rate when they shelter their profits overseas, there will be a continued incentive to shift profits (and sometimes jobs) abroad.

While there is bipartisan interest in some means of taxing international corporate profits, another group in Congress would refuse to use any of the short-term revenue gains for spending on highways or sequester relief. Senators John Thune (R-SD) and Dean Heller (R-NV) have insisted that any increased revenues be plowed back into tax rate reductions, according to ***CQ Roll Call***.

It would not be a complete surprise if Congress winds up combining the transportation bill, international tax changes, and appropriations. Advocates will be looking to achieve their goals in any such negotiation: stopping sequester cuts without paying for it either by cuts in other vital low-income programs or long-term revenue loss likely to undermine programs in the future.

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