Bloomberg Government Study »

Corporate Tax Overhaul: An Insider's Guide

Part 2 of 2

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MARCH 27, 2013

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EXECUTIVE SUMMARY

Tax experts and lawmakers of both parties have called for an overhaul of the corporate tax code. Bloomberg Government surveyed 17 former senior tax policy makers and advisers to get their views on the challenges it presents to Congress and the odds that lawmakers will strike a deal.

The experts surveyed include four former chiefs of staff of the Joint Committee on Taxation, four former deputy assistant Treasury secretaries and three former directors of the Congressional Budget Office.

Key Findings

- Experts disagreed on whether a corporate tax overhaul is likely in the near term. They pointed to a range of signals to watch, including whether the House Committee on Ways and Means reports a bill, whether President Barack Obama actively seeks to rally public support and how the business community reacts.
- Those surveyed listed interest deductibility, depreciation and the manufacturing deduction as among a range of tax preferences that may be in jeopardy.
- Most respondents said compromise is within reach on the taxation of foreign-source income, which they identified as a key component of any agreement.
- Dealing with pass-through entities, which would suffer from base broadening without benefiting from a corporate rate reduction, was cited by many respondents as a chief impediment to any deal.
- Looking beyond the corporate tax structure, respondents suggested increasing revenue through a number of measures, including a financial transactions tax and higher tax rates on dividends and carried interest.

This is the second of a two-part series. Part 1 examined the conceptual themes of a corporate tax overhaul.

INTRODUCTION

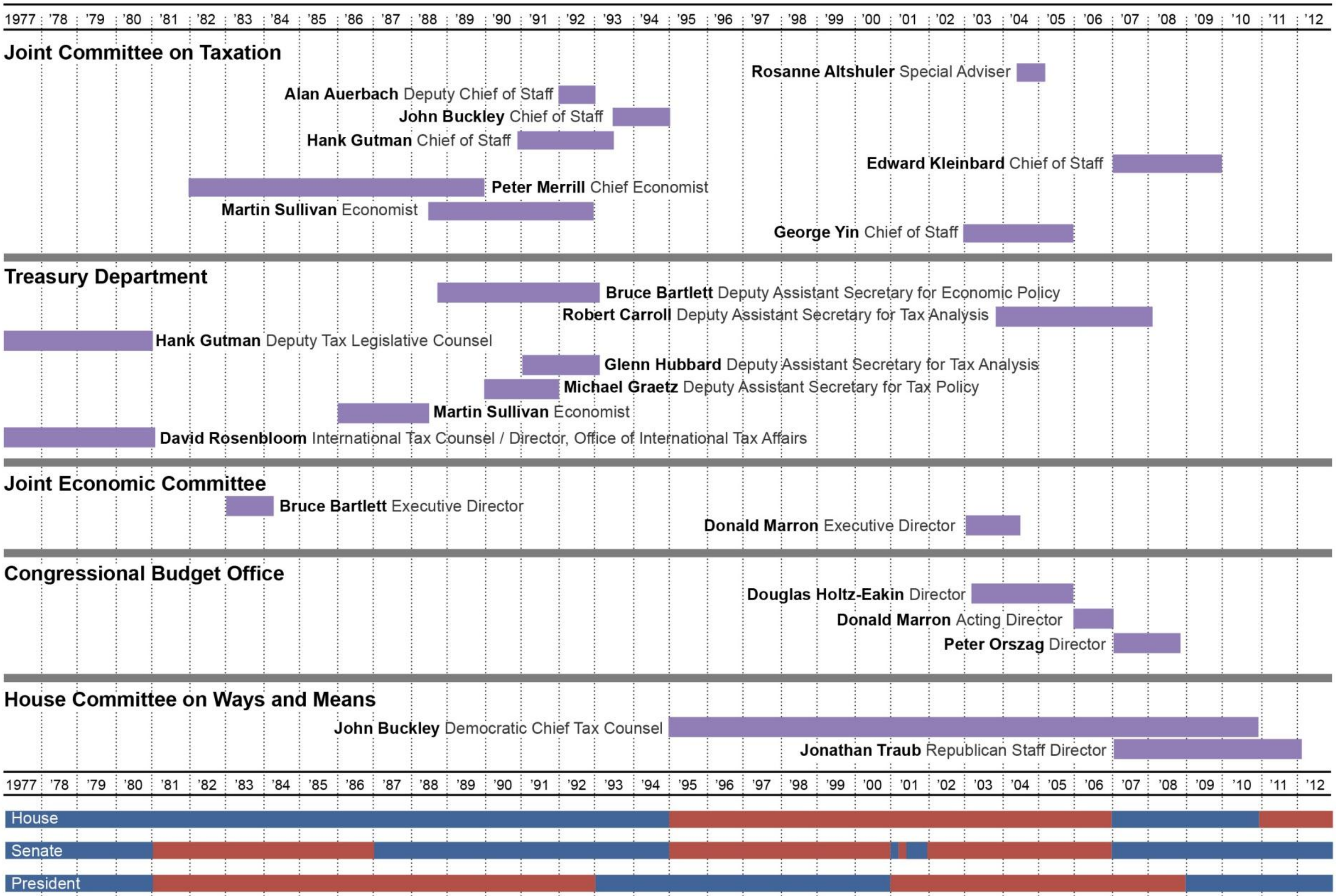
Bloomberg Government asked 17 tax policy experts for their views on a potential corporate tax overhaul. The experts were interviewed individually by telephone between Feb. 5 and Feb. 19, 2013, on a number of topics, including the likelihood of a deal, how to address foreign-source income, how to deal with pass-throughs, and the readiness of the Treasury Department.

Their comments are grouped into three categories: areas of broad agreement; areas of divergent views; and additional observations. The following experts participated:

Name	Background	Current Position
Rosanne Altshuler	Special adviser, Joint Committee on Taxation; senior economist, President's Advisory Panel on Federal Tax Reform	Professor and chairwoman, Rutgers University, Department of Economics
Alan Auerbach	Deputy chief of staff, Joint Committee on Taxation	Professor, University of California, Berkeley, Department of Economics
Bruce Bartlett	Deputy assistant Treasury secretary for economic policy; executive director, Joint Economic Committee	Columnist, Tax Notes and Fiscal Times; contributor to the New York Times Economix blog
John Buckley	Chief of staff, Joint Committee on Taxation; minority chief tax counsel, House Ways and Means Committee	Professor, Georgetown University Law Center
Robert Carroll	Deputy assistant Treasury secretary for tax analysis	Principal, Ernst & Young
Michael Graetz	Deputy assistant Treasury secretary for tax policy; assistant to secretary and special counsel	Professor, Columbia Law School
Hank Gutman	Chief of staff, Joint Committee on Taxation; deputy tax legislative counsel in Treasury Department's Office of Tax Policy	Director, KPMG Tax Governance Institute
Douglas Holtz-Eakin	Chief economist, President's Council of Economic Advisers; director, Congressional Budget Office	President, American Action Forum
Glenn Hubbard	Deputy assistant Treasury secretary for tax analysis; chairman, Council of Economic Advisers	Dean, Columbia Business School
Edward Kleinbard	Chief of staff, Joint Committee on Taxation	Professor, University of Southern California's Gould School of Law
Donald Marron	Acting director, Congressional Budget Office; executive director, Joint Economic Committee	Director, Tax Policy Center, Urban Institute/Brookings Institution
Peter Merrill	Chief economist, Joint Committee on Taxation	Director, PwC's National Economics and Statistics group
Peter Orszag*	Director, Congressional Budget Office; director, White House Office of Management and Budget	Vice chairman of corporate and investment banking, Citigroup
David Rosenbloom	International tax counsel, Treasury Department; Director, Office of International Tax Affairs, Treasury Department	Member, Caplin & Drysdale
Martin Sullivan	Economist at Treasury Department and Joint Committee on Taxation	Chief economist, Tax Analysts
Jonathan Traub	Staff director, House Ways and Means Committee	Managing principal, Deloitte Tax LLP
George Yin	Chief of staff, Joint Committee on Taxation	Professor, University of Virginia School of Law

* Peter Orszag is also a Bloomberg View columnist.

Tax Insiders Surveyed: Where They Served



SECTION 1: AREAS OF BROAD AGREEMENT

The Definition of 'Corporate Tax Reform'

Bloomberg Government began each interview by asking the same question: In the current climate, what's the definition of "corporate tax reform"? Most respondents agreed that the term means a combination of three things: rate reductions, base broadening, and a change in the way foreign-source income is taxed by the U.S.

Some experts cited other ways of defining what would constitute reform.

> **John Buckley** said that in addition to foreign-source income, corporate tax reform would look at the tax treatment of derivatives.
>
> "I think we could do international tax reform on its own," said **Rosanne Altshuler**. "It depends on what the parameters are — does it have to be revenue-neutral?"
>
> **Donald Marron** cited the simplification of the tax code as another way of looking at reform.
>
> "Real reform would be eliminating the corporate tax," **Hank Gutman** said. "The corporate tax is not a good tax. Everyone knows that."
>
> **David Rosenbloom** called the phrase corporate tax reform "a loaded term." "The multinational community uses it to mean reduction of the tax burden," he said.
>
> "I would look at tax reform as something that doesn't necessarily change the amount that the government collects, but allows the government to collect revenues with the least harm to the economy," **Peter Merrill** said. "The other main concern about tax reform is making sure that whatever your definition of fairness is, that the burden of the tax system is distributed by income class in a way that is fair."

On Foreign-Source Income, a Deal Can Be Reached

The U.S. tax code uses what's called a worldwide system of taxation, in which profits generated overseas by a U.S. company are generally taxed at the same (or higher if the foreign tax rate exceeds 35 percent) rate as if the profits were earned domestically — but only after that income is returned to this country. That system creates an incentive for companies to move their operations overseas, and to delay returning the profits from those operations. It also puts U.S. companies at a disadvantage to their international competitors, which pay no tax on income earned outside their home countries.

Opponents of the current system propose replacing it with a territorial system, which would tax foreign income at a much lower rate; others want to eliminate the tax deferral, so that worldwide income is taxed immediately.

As noted, most of the tax experts surveyed agreed that addressing the tax treatment of foreign-source income is a necessary component for a tax overhaul. A majority of respondents also argued that the gap between Democrats and Republicans on taxing foreign-source income isn't as great as it appears.

> "There is some conceivable middle ground," said **Alan Auerbach**, who suggested a corporate minimum tax. "They could, for example, go to a territorial system, but say earnings in countries with a tax rate below a very low level would be subject to some U.S. tax." He suggested a figure of about 15 percent.
>
> **Bruce Bartlett**: "I agree that there are the makings of a deal. I don't think the philosophical differences between Republicans and Democrats are as great as perhaps on the individual [tax] side. I think both sides are equally unhappy with the current system."
>
> **Peter Merrill** stressed that the difference between global and territorial systems has been exaggerated. "The U.S. and all other countries have in effect various types of hybrid systems," he said. "There is no doubt in my mind that the administration could easily accept certain types of hybrid systems. If the minimum tax was 25 percent, they would be happy to exempt the rest of the income. If the minimum tax rate were 5 percent, maybe the administration isn't on board."
>
> While the two sides "do not seem close on the issues," **Robert Carroll** said, there's still space to maneuver. "One can define a territorial system in lots of different ways. A territorial system can be used to raise substantial revenue. That provides some room at least for the two sides to have discussions."
>
> **Martin Sullivan** said the catalyst for a deal on foreign-source income might come from companies themselves, eager for a way to repatriate their earnings. "This stockpile of funds is something that large multinational corporations really would like to have access to," he said, adding that eventually multinationals might "say uncle" and agree to bring the money back "at a reasonably low rate." Asked what that rate might be, Sullivan said 10 percent or less.
>
> **Rosanne Altshuler** said that if the two parties could agree on a lower corporate tax rate for U.S. earnings, finding a solution to foreign-source income would become easier. "Maybe we could get somewhere with a form of territorial taxation that has very strong anti-base-erosion," she said. Altshuler said her research has looked at a 15 percent minimum tax rate on foreign earnings.

While most respondents were optimistic about the possibility of a deal on foreign-source income, the view wasn't unanimous.

> **George Yin** said he supports a territorial tax with "significant restraints," including a minimum tax, while "active business income in a bona fide country" should be exempted. However, he said a deal on foreign-source income "seems unlikely this year."
>
> **Peter Orszag** said he was skeptical that a deal could be reached on foreign-source income. "I think it's going to be difficult," he said, noting that some firms benefit from the current system and so would resist changing it.
>
> **Douglas Holtz-Eakin** said that although there are "many flavors of territorial," a minimum tax on foreign-source income should be avoided, arguing that such a policy is an acknowledgment that a tax system is "broken."

A Value-Added Tax Is a Good Idea — and Unlikely to Happen

Most of the tax experts interviewed for this study agreed about the economic virtue of a value-added tax, or VAT, which is widely used elsewhere. It would increase federal revenue by taxing the consumption of goods (and perhaps services) rather than directly taxing work and production, as individual and corporate income taxes do. However, few thought that such a tax was likely to be enacted.

> "We need another revenue source," **Michael Graetz** said. "My [preferred] revenue source is a VAT, which isn't likely to happen."
>
> **David Rosenbloom**: "I do think we need a VAT in this country. But I don't think we're going to have one in my lifetime."

Others argued that although a VAT might be politically feasible, negotiating and planning it would take time.

> "Anything like that involves a lot of thinking," **George Yin** said. "Applying [a VAT] to the U.S., a brand-new tax, thinking of how it integrates with retail sales taxes — it just seems you're not talking about a one-year effort."
>
> "Such a new tax would be a big deal, and only conceivable to me in the context of much larger tax reform," **Alan Auerbach** said.

Some respondents argued that the country's unwillingness to consider a VAT prevented the U.S. from reaching the corporate tax rates of other countries.

> "If we want to be like the rest of the world, we need to be considering these alternatives," **Martin Sullivan** said. "As long as we constrain ourselves from having good taxes, we'll continue having bad taxes."

> **Hank Gutman** argued that the U.K. financed a reduction in its corporate tax rate by increasing its value-added tax. "A 3 percent VAT is what you would need to take the corporate tax rate down to 25 percent," he said, adding that he didn't think such a tax was likely to be part of any deal.

Dealing With Pass-Throughs Is a Big Hurdle

Nearly all the experts agreed that pass-through entities, which don't pay any corporate tax, are a major challenge for any overhaul effort. These entities include sole-proprietorships, partnerships and S corporations.

> "The hardest problem for business tax reform is going to be what to do about large partnerships," **Michael Graetz** said. "You now have so much business income in the non-corporate sector, and a stunning amount of it in large partnerships. You don't have to go to the public-equity market to amass large amounts of capital."

> Pass-throughs "get zero benefit" from a deal to reduce the corporate tax rate, while still suffering from the curtailment of deductions, **George Yin** said.

> That difference in incentives "is the perennial difficulty" with a corporate tax overhaul, **Peter Orszag** said. "I don't have any brilliant solutions, and I don't think anybody else does either." He noted that under the recent tax deal, "the incentive for a pass-through has been at least somewhat diminished because the top corporate rate is now below the top individual rate."

> **Bruce Bartlett** called the differential treatment of pass-throughs "a festering problem" for a tax overhaul, and advocated for expanding corporate-tax discussions to deal with taxing business in general. "I can't begin to say how this will be dealt with," he said. "But I do think the whole rationalization of business taxation has got to be a high item on the reform agenda."

> The only respondent to express relative nonchalance about the pass-through hurdle was **Douglas Holtz-Eakin**. "There is no perfect tax system," he said. "The major headache on the policy side is drawing a line between a business and a personal transaction. That's life."

SECTION 2: AREAS OF DIVERGENT VIEWS

Will There Be a Deal?

The tax experts interviewed by Bloomberg Government differed on whether Democrats and Republicans will be able to reach an agreement in the near term on overhauling the corporate tax code. Those optimistic about agreement cited a number of factors, including the efforts of House Ways and Means Chairman Dave Camp, a Republican from Michigan.

> "The fact that Camp has put out two different proposals related to business taxation that have not been sort of dismissed out of hand as obviously politically contrived I think speaks well for the process," **Bruce Bartlett** said. (Camp later issued a third discussion draft concerning small businesses.) "I think it's just a matter of extending that to come up with a package that deals with the critical problems that everybody agrees have to be part of the package."
>
> "I think people are serious," **Edward Kleinbard** said. "We have the Camp international proposal, which was a serious proposal. The president has signaled he believes the headline rate should come down. I just think it's a question of getting some time on stage."
>
> **Jonathan Traub** argued that the American Taxpayer Relief Act of 2012 made future negotiations easier by setting permanent individual tax rates, giving Congress "a clear mark against which to measure revenue neutrality." Before that, he said, "you couldn’t figure out where you were going to go, because you didn't even know where you were starting from."

Others, a slight majority of the respondents, were more pessimistic.

> "I would say there is zero chance this year," said **George Yin**, who predicted that even "the most painful changes" to the tax code would reduce the corporate rate no more than 1 percent to 2 percentage points, "which doesn't do anything for anybody, and so nobody's going to do it."
>
> "I'm not optimistic," **Rosanne Altshuler** said. "I don't see how we do anything in a revenue-neutral way that lowers the rate significantly enough to be worth fighting for." She defined "worth fighting for" as a reduction of 8 to 10 percentage points.
>
> **Peter Orszag**: "When you put together the challenges with the effects on pass-throughs with the implausibility of getting revenue outside of the corporate tax system, and the ambiguity of the right way forward on foreign-source income, it's not hard to come to my conclusion that the likelihood of a deal is extremely low."

> "You're not going to have corporate rate reduction in the absence of individual rate reduction," **John Buckley** said. "Any major individual rate reduction would require repeal of [deductions for] mortgage interest, charitable [contributions], state and local [taxes]." The prospects for that, he said, "are close to zero."

Signs to Indicate an Agreement Is Within Reach

Bloomberg Government asked the respondents what event would make them believe that Congress and the White House might reach a deal. Their answers fell into several groups. (Most respondents mentioned more than one factor.)

> A common answer, which came from **Hank Gutman**, **Jonathan Traub**, **Peter Merrill** and **Michael Graetz**, was whether Camp succeeds in getting a bill out of Ways and Means.
>
> Another common response was engagement by the White House. "Probably the most important issue is whether the president personally puts this at a very high priority," **Peter Merrill** said. "It is politically perilous for members often to support this type of revenue-neutral reform. As a result, the president has to use the bully pulpit to get public support." **Bruce Bartlett**, **Donald Marron** and **Douglas Holtz-Eakin** made similar comments.
>
> **Alan Auerbach** said he was watching for "some give on one side or the other" in the debate over foreign-source income.
>
> "They have to resolve the overall level of revenues they want," **Martin Sullivan** said. "Once that issue is resolved, then we can enter into a bipartisan [discussion] about tax reform generally."
>
> **Glenn Hubbard** and **Bruce Bartlett** were the only respondents to mention the role of the business community. Hubbard said one sign of a deal becoming more likely would be "representatives of the business community and representatives of labor saying, 'This is a good idea.'" Bartlett, referring to businesses, asked, "Can they speak with one voice, or are they going to divide along industrial lines?"
>
> Only two respondents, **Peter Merrill** and **Bruce Bartlett**, mentioned Senator Max Baucus of Montana, chairman of the Finance Committee. "I'd like to know what Mr. Baucus thinks," Bartlett said. Merrill said Baucus is facing "a very, very tough reelection, that's going to put a lot of constraints on what he can do without jeopardizing his chances of returning."

The Lessons of '86

The 1986 tax overhaul, the last major revamp of the tax code, came up in many of the interviews. The respondents cited a variety of lessons learned from that experience.

Robert Carroll and **Peter Merrill** said that lawmakers' negotiations for the 1986 overhaul followed significant deficit reduction. "By the time they finished that, actually the budget path looked pretty good," Merrill said. "That kind of cleared the decks to do revenue-neutral tax reform."

Bruce Bartlett cautioned against forgetting how difficult the 1986 overhaul was, suggesting the same would be true today. "It's really going to require superior leadership," he said, citing the role of Camp in particular.

Robert Carroll argued that the push for the 1986 agreement came from all directions. "It came from the White House, it came from the Congress, it came from the Democrats, and it came from the Republicans," he said.

Douglas Holtz-Eakin cited the role of the Treasury Department, whose initial proposal for a tax overhaul "was an extraordinarily apolitical document at the time."

Martin Sullivan noted that to make the 1986 package revenue-neutral, "we took the money from corporations. Now everybody says we can never do that again, because of competitiveness."

Jonathan Traub said that while the 1986 overhaul was driven by the White House and the Treasury Department, the current talk of a tax package "is in some sense the mirror image" of that situation. "The interest is very strong on Capitol Hill," he said. "To the extent the White House is interested, their interest is dwarfed by those on Capitol Hill."

Is Treasury Up to the Job?

Bloomberg Government asked whether the Treasury Department, which played a pivotal role in the 1986 overhaul, has the resources it needs to support a deal now. Respondents split into two groups on this question, with one arguing that the department is ready and able to help.

"My gut is that they have similar capacity and bandwidth, if not better, than they had in 1986," **Jonathan Traub** said.

Glenn Hubbard: "If the president wants to do something, his Treasury Department will work hard to do it. I don't think you can blame the Treasury."

Robert Carroll said the department's current staff members "are certainly in a position to do the heavy lifting on tax reform if they're asked to do so."

Rosanne Altshuler: "The ability, the willingness, the talent, is absolutely there."

The second group, while not directly criticizing the department, raised questions about its degree of preparation, and whether the White House has given it enough room to influence the negotiations.

"We don't know what their capabilities are," **Douglas Holtz-Eakin** said, "because they've been gagged, handcuffed, and thrown into the deepest trench in the ocean."

Bruce Bartlett indicated Treasury Secretary Jacob Lew may not be the perfect person for the job, although he is better prepared than his predecessor, Timothy Geithner. "I think it's been the policy under both Obama and the Bush administration that Treasury has been kind of denigrated as the principal economic agency," Bartlett said. "It's obvious that Mr. Geithner didn't have any particular expertise or interest in the tax area. Lew is a budget guy, which brings him a little closer to being a tax guy, but it's not quite the same thing. The jury's still out."

Martin Sullivan: "Everybody says that the Treasury is less powerful, the White House has taken over tax policy. I'd say that's probably true."

"In general, there has been a trend, and this is a long-standing trend, to have the White House essentially dominate these kinds of discussions," **George Yin** said. "I see nothing to suggest that isn't exactly what has been happening over the last four years."

"They have tremendous staff, huge resources," **Peter Merrill** said. "The question is, will the White House consult them? It seems like the White House is doing all the policy without the Treasury."

Finding the Money

Respondents mentioned a range of possible changes within the corporate tax system that could replace the revenue lost by reducing the corporate rate.

Interest Deductibility — The most frequently cited idea was limiting companies' ability to deduct their interest costs. "There's been chatter about it," said **Donald Marron**, noting that the Obama administration and Democratic Senator Ron Wyden of Oregon included restricting interest deductibility in their overhaul proposals. **Alan Auerbach** called the idea one of "the two big areas to raise revenue." **Edward Kleinbard** and **Hank Gutman** also mentioned it.

Depreciation — This is the other "big area" for revenue, according to **Alan Auerbach**. **Edward Kleinbard** also mentioned generally lengthening tax depreciation lives, calling the idea a "straightforward base broadener."

Deferral — **David Rosenbloom** suggested ending the deferral of taxation on foreign-source income held in tax-haven countries. **Bruce Bartlett** called deferral "the one big loophole that is on the table for a potential base broadening."

Manufacturing Deduction — It's the "lowest-hanging fruit," said **George Yin**, who added that limiting or ending the deduction would nonetheless be "quite controversial."

Amortization of Advertising Expenditures — This could be required as part of a deal, according to **Hank Gutman**. He said, however, that while such a change would produce significant savings initially, "all you're doing is changing the timing of a deduction. It's not exactly intellectually honest."

Derivatives — **Hank Gutman** also mentioned Camp's proposal to expand the taxation of derivatives. "There are so many moving pieces in this corporate tax debate, it's hard to figure out how you would score it," Gutman said. "But intuitively, it looks like that would raise revenue."

Respondents were split on the likelihood of finding enough revenue within the corporate tax code to bring the corporate rate down to 25 percent.

"You probably can do it within the corporate tax if you want to," **David Rosenbloom** said. **Glenn Hubbard** partly agreed: "You could do a 25 percent rate with base broadening in my view. But that won't be the view of the scorekeepers."

Hank Gutman didn't agree. "You can't get the rate to 25 percent by eliminating tax preferences" alone, he said. **Martin Sullivan** called a 25 percent rate "nearly impossible under the best circumstances." Respondents also offered other options to help pay for lower rates — increasing some taxes, creating new ones, or changing the way revenue is estimated.

Bruce Bartlett suggested increasing the tax on dividends. "This is an argument that Republicans themselves made in 2003: Taxation of dividends is really just taxation of corporate income," he said. "You can sort of extend that argument and say, 'If we lower the corporate tax rate, perhaps this could be paid for by raising the rate on dividends.'"

Rosanne Altshuler proposed increasing tax rates on carried interest.

"Europe has just gone to a financial transactions tax," **Michael Graetz** said. "I suspect there'll be a lot of talk about that here, too." **Martin Sullivan** suggested a bank levy, in the form of a tax on banks' liabilities.

"Dynamic scoring is a loaded term," **Douglas Holtz-Eakin** said, "but there should be a legitimacy to the beneficial growth effects" of a tax overhaul. As explained in Part 1 of this study, dynamic scoring is a term for a revenue estimating process that formally accounts for changes in overall economic activity in response to policy changes.

Addressing Pass-Throughs

Though respondents agreed that non-corporate businesses are an obstacle to a tax overhaul, they differed on how to address the problem.

> **Peter Merrill** said that because pass-throughs can't be excluded from base broadeners, they should be eligible to regain what they lose. "It makes no sense to have different depreciation and inventory rules for corporate and non-corporate businesses," he said. If a tax overhaul reduced tax exemptions in those areas, "you need to take money raised on the non-corporate side and give it back in some way."
>
> **Alan Auerbach** proposed a threshold based on size, designed to protect "the vast majority of pass-through entities" from base broadening while still adding significant revenue from large non-corporate companies.
>
> **Edward Kleinbard** argued that if the government is "going to change rules like depreciations for all businesses, we should in fact change our orientation and treat all but the smallest businesses as [corporate] entities."
>
> **Michael Graetz** suggested making the tax system easier for small businesses, whatever their tax status. "Instead of dividing the world into corporate and non-corporate, I would divide the world into large and small businesses," he said. "You can have the small-business rules apply to lots of businesses. They can be greatly simplified."
>
> **Hank Gutman** suggested a special deduction for pass-through entities, "so their effective tax rate under business income is the same as the corporate rate." He said, however, that such an approach would have unanticipated consequences, and complicate the task of the IRS.
>
> **Donald Marron** cited the option of setting "different personal rates for pass-throughs than for other kinds of income."
>
> **Glenn Hubbard** said the way to let pass-throughs benefit from rate reductions is to extend those reductions to individual taxes. "I don't think there's a feasible way to do it without cutting individual rates," he said.

SECTION 3: ADDITIONAL OBSERVATIONS

While the interviews focused on the topics above, a number of respondents offered other observations on the prospects and challenges of a corporate-tax overhaul.

> One of the "key questions," **Alan Auerbach** said, is this: "What are the limits of corporate tax reform, and at what point does it get merged into individual tax reform?"
>
> **Martin Sullivan** argued that when it comes to the corporate tax rate, America views other countries through rose-colored glasses. "When we want to be like the rest of the world, we only look at the pleasant half of it," he said. "We ignore the offsetting tax increases. Then people wonder why we don't lower our corporate rate."
>
> **Martin Sullivan** also questioned Democrats' interest in the topic. "The larger issue is, what is the real commitment from Democrats on tax reform?" he said. "One precondition for tax reform is the president has to want it. I do not see the political advantages for him wasting any political capital on tax reform at this time, much as I wish he would."
>
> **John Buckley** said that local dynamics for lawmakers such as Camp and House Budget Committee Chairman Paul Ryan, a Republican from Wisconsin, may constrain various lawmakers' ability to support certain components of an overhaul. "Will Dave Camp and Paul Ryan repeal the state and local tax deduction when they come from states like Wisconsin and Michigan?" he asked, noting that such a change would hurt those states disproportionately.
>
> **Peter Merrill** said that Congress and the White House must resolve the current budget fights before it can consider an overhaul. "If you start using corporate revenues for deficit reduction, it makes it much harder to use the same money for rate reduction," he said.
>
> **Peter Orszag**, who was among the more pessimistic respondents on the odds of a deal, compared the long-running tax-overhaul discussion to losing weight. "It's like perennially saying you're going to lose 10 pounds," he said: hard to accomplish, but easy to hope for.

CONCLUSION

Bloomberg Government's survey of tax policy insiders highlights the fault lines awaiting any effort to overhaul the corporate tax code. While respondents generally agreed that foreign-source income could be resolved, they were decidedly less optimistic about how to make any deal acceptable to pass-through entities, including large partnerships — what Michael Graetz called "the hardest problem for business tax reform."

The experts were split on whether a deal is likely. They suggested a range of indicators to look for, including whether House Ways and Means Chairman Dave Camp marks up a bill; how vigorously the president publicly supports an overhaul; and how the position of (and agreement within) the business community evolves. A number of respondents also pointed to the importance of first addressing other problems, including progress on deficit reduction.

For businesses, the views collected here portend an uncertain path ahead. Policy makers have given a tax overhaul enough attention that the possibility they'll reach a deal can't be dismissed. At the same time, the details of a deal — including the level of rate reduction achievable and how it would be paid for — have yet to emerge.

» ABOUT THE ANALYSTS

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Patrick Driessen is a Senior Tax Analyst with Bloomberg Government, which he joined after a career as an economist and revenue estimator at the Joint Committee on Taxation and the Treasury Department. Driessen received a Ph.D. from the University of Michigan, and specializes in international and accounting tax issues as well as the legislative process.