



Economics Group

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Capitol Hill Update: Now What?

With the failure of Republican policymakers to repeal and replace the Affordable Care Act this week, many are adopting the view that tax reform might be unobtainable. We still expect tax cuts to materialize.

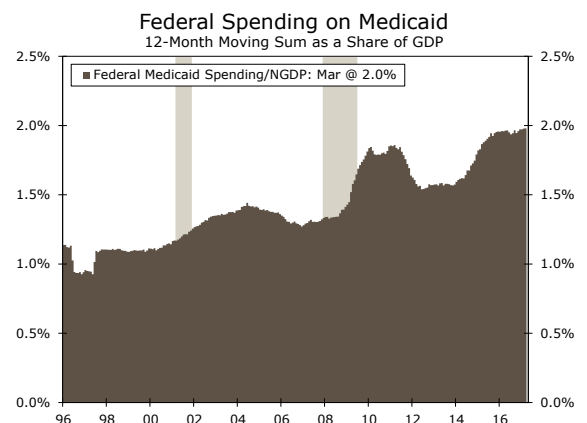
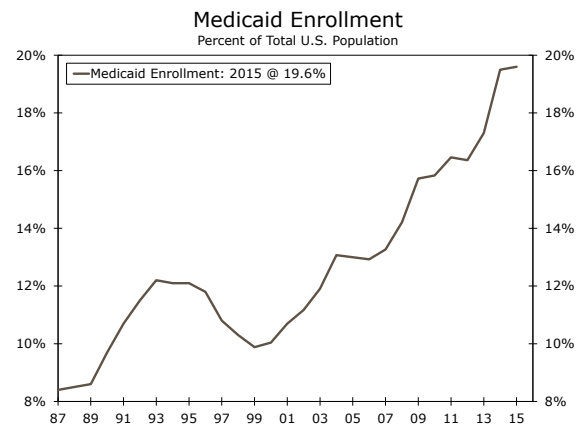
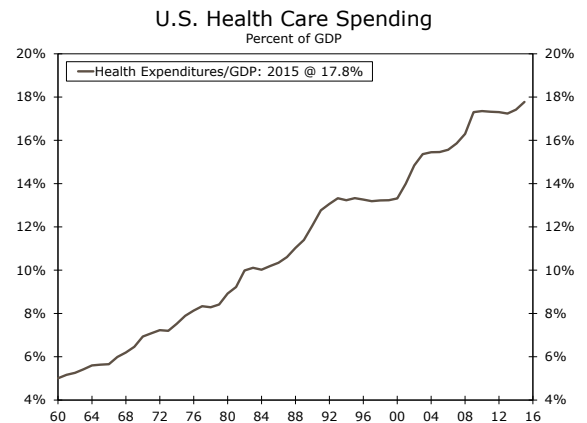
No Clear Path Forward on Health Care Reform

The Affordable Care Act (ACA) repeal/replace saga has continued to seize headlines in recent weeks. After several attempts by Senate Majority Leader Mitch McConnell to broker a deal between the two warring wings of the Republican faction, the latest failure led leadership to switch gears to a so called “skinny repeal” of the ACA. The intent was to move the process of repealing and replacing the ACA to a conference committee between the House and Senate to work out a final solution. In the end, the vote for the “skinny repeal” failed, effectively ending the debate over the repeal and replacement of the ACA for now. While it is possible that Congress revisits a solution for repairing the ACA, we do not see this process being resolved anytime soon as policymakers must begin anew.

What about the Fate of Tax Cuts/Reform?

At the start of the year, there were three large agenda items that the Trump administration and Republican members of Congress sought to tackle: repealing and replacing the ACA, enacting sweeping tax reform and passing an infrastructure package. With the failure of the ACA repeal and replace effort, we see Congressional Republicans moving on to the other two agenda items. We have maintained the view since January that there is no path forward on a major infrastructure spending plan given the difficulty in finding funding for such an endeavor. That leaves tax reform as the policy area to which we see Congressional Republicans turning next.

In recent days, commentators have suggested that since Republicans have been unable to coalesce around a solution to repeal and replace the ACA, this signals a reduced probability that tax cuts will take place. In our view, the fact that Republicans have yet to score a major legislative victory on their top three agenda items puts greater pressure on Republican members of Congress to record a major legislative achievement before midterm elections in November 2018. Although we see tax reform as the next major topic to be tackled by Congress, the policy specifics are not expected until later this fall. In our outlook for the 115th Congress, we wrote back in January that we believed the border adjustment tax (BAT) would not become law.* This week it was announced by the six key players helping to craft tax reform that the controversial BAT will not be part of their proposal. There are a number of legislative deadlines in September that will consume the attention of policymakers, such as the need to lift the debt ceiling, confirming President Trump’s nominees and reauthorizing several federal programs, all of which are separate from clearing a funding bill to keep the federal government operating beyond the end of September. It is only after these must-pass items are taken care of that we expect more significant progress on taxes.



Source: U.S. Department of the Treasury, U.S. Department of Commerce, Centers for Medicare & Medicaid Services, and Wells Fargo Securities

*Silvia, J.E., Brown, M.A. and Pugliese, M. (2017). “Key Issues to Watch in the 115th Congress.” Wells Fargo Economics

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