

The Coalition of Service Industries (CSI) Tax Committee held its winter meeting in Washington on January 19, 2006. The session was attended by 30 members of the Committee, and top House and Senate tax-writing and leadership staff, and Treasury officials, outlined the tentative agenda for the 2006 legislative year.

Shahira Knight, Senior Advisor to House Ways and Means Committee Chairman Bill Thomas pointed out that due to the November election, 2006 is a very short legislative year, and very few new initiatives are likely to be acted on. Both Ms. Knight and Mark Prater, Chief Tax Counsel, Senate Finance Committee, said that the top priorities of the tax-writing committees are the completion of the pension and budget reconciliation legislative packages that were not completed in 2005. The appointment of conferees to the conferences on these bills will occur shortly after Congress returns after the State of the Union address.

The appointment of conferees on the budget reconciliation package is debatable, and Senate Democrats are expected to offer amendments on the motion to instruct conferees. Melissa Mueller, Tax Counsel, Senate Finance Committee Minority, acknowledged that the Democrats will have floor amendments, and will push for the AMT correction to be included in the final budget package. Republicans are insistent that the extension of the capital gains and dividend tax rates be included in the final package. The GOP may be willing to consider the AMT extension as a separate package. No final decision has been reached on moving the AMT as part of budget reconciliation, but given the revenue constraints of the package (\$70 billion), it will be difficult to include capital gains, dividends and AMT in the same legislation.

All speakers agreed that the repeal of the estate tax will be on the table in 2006. They also agreed that hearings will be held on tax reform, but no further legislative action will occur on tax reform this year. A package to extend the tax provisions that expire in 2006 will have to be acted on later in the year, according to Ms. Knight. Ms. Mueller explained that Democrats will push for an amendment to do the extenders for two years as part of the underlying budget reconciliation package.

Jeffrey Kupfer, former Executive Director of the Tax Reform Panel outlined the findings and procedures of the panel and how they reviewed the tax code as part of the reform process. The Panel was constrained by the mandate of the President to have the final recommendations be revenue neutral. The final report is being reviewed at the Treasury, and according to Acting Deputy Assistant Treasury for Tax Policy, Eric Solomon, Treasury will come up with its own recommendations in the future, although there is no deadline for Treasury action.

Mr. Solomon said that Treasury's top legislative priorities for 2006 are 1) to be sure that the pension legislation contains adequate funding for pension plans, and 2) to be sure that the tax rates for capital gains and dividends are extended as part of the budget reconciliation package.

On the guidance side, Treasury is working on the following issues:

- § 199 manufacturing credit. Treasury is still trying to resolve how to draw the line for computer software to determine which part of the software is attributable to manufacturing, and which part would be considered a service.
- § 482 transfer pricing. Treasury is working on the transfer of intangibles in the service area.
- Regs. on cross-border reorganizations will be out soon.
- R&D internal use software. As part of the look at software in general, Treasury will try to issue proposed regs. on internal use software. Mr. Solomon acknowledged that the treatment of software has not changed to keep up with technology advancements.
- Consolidated returns. This issue has been on Treasury's "to do" list for a long time, but Mr. Solomon pointed out that the loss disallowance rules will have to be dealt with first.

Rohit Kumar, Senior Tax Counsel, to Senate Majority Leader Frist, outlined the overall Senate agenda for the first quarter of 2006. The Senate will act on:

- Alito nomination
- Floor debate on the naming of budget reconciliation conferees. The time can be controlled by a simple majority vote if necessary, the GOP has not determined how much time of the 20-30 hours allotted for the naming of conferees it will permit the Democrats to use.
- Asbestos
- Lobbying reform
- Border Security and immigration
- Pension Conference Report. The conference report is expected to be voted on by the deadline for the first quarter contribution.
- Estate Tax repeal
- AMT extension

Brian Gaston, Chief of Staff to Acting House Majority Leader Blunt said that the House agenda has not officially been determined, and will be set after the February 2 leadership elections. Many of the issues pending before the Senate were acted on by the House in 2005. The annual Republican members retreat will be held on February 9. The House expects to act on lobbying reform by early March.

Mr. Gaston agreed with the other speakers that budget reconciliation and pension reform remain top priorities, as does border security. The Republicans would like the extension of capital gains and dividends rates to be included in the final budget package. Mr. Gaston believes the GOP should move the AMT fix separately because he does not believe the Democrats will vote against it in an election year, and if they do, that vote will be used against them in campaigns. The House may make a move to do another five-year budget resolution that would carry to 2011 and would include the extension of

the tax cuts adopted in 2001 that are set to expire in 2010. This would appeal to the GOP base in a tough reelection year. Border security/immigration and deficit reduction will be big issues that have to be addressed prior to the August congressional recess. House Republicans are focused on the 2006 election and energizing their base—legislation will be geared toward this goal.

The Tax Committee meeting was excellent and informative, thanks to all who participated.