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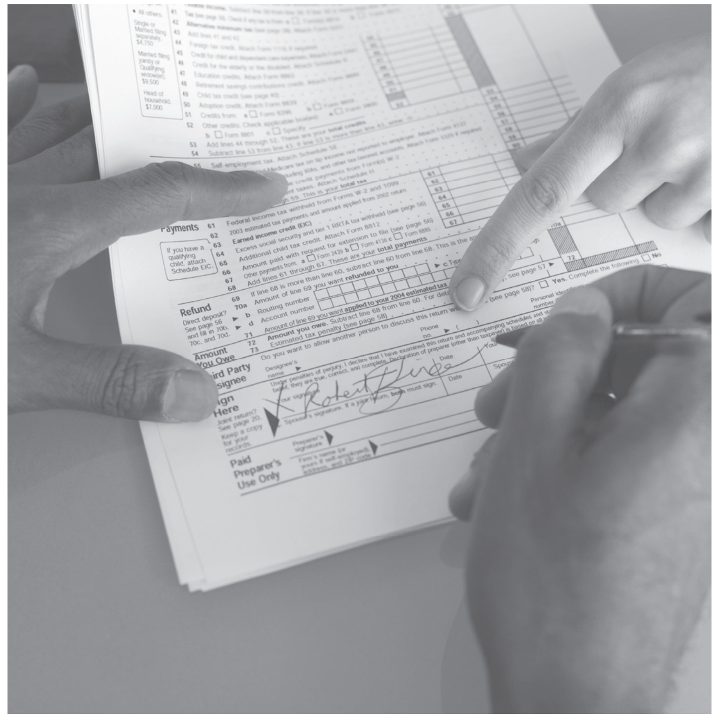
The Road to Tax Reform—An Interview with Chairman Dave Camp



At the beginning of this year, Representative Dave Camp (R-MI) retired from the House of Representatives after 12 terms, the last two terms serving as Chairman of the Committee on Ways and Means. Chairman Camp has played a central role in the national conversation on tax reform, primarily through a series of discussion drafts addressing international tax reform, financial products tax reform, small business tax reform and, most recently, a comprehensive tax reform discussion draft that we explored in a special edition of Taxing Times *last fall.*[1] *Following Chairman Camp's retirement from Congress and return to the private sector as a senior policy advisor with PricewaterhouseCoopers, LLP, the* Taxing Times *Editorial Board thought it would be enlightening and valuable for our readers to have an opportunity to get to know him. Kristin Norberg,* Taxing Times *editor, recently sat down with Chairman Camp to talk about his career in the House, the development of the Tax Reform Act of 2014, and some of its potential impacts on the insurance industry.*

Kristin Norberg: First of all, welcome, and thank you so much for spending some time with us here at *Taxing Times*. We're excited to have the opportunity to get to know you a little better and to hear more about the Tax Reform Act of 2014. Could you start by telling us a bit about your background? Specifically, after starting your career in a private law firm in Michigan, why did you decide to serve in Congress?

Dave Camp: Thank you for inviting me. I'm happy to be here. I didn't grow up thinking that I would run for office. I went to law school in order to work in a small law firm in a small town, which is what I did for 10 years. It's the nature of that type of firm that you get asked to update the bylaws of volunteer organizations, so I got involved in a lot of those organizations. Additionally, I was representing my clients in front of various councils and boards and government entities, and I started to think a lot about who is making the rules, and why. One of my partners at the law firm ran for judge (which in Michigan is a non-partisan race) and I helped with his campaign. I liked volunteering and being an advocate, so I continued getting involved with volunteer organizations and political campaigns, including as a precinct delegate and participating in state conventions.

Then the representative from my district in the Michigan House of Representatives decided not to run for re-election. Michigan law allows you to continue to practice law while being a state representative, so I could get involved in politics without giving up my practice. I was elected to the statehouse in 1988. Eventually, it became a case of my hobby overtaking my profession. Our representative in the U.S. House also decided not to run for re-election, and so I took the leap and gave up private practice.

In order to be a good Congressman, you have to be aware of current events and what people are concerned about, and that was something I was always interested in.

Norberg: How did you choose tax as a focus?

Camp: I initially wanted to be on the House Appropriations Committee, but in my first term, I wasn't selected by the Committee of Committees for that role. I spent time on the House Agriculture and Small Business Committees.

Then Representative Bill Gradison retired from Congress, creating an opening on the House Ways and Means Committee. It's another campaign, really, to get the committee appointments you want. A mentor of mine told me that the real action was on the policy side rather than appropriations, so I decided to aim for Ways and Means. I called Gerald Ford, a former Michigander, for his support, and he actually answered the phone. He had previously been the House Minority Leader before he became Vice President. He said to me, "Somebody owes me a favor." The next thing I knew, someone walked up to me on the floor of the House and said he would get me on Ways and Means, and it worked.

Norberg: What led you to retire from Congress?

Camp: I had reached my term limit as Chairman of the Ways and Means Committee. I'd seen some people stay in Congress after having a major role like that, and it often didn't work. I had been in Congress for 24 years, so I decided that it was time to move on. I had been able to achieve a lot in tax, trade, health care, etc., and I wanted to have a chance to try to work on those issues from the private sector perspective. Also, I had a strong potential successor in Congressman Paul Ryan, so the timing was right.

Norberg: When you were in the House, and particularly while chairing the Ways and Means Committee, how did you establish priorities and choose the projects where you wanted to commit time, energy and political capital?

Camp: All the issues I've been involved in have been important to me. Tax reform became a clear priority to me when I was Ranking Member on Ways and Means, and I was working extensively with Treasury Secretary Geithner, Senate Finance Chairman Baucus and Treasury Secretary Lew, trying to extend expired tax provisions. It became clear to me that the system didn't work, and I wanted to find a better solution.

At the same time, we were concerned that the economy wasn't recovering as quickly as we wanted after the financial crisis. We needed a tax system that was fairer, flatter, simpler, and that could help grow the economy. There was also a changing international environment, and the United States was out of step internationally. It became clear that there was an imperative to do tax reform.

Generally, I tried to be on top of all the issues the Committee oversees, and keep moving them all forward. I worked a lot on how health care providers are paid by Medicare (Sustainable Growth Rate (SGR)), and we were able to get that passed and signed into law. Another priority of mine was foster care and adoption. I co-authored the 1996 Welfare Reform Act. What it comes down to is doing the right thing and trying to move the United States forward. I'm a firm believer that good policy is good politics.

We also were able to get trade agreements with Colombia, Panama and Korea while I was Chairman. It is very important that the United States be engaged internationally, and I was proud we were able to get those agreements over the finish line.

Norberg: Let's shift now to your bill, the Tax Reform Act of 2014, introduced on the House floor last December as H.R. 1. Can you give us some more color and perspective on its development? What is the process for putting such a massive proposal together? How many people are involved, and what types of backgrounds do they have? Was there significant collaboration with other members of the Committee on Ways and Means?

Camp: It was critical to me that there be a very open process. We didn't want a repeat of the partisanship surrounding the Affordable Care Act. Additionally, we had a Republican House, a Democratic Senate, and a Democratic President when we started this work, so we needed to engage openly with others.

So, I engaged with my counterpart Chairman Baucus. We set up bipartisan working groups, working with Congressman Levin, the Ranking Member of Ways and Means. We held a lot of hearings, including the first joint hearing of the House and Senate on tax matters in 70 years. Chairman Baucus published several white papers. We also set up a website, where we received over 14,000 suggestions on tax reform.

Chairman Baucus and I toured the country, seeing the different regions, sectors and businesses—everything from family-owned businesses to multinational firms. We wanted both to get a sense of people's thoughts and also to make the case for tax reform. We found that there were exciting things going on in the private sector. We met dedicated, hard-working people who were trying to deliver a service or a product, and I wanted to make it possible for them to do that better and more easily.

I felt it was important that we have discussion drafts and make them available to the public. I worked with the members of the Committee to put these together. We included some Republican ideas, some Democratic ideas, and some things from the President's budget. In October 2011, we released our first discussion draft, which addressed international tax reform. We released another on small business and a few others, culminating in February 2014 in the comprehensive tax reform discussion draft.

Again, it was critical to have an open process and seek public comments. It's the best way to get the best ideas, and we need the experts in each area to understand and get involved. What I really wanted people to do, though, was to look at the draft holistically. Rather than focusing narrowly on the provisions that affect your particular industry, think about whether it helps the country, increases wages, and encourages growth.

Norberg: Could you speak more about those goals and other objectives of the bill?

Camp: Overall, our top objectives were simplification of the Tax Code, economic growth, and making it possible for U.S. companies to be competitive around the world.

The Tax Code is complex, so simplification was one of our key priorities. Closing loopholes was also important. We had heard about impressions that if you had a sophisticated tax adviser, you could work around the system, and that the guy down the street was getting a better deal. So, we increased the standard deduction so that 95 percent of people would no longer need to itemize and could file a two-page return. We repealed a lot of provisions. Similarly, small business own-

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ers were saying they had a tax return an inch thick, and they really didn't know what was in it—they just signed it. We wanted a simpler form, to increase understanding about their responsibilities as taxpayers.

Economic growth was also a key priority; incomes had been flat or declining since 2008. Polling showed that people thought the country was on the wrong track, that it wasn't sustainable. What was new was that they thought it wasn't going to get better—it seemed the American dream was at risk, that people no longer thought their children would have a better life than they did. Something needed to change.

We wanted this to be politically feasible, of course, so that put some constraints around the process. It needed to be revenue-neutral and distributionally neutral, so it wouldn't immediately get shot down. We needed to address international vs. domestic issues. We wanted lower rates, a broader base, and simplification of the Tax Code.

This is the first fundamental, comprehensive tax reform proposal that had been analyzed by the Joint Committee on Taxation's (JCT's) staff using a dynamic scoring process. The draft needed to have enough details so that we could get JCT's staff to take a look at it and work with the dynamic scoring. What they estimated was 20 percent growth in gross domestic product (GDP), $1,300 annual increases in median income, and 1.8 million new private-sector jobs. These estimates were also supported by outside analysts, some of whom found even more favorable results than JCT.

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It was also important to me that it get introduced as a bill before the end of the term. Bills have a status that discussion drafts don't. The bill is the same as what was in the February draft; now it is an official document and will be maintained. Plus, the bill was numbered H.R. 1!

Norberg: Were any reforms considered that did not make it into the bill? What were the reasons they were discarded?

Camp: There were a couple of approaches we realized pretty quickly were off the table. A value-added tax (VAT) was not considered as a viable option; the Senate had voted 85-13 against a VAT, and it was seen as just another layer of taxation.

Also, the Fair Tax/Flat Tax approaches just couldn't generate the revenue needed to maintain revenue-neutrality. We chose the strictest baseline for our comparison. On top of this, we had the Fiscal Cliff in the middle of our work on tax reform and Congress had to raise an additional $600 billion of revenue.

Norberg: Can you describe some of the responses you have received on the discussion draft? Has the reaction been what you anticipated?

Camp: The bottom line is that I wanted people to take it seriously and to see it as a serious proposal, and that's the reaction that we got. It's a detailed document. The JCT looked at it at a very detailed level and prepared detailed revenue estimates. We were very transparent. Of course different people would make different trade-offs, but whenever people came in to make different suggestions, we said to them: "What does it mean in light of the 25 percent rate?" I had an open-door approach through the entire process. I wanted to see people, and I wanted my staff to see people.

I knew, of course, that this wasn't the bill that would go to the President's desk. There would be a Senate bill and a Conference Committee.

Norberg: What were some of the thought processes in including the significant revenue raisers related to insurance companies? The modifications to life insurance reserves, property/casualty reserve discounting, and the IRC §848 deferred acquisition cost (DAC) capitalization rates together were estimated to raise over $54 billion of revenue over 10 years in the JCT's revenue estimates.[2] Was there a sense that the insurance industry should offer more revenue because of the decision to retain tax deferral of inside build-up on life insurance products, or because of a perception that financial services organizations tend to have higher effective tax rates and might be seen as benefiting more from a lower corporate tax rate, or other reasons?

Camp: The insurance industry came to us and said that their No. 1 issue was inside build-up. We faced challenging assumptions and restrictions to meet the revenue targets in order to get the rate reduction; thus there was going to have to be some pain to all taxpayers. It is important to keep in mind that the industry's key issue was not touched.

I'd like to add that I believe insurance is incredibly important. Insurance provides people with economic security. Insurance can minimize financial hardships, and it's hard to think about a world without that. We need a viable, vibrant private insurance industry for people to rely on.

We should recognize also that tax reform will address some of the country's problems, but energy policy, regulatory reform and other issues also are important. Compliance costs are a huge burden to the economy, and I think we need to look at simplification on the regulatory side. Years go by without addressing regulatory reform.

Norberg: Do you think there is a real appetite for comprehensive tax reform? What would the political environment need to look like to make that feasible?

Camp: Chairman Hatch and Chairman Ryan are both committed to this. A lot of the members want to do this. We know growth isn't where we want it. We can't hire all the kids coming out of college, and more of them are living at home than ever before. There are also a lot of people who have left the workforce, so although the official unemployment rate is low, the real rate including the underemployed is double the official rate.

Additionally, there are new companies every week that are bought, merged, or otherwise inverted to get lower tax rates outside the United States. There is pressure internationally, and the Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting project adds to that pressure. I think people realize we need to do this sooner rather than later, that we can't afford to wait. I think the President needs to make it a priority. The President has said he won't accept lower individual tax rates, but even if he won't support comprehensive reform, I think business, corporate and international tax reform may still be doable. We will run out of time with the 2016 election coming up, although it's hard to tell when the clock will expire.

In the end, the international issues create an imperative for tax reform. It just can't wait.

Norberg: Thank you so much for joining us and sharing your insights! ■

END NOTES

1 See *Taxing Times Supplement*, October 2014.

2 Joint Committee on Taxation, *Estimated Revenue Effects of the "Tax Reform Act of 2014"* (JCX-20-14) (Feb. 26, 2014).

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