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faces risk of a recession.

Oct. 18, 2022



By Laura Davison, Bloomberg News (TNS)

When Congress returns in a few weeks, Republicans and Democrats will be focusing on a compromise to extend tax breaks for both low-income children and corporations—which would hand wins to both parties before year's end but after the critical midterm elections.

Any deal would resolve a series of tax issues that each party has tried to address. Republicans have warned about damage to U.S. investment and innovation, while

Democrats say they won't vote for any business-tax incentives unless the child-tax

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expenditure costs in a single year.

Democrats aim to revive a more generous version of the child-tax credit, which was raised from \$2,000 per child to as much as \$3,600 in President Joe Biden's American Rescue Plan in 2021. That version of the benefit, which was distributed via monthly payments rather than being included in a tax refund, expired at the end of last year.

After failed attempts by Democrats to include the child-tax credit in what eventually became the Inflation Reduction Act, and by Republicans to secure the breaks for business in the July semiconductor-subsidy bill, negotiators on both sides now see a path to cutting a deal.

Talk of a deal on tax breaks is underway despite inflation running at 40-year highs. Tax cuts, like additional government spending, risk adding to price pressures in the economy, even though Republicans have put inflation at the center of their midterm election campaigns against Democrats.

Combining the policies may be the only way for any of them to pass in a Senate where 60 votes are necessary and there's currently a 50-50 partisan split.

"The prospects for the child-tax credit extension are better than they've been at any other point this year," said Adam Ruben, the Director of Economic Security Project Action, which is advocating for the benefit. "There's real momentum."

Proponents for the business side also expressed hope that their priorities will be addressed this year. Chris Netram, a managing vice president at the National Association of Manufacturers, said that there is bipartisan support in both the House and the Senate for the research and development deduction extension.

"We cannot allow this moment to pass," Netram said.

Any compromise will be off-putting to the most extreme factions of each party.

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a disadvantage to other nations.

Raytheon Technologies Corp. last month warned about a \$2 billion hit to its expected free cash flow based on R&D deduction not getting extended.

“If you cut your R&D investments and you take out the riskiest R&D that you’re doing—which sometimes has the highest payoff—once you start to make those cuts, it’s very hard in the future to reverse course,” said Catherine Schultz, the vice president for tax policy at the Business Roundtable said.

Democrats have been highlighting Census Bureau data showing the child poverty rate was nearly cut in half—to 5.2% from 9.7%—in 2021 when the policy was in effect. Millions of children are at risk of slipping back without the policy, they say.

“I’ll put it this way, no more tax breaks for big corporations and the wealthy unless the child tax credit’s with it. I’ll lay down in front of a bulldozer on this,” Senator Sherrod Brown, an Ohio Democrat, said at an event last month.

All told, there are roughly \$45 billion worth of business-related tax breaks that Republicans are seeking to extend for a period of four years. Democrats have pushed publicly for a full extension of last year’s child-tax benefit, which would cost more than \$100 billion per year, but privately have been looking at options on how to pare that back in order to cut a deal, according to a person familiar with the matter.

The politics of any deal aren’t certain until the results of the midterm election are known. If Republicans sweep both the House and Senate, GOP lawmakers are likely going to be hesitant to compromise on any legislation before they take over Congress in January—instead preferring to defer any action until they are in control.

Janice Mays, a former Ways and Means Committee aide, said willingness for the two sides to work together in December depends on how they feel after the election. It’s

likely there are more members of the current Congress who are open to bipartisan

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