

June 14, 2023

WASHINGTON POLICY STRATEGY

Potomac Perspective

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com



House Republicans are pushing a tax bill that could make changes that impact corporate taxes. If certain hurdles can be cleared, it might be added to a year-end defense bill. Also, the odds of a government shutdown in October have increased amidst dissension among House Republicans. Lastly, we take a look at the impact of the recent indictment of former President Trump and what it could mean for the Republican presidential

CORPORATE TAX BILL FIRST STEP

The House Ways and Means Committee is scheduled to markup a package of tax bills which, among other things, would:

- **Temporarily suspend the mandatory capitalization and amortization of research and development** expense and temporarily adopt rules that allow businesses to either deduct, capitalize and amortize, or capitalize such expenditures;
- **Expand the business interest deduction by temporarily allowing businesses to add back depreciation, amortization, and depletion** to adjusted taxable income for purposes of calculating the interest expense limitation; and
- **Repeal four credits enacted as part of the Inflation Reduction Act (IRA):** the clean electricity production credit, the clean electricity investment credit, the credit for previously owned clean vehicles, and the credit for qualified commercial clean vehicles.

If the package of tax bills passes the committee, then the House could consider it in the coming weeks with an eye to adding it to a year-end bill such as the National Defense Authorization Act (NDAA). There are, however, a few stumbling blocks ahead. First, Democrats are unlikely to agree to the repeal of the IRA tax credits, so that part of the GOP bill will probably be dropped at some point. Second, Democrats see the Republican tax legislation as leverage to expand the Child Tax Credit, which is something Republicans oppose. This conflict helped scuttle similar legislation in 2022. Absent a compromise, the outcome in 2023 for the business-related tax legislation could be similar this year.

GOVERNMENT SHUTDOWN IN OCTOBER

As we wrote last week, the current political situation in the House is foreshadowing a possible government shutdown in October. Some House conservatives who opposed the debt ceiling bill have apparently pressured the GOP leadership to write an appropriations bill at fiscal year 2022 levels, which is below the spending cap in the debt ceiling agreement. Although the debt ceiling bill set a cap rather than a floor, congressional Democrats are unlikely to support spending bills at last year's levels (Some congressional Republicans might oppose reducing spending to last year's levels as well). This situation could lead to a stalemate in September, followed by a government shutdown.

Shutdowns often pressure equity markets, but only temporarily, as markets typically recover as soon as Washington emits signals of a deal to reopen the government. However, the possibility of an October shutdown and the accompanying market volatility is not currently priced into the markets. This is a political risk that investors should consider, especially after Labor Day.

TRUMP INDICTMENT AND 2024

In the wake of the indictment of former President Donald Trump for mishandling classified documents and related charges, we take a brief look at the implications for the 2024 presidential election. **The base-case is that a core of Republican base will continue to rally around Trump, increasing his chances of winning the GOP nomination.** Some GOP candidates (i.e., Nicki Haley and Chris Christie et al.) have criticized Trump for being reckless with national security, which is an argument that could resonate with some Republican voters.

The new indictment coincides with an ad campaign by Americans for Prosperity that will argue that Trump cannot win, and his nomination would result in President Joe Biden's reelection. The message of the new ad campaign is similar to Democrats' pitch during their 2020 primary that Mr. Biden was the only candidate who could beat Trump, and the party had to avoid its more extreme or unprepared candidates.

If the attacks from GOP candidates and the ad campaign inflict damage on Trump's standing, it is possible that someone else could beat Trump for the nomination. As of now, however, the base-case is that the indictment of Mr. Trump will consolidate his Republican support and set up a replay of 2020.

SUBSCRIBE TO OUR PODCAST!

Season 2 of the Potomac Perspective podcast is underway! To access a broader discussion of these and other topics, please download and listen to the latest episode of our [Potomac Perspective podcast](#).

DISCLAIMER

This material is for informational purposes only and is not an offer or solicitation to purchase or sell any security or instrument or to participate in any trading strategy discussed herein. The information contained is taken from sources believed to be reliable, but is not guaranteed by Stifel as to accuracy or completeness. The opinions expressed are those of the Washington Policy Strategy Group and may differ from those of other departments that produce similar material and are current as of the date of this publication and are subject to change without notice. Past performance is not necessarily a guide to future performance. Stifel does not provide accounting, tax or legal advice and clients are advised to consult with their accounting, tax or legal advisors prior to making any investment decision. Additional Information Available Upon Request. Stifel, Nicolaus & Company, Incorporated is a broker-dealer registered with the United States Securities and Exchange Commission and is a member FINRA, NYSE & SIPC. © 2023