

LEGAL UPDATES

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Congress Passes Omnibus Spending and Tax Bill for 2016

Congress recently avoided a federal shutdown by passing a \$1.15 trillion bill that funds federal operations for fiscal year 2016. The Consolidated Appropriations Act of 2016, also known as the Omnibus, sets the funding level for every federal spending program for the coming year. When it was combined with the PATH Act (which included tax provisions), the total bill lays out more than 100 new or renewed tax incentives and reforms worth hundreds of billions of dollars that can benefit large and small businesses, as well as individuals and trusts.

Funding the Federal Government

Although the government's 2016 fiscal year began October 1, Congress had been funding the government through a series of short-term "continuing resolutions." A major breakthrough came in late October when the White House and Congress agreed on acceptable levels of overall spending for the next two years, providing increases of \$50 billion for 2016 and \$30 billion for 2017. That compromise set the stage for passage of the Omnibus, which essentially contains sections encompassing the 12 individual appropriations bills that usually fund the federal government.

The Omnibus passed the House 316-113 and the Senate 65-33. It was signed by President Obama a few hours later.

Defense and Domestic Increases

The Omnibus increases both defense and non-defense discretionary spending as agreed in the budget compromise. Of particular interest are funds made available for increased defense spending in the face of new threats like the Ebola outbreak in Africa, ISIS in the Middle East and cybersecurity issues worldwide. The defense portion of the bill contains \$514.1 billion in

discretionary funding -- an increase of \$24 billion from last year -- and provides a 1.3 percent pay raise for our troops.

The non-defense portion of the bill also contains increases that reflect the changing priorities of the country. For example, the bill repeals the long-standing ban on the sale of U.S. crude oil in the world market and provides funds to federal agencies to better protect data and national infrastructure from cyberthreats. The bill also boosts research and development funding, including \$2 billion for the National Institutes of Health research programs.

Tax Package

The tax package, known as the PATH Act, is a combination of the annual tax extenders and new reforms. In a compromise, the House and Senate extended many of the most popular tax breaks permanently and others for a period of years, which will cost \$680 billion over the next 10 years. The permanent extensions include the research and development tax credit, as well as relief from Alternative Minimum Tax treatment for businesses with less than \$50 million gross receipts per year. Also included is permanent extension of Section 179 expensing with a yearly indexing of the limitations and phase-out amounts for inflation. This provision also allows some new items like heating and air conditioning equipment to be expensed.

For individuals, the bill makes permanent the enhanced Child Tax Credit, the enhanced American Opportunity Tax Credit and the enhanced Earned Income Tax Credit, as well as the deduction for state and local sales taxes. The bill also contains provisions that check the power of the IRS and restructure basic tax treatment in fast-changing areas like real estate investment trusts. Also included were tax breaks for race tracks, movie expenses, race horses and electric motorcycles.

There were also a few tax changes included in the Omnibus. The bill includes several reductions in funding for the implementation of the Affordable Care Act, including postponing implementation of the "Cadillac Plan Tax" on high-value health plans and postponing the tax on medical devices.

The passage of tax and spending bills clears the way for a clean start in Congress for fiscal year 2017. In presidential election years, politics tend to drive the spending debates. However, because the total cap on spending is already decided by the budget agreement, Congress has a good start.

What This Means to You

All business owners and professionals need to understand the elements of the Omnibus bill, whether they receive federal funds or simply want to make sure to take advantage of the latest tax breaks. Husch Blackwell's Washington team can help find provisions that might be of value to you and provide insight into how these laws and programs will be applied.

Contact Us

If you have questions related to the Omnibus or PATH Act, please contact Kyle Gilster at Husch Blackwell.