

# The Int'l, Federal And State Taxation Forecast For 2020

By **Eric Solomon, Amanda Varma, David Fruchtman and George Callas**

This article looks forward to events coming in 2020 in U.S. international, federal and state taxation, including anticipated legislative, regulatory and controversy developments.

## International

### Regulatory

In 2020 the regulatory framework will continue to develop regarding the new international tax regime enacted in the 2017 Tax Cuts and Jobs Act (TCJA).[1] The U.S. Department of the Treasury and the Internal Revenue Service have released final regulations governing the Internal Revenue Code Section 965 transition tax, the base erosion and anti-abuse tax, or BEAT (which generally imposes a minimum tax liability on large corporate taxpayers with significant deductible payments), the Section 951A tax on a U.S. shareholder's global intangible low-taxed income, or GILTI, and the new foreign tax credit rules.

In addition, it is likely that final regulations under Section 163(j)[2] about limitations on interest deductions, currently under review by the Office of Information and Regulatory Affairs, or OIRA, and expected proposed regulations under Section 163(j), will be released in early 2020 and will address, among other issues, to what extent Section 163(j) applies to controlled foreign corporations, or CFCs.

Final regulations under Section 267A,[3] which denies certain deductions related to hybrid transactions or hybrid entities, are also under review at OIRA and are likely to be released soon. In 2020, Treasury and the IRS will continue to focus on finalizing the remaining rules comprising the foundation of the new international tax regime, including the foreign-derived intangible income, or FDII, rules providing for a reduced tax rate (through a deduction mechanism) for certain foreign-derived income as well as the Section 864(c)(8)[4] rules addressing dispositions of interests in partnerships engaged in a U.S. trade or business and the associated Section 1446(f)[5] withholding rules.

With respect to the upcoming FDII guidance, a major issue is to what extent Treasury and the IRS will relax the proposed documentation requirements, which must be satisfied in order for income from a sale or service to qualify as foreign-derived. Several aspects of the documentation requirements in the proposed regulations were criticized as unduly onerous.

For example, with respect to sales, the proposed regulations would require a seller to establish with documentation both that the property was sold to a foreign person and that the property was for foreign use.

In the case of "general property" (i.e., nonintangible property), the seller would generally



Eric Solomon



Amanda Varma



David Fruchtman



George Callas

be required to establish foreign use by obtaining a written statement from the recipient regarding the intended use of the property, a binding contract specifying the intended use or documentation of shipment to a location outside the United States. A foreign shipping address would generally not be sufficient to establish foreign use (except in the case of certain small businesses).

Other issues that taxpayers have requested be addressed in the upcoming FDII guidance include rules for allocating and apportioning deductions, and the substantive rules for determining foreign use in the case of general property, the location of use of intangible property, and the location of business recipients of general services.

In 2020, Treasury and the IRS will also continue to work on finalizing proposed regulations regarding certain discrete issues under the GILTI, BEAT and foreign tax credit regimes. For example, with respect to GILTI, a major item of interest will be the approach taken in expected final regulations providing for an elective high-tax exception, that generally would exclude from the GILTI calculation gross income subject to a foreign tax rate in excess of 18.9% (90% of 21%, the corporate tax rate, similar to the subpart F high tax exception).

The proposed regulations provide that the election, and the calculation of the foreign tax rate, would apply on a qualified business unit, or QBU, basis. Treasury and the IRS received comments that the exception should instead be calculated on a CFC-by-CFC basis, as well as comments that the foreign tax rate should be the 13.125% rate referenced in legislative history as the foreign tax rate at which no residual U.S. tax would be owed on GILTI.

In addition, the high-tax exception is proposed to apply to taxable years after the regulations are finalized, and comments have requested that the final regulations apply retroactively.

Other guidance projects of likely continued attention include those covered in prior proposed regulations or sub-regulatory guidance. These include guidance with respect to previously taxed earnings and profits (Notice 2019-01 released in December 2018), the interaction of revised Section 863(b) with Section 865(e)(2)[6] with respect to the sourcing of sales of inventory property (proposed regulations released in December 2019), as well as several areas not related to tax reform, including the characterization of cloud computing transactions (proposed regulations were released in August 2019) and certain aspects of the passive foreign investment company provisions (proposed regulations were released in July 2019).

## **Digital Tax**

The Organization for Economic Cooperation and Development's work to address international tax policy, including the tax challenges of the digitalized economy, will continue to be a focus of Treasury and multinationals in 2020.

The OECD released two consultation documents in 2019, one on the allocation of taxing rights between jurisdictions, including potential new allocations of nonroutine profits to market jurisdictions (Pillar One), and the other on a potential new global minimum tax (Pillar Two, also referred to as the Global Anti-Base Erosion or GloBE proposal). Many details remain unsettled, such as how nonroutine profits will be calculated and whether a minimum tax would be calculated on an entity-by-entity, country or global basis.

At the same time, policymakers around the world face continued political pressure to reach some sort of consensus in light of the proliferation of unilateral digital services taxes,

associated trade measures and questions regarding the fairness of the international tax system.

A question in 2020 will be whether and to what degree consensus can be reached and whether that consensus actually increases the stability of the international tax system by reflecting new consistent principles in countries' domestic laws, or instead provides ideas or impetus for countries to engage in unilateral actions.

### **International Tax Controversy**

In 2020, it is likely that an increasing number of international tax controversies will involve not only substantive international tax issues but also administrative procedure questions such as the validity of regulations. The *Altera v. Commissioner* and *3M Co. v. Commissioner* transfer pricing cases are two recent examples in the transfer pricing area (*Altera* involving the validity of regulations requiring businesses to include stock-based compensation in their cost sharing agreements and *3M* involving the validity of transfer pricing regulations disregarding foreign legal restrictions on payments to the extent the restrictions generate an economic outcome inconsistent with an arm's-length result).

In 2020, controversies may commence regarding the validity of the temporary regulations under Section 245A[7] released in June 2019 without prior notice and comment. These regulations limit the availability of the Section 245A dividends-received deduction available for certain dividends from CFCs where the earnings are related to certain transactions before the GILTI rules became effective or where there have been certain changes in ownership resulting in Subpart F income or tested income of the CFC not being taken into income.

In terms of substantive issues, transfer-pricing cases continue to make up a significant number of the outstanding international tax controversies. In addition, tax reform-related controversies are likely to increase. On Nov. 4, 2019, the IRS announced a new Large Business and International (LB&I) Division compliance campaign addressing the Section 965 transition tax.

Focus on other tax-reform related areas is likely to increase as more post-tax reform years become the subject of IRS examination in the Compliance Assurance Program and the normal examination process.

### **Federal Subchapter C and Consolidated Returns**

In 2020 most of the Treasury and IRS effort in the federal corporate area will focus on issues raised by the TCJA, in particular how various provisions, such as the Section 163(j) interest limitations, the Section 951A tax on GILTI,[8] and Section 168(k) expensing of assets,[9] apply to affiliated groups of corporations filing consolidated returns.

Some of the issues include the extent to which computations will be done on a group basis or on a separate entity basis, stock basis adjustments, and how to deal with situations where corporations join or depart from a consolidated group. Many questions have been addressed in regulations that have already been issued, but many hard questions remain to be answered.

An example of a difficult open question is how to compute basis adjustments in the stock of CFCs owned by a U.S. corporate shareholder, and corresponding basis adjustments in the stock of the U.S. corporate shareholder if the corporate shareholder is a subsidiary in a

consolidated group, where the U.S. corporate shareholder owns a CFC with a tested loss which offsets the tested income of another CFC, and accordingly reduces the U.S. corporate shareholder's GILTI inclusion.

Another example concerns whether and how Section 168(k) expensing applies where one member of a consolidated group sells property to another member of the group (which would normally be a nonqualifying acquisition by a related party), and then the purchasing member promptly leaves the group as part of a series of related transactions.

Besides TCJA issues, another area of attention in 2020 will be spinoffs. A spinoff is a distribution by a corporation of stock of a controlled subsidiary. If various requirements in Section 355[10] are satisfied, the distribution is tax-free to the distributing corporation and to the distributing corporation's shareholders receiving stock of the subsidiary.

The IRS is working on two projects in the spinoff area. The first is a revision of the procedures taxpayers must follow to obtain a private letter ruling from the IRS about tax issues arising in a spinoff.

The guidance is likely to be in the form of a revenue procedure setting forth the information and representations taxpayers must provide to obtain a ruling. This revenue procedure is also likely to provide guidance on allocations of debt between a distributing corporation and the subsidiary being distributed.

The second spinoff project is listed in the 2019-2020 Priority Guidance Plan as "Regulations relating to the requirements under §355, including the active trade or business requirement and the prohibition on device for the distribution of earnings and profits."

The exact scope of this project is unclear, but public statements by IRS officials indicate that it could include reconsidering and possibly finalizing or reproposing parts or all of two sets of proposed regulations (issued in 2007 and 2016) that deal with the active trade or business requirement and the non-device requirement.

The 2007 proposed regulations contain extensive rules about the requirement that the distributing corporation and the controlled subsidiary must each have a trade or business that has been actively conducted for five years before the spinoff. In addition to focusing on the 2007 proposed rules, the project might include guidance as to whether the gross value of a corporation's active trade or business assets must be at least some minimum percentage of the gross value of all the corporation's assets in order for the corporation to satisfy the active trade or business requirement.

In addition, the project might include guidance as to whether a corporation whose activities are in a prerevenue stage can satisfy the active trade or business requirement. Questions have been raised whether entrepreneurial activities, such as research and development regarding new drugs or technology with the purpose of earning income in the future, can satisfy the active trade or business test even though no income has yet been collected.

The 2016 proposed regulations deal largely with the requirement that a spinoff cannot be used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled subsidiary (in other words, a disguised dividend of earnings), and especially focus on the presence of investment assets in the distributing corporation or the controlled subsidiary.

The 2016 proposed regulations are controversial because they would make it harder for a

spinoff to qualify for tax-free treatment if the distributing corporation or controlled subsidiary has significant investment assets and the proportion of investment assets in one of the corporations is significantly higher than in the other corporation.

In addition to spinoffs, in 2020 the IRS will devote resources to a particular aspect of rules in Section 382[11] about restrictions on the use of loss carryovers. Section 382 imposes limitations on the use of net operating loss carryovers after a corporation undergoes an ownership change (a more than 50% change in equity ownership). If a corporation experiences an ownership change, the loss corporation thereafter has an annual limitation on the use of loss carryovers to offset post-change income in an amount computed by a formula (the equity value of the loss corporation multiplied by a long-term tax-exempt rate).

Under Section 382(h),[12] there are special rules that apply where after an ownership change a loss corporation sells a loss asset or takes deductions attributable to activity in the pre-change period (there is a taxpayer-unfavorable rule treating the recognized loss or deductions like a prechange loss carryover) or sells a gain asset or has income attributable to activity in the pre-change period (there is a taxpayer-favorable rule increasing the annual limitation). IRS Notice 2003-65 gave taxpayers a safe-harbor election to use either of two methods to identify deductions or income attributable to prechange activity.

In September of last year, the IRS issued proposed regulations under Section 382(h). These regulations are proposed to be effective when finalized. The proposed regulations are intended to replace the rules in the IRS notice, eliminating the safe-harbor election and setting forth a single set of mandatory rules.

The proposed regulations are controversial in a number of respects, particularly because they would eliminate a rule in the IRS notice about identifying income from prechange activity that is relied upon by numerous troubled corporations undergoing restructurings. Troubled companies utilize the rule in the IRS notice to increase their post-change loss limitation and thus preserve a significant portion of the value of their loss carryovers, the use of which carryovers assists in rehabilitation of the business. The IRS has received lengthy comments about the proposed regulations, and will study the comments and decide on next steps.

## **State and Local Tax**

States and localities are flush with more and better revenue opportunities than they have experienced in decades. These opportunities are attributable in large part to the U.S. Supreme Court's approval of economic nexus for sales and use taxes,[13] and the growth of the sharing and gig economies. As the states attempt to capitalize on those opportunities, we expect to see the following important developments in 2020 and beyond:

### **Economic Nexus Thresholds**

In *South Dakota v. Wayfair*, the U.S. Supreme Court approved South Dakota's assertion of sales tax economic nexus against three large retailers, notwithstanding those retailers' lack of physical presence in that state. Although the court neither approved of nor rejected South Dakota's specific annual thresholds (\$100,000 in sales or 200 transactions), other states are treating the dollar threshold as being approved by the court.

Moreover, some states have expanded their economic nexus thresholds into their income

tax regimes, and other states are certain to follow. Thus, we expect to see income tax economic-nexus thresholds that:

- Will be imposed on a unitary basis rather than on individual corporations, thus substantially lowering the effective threshold (Massachusetts is doing this now);
- Are set too low, resulting in unjustifiable compliance burdens;
- Apply apportionment rules to nexus determinations (even though nexus determinations are subject to far greater levels of judicial scrutiny);
- Apply market-sourcing apportionment rules for sales of other than tangible personal property, which the states then boot-strap to find nexus; or
- Treat registration with the state for other tax purposes as an admission that the corporation is presumptively subject to the state's income tax (Texas is doing this now for its margin tax).

Impacted businesses will need to decide whether to accept, challenge or otherwise proceed despite overly aggressive income tax economic nexus thresholds.

Significantly, almost half of the states include payroll and property factors in their apportionment formulae. In those states, businesses treated as having economic nexus might be able to reduce a remote state's income tax bite by as much as two-thirds by making sure that they have payroll and property factors.

Likewise, businesses can help themselves by monitoring challenges raised by other taxpayers. We expect to see challenges contending that the states' nexus thresholds fail the balancing of interests test required by the U.S. Supreme Court in *Pike v. Bruce Church*<sup>[3]</sup> and *Wayfair*. This test examines whether the burdens on affected businesses are justified by the tax benefit derived by the state.

### **Taxing the Gig and Sharing Economies**

Offering one's skills as a freelance caterer, handyman, landscaper, mover, etc. on a cash basis is a long-standing business model. However, the gig economy institutionalizes these freelance activities by creating a platform through which service providers and potential customers are introduced, evaluations of prior interactions are provided, and fees are collected and disbursed.

Somewhat similarly, the sharing economy allows owners of underutilized personal or real property to monetize that unused capacity by renting use or space to others. Here, again,

the platforms through which these contacts occur have created new targets for taxation and tax enforcement. Therefore, we foresee:

- Efforts by the states to expand the types of services subject to sales tax,
- Attempts by local jurisdictions to impose new taxes, fees, or both on the new economy, and
- Widespread state efforts to impose employer-type payroll tax responsibilities on gig platforms.

#### Expansion of Sales Taxes to Cover New Services and Providers

States have long sought to impose sales taxes on expanded ranges of services and service providers.[14] The most recent efforts occurred in Ohio where, in July 2019, the state legislature passed a bill stating that providers of taxable services include: "The operator of any technology platform that connects a consumer with another person who is providing a service subject to the tax levied under this chapter, including a transportation network company."

Ohio's governor vetoed that language, but in doing so opined that the language clarified existing law. (The governor's view notwithstanding, a 2017 appeal pending at the Ohio Board of Tax Appeals asserts that the position the bill sought to codify is an unlawful extension of the state's sales tax.)

In addition, almost every state with a sales tax imposes tax collection obligations on platforms through which goods and services are advertised and researched, taxable sales are agreed upon, and payments are made. Notably, many of these laws took effect in the fourth quarter of 2019, and many others took effect in the third quarter of 2019.

As compliance efforts and enforcement begin to occur, we expect to see complications from and challenges to these laws. And, as with income tax economic-nexus statutes, the most important challenges are likely to assert that the burdens imposed on the platform are excessive when compared to the benefits received by the state.

#### Efforts by Local Jurisdictions to Impose New Taxes, New fees or Both on the New Economy

As demonstrated in 2019, large cities view the new economy — especially the gig economy — as having significant local impact and revenue potential. Often these jurisdictions' enabling statutes or state constitutions limit the types of taxes they may impose. To avoid these limitations, local jurisdictions may seek to impose user fees rather than taxes — but, again, only to the extent permitted by enabling laws and state constitutions. When a tax or fee exceeds those limits, taxpayers should consider paying the charges under protest or, in some circumstances, challenging the charges without paying.

We expect to see localities nationwide impose new taxes and fees on new economy activities. For example, in late 2019, San Francisco, Chicago and Seattle provided models of

the forms that these local charges might take. Each of these cities imposes a tax, a fee, or both, on ride-sharing/transportation network companies, or TNCs. San Francisco and Chicago justify their new charges by claiming a desire to reduce traffic congestion, while Seattle focuses on harnessing the large volume of TNC activity as a means of paying for housing initiatives.

- Effective Jan. 1, San Francisco has imposed a new tax applicable broadly to compensated rides whether or not facilitated by TNCs.
- Effective Jan. 6, Chicago increased its Ground Transportation Tax on TNCs by nearly doubling the tax on many rides and then adding a new surcharge of \$1.75 on those same rides.
- Effective in 2020, Seattle has imposed a new tax on some TNCs in addition to the fees it already charges all TNCs on each ride. Seattle's arrangement involves a tripling of city charges for some TNCs but a net reduction of city charges for other TNCs.

In these cities and others that follow their lead, we may see challenges based on state enabling legislation/constitutions, or on constitutional limitations on the ability of localities to impose taxes or fees nonuniformly.

#### Efforts to Tax New Economy Platforms as Employers

Throughout the new economy, the platforms that enable provider-customer interactions want to be treated as conduits rather than as providers of the service that the consumer seeks to acquire. Consistent with that characterization, the platforms treat the service providers as independent contractors rather than as their employees — which also allows the platforms to avoid the greater tax paying and tax compliance responsibilities generally imposed on employers.

That self-characterization is under attack, and we anticipate that the state tax consequences of employee versus independent contractor status will continue to receive significant attention. Effective Jan.1, California law contains a presumption that may cause platforms to be treated as employers of drivers and other workers who provide services that are within the usual course of the entity's business. And New Jersey has asserted an employment tax liability of more than \$500 million against a TNC.

Notably, a characterization of workers as employees rather than independent contractors may change the platform's state income tax apportionment percentages. In some circumstances, this will reduce the amount of income tax the company owes to a state.

### **Federal Tax Legislative Agenda**

#### **2020 Presidential Campaign**

Tax policy is playing a large role in the Democratic presidential primary process, both to



provide funding for spending proposals, as well as to increase the burden on affluent households and corporations. While none of these proposals will become law in 2020, a public debate over these proposals will occur this year.

Democratic members of Congress could feel pressure to support their nominee's tax policy agenda during the campaign, setting up 2021 (especially the period before the August recess) as a year for making law if the Democrats win the White House. Meanwhile, President Donald Trump does not have a significant tax policy agenda, and the Trump administration mostly is focused on defending, improving and highlighting the benefits of the TCJA — i.e., preserving the status quo.

### Taxing Wealth and Asset Appreciation

Democratic candidates have offered three different types of tax proposals to tax wealth and unrealized gains that largely have not been subject to tax because the realization requirement has not been met. These three categories include (1) an annual tax on net wealth, (2) an annual mark-to-market system (i.e., deemed sale and immediate repurchase at the end of the year) for capital assets, and (3) mark-to-market at death. The mark-to-market system at death usually is paired with ordinary income treatment for long-term capital gains.

- **Wealth tax:** Sens. Bernie Sanders, I-Vt., and Elizabeth Warren, D-Mass., have proposed to tax net wealth over a certain threshold on an annual basis, using a progressive rate structure. Sanders would tax net wealth in excess of \$32 million (joint filers) at a 1% rate, with the rate increasing in one percentage point increments until wealth in excess of \$10 billion is taxed at 8%. Threshold amounts would be halved for single filers. Warren, meanwhile, would apply a 2% rate to wealth in excess of \$50 million and a 6% rate on wealth in excess of \$1 billion.
- **Annual mark-to-market:** Former Sen. Michael Bennet, D-Colo., Sen. Cory Booker, D-N.J., and Warren propose that owners of capital assets would be deemed to sell those assets on the last day of each tax year and then immediately repurchase them. It is unclear how this proposal would treat assets that generate ordinary income (e.g., depreciation recapture). This proposal likely has greater viability than a wealth tax in Congress, given that Sen. Ron Wyden, D-Ore., ranking Democrat on the Senate Finance Committee (who would become chairman if Democrats win the Senate), has published a detailed mark-to-market proposal of his own. For this reason, many (including Wyden) view mark-to-market as a strong fallback position if a wealth tax proves politically impossible.
- **Mark-to-market at death:** Former Vice President Joe Biden has proposed to revive a proposal that President Barack Obama included in his last budget submission. Under current law, taxpayers get a step-up in basis at death, making any gain accrued to that point tax-free in the hands of the beneficiary. Biden's proposal would require realization of that gain at death. (Many commentators incorrectly describe Biden's proposal as repealing stepped up basis at death. But that would mean beneficiaries take a carryover basis and continue to defer the gain, as with gifts. Because the gain

is realized at death under Biden's proposal, the basis is stepped up to the deemed sales price.)

### Corporate and International Tax Increases

Almost every major Democratic candidate has proposed to increase the 21% corporate rate, with proposals ranging from 25% (Sen. Amy Klobuchar, D-Minn.) and 28% (Biden and Bennet) to returning to the pre-TCJA rate of 35% (Sanders, Warren, and South Bend, Indiana Mayor Pete Buttigieg). None of the candidates, however, have proposed repealing or scaling back the TCJA's corporate revenue raisers. Instead, they would use the corporate rate increases to fund spending initiatives, while retaining the TCJA's corporate revenue raisers — and in some cases even strengthening them.

For example, Democratic candidates increasingly are adopting proposals to strengthen the GILTI regime by replacing the generally aggregated approach of Section 951A with a per-country limitation, thus preventing U.S. shareholders from blending income, foreign tax credits and qualified business asset investment, or QBAI, from different jurisdictions (even if within the same CFC).

Other GILTI modifications on the table include reducing or eliminating the Section 250[16] deduction (thus taxing GILTI at a rate closer to the full statutory rate) and repealing the deduction for QBAI (based on the argument that QBAI encourages offshoring of depreciable property and, therefore, real economic activity).

### Other Tax Increases

Democratic candidates propose numerous other tax increases on businesses and high-net worth individuals to help low-income individuals. Both Biden and Warren propose corporate surtaxes that rely on financial accounting (i.e., Generally Accepted Accounting Principles) rules to determine the tax base.

Among other proposals, most of the candidates propose to raise the top individual rate from 37% to 39.6%, to tax profits from carried interests as ordinary income, and to reduce or repeal the Section 199A deduction for qualifying business income of non-corporate businesses.

### **Congress**

With the enactment of significant tax legislation in December 2019, much of the impetus for further tax legislation in 2020 — at least before the election — has dissipated. The December legislation generally:

- Extended tax provisions expiring in 2017, 2018 and 2019 (also known as "tax extenders") through the end of 2020;
- Permanently repealed the medical device excise tax, health insurance tax and excise tax on high-cost (Cadillac) plans;

- Enacted the SECURE Act, dealing with pension and retirement tax provisions;
- Provided for certain types of disaster-related tax relief; and
- Fixed two unintended consequences of the TCJA affecting tax-exempt organizations.

#### TCJA Technical Corrections

The 2020 tax agenda in Congress begins with the provisions that were part of the negotiations but did not make it into the December 2019 final legislation. Most notably, those provisions include over 70 technical corrections to the TCJA, the most politically prominent of which are:

- 15-year recovery period (and therefore eligibility for bonus depreciation) for qualified improvement property;
- Eliminating the retroactivity of a provision related to net operating losses;
- Correcting the application of constructive ownership rules with respect to subpart F and GILTI; and
- Preventing the IRS from applying overpayments to the Section 965 liability of taxpayers that elected the eight-year installment option.

While congressional Republicans prioritized TCJA technical corrections, congressional Democrats required a price that Republicans were not willing to pay — specifically, a significant expansion of refundable tax credits (in particular, the earned income credit and the additional child tax credit) and certain green energy tax incentives, especially the credit for electric vehicles.

#### Tax Extenders

Even though Congress just enacted a tax extenders package less than one month ago, all of those provisions expire at the end of 2020. This creates the possibility of a late 2020 effort to extend those provisions again. The extenders list has 34 provisions, and includes expiring tax provisions important to the business community such as Section 954(c)(6) (the so-called “CFC look-thru rule”),<sup>[17]</sup> biodiesel tax incentives, the America Samoa economic development credit, and lower excise tax rates for beer, wine and spirits.

## Surface Transportation Infrastructure

The current spending authorization for the Highway Trust Fund (HTF, comprising the Highway Account and the Mass Transit Account) expires September 30, 2020. As a result of a historical jurisdictional compromise in Congress many years ago, this authorization is in the Internal Revenue Code and under the jurisdiction of the tax writing committees: the Ways and Means Committee in the House and the Finance Committee in the Senate. Often, extensions of the excise taxes that fund the HTF — the largest of which is the federal gas tax — are included in legislation extending the HTF's spending authority. Sometimes this opens the door to other tax provisions, especially those with an infrastructure or fuel nexus. For instance, in recent years HTF legislation has included tax provisions related to liquified/compressed natural gas, private activity bonds, and even the tax treatment of general aviation.

---


Eric Solomon is a partner at Steptoe & Johnson LLP. From 2006 to 2009 he served as assistant secretary for tax policy at the U.S. Treasury Department.

Amanda Pedvin Varma is a partner at the firm.


David Fruchtman is a partner at the firm and chairs the national state and local tax practice.


George Callas is managing director of government affairs and public policy at the firm. He previously served as senior tax counsel to then-House Speaker Paul Ryan, R-Wis.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.



[1] Tax Cuts and Jobs Act .

[2] IRC Section 163(j) .

[3] IRC Section 267A .

[4] IRC Section 864(c)(8) .

[5] IRC Section 1446(f) .

[6] IRC Section 863(b) ; IRC Section 865(e)(2) .


[7] IRC Section 245A .

[8] IRC Section 951A .


[9] IRC Section 168(k) .

[10] IRC Section 355 .

[11] IRC Section 382 .


[12] IRC Section 382(h) .

[13] South Dakota v. Wayfair , 138 S. Ct. 2080 (June 18, 2018).

[14] 397 U.S. 137 (1970) .

[15] States' efforts and difficulties in taxing services are analyzed in detail in an amicus brief filed with the U.S. Supreme Court in Wayfair. In general, states have had difficulty defining specific services (which is essential when not all services are taxed). In addition, states have been unwilling to avoid the pyramiding of taxes that occurs when someone providing a taxable service needs the assistance of another provider of taxable services. And, for services benefiting purchasers in several states at one time, states have had difficulty determining where a service is received.

[16] IRC Section 250 .

[17] IRC Section 954(c)(6) .