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Wall Street Doubtful on Tax Reform This Year, Despite Promises from Paul Ryan, White House

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Wall Street is taking with a grain of salt Washington, D.C.'s promises that tax reform will happen this year.

Speaker of the House Paul Ryan called on Congress to seize its "once-in-a-generation moment" to enact "transformational tax reform" in 2017 in remarks delivered at a conference held by the National Association of Manufacturers on Tuesday. At the same event, Vice President Mike Pence said Republicans would pass an Obamacare replacement by the end of summer and "tax cuts" this year, and Treasury Secretary Steven Mnuchin promised "massive tax reform" by the New Year in an interview with [CNBC](#).

"We are going to fix this nation's tax code once and for all," Ryan said. "We are going to get this done in 2017."

The comments run contrary to a growing consensus on Wall Street that, despite a real desire for tax reform on the corporate front, legislation is unlikely to land this year.

"I doubt it, but it's always possible," said Jim Paulsen, an independent market strategist formerly of Wells Capital Management. "I am sure as the year wears on, there is increasing pressure for the 'in control' party, the Republicans, to show they can do something. However, the discord even within the party -- let alone across the aisle -- remains fairly high, and I think this will most likely result in a bunch of talk and drafts but little actually passed."

"The calendar has taken a beating with healthcare reform taking longer than expected, and the push to cancel August recess is pretty unrealistic. Then there is a crunch of much-do legislative business in the fall," said Height Securities analyst Peter Cohn. "So from the standpoint of bandwidth to accomplish tax reform in calendar 2017, it's begun to look more like a final bill won't get done until early 2018. That being said, there is hard work and number crunching going on behind the scenes so lawmakers can be ready to go at the first opportunity this fall, to begin the process of moving the bill through committee and to the floor of both chambers."

Investors have become [increasingly dubious](#) of the prospect of major tax reform in the near future despite optimism after Donald Trump's surprise election in November that having

Republicans in control of Congress and the White House would lead to earnings-boosting tax cuts for corporations.

The GOP has yet to make meaningful progress on tax legislation beyond the president's one-page set of tax principles [unveiled](#) by Secretary Mnuchin and National Economic Council Director Gary Cohn in April. The president this month said his tax bill was "moving along in Congress," but no such bill exists.

"I would say the market expects nothing for 2017 now, and if by chance it looked like they were going to get something done, it would be a positive market event," said Paulsen.

Jack Ablin, chief investment officer at BMO Private Bank, said he's holding out hope "something could be done to lower the corporate tax rate" soon, as corporate taxes as a percentage of total taxes collected is pretty low.

"I'm doubtful anything will happen on personal income taxes," he said. "The municipal [bond] market appears to agree with me."

Municipal bonds, which are exempt from federal taxes, are outperforming taxable bonds.

Joseph Perry, partner at accounting and advisory firm Marcum LLP said despite misgivings by some, he gives tax reform a more than 50% chance of passing this year. "If for some reason it spills over to next year and it doesn't happen by March or April of next year, I'm not sure it's going to happen," he said, noting the midterm elections in 2018. "That's why they're probably coming back and retooling."

Investors yawned as Ryan spoke on Tuesday, with the Dow, S&P 500 and Nasdaq all marginally in negative territory midday.