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Debate over 2025 reconciliation bill strategy continues

As they anticipate unified GOP control of the White House and both chambers of Congress in 2025, House and Senate Republican leaders remained divided this week over how and when to move fast-track budget reconciliation legislation that would include, among other things, extensions of key provisions in the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) that are scheduled to expire at the end of next year.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Budget reconciliation is an expedited legislative process that has been used by both parties several times in recent decades to sidestep a filibuster in the Senate—a procedural hurdle that can only be overcome with a 60-vote supermajority—to enact qualifying tax and mandatory spending legislation with just 51 votes (which can include the tie-breaking vote of the vice president) instead of 60. Having the ability to advance legislation with a simple majority would be advantageous for Republicans, who will control 53 Senate seats in the 119th

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Congress and are unlikely to win much if any support from Democrats on party-line legislation addressing key GOP priorities, such as extending the TCJA tax cuts. Republicans last used it to pass the TCJA in late 2017, during Trump's first year in office. Democrats used it in 2021 to pass the American Rescue Plan Act of 2021 (P.L. 117-2) and in 2022 to pass the Inflation Reduction Act (P.L. 117-169).
URL: https://www.congress.gov/bill/117th-congress/house-bill/1319/text
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

To put the process in motion, the House and Senate are first required to adopt a joint budget resolution that includes reconciliation instructions directing congressional authorizing committees to report legislation that conforms to certain agreed-upon fiscal parameters. In short, Republicans will have to agree up front on the size of the net fiscal impacts of a tax bill before they can fill in the details; but if they can reach internal agreement on that, they will have the ability to pass legislation without having to secure any votes from the other side of the aisle.

In the Senate, Thune doubles down on two bills

Incoming Senate Majority Leader John Thune (R-S.D.) recently told his Republican colleagues that he hopes to advance two bills under fast-track budget reconciliation rules in 2025: one addressing energy, defense, and border security, that would move in the early days of the second Donald Trump administration, and a separate, tax-focused package that would follow later in the year to stave off the looming sunset of temporary TCJA provisions such as lower income tax rates for individuals, increased exemption amounts for the individual alternative minimum tax and the estate tax, and the 20 percent deduction for passthrough business income. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 32, Dec. 6, 2024.) This two-bill strategy would be possible if, for example, lawmakers adopt a budget resolution for the current fiscal year, FY 2025, before it ends on September 30, 2025, and adopt a second one with a separate set of reconciliation instructions for FY 2026, which begins on October 1, 2025.
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241206_1.html

Thune and other Republicans in the upper chamber maintain that moving a nontax reconciliation bill early in Trump's second administration would allow the GOP to score a quick policy win and help pave the way for action on a large, complex tax package later in the year.

Thune reiterated that argument this week, stating in comments reported by Bloomberg Tax that "[i]t makes sense for us to move quickly on things we can move quickly. But I think we can do both."

In a December 11 interview on The Hugh Hewitt Show, Thune acknowledged that it would "take a while to put [a tax] package together because there are so many moving parts," but added that his "goal is to have this done by summer."

Incoming Majority Whip (and Senate Finance Committee member) John Barrasso (R-Wyo.) this week endorsed Thune's approach as "the absolute right strategy," according to Bloomberg Tax, adding that "we're continuing to discuss it with our members."

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Incoming Senate Budget Committee Chairman Lindsey Graham (R-S.C.) told reporters December 11 that border security must be the chamber's first priority in the new Congress.

"Terrorists are on the move, and I worry about an imminent attack on our country. So what we're going to do in the Senate is start with a transformational border security bill to deal with this national security nightmare. That's what we're going to do first, then we'll move to taxes, we'll cut spending," he said, according to comments reported in *Punchbowl News*.

Although President-elect Trump has not publicly commented on the emerging Senate Republican plan, advisor Stephen Miller, who will become the Trump administration's deputy chief of staff for policy, endorsed it this week, stating in a December 8 interview on Fox News that taking up a tax bill after Congress has addressed a border-focused reconciliation package would give lawmakers additional time to iron out differences over some potentially tricky tax policy issues.

A tax bill is "where you have to figure out SALT, the state and local tax deductions, that's where you're going to figure out about different policy baselines. . . . And with the two or three seat majority in the House, obviously that's going to take some time," Miller said. "[N]obody is even talking [about] or considering delaying tax. What the Senate has talked about doing is giving the president, within a week or two of taking the oath of office, the most significant domestic policy achievement in at least 50 years."

In the House, Smith continues push for single package

Across the Rotunda, House Ways and Means Committee Chairman Jason Smith (R-Mo.) this week stuck by his position that Republicans should advance one large reconciliation measure—addressing tax and nontax priorities—relatively early in 2025. (Smith has argued that the effort involved in securing an agreement on a nontax package, particularly given the extremely narrow GOP majority in the House next year that will require absolute unity on party-line legislation, could sap the momentum for a separate follow-up tax bill.)

"I know the House on tax policy better than anyone else," Smith said ahead of a December 11 listening session convened by GOP leadership, according to a report in *Punchbowl News*. "If they want to give me the best opportunity to pass the president's tax plan, make it all in one bill."

Smith also called for swift action on a tax package during a December 10 interview on Fox News.

"We know what President Trump wants and what 76 million Americans voted for. If we don't hit out the gates running, we're going to be in trouble," he said.

In separate comments reported by Bloomberg Tax on December 10, however, Smith acknowledged that decisions around the GOP's reconciliation bill strategy will be made by "people above me."

For his part, House Budget Committee Chairman (and Ways and Means Committee member) Jodey Arrington (R-Texas) continued to advance his argument that a single reconciliation measure that includes key nontax

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GOP priorities such as border security could help shore up support within the conference for the tax component.

"The concern is making sure that we have enough policy sweeteners to get the bigger prosperity package through . . . which has the tax cuts and spending reduction," Arrington told *Punchbowl News*. "That's the bigger play. So we just want to be careful that we don't do anything to imperil that."

A face-to-face meeting, but no resolution

Neither Smith nor Thune appeared to have budged from their respective positions following a face-to-face meeting on December 11, according to comments reported in *Tax Notes*.

"I haven't changed, it's the right policy," Smith said of his single-bill strategy, adding that "it's the right process in order to have success."

Thune told reporters that Congress needs to act quickly on a border security package and then address tax in a subsequent bill.

"I think there's a way to get an outcome on that early on, knowing full well that we still have to deal with all the tax pieces later," he said.

House GOP leaders walk a fine line

Among the House GOP leadership ranks, Majority Leader Steve Scalise of Louisiana stated in remarks at an event at the American Petroleum Institute December 10 that House and Senate Republican leaders "are working through" issues related to next year's reconciliation bill strategy, although he did not weigh in on his own preferred approach, recognizing that "there's pros and cons to each."

Scalise acknowledged that "one of the challenges [in the budget reconciliation process] is passing a budget resolution," noting that education is an important component to understanding the process, particularly since "60 percent" of House Republican members who will take office next year were not in Congress in 2017 when the TCJA was passed and are "not aware of what the limitations of reconciliation are like."

Scalise also spoke to a challenge he is expecting in the House next year with respect to the cap on state and local tax (SALT) deductions which has been a topic of tension since it was capped at $10,000 in the TCJA. In 2017, Scalise noted that Republicans needed to garner support from only five of the SALT state members, however, passing a tax package in the House in 2025 is going to be more difficult as the margin of Republican control will be much tighter in the 119th Congress.

Unlike in 2017, Republicans will control 220 seats to the Democrats 215 seats and are expecting three upcoming vacancies next year as several lawmakers take up posts at the new administration or leave office, diminishing the number of the GOP's working majority from 220 to 217 during the first few months of 2025.

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Those vacancies will make it even more difficult for Republicans to pass party-line legislation, since they will not be able to afford any internal defections on bills if all members are present and voting.

For his part, House Speaker Mike Johnson (R-La.) this week appeared open to moving more than one reconciliation bill, but he suggested that the issue to be resolved with Senate Republicans is whether the TCJA extensions and other possible tax provisions should be included in the first package or wait until later in the year.

"There probably will be at least two reconciliation packages," Johnson said in a December 10 interview on Fox News. "So, the determination right now is where does the tax piece fit in? Do we do that first out of the gates, or do you wait a couple months to get all that done? Because it can be very complicated."

Johnson indicated on December 11 that congressional Republicans intend to initiate the reconciliation process by approving a budget resolution early next January, after the 119th Congress officially convenes, according to comments reported in *Politico*. Johnson also intends to meet with President-elect Trump over the weekend of December 14 to discuss a path forward on reconciliation priorities.

House budget writers weigh merits of TCJA extensions

As House and Senate leaders debated how and when a tax-focused bill would make its way through Congress under the fast-track budget reconciliation process, the House Budget Committee chimed in at a committee hearing, making arguments for and against extending the TCJA tax cuts before the end of next year.

Although tax played a subordinate role at the House Budget Committee's December 11 hearing – Sounding the Alarm: Pathways and Possible Solutions to the US Fiscal Crisis – when it was mentioned, members from both parties provided a window into how tax negotiations may unfold in 2025.

On the Republican side, Rep. Lloyd Smucker of Pennsylvania – also on the House Ways and Means Committee – maintained that, after TCJA, there was a large increase in taxpayers' incomes across the country, and that extending these tax rates will continue the nation's prosperity. He also noted that tax policies need to be put in place to "generate economic growth," while addressing how spending fits in when it comes to the budget.

Also highlighting the benefits of the TCJA, Rep. Bob Good of Virginia stated that Trump's marquee tax legislation reduced federal rates for all households, doubled the standard deduction, increased the child tax credit, and more. He referred to the benefits of the TCJA as "a rising tide lift[ing] all boats."

On the other side of the aisle, however, ranking member Brendan Boyle of Pennsylvania maintained in his opening statement that "two decades of Republican tax cuts have exploded our national debt," advising Congress not to compound the nation's fiscal issues with "extending the TCJA's $4.6 trillion tax cuts" and adding it to the national deficit.

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Rep. Lloyd Doggett of Texas – also on the Ways and Means Committee – insisted that paying to extend the tax cuts in the TCJA is critical, and that the “biggest budget gimmick” he sees is “waving a wand over Trump’s tax cuts 2.0” and finding they do not increase the federal deficit.

Rep. Becca Balint of Vermont also emphasized that the Trump tax cuts enacted in 2017 “skewed to the very wealthy” and as a result, the “American family is struggling.” Balint stated that Americans “want the wealthy to pay more” of their fair-share of tax, noting that the top one percent takes home “27 percent” of income in the US – a “gross economic disparity.”

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December 20 looms as Congress works on continuing resolution

With just one week now remaining in the scheduled post-election congressional lame duck session, lawmakers are working to advance another short-term continuing resolution (CR) that will push the funding debate into the first few months of 2025 – with a likely end-of-March deadline – while funding federal departments and agencies at fiscal year 2024 levels.

Government Funding

Although fiscal year 2025 began on October 1, the House and Senate have not yet approved the 12 full-year appropriations bills required to fund government operations. To date, the House has approved only 5 of these measures and the Senate has yet to approve any. Congress is currently keeping the government’s doors open through a short-term CR, approved in September, which expires on December 20, just one week away.

The current CR—the Continuing Appropriations and Extensions Act of 2025 (H.R. 9747)—cleared the House and Senate on September 25 under expedited rules, and with bipartisan support, leading the way for President Biden to sign the bill a day later, thus averting the possibility of a partial shutdown of government operations when fiscal year 2025 began on October 1. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 29, Sept. 27, 2024.)
URL: https://docs.house.gov/billsthisweek/20240923/CR1FY25_xml%20-%20FINAL%20FOR%20INTRODUCTION.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240927_3.html

While negotiations to fund federal departments and agencies for the current fiscal year are ongoing and details remain scarce, the stopgap measure is expected to include a disaster relief provision to respond to recent hurricanes and other disasters, as reported in *The Hill* on December 10. Last month, President Biden made a request to Congress for almost $100 billion in additional emergency funding for disaster relief.
URL: https://www.whitehouse.gov/briefing-room/presidential-actions/2024/11/18/letter-to-the-speaker-of-the-house-of-representatives-requesting-for-additional-funding-for-disaster-relief/

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Funding negotiations are "moving in the right direction," but "nothing's finalized yet on disaster relief," according to House Appropriations Committee Chairman Tom Cole (R-Okla.).

"I know when people are working in good faith and trying to get to a common point. And I would say that's happening both across the rotunda and across the partisan divide," Cole said, as reported by *Politico* on December 12.

Fiscal Responsibility Act sequester threat may spur action on full-year package: It is worth noting that spending bills that have cleared the Senate Appropriations Committee (but have not yet reached the Senate floor) adhere to the spending caps that President Biden and then-House Speaker Kevin McCarthy, R-Calif., agreed to in the Fiscal Responsibility Act of 2023 (P.L. 118-5), which was signed into law in June of last year and affirmed this past January in a handshake deal on government funding between current Speaker Mike Johnson (R-La.) and Senate Majority Leader Charles Schumer (D-N.Y.). That measure suspended the federal debt limit through January 1, 2025 and made certain fiscal policy changes—including provisions to keep nondefense discretionary spending flat for fiscal year 2024 and to limit annual growth to 1 percent for fiscal years 2025 through 2029. The measure gives Congress a strong incentive to pass all 12 appropriations bills by imposing an automatic, across-the-board 1 percent cut to discretionary spending if a continuing resolution for *any* discretionary budget account remains in place beyond January 1 of next year. (The resulting sequester would not be triggered until next May if all 12 bills are not enacted by the end of April.)
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Biden administration officials and congressional Democrats are also anxious to ensure that a year-end stopgap measure does not contain language in the current CR that would appear to reauthorize a $20 billion rescission to certain mandatory funding for the IRS that was agreed to in the Fiscal Responsibility Act. (The agency originally received a 10-year, $80 billion infusion of mandatory funding under the Inflation Reduction Act.)

Time running out for further lame duck tax action

Now that the Federal Disaster Tax Relief Act (H.R. 5863) has been approved in the Senate and signed into law by President Biden, it is unclear if Congress will take up any additional tax legislation in the waning days of the lame duck session.
URL: https://www.congress.gov/bill/118th-congress/house-bill/5863/text

The disaster relief measure had been included in the long-stalled Tax Relief For American Families and Workers Act (H.R. 7024) negotiated earlier this year by House Ways and Committee Chairman Jason Smith (R-Mo.) and Senate Finance Committee Chairman Ron Wyden (D-Ore.) but was eventually moved as a free standing bill in both chambers. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 32, Dec. 6, 2024.) There had been some discussion that another provision in the Smith-Wyden package that would relieve double-taxation on investments between the US and Taiwan might be attached to must-pass legislation reauthorizing the National Defense Authorization Act (NDAA), however, the provision was not included when the larger NDAA bill was unveiled on December 7.
URL: https://www.congress.gov/bill/118th-congress/house-bill/7024/text
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241206_2.html

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Senate Democratic leaders have discussed expediting a freestanding version of the US-Taiwan tax relief provision before the lame duck session concludes, according to reports from *Tax Notes* and *Bloomberg Tax*, but the status of those efforts is currently uncertain.

Ways and Means top posts remain the same in the 119th Congress

In other developments, the House Republican Steering Committee this week selected Rep. Jason Smith to continue as chairman of the Ways and Means Committee in the 119th Congress, according to Smith's statement on December 9. This will be his second term as chairman of the prestigious committee after initially winning the position in 2023, running against two more senior members, Reps. Vern Buchanan of Florida and Adrian Smith of Nebraska.

After the Steering Committee reappointed him, he released a statement maintaining that "the Ways and Means Committee will be the tip of the spear in advancing policies that grow the economy, increase wages, create jobs and bring more of our neighbors into the workforce, lower the costs of goods and services, expand access to affordable health care in rural America and for seniors, and set our nation on a firmer economic footing."

Smith maintained a desire to "[build] on the success of the 2017 Trump tax cuts and [work] with President Trump to ensure American workers, families, farmers, and small businesses do not see their taxes go up at the end of next year."

The taxwriting committee will be a central part of tax negotiations next year as Congress works to extend the expiring provisions in the TCJA and further cut taxes as Trump pledged during the campaign. As chairman, Smith will play a significant role during this process.

On the other side of the aisle, the Democratic Steering and Policy Committee unanimously selected Rep. Richard Neal (D-Mass.) to continue in his post as ranking member of the House Ways and Means Committee in the 119th Congress, according to a Ways and Means press release on December 11.

"Delivering immeasurable wins for the American people through the Committee on Ways and Means has been the honor of a lifetime, and my commitment only deepens with the challenges that lie ahead in the 119th Congress. From the Child Tax Credit to lowering health care costs, major retirement savings legislation, the Inflation Reduction Act, oversight of the Trump Administration, and so much more, Ways and Means has gone big for the people under my leadership."

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Congressional scorekeepers release deficit-reduction options, federal tax expenditure estimates

As Republican House and Senate leaders contemplate moving a significant tax bill in 2025 and weigh its potential cost to the US fisc, the Congressional Budget Office (CBO) this week released its latest report on options for reducing the federal deficit and the Joint Committee on Taxation (JCT) staff released its latest estimate of federal tax expenditures.

CBO's deficit-reduction options

The CBO report, released on December 12, describes a range of different tax and spending options that lawmakers may consider for reducing the federal debt over the next decade (from 2025-2034).
URL: https://www.cbo.gov/system/files/2024-12/60557-budget-options.pdf

CBO releases such reports periodically and the options presented are culled from legislative proposals, previous presidential budget submissions to Congress, and proposals from the private sector. The nonpartisan agency does not attempt to rank deficit-reduction options or recommend certain specific policies over others, nor does it consider the report to be an exhaustive list of potential remedies.

Rising federal debt and deficit levels: The CBO notes that this latest report comes as the US continues to face unprecedented deficit and debt projections. The agency projected in June that the federal deficit would average $1.9 trillion per year between 2025 and 2034, or 5.4 percent of gross domestic product (GDP), compared to an average of 3.7 percent of GDP over the past 50 years. CBO also projected that federal debt held by the public would rise to 122 percent of GDP at the end of 2034, and would continue to rise thereafter, reaching 166 percent of GDP in 2054.

"To put the federal budget on a sustainable long-term path, lawmakers would need to make significant policy changes—taking actions to cause revenues to rise more than they would under current law, reducing spending for large benefit programs to amounts below those currently projected, or adopting some combination of those approaches," the agency notes. The report is intended to provide an array of policy options and their effect on the federal budget "to help inform lawmakers as they address budgetary challenges."

Individual-focused revenue options: Many of the tax-related options identified in the report would generate additional revenue for deficit reduction on the individual side of the Internal Revenue Code by modifying current-law provisions or enacting new taxes.

Among the possible modifications are:

- Increasing all tax rates on individual income by 1 percentage point (estimated 10-year deficit reduction: $1.19 trillion);

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- Eliminating all itemized deductions ($3.42 trillion), limiting the tax benefits of itemized deductions to 15 percent of their total value ($1.9 trillion), or limiting that benefit to 4 percent of adjusted gross income (AGI) ($736.4 billion);
- Eliminating the SALT deduction ($1.6 trillion);
- Expanding the application of Social Security payroll taxes to include earned income over the current-law cap of $250,000 ($1.43 trillion) or by imposing the tax on 90 percent of earnings ($727.6 billion);
- Modifying the treatment of assets held at death by adopting carryover basis rules ($196.9 billion) and including accrued capital gains in the last income tax return of a decedent ($536.1 billion);
- Limiting the income and payroll tax exclusion for employer-provided health insurance to the 50th percentile of premiums (10-year deficit reduction: $965 billion);
- Imposing a 2 percent payroll tax (to be paid entirely by employees) on all earned income that would apply *in addition to* existing payroll taxes for Social Security and Medicare (estimated 10-year deficit reduction: $2.54 trillion); and
- Imposing a surtax of 1 percentage point on individual AGI greater than $20,000 for single filers/$40,000 for joint filers (10-year deficit reduction: $1.44 trillion) or 2 percentage points for AGI greater than $100,000 for single filers and $200,000 for joint filers (10-year deficit reduction: $1.05 trillion).

Business-focused options: Among the deficit-reduction options affecting business taxpayers identified in the CBO report are:

- Increasing the corporate tax rate by 1 percentage point (estimated 10-year deficit reduction: $135.7 billion);
- Taxing all foreign income of US corporations at the full statutory corporate rate ($340 billion);
- Requiring half of advertising expenses to be amortized over 10 years ($177.2 billion);
- Repealing the “last in, first out” approach to inventory identification and the “lower of cost or market” and “subnormal goods” methods of inventory valuation ($104.4 billion);
- Expanding the base of the net investment income tax to include the income of active participants in S corporations and limited partnerships ($420 billion); and
- Treating carried interests that general partners receive for performing investment management services as labor income, taxed at ordinary income tax rates and subject to the self-employment tax ($13 billion).

Value-added and environmental impact taxes: Moving beyond income taxes, the CBO report notes that lawmakers could reduce the deficit through options such as imposing a new 5 percent value-added tax that would apply to a broad base that encompasses most goods and services (estimated 10-year deficit reduction: $3 trillion) or to a narrower base that excludes certain essential goods and services (estimated 10-year deficit reduction: $2.18 trillion).

The CBO noted that lawmakers also could reduce the deficit by imposing a new tax on greenhouse gas emissions of $25 per metric ton, subject to an annual increase of 5 percent, indexed for inflation ($919 billion), the report states.

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JCT's federal tax expenditure estimates

The nonpartisan Joint Committee on Taxation staff, for its part, gave lawmakers additional guidance with the release on December 11 of its estimate of federal tax expenditures for fiscal years 2024-2028.
URL: https://www.jct.gov/publications/2024/jcx-48-24/

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 as "revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." The JCT report provides cost estimates for these provisions to "help policymakers and the public understand the ways in which government revenues are spent, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation."

Among the more sizable expenditures identified in the report for 2024-2028 are the:

- Reduced rate of tax on the active income of controlled foreign corporations ($213.6 billion);
- Reduced rates of tax on dividends and long-term capital gains ($1.2 trillion);
- Exclusion of capital gains on sales of principal residences ($269 billion);
- Deduction for mortgage interest on owner-occupied residences ($382 billion);
- Deduction for qualified business income ($156 billion);
- Exclusion of capital gains at death ($336 billion);
- Credit for children and other dependents ($400 billion);
- Deduction for charitable contributions, other than for education and health ($345 billion);
- Subsidies for insurance purchased through health benefit exchange ($555 billion);
- Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums ($1.19 trillion); and the
- Net exclusion of contributions and earnings tax-preferred retirement plans, including defined contribution plans, defined benefit plans, and sole proprietor plans ($2.31 trillion).

In addition to providing cost estimates, the report also presents distributional projections of tax return data for income classes as well as distributions of selected individual tax expenditures by income class. Further, the JCT report indicates that, a tax expenditure calculation is not the same as a revenue estimate for purposes of repealing the tax expenditure provision because of behavioral changes, interactions in the tax code, and the fact that the amount of revenue raised from repealing a provision can differ depending on timing.

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