House GOP tax- and budget writers eye tax cuts among their FY 2025 budget priorities

As Congress awaits the release of a fiscal year 2025 budget proposal from the White House that is expected to include tax increases for large businesses and wealthy individuals, the Republican majorities on the House Ways and Means Committee and the House Budget Committee made clear this week that their focus in the coming fiscal year will be on tax cuts.

Ways and Means 'views and estimates' letter hints at TCJA extensions

Ways and Means Committee Republicans outlined their position on March 6, approving along party lines a views and estimates letter identifying the panel's legislative priorities for those areas of the federal budget that fall within its jurisdiction. (The final vote was 25-16 with Democrats aligned in the "no" column.)
URL: https://gop-waysandmeans.house.gov/wp-content/uploads/2024/03/FY-25-VE-Letter_3.4.pdf

The views and estimates letter is required under the Congressional Budget Act of 1974 and is intended to provide guidance to the House Budget Committee in developing their fiscal year 2025 budget resolution. (Other House panels with jurisdiction over specific budget issues will send their own views and estimates letters to the committee outlining their respective priorities.)

Tax policy priorities: The Ways and Means letter broadly pledges to "prioritize tax policies that benefit American workers, families, farmers, and small businesses," with a specific focus on "reshoring investment and jobs, strengthening our supply chains, growing retirement savings, developing workforce skills and experience, and encouraging small business growth."

That pledge aligns with the stated goal of Republican taxwriters to build on the Trump-era Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) and extend—or even make permanent—provisions such as income tax rate reductions, a higher alternative minimum tax exemption, an increased estate and gift tax exemption, and a 20 percent deduction for certain passthrough business income that are currently set to expire after 2025, although the letter does not identify that legislation by name. (The TCJA cleared the House and Senate under budget reconciliation protections with no support from Democrats in either chamber. Congressional Democrats and the White House generally have called for rolling back many of the TCJA's permanent tax cuts for corporations and large businesses and allowing the temporary tax relief for individuals and passthroughs to expire for taxpayers with income over $400,000.)
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Echoing other priorities that the Republican majority on the panel outlined last year, the letter notes that that House taxwriters will continue to review:

- Administration of federal tax laws by the IRS.
- "Special provisions in the tax code," including various credits enacted in the Inflation Reduction Act of 2022 (P.L. 117-169), which Republicans contend "will cost over twice as much as originally projected."

(The Inflation Reduction Act moved through Congress under budget reconciliation protections and was approved on the strength of Democratic votes alone. Since the legislation was enacted, congressional Republicans have sought to pare back or eliminate many of its tax incentives focused on clean energy.)
URL: https://www.taxnotes.com/research/federal/legislative-documents/public-laws-and-legislative-history/inflation-reduction-act-of-2022-%28p.l.-117-169%29/7dybc

- Improper payments made by the IRS under various current-law tax credit programs.

In addition, the letter states that the panel intends to "root out fraud within tax programs," including, most notably, the COVID-era employee retention tax credit (ERTC). The Tax Relief for American Families and Workers Act (H.R. 7024), the bipartisan tax package that cleared the House on January 31 but is currently stuck in the Senate, includes a revenue offset that would accelerate the deadline for filing additional ERTC claims to January 31, 2024 (from the current deadlines of April 14, 2024, for tax year 2020, and April 15, 2025, for tax year 2021).
URL: https://www.congress.gov/118/bills/hr7024/BILLS-118hr7024eh.pdf

White House budget proposal: The letter pledges that the panel will review revenue provisions in President Biden's upcoming fiscal year 2025 budget request and will examine the proposal more generally "to assess [its] effectiveness or lack of effectiveness . . . in promoting job creation and economic growth, reducing budget deficits and debt, and ensuring the long-term sustainability of programs within the committee's jurisdiction."

The White House will release its budget blueprint for the coming fiscal year on March 11. (See separate coverage of President Biden's State of the Union message in this issue for Biden's comments on some of the revenue provisions that the budget plan will include.)

Federal debt ceiling: In a nod to the continuing debate between congressional Republicans and the Biden administration over how to address the federal debt ceiling, the letter states that House taxwriters have "a responsibility to ensure that the United States meets its obligations" but also to ensure that "the growth of our national debt does not spiral out of control and make us more dependent on financing from foreign nations as more and more of our own domestic budget is consumed by debt interest payments."

To that end, the committee will "continue to monitor the growth of outstanding debt and debt interest and . . . pursue policies to address their growth and reduce the need for future increases in the statutory debt limit," the letter states.

President Biden and then-House Speaker Kevin McCarthy, R-Calif., averted a potential default on the federal debt last year in the Fiscal Responsibility Act (P.L. 118-5), which, among other things, suspended the federal debt ceiling through January 1, 2025. The looming expiration of that provision means action on the statutory debt limit is likely to be at the top of the fiscal policy agenda when the next presidential administration is sworn in and the 119th Congress convenes next January.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Budget Committee advances resolution with tax cut reserve fund

Just one day after House taxwriters ratified their budget-related policy priorities for fiscal year 2025, the House Budget Committee approved on a party-line vote of 19-15 a budget resolution for the coming fiscal year that appears to support extending the temporary tax relief provisions enacted in the Tax Cuts and Jobs Act while also dismantling certain key provisions in the Inflation Reduction Act.
URL: https://docs.house.gov/meetings/BU/BU00/20240307/116938/BILLS-118NAih.pdf

The resolution is a nonbinding document that lays out the panel's budget priorities but does not prescribe specific policies. Legislative language to flesh out the priorities identified in the budget blueprint will ultimately be provided by the relevant House committees of jurisdiction.

According to an executive summary released by the GOP majority, the 10-year blueprint would reduce the federal deficit by $14 trillion over the next decade and create a $144 billion budget surplus in fiscal year 2034 through a combination of cuts in discretionary and mandatory spending, regulatory reforms, and increased economic growth.
URL: https://budget.house.gov/imo/media/doc/executive_summary1.pdf

Tax cut reserve fund: The blueprint includes a reserve fund that would accommodate potential legislation from the Ways and Means Committee to "advance pro-growth tax reforms and simplify the tax code" and a separate policy statement within the resolution calls for "lowering taxes that discourage work, savings, and investment" among a roster of policies intended to grow the economy.
The executive summary also notes that economic growth under the budget plan would come in part from "locking in tax cuts for the middle class and small businesses"—language that comports with the tax policy priorities outlined in the views and estimates letter from the taxwriting panel.

Hints about potential tax revenue raisers: The resolution does not mention any specific revenue-raising tax proposals—again, that language would have to come from the Ways and Means Committee—but the executive summary suggests that the blueprint would achieve the GOP's deficit reduction goals by eliminating most of the clean energy tax incentives in the Inflation Reduction Act and chipping away at the roughly $80 billion in new mandatory funding (over 10 years) that was allocated to the Internal Revenue Service in the 2022 law to, among other things, beef up its enforcement programs. (It's worth noting, however, that nonpartisan budget scorekeepers have consistently said cutting the dedicated funding to the IRS on balance will increase the deficit, as any immediate savings are outweighed by the foregone revenue that would be collected as a result of the additional resources provided to the tax collector.)

Ways and Means Committee Republicans voted to pare back a significant portion of the Inflation Reduction Act's clean energy tax title in what they described as an "economic growth" package that was marked up in June of last year, although that legislation never advanced to the House floor. (For prior coverage, see *Tax News & Views*, Vol. 24, No. 24, June 16, 2023.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2023/TNV/230616_1.html

Moreover, in one of their first legislative actions of the 118th Congress, House Republicans approved legislation (H.R. 23) to rescind some $71 billion of the new IRS funding—specifically, the portions allocated for enforcement activities and operations support. That legislation has not been taken up in the Senate; however, President Biden and then-Speaker Kevin McCarthy, R-Calif., reached a “handshake deal” during their negotiations on the Fiscal Responsibility Act last June providing that subsequent spending legislation would claw back some $20 billion of the IRS’s mandatory funding—$10 billion in fiscal year 2024 and $10 billion in fiscal 2025—and reallocate those dollars toward domestic discretionary spending accounts. That agreement was renegotiated earlier this year by current Speaker Mike Johnson, R-La., and Senate Majority Leader Charles Schumer, D-N.Y., to provide that the entire $20 billion will be rescinded in fiscal year 2024. (See separate story in this edition for the latest developments on the fiscal year 2024 appropriations process).
URL: https://www.congress.gov/bill/118th-congress/house-bill/23/text

What’s next?: It is unclear if the committee-approved measure will be brought up for a vote on the House floor, but even if it were to clear the chamber, it almost certainly would be rejected in the Democratic-controlled Senate.

Also worth noting is the fact that the Fiscal Responsibility Act (as affirmed by the Johnson-Schumer top-line spending accord) already includes a statutory cap on fiscal year 2025 appropriations, which as a practical matter negates the need for a budget resolution this year at all.

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