

## 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 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](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.”

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 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. 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.

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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