

Still no clear path forward for the GOP's budget reconciliation plans

With the Republican-led 119th Congress now officially in session and President-elect Donald Trump set to return to the White House on January 20, the GOP is just days away from having unified control of both ends of Pennsylvania Avenue, which means the stage is set for Republican lawmakers to implement their plan to use fast-track budget reconciliation procedures to extend expiring provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) – the signature tax legislation of Trump's first administration—and advance a host of other priorities related to energy, defense, and border security. But House and Senate GOP leaders remain divided over whether that ambitious agenda is best accomplished through one mammoth reconciliation measure or two separate packages, while the president-elect continues to send mixed signals on his preferred approach.

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 usually 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 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 provisions of the TCJA.

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. Republicans will have an opportunity to advance two reconciliation bills next year if they can agree on a budget resolution for the current fiscal year, FY 2025, before it ends on September 30, 2025, and then adopt a second one with a separate set of reconciliation instructions for FY 2026, which begins on October 1, 2025.

One bill or two?

Newly minted Senate Majority Leader John Thune (R-S.D.) has argued for two reconciliation bills, with tax-related changes trailing behind an initial package that would be focused on energy, defense, and border security. He and other top Senate Republicans such as incoming Majority Whip John Barrasso of Wyoming contend that moving a nontax reconciliation bill early in the second Trump administration would allow the GOP to notch a quick policy win that would help pave the way for action on a large, complex tax package later in the year.

House Speaker Mike Johnson (R-La.) and House Ways and Means Committee Chair Jason Smith (R-Mo.), meanwhile, have countered that Republicans should advance one large reconciliation measure – addressing tax and nontax priorities – relatively early in 2025. Specifically, 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 that will require near-absolute unity on party-line legislation, could sap the momentum for a separate follow-up tax bill. (House Republicans currently hold just 219 seats in the chamber, compared to 215 for Democrats, with 1 seat vacant, leaving the GOP with just a single-vote margin on any party-line legislation that comes to the floor.)

Johnson stated in a January 5 interview on Fox News that if Republicans in his chamber can keep the “trains moving in the right direction and on time,” they should be able to “get [a bill] out of the House in early April, maybe as soon as April 3, and then move it over to the Senate” and that legislation could reach the White House by Memorial Day. To support that timeline, House Majority Leader Steve Scalise (R-La.) told reporters this week that he expects to have a budget resolution with reconciliation instructions on the chamber floor in February and have the relevant authorizing committees crafting legislative proposals in March, according to *Politico*.

Republican leaders in both chambers have stood by their respective positions in recent weeks, although they also made clear that they would defer to President-elect Trump once he weighed in with his preferred approach. Trump, who had been tight-lipped on the issue, provided what appeared to be clear marching orders in a January 5 social media post in which he called for “one powerful Bill” that would “Secure our Border, Unleash American Energy, and Renew the Trump Tax Cuts.”

URL: <https://truthsocial.com/@realDonaldTrump/posts/113778957475969583>

But Trump moderated that stance just one day later when he said in an interview with talk show host Hugh Hewitt that “[w]hile I favor one bill, I also want to get everything passed. And you know, there are some people that don’t necessarily agree with it.”

A group of Senate Republicans – including Majority Leader Thune – made their case for a two-bill strategy during a private meeting with Trump in Washington on January 8. Lawmakers inside the room subsequently told *The Washington Post* that the president-elect reiterated his preference for a single bill, but he did not commit to a specific path forward. *The Post* also noted that Trump appeared noncommittal when addressing reporters after the meeting.

“Whether it’s one bill or two bills, it’s going to get done one way or the other. I think there’s a lot of talk about two, and there’s a lot of talk about one, but it doesn’t matter. The end result is the same,” he said.

What next?

In the absence of clear guidance from Trump, GOP leaders in both chambers indicated this week that they are prepared to move forward with their respective reconciliation bill strategies.

According to Bloomberg Tax, House Budget Committee Chairman Jodey Arrington (R-Texas), told reporters that Republicans in that chamber are “going to work as if it’s one bill” and change course if the president-elect ultimately settles on a different approach.

“If [Trump] ever decides that because of resource constraints or time constraints that he needs a security reconciliation package that’s more targeted to border and defense, then we will be able to easily peel that off and drive that on a second track,” Arrington said.

Senate Majority Leader Thune told reporters after the January 8 meeting with Trump that House and Senate leaders are engaged in “an ongoing conversation,” but according to *Politico*, Thune indicated that he is still committed to moving two separate reconciliation measures.

“Obviously, we want to give the House as much space as possible. They believe they can move and execute on getting a bill across the finish line fairly quickly. But we are prepared to move here, as well,” he said.

Possible non-TCJA provisions

As the debate over strategy continued this week, congressional leaders and President-elect Trump also revealed some of their thoughts about certain tax-related items (aside from the expiring TCJA provisions) that they want to include in – or leave out of – a reconciliation package.

Tariffs: In his January 5 social media post extolling the merits of a single reconciliation bill, Trump commented that the cost of TCJA extensions and the border security and energy provisions would be paid for “WITH TARIFFS, AND MUCH MORE, FROM COUNTRIES THAT HAVE TAKEN ADVANTAGE OF THE US FOR YEARS.”

But according to *Politico*, House Ways and Means Committee Chairman Jason Smith indicated this week that any tariffs offsetting the cost of a reconciliation package likely would be implemented administratively and not through a reconciliation bill.

“Tariffs will pay for it. [Trump] didn’t say it was going to be in the bill,” Smith stated in an interview. “Revenues coming into the country are revenues coming into the country,” he added.

Ways and Means Committee member Kevin Hern (R-Okla.) commented this week that the Congressional Budget Office (CBO) would not consider revenue from tariffs implemented through executive action when measuring the deficit-reduction impact of an eventual reconciliation package.

“From a CBO standpoint, we don’t always get to take those [revenues] as part of the scoring, because that’s an executive action, not a legislative action. Where you’re going to see it is at the Treasury when you’re looking at deficits,” Hern said.

Debt limit increase: The most recent suspension of the debt limit expired on January 1 of this year, but current forecasts suggest that the government can take certain “extraordinary measures” to stave off the possibility of default for several months.

House Speaker Mike Johnson indicated this week that he intends to include a debt limit increase in a reconciliation measure in the hopes that any tax cuts, spending cuts, and border security provisions in that

package would be enough to win over a contingent of conservative Republicans who otherwise would not be inclined to support raising the limit on federal borrowing. (It's worth noting that 38 Republicans late last month voted against a short-term government funding measure that also would have suspended the debt limit for two years – a provision that was included at the behest of President-elect Trump. For prior coverage, see *Tax News & Views*, Vol. 25, No. 34, Dec. 20, 2024.)

URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/241220_2.html

According to *Politico*, at least one Republican in the Senate – John Cornyn of Texas – is skeptical of that plan, telling reporters this week that “[h]ow we deal with the debt limit is currently unresolved.”

Tax exemption for tipped income: President-elect Trump's January 5 social media post called for “no tax on tips” as part of an eventual reconciliation package – a reference to a proposal he made during the presidential campaign to end taxes on tips for individuals working in the restaurant and hospitality industries, although he did not specify whether the exemption would apply only to federal income taxes or also would apply to employment (Social Security and Medicare) taxes.

SALT deduction fix: Trump also proposed during the presidential campaign to eliminate a TCJA provision (which is set to expire at the end of this year) that imposed a \$10,000 cap on the deduction for state and local taxes (SALT).

Politico has reported that Trump intends to meet with House Republican members from New York, New Jersey, and California over the weekend of January 11 to discuss the possibility of relaxing the current-law cap under budget reconciliation as part of an effort to win their support for a broader package. (The SALT deduction cap does not divide lawmakers neatly along party lines and has been a sticking point for Republicans and Democrats who represent jurisdictions with high state and local income and property taxes.)

No word on other Trump tax proposals: Trump thus far has not stated publicly whether he will insist on including other tax-related campaign proposals – such as eliminating taxes on Social Security income and overtime income and reducing the corporate tax rate to 15 percent for domestic manufacturers – in a reconciliation measure this year. (See *Scaling the cliff: Tax policy implications of a Donald Trump presidency* from Deloitte Tax LLP for a detailed discussion of Trump's tax policy campaign platform.)

URL: <https://www2.deloitte.com/us/en/pages/tax/articles/implications-of-a-donald-trump-tax-policy.html>

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