

Graham seeks to kick-off two-step reconciliation effort with Senate budget markup next week

Senate Budget Committee Chairman Lindsey Graham (R-S.C.) announced on February 7 that the Budget panel will mark up the Senate's fiscal year 2025 budget resolution on February 12 and 13 which includes budget reconciliation instructions that would pave the way for several hundred billion dollars in a spending package on defense, energy and border security programs; Graham's approach – which would punt the debate around extending expiring provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) to a second reconciliation effort later this year – comes as House GOP leaders are still struggling to find a path forward on their favored plan for one reconciliation bill that marries together tax and spending policy.

URL: <https://www.budget.senate.gov/chairman/newsroom/press/chairman-graham-senate-budget-committee-will-move-forward-on-a-budget-resolution>

URL: <https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.htm>

"This will be the most transformational border security bill in the history of our country," said Graham.

It is important to remember that – regardless of whether the GOP ultimately pursues a one- or two-bill strategy – in order to even put the filibuster-proof budget reconciliation process in motion, House and Senate Republicans first must work together 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 need to agree to a budget resolution that acts as a blueprint outlining recommended spending levels and revenue targets – without going into specific details around policies – which would then set the stage for future legislation that, if enacted, would achieve that fiscal impact, though they could try to sidestep the hurdle by setting nominal amounts of spending and revenue changes and allowing committees to exceed them. If they can reach internal agreement, they will have the ability to pass legislation without having to secure any votes from the other side of the aisle.

Graham: House reconciliation plan 'too complicated'

Budget Committee Chairman Graham told reporters on February 5 that his decision to pull the trigger on a two-stage reconciliation process reflects his belief that House leaders' single-bill approach would be too cumbersome and is taking too long to develop.

"It's time for the Senate to move," Graham told reporters on February 5.

Graham, along with Senate Majority Leader John Thune (R-S.D.) and Majority Whip John Barrasso (R-Wyo.) have long argued for two reconciliation bills, with tax-related changes trailing behind an initial package focused on energy, defense, and border security. They contend that moving a nontax reconciliation bill first 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.

“...I’ve always believed ‘one big, beautiful bill’ was too complicated,” Graham said, referring to President Trump’s moniker for House leaders’ approach. Trump has publicly backed the one-bill method but has also suggested he is amenable to any parliamentary strategy that can get legislation to his desk.

A spokesperson for Majority Leader Thune echoed Graham’s sentiment but did leave the door open to continued bicameral collaboration on issues related to the legislative process.

“While conversations continue between the House and Senate, [Sen.] Thune supports Chairman Graham’s effort to keep all options open and on the table as Republicans respond to the mandate the American people so clearly delivered last November,” the aide said.

Contours of Senate budget plan: Graham indicated that his blueprint would task the Senate Armed Services Committee to report about \$150 billion in additional defense funding, while the Homeland Security and Governmental Affairs and Judiciary Committees would be required to produce \$175 billion each for border security.

Other committees would receive “deficit reduction” reconciliation instructions, according to Graham.

“It’s going to be paid for, so we will instruct committees, authorizing committees, to go find pay-fors,” he said. “...That process will take a while. Hopefully not months, but weeks. They’re already working on it.”

Speaker Johnson pushes back

For his part, House Speaker Mike Johnson (R-La.) pushed back on Graham’s announcement and expressed optimism that Republicans in his chamber were coalescing around a single-track reconciliation plan.

“I’m going to talk to Lindsey. He’s a good friend,” Johnson said. “And he has to understand the reality of the House. It’s a very different chamber with very different dynamics, and the House needs to lead this if we’re going to have success.”

“...[W]e’re very comfortable about where we are,” he continued. “We feel very optimistic we’re getting there, and we’re going to find that equilibrium point and get this done. So stay tuned.”

Speaker Johnson and House Ways and Means Committee Chair Jason Smith (R-Mo.) have consistently held 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 218 seats in the chamber, compared to 215 for Democrats, with 2 seats vacant, leaving the GOP with just a two-vote margin on any party-line legislation that comes to the floor at least, that is, until special elections are held in the coming months to fill those vacancies.)

Should Republicans falter in that second budget reconciliation effort, the argument goes, the party may be forced to negotiate with congressional Democrats on the fate of the TCJA – an outcome that could lead to vastly different legislative results on tax policy.

House Budget Chairman welcomes Senate ‘heat’: At least one prominent House Republican did not see Sen. Graham’s markup intentions as a net negative for GOP leaders’ one-bill strategy. Instead, House Budget Committee Chairman Jodey Arrington (R-Texas) said it could light a fire under his caucus to more quickly find unanimity on a path forward.

“I think that tension is healthy because it gives more of a sense of urgency for the House to get things done,” Arrington said on February 5. “I actually think it creates a dynamic that is favorable. [House Republicans] don’t need to think that we have all year to do this. I think we need to have a healthy push from our counterparts in the Senate. I see it as a positive thing.”

A House Divided

But persisting deep divides within their ranks have so far prevented House Republicans from moving forward. Indeed, Arrington’s panel had hoped to take up its own budget plan this week, but those plans were scuttled in the face of continued discord within the GOP caucus.

For starters, a number of members of the conservative House Freedom Caucus have openly broken with Speaker Johnson and favor a two-bill approach.

Additionally, the minimum level of spending cuts envisioned in a draft budget blueprint discussed by House Republicans at their Florida retreat last week – \$500 billion to \$700 billion, according to reports – fell far short of the \$2 trillion to \$5 trillion in cuts that many conservatives have been demanding.

Although GOP leaders stressed that the draft budget’s spending cuts would be structured as “floors” and not “ceilings” – meaning a follow-on reconciliation measure could pare even more spending than the blueprint’s figures suggest – that did little to assuage fiscal hawks’ concerns.

“No one has put forward how we’re paying for everything,” one person familiar with the talks told *CNN* this week.

What is more, House Republicans still have not settled on a top line reconciliation instruction for tax – a tall order given the magnitude of the numbers involved and the generally bleak US fiscal outlook. For example, the nonpartisan Congressional Budget Office (CBO) estimated in May of last year that the 10-year cost of permanently extending all of the lapsing provisions of the TCJA would come in at about \$4.6 trillion over a decade (including additional debt service costs) and that number, when updated, will very likely grow even larger now that the 10-year budget window has shifted forward to include yet another year in which the TCJA

is assumed to be expired under current law. (For prior coverage of the CBO's most recent 10-year budget and economic projections, *Tax News & Views*, Vol. 25, No. 4, Jan. 24, 2025.)

URL: <https://www.cbo.gov/publication/60114>

URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250124_3.html

Getting close to a deal

Speaker Johnson told reporters after a lengthy meeting with President Trump at the White House Thursday that House Republicans are very close to an agreement on the budget framework that would set the stage for a large bill covering tax and nontax issues.

"We are very, very close, and I'm very optimistic and happy about it," Johnson said as he exited his Capitol office following a subsequent meeting with other GOP leaders, House committee chairs and hardline conservatives. He stated that "Tuesday is the target" for a markup.

Johnson made clear to *Punchbowl News* that he wants the House, even with its slim GOP majority, to go first with one big bill. When asked whether the Senate should hold off and let the House lead the way on a markup, Johnson said, "I certainly hope so." His message to the Senate was "allow the House to do its work." He indicated that Republicans in the House are working as quickly and "expeditiously" as possible.

House Majority Leader Steve Scalise (R-La.) focused on the scoring of the agreement and acknowledged that we are very close to getting a framework to the House Budget Committee.

"There's differences on which model is used and who recognizes what kind of [economic] growth you would get," Scalise told *Politico* following the afternoon meeting with other members at the White House. "We're getting closer to an agreement on how to recognize that growth because that, even within...our conference, was a big area of disagreement."

Reports indicated early Friday morning that Johnson will not announce any details about a budget markup until the end of this weekend, or possibly Monday, February 10 which would result in the House Budget Committee not taking up the resolution until at least the middle of next week. It is worth noting that, absent unusual circumstances, measures like this are not considered on the House floor the same week they are passed out of committee. So, any effort to pass the budget resolution in the House would not happen until late February at the earliest as the House is expected to be on recess during the week of February 17th.

Is a 'current policy' baseline the answer?

It is important to note that, by law, the CBO – Congress's official budgetary scorekeeper – is generally required to make its projections on the basis of "current law," or laws as they are currently in effect.

That means that inherent in CBO's projections is an assumption that the temporary tax provisions scheduled to expire over the budget window—including nearly all of the individual tax changes, estate tax changes, and the passthrough deduction under section 199A that were enacted in the TCJA and are set to lapse after 2025 – will

not be renewed, and revenues will be higher as a result. Thus, extending those lapsing provisions would carry a budgetary cost – roughly \$5 trillion over a decade, as mentioned above under traditional revenue estimating models.

One procedural tactic that could ease Republicans' struggle to fully pay for their reconciliation ambitions, at least on paper – and that is favored by GOP leaders, Ways and Means Committee Chairman Smith, and Senate Finance Committee Chairman Mike Crapo (R-Idaho) – would have Republicans measure the budget impact of any forthcoming legislation on the basis of “current policy” rather than “current law.”

Under that approach, the cost of extending the TCJA would be baked into the budget baseline, thereby erasing any apparent cost associated with the policy, at least as it is reported by the CBO.

Even Treasury Secretary Scott Bessent threw his weight behind the approach during a February 5 interview on *Fox Business*.

“We’re going to use current policy scoring,” Bessent said.

Perhaps more importantly, utilization of a current policy baseline is the only practical pathway by which Republicans can deliver on their stated goal of making the TCJA permanent, including years past the ten-year budget window. That is because the statutory rules governing budget reconciliation require, in part, that bills passed under the process cannot increase the deficit over the long-run

For his part, Sen. Ron Johnson (R-Wisc.) who sits on both the Senate Budget and Senate Finance Committees, said he expects GOP senators will attempt to leverage current policy in their budget blueprints.

“...[W]e will use current policy for projecting our revenue in the first budget, and that will set that precedent,” Johnson said.

Not a unanimous GOP position: But many observers are still in the dark as to whether the Senate parliamentarian – the ultimate arbiter of the reconciliation rules – will permit any GOP reconciliation bill(s) to be measured against anything other than current law, which has been customary for decades. In theory, GOP senators could overturn the parliamentarian’s ruling, but some have expressed reservations that such a nullification would be tantamount to eliminating the legislative filibuster, something moderate members of both parties have been loath to do.

Furthermore, a number of GOP fiscal hawks – especially in the House – have indicated that regardless of the baseline used for scoring, they will demand any reconciliation legislation to be fully paid for through offsetting budgetary measures.

“We’ll see what happens with the parliamentarian on that one,” House Freedom Caucus member Chip Roy (R-Texas) said on February 5. “[A current] policy baseline I can live with, but not if the math doesn’t matter. There’s got to be cuts.”

House GOP taxwriter David Schweikert of Arizona – who chairs the Ways and Means Oversight Subcommittee – put an even finer point on his opposition to leveraging a current policy baseline.

“It’s disingenuous, Schweikert said on February 4, because every projection of US debt is based on the law. It is not based on our feelings that we like what we’re getting today. If you’re going to play honest economics, then try actually doing honest math.”

Other deadlines can’t be ignored

Amid the budget reconciliation debate, there is also a crush of other time-sensitive priorities coming down the pike, including funding the government beyond March 14 when the current continuing resolution on government funding is set to expire, lifting or suspending the statutory debt ceiling, and providing disaster aid in response to California wildfires – all of which will require Democratic support. [Technically, the debt limit can be raised in a budget reconciliation measure, but there is growing doubt as to whether Republicans, as a political matter, would be able to tackle that issue on their own given their thin majorities in the House and Senate.]

The dynamics around the government funding debate have taken on a significantly different tone in recent days – influenced in part by the Trump administration’s attempt to in some cases “impound,” or freeze spending programs that previously have been appropriated by Congress.

“If the White House is not going to honor an agreement and use impoundment, then it is hard to come to agreement [on government spending],” Senate Appropriations Committee ranking Democrat Patty Murray of Washington said on February 4.

Across the Capitol, GOP Rep. Tom Cole of Oklahoma, who chairs the House Appropriations Committee, also expressed uncertainty about the upcoming March 14 appropriations deadline.

“I don’t think anybody thinks a shutdown is a good thing. But the politics are such that we could certainly stumble into one without meaning to,” Cole said.

Tax priorities in the bill

Though there has been a lot of discussion about the budget resolution and how to craft a framework that almost all Republican lawmakers will agree on, White House Press Secretary Karoline Leavitt relayed Trump’s tax priorities to reporters while the president and House GOP members were meeting in the White House discussing the parameters of a budget resolution and reconciliation bill. These priorities, some of which have already been announced, include no tax on tips, overtime, and Social Security benefits – campaign promises the president made last year. Other priorities include renewing soon-to-expire tax provisions in the TCJA, adjusting the cap on the state and local tax deduction, “eliminating all tax breaks for billionaire sports team owners,” changing the taxation of carried interest, and creating new tax cuts for “made-in-America” products.

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