House and Senate Budget Committees report dueling reconciliation blueprints

Republicans on both the House and Senate Budget Committees this week reported fiscal year 2025 budget resolutions designed to kick-off the budget reconciliation process – the filibuster-proof parliamentary maneuver that the GOP has indicated they intend to leverage to move much of President Trump's tax and spending agenda; but the contours of the plans perpetuate a long-standing divide between the chambers as to whether Republicans' reconciliation ambitions should be accomplished in one bill or two, thus leaving next steps in limbo for the time being. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 1, Jan. 10, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250110_2.html

One step, two steps

The Senate Budget Committee's plan – drafted by the panel's Republican Chairman Lindsey Graham of South Carolina – was reported February 12 on a party-line 11-10 vote after a number of Democratic amendments were defeated by Republicans.
URL: https://www.budget.senate.gov/imo/media/doc/chairmans_mark_-_fy25_budget_resolution.pdf

The Senate GOP plan represents the first of what Republicans in that chamber anticipate will be a two-step reconciliation effort, with the first step (that is, the budget reported this week) paving the way for a several-hundred-billion-dollar spending package on defense and border security programs.

Specifically, Chairman Graham's blueprint is centered around reconciliation instructions that call on the Senate Armed Services Committee to report about $150 billion in additional defense funding while tasking the Homeland Security and Judiciary Committees with reporting about $175 billion that would be geared toward enhanced border security efforts.

Under the Senate's plan, other authorizing committees, including Agriculture, Nutrition, and Forestry; Energy and Natural Resources; Finance; and Health, Education, Labor, and Pensions, receive "deficit reduction" reconciliation instructions requiring them to report changes in law that would, in total, offset the budgetary cost of the defense and border security changes. Under the rules governing the reconciliation process, those policy changes cannot be specified within the budget itself.

Although it is not a binding deadline from a parliamentary perspective, the Senate blueprint calls on all "reconciled" committees to report their respective language by March 7.

Tax bill yet to come under Senate plan: The second step under Chairman Graham and Senate GOP leaders' reconciliation agenda – to come later this year – would be a budget that would focus on securing an extension of expiring provisions within the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) while also potentially enacting other GOP tax and spending priorities.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.htm

House Budget targets one, wide-ranging reconciliation package

After weeks of wrangling between moderates, conservatives, and House GOP leaders, House Budget Committee Chairman Jodey Arrington (R-Texas) on February 12 released his own budget blueprint that takes a markedly different approach to reconciliation (additional supporting documentation was also released) than his counterpart in the Senate.
URL: https://docs.house.gov/meetings/BU/BU00/20250213/117894/BILLS-119NAih.pdf
URL: https://www.congress.gov/event/119th-congress/house-event/117894

Specifically, Arrington's blueprint – which cleared the Budget panel the next day on a 21 to 16 vote – would set up a much broader, all-in-one approach to reconciliation this year that marries together roughly $300 billion in combined additional funding for defense and border security (similar to the Senate plan), a $4.5 trillion "deficit increase" reconciliation instruction for the Ways and Means Committee intended to accommodate tax policy, and a slew of "deficit reduction" instructions for other authorizing committees that are designed to generate at least about $1.5 trillion in budgetary savings from mandatory spending programs.

Savings 'trigger' could impact tax?: Additionally, the budget plan includes a trigger of sorts in the form of a "policy statement" stipulating that the Ways and Means Committee's reconciliation instruction will be reduced dollar-for-dollar to the extent other authorizing committees are unable to identify at least $2 trillion in mandatory spending cuts. Thus, for example, if committees are only able to report $1.5 trillion in savings (as in accordance with their explicit instructions) the Ways and Means Committee's "deficit increase" instruction would be reduced from $4.5 trillion to $4.0 trillion.

Yet to be seen is whether this "trigger" will be deemed allowable or enforceable in the eyes of the Senate parliamentarian who serves as the arbiter on what does and does not comply with reconciliation restrictions. That said, the provision may have helped secure the votes of certain conservatives on the House Budget Committee who have been pushing for steeper cuts to federal spending.

For his part, Ways and Means Committee Chairman Jason Smith (R-Mo.) has been pushing for an even larger reconciliation instruction of $5.5 trillion, according to reports, to accommodate his panel's tax ambitions this year which include not only extending the expiring components of the TJCA (which costs about $4.6 trillion over a decade according to an estimate by the nonpartisan Congressional Budget Office from May of last year), but also enacting elements of President Trump's tax agenda from his campaign. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 17, May 10, 2024.)
URL: https://www.cbo.gov/publication/60114
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240510_2.html

Trump continues to be particularly vocal about ending federal taxes on tip and overtime income and providing a lower corporate tax rate or other tax benefits for domestic manufacturing. (The president also espouses eliminating taxes on Social Security benefits, although changes to Social Security law are prohibited as part of budget reconciliation, so anything providing this sort of benefit would have to be carefully crafted to avoid this prohibition.)

The total cost of these changes could run into the hundreds of billions of dollars, or potentially more, depending on how they are structured.

But Chairman Smith, for his part, struck a more neutral tone on February 12 after the House budget plan was unveiled.

“Four and half [trillion dollars] does not allow us to do what the president has requested, but it’s a good first step,” Smith told reporters.

Thune, other Senate GOP taxwriters, call for TCJA permanence

In another budget-related development this week, Senate Majority Leader John Thune (R-S.D.), along with a clutch of Senate GOP taxwriters including Senate Finance Committee Chairman Mike Crapo of Idaho, Senate Majority Whip John Barrasso of Wyoming, and Sen. Steve Daines of Montana penned a February 13 letter to President Trump calling for a permanent extension of the TCJA.
URL: https://www.daines.senate.gov/wp-content/uploads/2025/02/Senate-Finance-Letter-to-President-Trump_Tax-Permanency.pdf

“A temporary extension of these pro-growth and pro-family policies is a missed opportunity,” the letter states. “Businesses need certainty while investing in their companies and taxpayers should not fear tax hikes due to Congressional inaction.”

“…Thus, we will not support a tax package that only provides temporary relief from tax hikes.”

Thune calls for estate tax repeal: Majority Leader Thune actually went a step further during a speech on the Senate floor that same day with respect to the estate tax, arguing that lawmakers should use this opportunity not simply to extend the larger exemption amount included in the 2017 law, but “get rid of this fundamentally flawed tax once and for all.”

But what about the budget baseline?

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 within 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 $4.6 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 seems to be assumed in Senate tax writers’ letter laying down a hard line on TCJA permanence – 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.

In practical terms, utilization of a current policy baseline is the only pathway by which Republicans could deliver on their stated goal of making the TCJA permanent, including years past the ten-year budget window unless they were to come up with spending cuts or other tax increases in excess of what has generally been viewed as politically possible. 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. (It is that same rule that required the GOP to sunset much of the TCJA after 2025 and still maintain the TCJA’s filibuster-proof status when it was enacted in 2017.)

It is important to note, however, that the budget resolution passed by the House this week – with its inclusion of a $4.5 trillion deficit increase instruction to the Ways and Means Committee – does not appear to adopt a current policy approach in terms of how it seeks to accommodate any TCJA extension.

Regardless, it remains unclear 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.

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 not add to future deficits and debt. The apparent mismatch between spending cuts and tax cuts, however, is made up for with growth assumptions in the economy.

Next steps on budget plans

The House of Representatives will be out of session next week and is scheduled to return on Monday, February 24. It is possible the chamber could take up the House Budget Committee-passed budget plan that week.

Across the Capitol, Senate Budget Chairman Graham told reporters February 13 that he plans to urge Senate Majority Leader Thune to call up his own committee-passed budget during the week of February 17, at which time the upper chamber plans to remain in session. Thune’s consideration may be influenced by his desire for the Senate to continue the process of confirming Trump administration nominees.

Absent a unanimous agreement to shorten debate time, a budget resolution is typically afforded 50 hours of debate on the Senate floor, followed by a so-called “vote-a-rama” – or a period in which an unlimited number of amendments can be offered and voted upon without debate.

Finally, 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 adopt a single budget resolution that includes reconciliation instructions both chambers agree upon directing congressional authorizing committees to report legislation that conforms to certain agreed-upon fiscal parameters.

With the two chambers currently embarking on starkly different reconciliation paths, it remains unclear when such a bicameral GOP agreement may materialize.

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