House clears Senate-passed budget resolution laying out divergent reconciliation framework

After a whirlwind week when it appeared at times the plan could be on the ropes, House Republicans on April 10 formally kicked off the filibuster-proof reconciliation process when they narrowly approved by a vote of 216 – 214 a revised budget resolution passed by the Senate last week that lays out widely divergent reconciliation instructions as well as different baselines for measuring the fiscal impact of tax policy between the two chambers.

Split-screen reconciliation instructions

The GOP's final budget plan (H.Con.Res. 14) effectively allows the two chambers to go their own separate ways on reconciliation legislation with the goal of merging congressional Republicans' disparate visions for a tax-and-spending bill at a later stage in the process.
URL: https://www.congress.gov/119/bills/hconres14/BILLS-119hconres14eas.pdf

In order to unlock the filibuster-proof process of budget reconciliation – and thus bypass Democrats – both chambers first needed to adopt a budget resolution in identical form, a process that has played out over the last several weeks and exposed some rifts between House and Senate Republicans as to the contours of the ultimate fiscal package they hope to adopt. (For prior coverage of the adopted budget plan, see *Tax News & Views*, Vol. 26, No. 13, April 4, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250404_1.html

Reflecting those differences of opinion, the budget plan embraced by the House this week (which the Senate approved five days earlier) retains the reconciliation instructions for the House included in the budget resolution first passed by House Republicans on February 25 – which, among other things, would require at least $1.5 trillion in spending cuts primarily by way of savings instructions of $880 billion, $230 billion, and $330 billion, respectively to the Energy and Commerce, Agriculture, and Education and Workforce Committees; allow up to $4.5 trillion in net tax cuts (the specifics of which would be ironed out by Ways and Means Committee Republicans); and raise the statutory debt limit by $4.0 trillion – and then layers on a starkly different set of instructions for the various "reconciled" Senate committees. (The budget as adopted includes the Senate's $5 trillion statutory debt limit increase as discussed later in the story.)

Senate instructions set spending cut 'floors': For example, on the spending side of the ledger, the budget plan adopted this week calls for a quartet of Senate committees – including the Agriculture, Banking, Energy, and Health, Education, Labor, and Pensions (HELP) panels – to each report legislation that reduces the deficit "by not less than" $1 billion over the next decade (for a total of not less than $4 billion). Senate GOP leaders have stressed that these savings instructions – which pale in comparison to the House's – should be viewed as "floors" on spending cuts that are designed to be exceeded while also giving the Senate maximum flexibility to structure a fiscal plan that cuts as much spending as internal Republican politics will allow without jeopardizing the measure's filibuster-protected status if specific savings thresholds are not met. [The Senate-passed plan also provides instructions for roughly $340 billion for defense and border security.]

But a number of GOP fiscal hawks in the House expressed major reservations about the Senate's spending approach, arguing that without much higher enforceable spending cut targets the Senate could attempt to "jam" the House on a broader reconciliation bill that pares spending much less than the House's instructions. [Many Senate Republicans have countered, meanwhile, that the House's instructions could require politically untenable cuts to programs such as Medicaid, food stamps, Pell grants, and student loans that could jeopardize passage in the upper chamber.]

"We just want to ensure that there's some binding way of ensuring that there will be spending cuts in the final reconciliation [bill]," said Ways and Means Committee member Lloyd Smucker (R-Pa.) on April 9. "That's all."

But Smucker – and about a dozen other fiscal hawks who up until the vote were strident in their opposition – ultimately acceded to the wishes of President Trump and House Speaker Mike Johnson (R-La.) and voted to approve the Senate-passed budget, as is. Only GOP Reps. Thomas Massie of Kentucky and Victoria Spartz of Indiana voted "no," along with all House Democrats.

Critical to Speaker Johnson's effort to whip skeptical GOP colleagues has been a promise that he and other House Republican leaders will hold firm in demanding that any final plan adhere to the House's spending cut instructions, not the Senate's cuts.

Senate Majority Leader John Thune (R-S.D.) gave verbal backing to Johnson's argument on April 10, but also did not suggest it is a consensus view among his caucus.

"The speaker talked about $1.5 trillion [in spending cuts]," Thune said. "We have a lot of United States senators who believe that is a minimum. And we're certainly going to do everything we can to be as aggressive as possible…" Notably, Thune did not indicate that the House conservatives' desire for large spending cuts is shared by at least 51 Republicans.

However, Johnson and other GOP leaders buttressed their argument by pointing to section 4001 of the adopted budget plan – carried over from the original House-passed blueprint – which establishes a trigger of sorts stipulating that the Ways and Means Committee's $4.5 trillion "deficit increase" 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.

But it is important to note that while the House may leverage section 4001 as a means of keeping the net budget effect of any broader plan it drafts and considers within certain fiscal parameters, there are doubts as to whether such a trigger would be allowable or enforceable in the Senate.

Big tax differences too: Another area where the House and Senate stand in stark relief within the adopted GOP budget resolution relates to the yardstick against which tax changes should be measured.

Specifically, the plan stipulates that only on the Senate side of the Capitol – and *without* the explicit backing of the Senate parliamentarian, who adjudicates compliance with the various reconciliation rules – a so-called "current policy" concept will be leveraged to in effect bake into the revenue baseline any cost associated with extending TCJA policies that have not yet lapsed, while also providing the Finance Committee with another $1.5 trillion in net fiscal space to, for example, restore expensing of research costs under tax code section 174, more generous interest deductibility rules under section 163(j), full expensing of capital investments, and potentially enact certain new tax proposals, including President Trump's calls to excuse federal taxes on tipped income or provide a tax benefit to US manufacturers.

The House's $4.5 trillion tax instruction, by contrast, is referenced against the customary "current law" baseline which assumes laws play out as they are currently enacted and is the yardstick by which the nonpartisan Congressional Budget Office (CBO) is statutorily required to produce most of its budget estimates. [An estimate by the CBO from May of last year suggests that it would cost about $4.6 trillion (including additional debt service) just to extend the TCJA's lapsing provisions for ten years.]

How this baseline divergence between the two chambers gets resolved will be foundational to the scope and duration of any tax policy changes that make it to President Trump's desk.

Johnson: 'Time is … of the essence'

Notwithstanding the substantive policy differences that persist between the two chambers, with the budget resolution now adopted, congressional Republicans can begin in earnest on their work to arrive at a bicameral, intraparty reconciliation agreement on tax and spending policy that can be shuttled through the House and the Senate on a simple majority basis (normally, it takes a three-fifths majority, or 60 votes, to clear procedural hurdles in the Senate).

Speaker Johnson has frequently cited Memorial Day – May 26 – as a goal for sending a final bill to President Trump for his signature. But with both the House and Senate having departed Washington, DC for a two-week recess and not set to return until the week of April 28, many observers find that soft deadline to be quite ambitious.

What about the debt limit?: One hard deadline, however, that could drive Republicans toward agreement this summer is the statutory debt limit.

On March 26, the CBO predicted that the so-called "extraordinary measures" currently being employed by the Treasury Department to provide headroom under the statutory debt limit "will probably be exhausted in August or September 2025," while cautioning that a May or June deadline to raise or suspend the ceiling could be necessary if, for example, the receipts associated with the tax filing deadlines this year come in lower than expected.
URL: https://www.cbo.gov/publication/60887

Another recent analysis issued by the Bipartisan Policy Center pegged the "X-date" – or the date on which the government will not be able to meet all of its legal obligations in full – as occurring sometime between mid-July and early October.
URL: https://bipartisanpolicy.org/debt-limit/

Ultimately, however, it is the Treasury Department that determines with specificity the exact date by which the debt limit will need to be raised.

"[T]ime is really of the essence," Speaker Johnson said at an April 8 press conference. "There's a lot of pressure points that are outside of our control that are forcing this action."

"We're months away from the X date on the debt limit. The border security resources are being diminished. Markets are unsettled, and the largest tax increase in American history is set to hit families and businesses at the end of this year if we do not act."

As mentioned above, the House's reconciliation instructions would allow for filibuster-proof passage of a $4.0 trillion increase in the government's borrowing limit. The Senate's instructions, by contrast, provide for a $5.0 trillion hike of the debt cap with the goal of moving the next debt ceiling deadline after the 2026 mid-term elections.

Any tax specifics?

Even with all the activity surrounding the budget resolution, a number of Republicans still addressed several of the possible substantive elements of an underlying tax package that the GOP plans to pass using fast-track budget reconciliation procedures.

After praising the Senate's passage of the budget resolution, Majority Leader Thune emphasized in his floor remarks on Monday that the GOP aims to prevent "hard working Americans" from experiencing increased tax bills next year. He said that "if we don't act, American families making less than $400,000 a year will see a $2.6 trillion tax hike next year."
URL: https://www.thune.senate.gov/public/index.cfm/press-releases?ID=E3FD3ECD-B541-4B67-95FC-099DEB64380B

Thune further highlighted that, without congressional action, the standard deduction will be nearly cut in half, and the child tax credit will be significantly reduced.

Members on both sides of the aisle have expressed support for an expanded child tax credit which, at the end of 2025, would revert to its pre-TCJA amount of $1,000 per child, down from $2,000 per child.

Other key issues addressed this week included the state and local tax deduction, increased rates for upper income taxpayers, carried interest, and an exporter tax.

State and local tax deduction: GOP House lawmaker Mike Lawler of New York posted on social media that he wants more than a $25,000 cap on the state and local tax (SALT) deduction.
URL: https://x.com/lawler4ny/status/1908219855125569762

“I completely agree with my colleagues. $25,000 is woefully insufficient and does not provide the needed tax relief our constituents deserve.” He added that, “[a]ny tax bill that does not fix the cap on SALT will not have my vote.”

The debate over modifying or repealing the SALT deduction cap has continued to divide rank-and-file members of Congress. Republican lawmakers from high-tax jurisdictions like New York, New Jersey, and California advocate for relief, while those from lower-tax areas generally oppose raising the cap, which was limited to $10,000 under the TCJA and is set to expire at the end of 2025.

Higher rates for higher incomes: House Freedom Caucus Chairman Andy Harris (R-Md.), among others, has shown a willingness to establish a new 40 percent tax bracket for individuals earning $1 million or more, thereby supporting a proposal Republicans are allegedly considering to off-set some new tax cuts, as initially reported by Bloomberg Tax.

Harris said in an interview early this week that he considered the millionaires’ tax rate a “reasonable way to pay for” President Trump’s campaign promises. “You are only raising it a couple of points,” he added.

“If we want expand the tax cuts, including no tax on tips, we should find a way to pay for it,” Harris said. “I think there are a fair number of members who think that that’s an idea that should not be taken off the table.”

The current individual top tax rate of 37 percent is automatically set to expire at the end of the 2025 and would revert to the 39.6% rate if not extended. For tax year 2025, the top rate applies to single filers with incomes greater than $626,350, and married couples filing jointly with incomes greater than $751,600.

Carried interest: Republican Rep. August Pfluger (R-Texas), a member of the House Energy and Commerce Committee representing an oil-producing region of Texas, asserted that the carried interest rules, which treats that income as a capital gain and not ordinary income, significantly benefited the energy sector.

Pfluger told *Punchbowl News* this week that the use of carried interest has been “[f]undamental to the investment we’ve seen and the fact that we are now energy dominant.” He added that “I think we just need an educational moment to talk about what has happened in the Permian Basin, what has happened in the energy sector, and I think with that education, my colleagues could really get to the point where they understand it.” He also maintained that it drives risk-taking in the sector. [The Permian Basin is an oil-and-gas producing area located in west Texas.]

President Trump has advocated taxing carried interest as ordinary income to bring down the net cost of a reconciliation bill.

Exporter tax credit: Reports emerged this week that senior officials in the Trump administration were discussing the creation of a new exporter tax credit. This credit, intended to be issued at the end of the year, aims to mitigate the impact of retaliatory tariffs imposed by trading partners. At this point, the design of and extent to which there is support for such credit remains uncertain. (Deloitte Tax LLP April 7 alert on tariffs)
URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-07-april-2025.pdf

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