With July 4 looming, Senate Republicans work to finalize tax deal

With July 4 rapidly approaching – a target date that President Trump is eager for Congress to meet – Senate Republicans are working to finalize their version of a budget reconciliation package, as key elements of the tax section remain under negotiation and lawmakers race to craft a measure that not only reflects Senate priorities but can also win approval from the House, which passed its version in May. (For prior coverage of the House-passed bill, see *Tax News & Views*, Vol. 26, No. 19, May 14, 2025; *Tax News & Views*, Vol. 26, No. 22, May 23, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250514_1.html
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250523_1.html

SALT, energy, and other sticking points

As of press time, the Senate had not yet released the updated text of its bill; however, several key tax provisions remain under negotiation compared to the House-passed version. Notable areas of potential change include the cap on the state and local tax (SALT) deduction and the possible repeal or scaling back of energy tax credits enacted under the Inflation Reduction Act (IRA, P.L. 117-169).
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

State and local tax deduction: One of the tax items subject to ongoing discussions is the future of the expiring cap on deductions of State and Local Taxes (SALT). The House-passed bill would raise the current $10,000 cap to $40,000 ($20,000 for married filing separately) starting in 2025, with a phaseout beginning at $500,000 ($250,000 for married filing separately). The increase in the cap was included to appease GOP members from high-tax states who threatened to withhold their needed votes if this was not addressed to their satisfaction. In contrast, Senate Finance Committee Republicans initially proposed a significantly lower $10,000 cap ($5,000 for married filing separately) for taxable years after this year – largely as a placeholder – while negotiations continue.

Reports indicated this week that the Senate was considering retaining the $40,000 cap but lowering the income threshold – a shift that drew frustration from Rep. Nick LaLota (R-NY), a vocal opponent of the current law SALT cap.

“I won’t be attending faux-negotiations like the one scheduled this afternoon until my Senate colleagues get more serious,” said LaLota as reported by *Punchbowl News* on June 26.

Senate Republicans are under pressure to finalize a SALT cap deal as one of several tax and spending issues they need to resolve with the House, but they could push through a version unpopular with House SALT cap increase proponents, challenging them to oppose the legislation when the President is calling for passage by July 4.

Energy tax credits: Another sticking point has been how aggressively to scale back or repeal renewable energy tax provisions. The Senate Finance Committee initially proposed a more moderate approach than the House-

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passed bill, which called for a more aggressive approach – something that appeared to align closely with President Trump's broad opposition to the incentives, as expressed in a social media post over the weekend. **URL:** https://truthsocial.com/@realDonaldTrump/posts/114722976310902061

"I HATE 'GREEN TAX CREDITS' IN THE GREAT BIG, BEAUTIFUL BILL. They are largely a giant SCAM," Trump posted.

"None of it works without out massive government subsidy (energy should NOT NEED SUBSIDY!). Also, it is almost exclusively made in China!!! It is time to break away, finally, from this crazinees!!!"

During these ongoing negotiations, Trump's post may have signaled to Republican senators that support for clean energy incentives – popular in some states for the jobs and investment they bring – could face scrutiny from the President.

On Thursday, House Majority Leader Steve Scalise (R-La.) commented that the Senate should modify these provisions to more closely follow the more aggressive approach in the House. But that ran into immediate opposition from at least one of his House colleagues, Rob Bresnahan of Pennsylvania, who said the House leaders had indicated to him that the bill coming back from the Senate would take a lighter touch to these incentives than what was in the House-passed bill.

Other notable differences: Additionally, among other notable differences in the Senate Finance Committee proposal compared to the House-passed bill that would need to be resolved include, among others:

- The Senate proposal to make permanent the 100 percent bonus depreciation, the deduction for domestic research and development expenditures, and a more generous calculation of the amount of net business interest expense that can be deducted. (The House-passed bill extended these provisions temporarily through 2029, and House Members are not likely to have a policy objection to the Senate approach.)
- The Senate proposes to lower the percentage deductions to 40 percent for GILTI and 33.34 percent for FDII beginning after 2025 and raising the BEAT rate while pairing these rate changes with other generally taxpayer-friendly changes. (The House-passed bill would modify the deduction for corporations to 49.2 percent for GILTI and to 36.5 percent for FDII beginning after 2025.)
- The Senate proposes to make permanent the up to 20 percent deduction for qualified business income. (The House-passed bill would increase the deduction for qualified business income to 23 percent and extend it permanently.)

One area that drew particular attention in recent days was proposed new tax code section 899 – a provision designed to give the President tools to push back on what House Republicans view as "unfair foreign taxes," including the undertaxed profits rule, digital services taxes, and other levies deemed discriminatory toward US taxpayers. The Finance Committee proposal featured notable changes from the House-passed bill, such as a delayed effective date and a lower cap on the extent to which tax rates could increase for affected companies and individuals.

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In a late-breaking development Thursday afternoon, Treasury Secretary Scott Bessent announced that the United States had reached a joint understanding with G7 countries under which the OECD's Pillar Two global minimum tax rules would not apply to US companies. As a result, he called for removal of the section 899 provision from the reconciliation bill. (For prior coverage on President Trump's day one executive order on the OECD global tax deal, see *Tax News & Views*, Vol. 26, No. 3, January 21, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250121_1.html

Senate Finance Committee Chairman Mike Crapo (R-Idaho) and House Ways and Means Chairman Jason Smith (R-Mo.) welcomed the agreement, praising Treasury's efforts to preserve US tax sovereignty and limit the reach of Pillar Two.
URL: https://republicans-waysandmeansforms.house.gov/news/email/show.aspx?ID=WIERK7M6DB6OAEYATIXIEJMTWA

"At the request of Secretary Bessent and in light of this joint understanding to preserve US tax sovereignty and allow US tax laws to co-exist with the Pillar 2 regime, we will remove proposed tax code Section 899 from the One, Big, Beautiful Bill Act, and we look forward to active engagement with Treasury on these important issues."

The taxwriters also emphasized that "[c]ongressional Republicans stand ready to take immediate action if the other parties walk away from this deal or slow walk its implementation."

Health Savings Accounts: Absent from the Senate Finance Committee proposal were House-passed provisions related to Health Savings Accounts (HSAs), which aimed to expand access and flexibility for taxpayers. In response, Rep. Chip Roy (R-Texas) and 23 other House Republicans sent a letter to Speaker Johnson and Senate Majority Leader John Thune (R-S.D.), urging that the House's HSA provisions be included in the final reconciliation package. They argued that excluding these reforms would forgo a critical opportunity to make healthcare more affordable for American families.
URL: https://x.com/RepChipRoy/status/1937622824857829713

"Though these provisions are estimated to 'cost' roughly $40 billion over the budget window, that is not money going out the door, but rather money our constituents and all Americans can save, tax-free, for their healthcare needs," the signatories wrote.

Generally, eligible individuals and their employers can make tax-favored contributions to HSAs up to certain limits but only if the individual is covered by a high deductible health plan and is not covered under any other health plan.

The cost depends on the budget baseline

On the budget scorekeeping front, the nonpartisan Joint Committee on Taxation (JCT) weighed in twice in recent days with estimates of the net deficit impact of the Senate Finance Committee's tax proposal.

First, on June 21, the JCT reported that – relative to the so-called "current policy" baseline supported by Senate Republicans and which assumes that all TCJA-related policies expiring at the end of 2025 are instead

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extended in perpetuity but that the costs of doing so do not need to be accounted for – the Finance Committee proposal would reduce revenues by only $442 billion, on net, over the next 10 years (JCX-29-25). This figure falls far shy of the maximum $1.5 trillion deficit increase afforded to the Finance Committee in the GOP-adopted fiscal year 2025 budget resolution's reconciliation instructions.
URL: https://www.jct.gov/publications/2025/jcx-29-25/

However, two days later, at the request of congressional Democrats, the scorekeeper issued another assessment of the same tax language against a customary "current law" baseline – that is, the yardstick being utilized by House Republicans and that has historically undergirded estimates of proposed legislation. Current law assumes that pending expirations, sunsets, and phase-outs of enacted laws play out as scheduled.

Against that traditional baseline, the JCT projected that the Finance Committee proposal would clock-in at $4.2 trillion over the next decade – about $400 billion more than JCT's $3.8 trillion current law assessment of the House-passed tax package (JCX-25-2 052R).
URL: https://www.finance.senate.gov/imo/media/doc/jct_current_law_baseline_score_of_republican_tax_planpdf.pdf

House GOP reaction TBD: Importantly, JCT's estimates of the Finance Committee proposal, under both baselines, do not factor in any additional cost associated with lifting the individual SALT cap above its current level of $10,000 – a policy on which a number of House Republicans from high-tax states continue to condition their support. Addressing SALT relief would push the Finance Committee proposal's cost as much as several hundred billion dollars higher, depending on how the policy is structured.

Additionally, as discussed below, recent adverse rulings by the Senate parliamentarian hold the potential to decrease the spending-side savings of the overall Senate bill.

To be sure, provided the Senate parliamentarian accedes to the use of a current policy revenue baseline in the Senate, the upper chamber's ability to move a filibuster-protected bill is likely not in jeopardy given the high level of flexibility GOP senators gave themselves in the fiscal 2025 budget resolution's split-screen reconciliation framework. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 14, April 11, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250411_1.html

But these budget dynamics are not lost on GOP fiscal hawks in the House who, at the time of passage in that chamber, were adamant that the final bill abide by the House's reconciliation instructions requiring spending reductions of at least $1.5 trillion and a net tax cut no greater than $4 trillion.

Trump turns up the heat

With a self-imposed July 4 deadline for Congress fast approaching, President Trump has ramped up pressure on Senate Republicans to finalize and pass the tax package. In a Truth Social post on June 24, he urged lawmakers to stay in Washington and finish the job, making clear that delays would not be tolerated, even if it meant missing all or part of the holiday recess.

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“To my friends in the Senate, lock yourself in a room if you must, don’t go home, and GET THE DEAL DONE THIS WEEK,” he posted. “Work with the House so they can pick it up, and pass it, IMMEDIATELY. NO ONE GOES ON VACATION UNTIL IT’S DONE.”

To maintain momentum, Republican leaders in both the Senate and the House cannot afford any last-minute objections. While they are still working to resolve internal divisions, they are pushing to stay on track to meet President Trump’s July 4 deadline.

Majority Leader Thune is reportedly prepared to press House Republicans to accept the Senate’s version of the bill, despite lingering differences.

“I just think when push comes to shove, you know, you’re looking at whether you’re going to allow the perfect to become the enemy of the good,” Thune told reporters at the Capitol on Tuesday.

Byrd Bath: Rulings from the Senate parliamentarian – through the so called “Byrd Bath” process – could pose a further obstacle to passing the Republicans’ reconciliation package by the July 4 deadline. For example, the parliamentarian ruled that revisions to state provider taxes for Medicaid violated the Byrd Rule. In addition, several tax provisions in the Finance Committee proposal – such as penalties for unauthorized disclosure of tax information, a narrow carveout for certain schools to the proposed tax increase on the investment income of university endowments, and other measures were also found to violate the Byrd Rule. These rulings could potentially subject the reconciliation bill to a 60-vote threshold in the Senate if not removed from the bill or redrafted to comply with reconciliation rules, adding a new layer of complexity and further tightening an already compressed timeline.

The parliamentarian continues to review additional provisions from the Finance Committee proposal at the request of Senate Democrats, who are seeking to ensure the bill complies with budget reconciliation requirements. Items still under review include changes to the Opportunity Zone program, a tax on third-party litigation funders, a Social Security Number requirement on taxpayers claiming certain credits and deductions, and foreign entity of concern restrictions on the clean electricity production credit.

Senate Budget Committee Ranking Member Jeff Merkley (D-Ore.) detailed these rulings in a press release, highlighting the parliamentarian’s findings and their implications for the reconciliation bill.
URL: https://www.budget.senate.gov/ranking-member/newsroom/press/more-provisions-violate-byrd-rule-in-republicans-one-big-beautiful-bill

“We have been successful in removing parts of this bill that hurt families and workers, but the process is not over, and Democrats are continuing to make the case against every provision in this Big, Beautiful Betrayal of a bill that violates Senate rules,” said Merkley.

How do we get to July 4?

With Trump aiming to sign legislation by Independence Day, significant work remains to meet that deadline. As of press time, Senate Majority Leader Thune had yet to release the updated Senate text – a necessary step

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before the chamber can hold a procedural vote to begin floor debate. That process includes a vote-a-rama – a marathon voting session on amendments that can stretch for many hours and will likely see active participation from Democratic senators hoping to force last-minute changes or, failing that, to force Republicans to cast painful political votes. After the vote-a-rama, the Senate will need to hold a final vote on the bill – that then must be approved by the House again before it can be sent to the White House in time for the President's signature by July 4.

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