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## WASHINGTON POLICY STRATEGY Potomac Perspective

**Brian Gardner**  
Chief Washington Policy Strategist  
[bgardner@stifel.com](mailto:bgardner@stifel.com)



The House Budget Committee is scheduled to markup its budget resolution this morning, which would begin the formal process of extending the Trump tax cuts. The Budget Resolution merely provides other committees topline numbers on spending cuts and taxes that they must meet. There are no explicit policy proposals in the document, but the spending cuts might not be enough for the fiscal hawks, and the tax portion might cause problems for Republicans who want relief from the State and Local Tax (SALT) cap. There is a chance the committee is unable to pass the resolution today. In that case, some investors might infer that the tax cuts are at risk, which could lead to weakness in the equity markets. We think the Trump tax cuts will ultimately be extended, but the process could be longer and more chaotic than some have anticipated.

Republicans intend to use the reconciliation process to extend the expiring provisions of the Tax Cuts and Jobs Act of 2017 (TCJA), or the Trump tax cuts. In order to use reconciliation, which circumvents the Senate's typical 60-vote requirement, Congress must first pass a budget resolution which provides an outline of the reconciliation. No budget resolution; no reconciliation.

That process begins this morning when the House Budget Committee will mark up its budget resolution, but getting the legislation out of committee will be a heavy lift. The committee's initial proposal calls for \$1.5 trillion in spending cuts (over 10 years) and limits the extension of the Trump tax cuts to \$4.5 trillion (over 10 years). There are two major stumbling blocks given these numbers.

First, conservatives have been pushing for more spending cuts than the committee's proposal includes. \$1.5 trillion might not be enough for them. Second, the amount allotted for the tax cuts would only cover the extension of the expiring tax cuts. The proposal does not provide enough money for an expansion of the current cap on the SALT deduction, nor does it provide for President Trump's campaign promises to exclude income from tips, overtime, or Social Security benefits from taxation. The lack of relief, however, from the SALT cap is a potentially existential problem for the legislation.

The Senate is taking a different approach. The Republican leadership there wants to divide the reconciliation bill into two parts – one for border spending, energy, and defense and a second bill for the Trump tax cuts. It is still unclear which approach (one bill or two) will ultimately prevail.

If the House Budget Committee cannot pass a budget resolution today, it would not mean the end for the Trump tax cuts. We remain confident they will ultimately be extended, but it would be a reminder to investors that the process could be longer and messier than has been widely assumed, and markets could react negatively to that reality.

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