

February 14, 2025

WASHINGTON POLICY STRATEGY Potomac Perspective

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On Thursday night, the House Budget Committee passed its budget resolution, which now goes to the House floor. The committee adopted an amendment that would reduce the size of tax cuts if targets for spending cuts are not met. The budget resolution includes dollar targets for spending and taxes but does not include specific policy proposals. Those details will be filled in later. In this note, we briefly discuss what the document could mean for taxes, including the Trump tax cuts and the Inflation Reduction Act tax credits.

The House Budget Committee's budget resolution, which passed last night, is a first step towards extending the expiring provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) or Trump tax cuts. The legislation instructs other standing committees of the House to meet stated goals for revenue and spending, but allows them to craft specific policies as they see fit – as long as they stay within the parameters of the budget resolution. Because some of the instructions could lead to politically tough votes for House Republicans and, since Republicans have a narrow majority, there will likely be negotiations on what is ultimately included in the reconciliation bill. Also, as we mentioned yesterday, the Senate is pursuing a completely different strategy, and it is unclear whether its approach (two reconciliation bills) or the House's approach (one reconciliation bill) will prevail. Still, we want to highlight the instructions from the House Budget Committee's legislation for a few key committees and explain what could be included in forthcoming legislation.

- **Ways and Means** – The budget resolution allows for tax cuts up to \$4.5 trillion over 10 years. Last year, the Congressional Budget Office (CBO) estimated extending all of the Trump tax cuts would cost around \$4.6 trillion over that time. The CBO's estimate, however, did not include any relief from the cap on the State and Local Tax (SALT) deduction, which is a key item for several House Republicans. Also, that estimate did not include additional tax cuts on tips, overtime pay, and Social Security benefits, which President Trump promised during his 2024 campaign. In order to extend the TCJA sunsets, provide SALT relief, and meet Mr. Trump's campaign proposals, Congress will have to find offsets elsewhere. These could include:
 - Changes in Inflation Reduction Act tax credits
 - A cap on the corporate SALT deduction
 - An increase in the corporate income tax rate
 - Increasing the stock buyback excise tax from 1%
 - Changes to municipal finance tax rules
 - Taxing some foundations and endowments.
- **Financial Services** – The budget resolution instructs the committee to cut spending by \$1 billion over 10 years. Under these instructions, the committee will likely attempt to reduce the Consumer Financial Protection Bureau's budget by subjecting it to the annual appropriations process and cutting its funding. An increase in the government sponsored

enterprises' (GSE) guarantee fee is also an option. It does not appear that a congressionally mandated recapitalization and release of the GSEs is anticipated under the instructions.

- **Energy and Commerce** – The committee is instructed to cut spending by \$880 billion over 10 years. Since Medicaid falls within the committee's jurisdiction, we anticipate many of the committee's cuts will come from this program. We also expect this will be a difficult vote for moderate Republicans.
- **Education and Workforce** – The budget resolution instructs this committee to cut spending by \$330 billion over 10 years. We expect the committee will halt the Biden administration's student loan forgiveness plans and could make additional changes to the student loan programs.

Next steps – The House will be in recess next week, so the earliest the full House could vote on the budget resolution would be the week of February 24. Between now and then, House Republicans will likely hear from constituents and advocacy groups regarding possible cuts to safety net programs like Medicaid and food stamps. The longer the wait for the full House to vote on the resolution, the more attacks House Republicans will endure. Also, as we noted, the Senate is pursuing a different budget strategy and moderate House Republicans might be reluctant to cast a tough political vote on a plan that might then be watered down by the Senate. The budget resolution cleared a key hurdle in the House Budget Committee by passing muster with the committee's fiscal hawks, but passage of the budget plan on the House floor is not guaranteed.

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