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U.S. Policy Update: Tax Policy In Focus

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Key Upcoming Deadlines And Potential Legislative Timeline

Govt Funding	Reconciliation	Debt Limit
<p>March 14 – Deadline for FY25 government funding bill.</p> <p>April 30 – FRA 1% sequester enforced if agreement not reached.</p> <p>Sep 30 – FY26 funding deadline. Might require a CR until end of year.</p>	<p><i>Optimistic GOP Timeline</i></p> <p>Feb – House passes budget resolution authorizing reconciliation.</p> <p>Mar 4 – Trump delivers SOTU address.</p> <p>Mid to Late March – Committees mark up legislation.</p> <p>Early April – House vote on reconciliation bill.</p> <p>End of April – Senate passage of reconciliation bill.</p> <p>Early May – Trump’s desired deadline for passage.</p> <p>June-Oct – More realistic timeline for passage.</p> <p>Dec 31 – 2017 individual tax cuts expire.</p>	<p>Jan 2 – Debt limit reinstated.</p> <p>Jan 21 – Treasury begins using extraordinary measures.</p> <p>Summer – Extraordinary measures run out – potentially mid-August.</p>

Timeline Of 2017 Trump Tax Cuts (TCJA): About 3 Months For Reconciliation

2017 Date	TCJA Related Event
Jul 19	House Budget Committee Passes Budget
Jul 27	Trump & Tax Writers Release Joint Statement
Sep 19	Toomey & Corker Agree to \$1.5tn Cut
Sep 27	Lawmakers Release 9-Page Framework
Oct 5	Senate Budget Committee Passes Budget
Oct 19	Senate Passes Budget
Oct 26	House Passes Senate-Adopted Budget
Nov 9	Ways and Means Passes TCJA
Nov 16	Senate Finance Passes TCJA House Passes TCJA
Dec 2	Senate Passes TCJA
Dec 20	House and Senate Pass TCJA
Dec 22	President Trump Signs Tax Bill Into Law

Outstanding Issues To Resolve In Reconciliation

- One or two bills?
- Extend TCJA permanently or for 8 to 9 years?
- How much for Trump's new tax cuts?
- How much needs to be paid for by spending cuts?
- How much new spending on defense and the border?
- Does the bill include a hike in the debt ceiling?

“One Big Beautiful Bill”

Issue	Republican Goals	Likely Outcome
Taxes	Extend TCJA. Trump wants another big tax cut.	Extension of TCJA, with minor changes. Modest additional tax cut.
Spending Cuts	Budget hawks wants \$2 trillion in cuts plus a rollback of green subsidies in IRA.	\$1.5 trillion in budget savings, including green energy cuts from IRA.
Defense Spending	\$150 billion boost for defense a downpayment on major defense buildup.	Included as proposed. Major question is funding levels in ordinary budget.
Border Security	\$150 billion to border agents, structures, technology, detention beds, judges.	Included as proposed.
Debt Limit Hike	Trump wants to pass it along party lines to avoid concessions to Democrats.	Likely to be dropped out of reconciliation.

Potential Reconciliation Bill

Budgetary Impact Of House Budget Reconciliation (\$BN), FY25 to FY34 (Current Law Baseline)

Deficit Increasing Policies	10 Year Cost	Deficit Decreasing Policies	10 Year Savings
Extend TCJA (9 Years)	4,100	Spending Cuts	1,500
Max Room For New Tax Cuts	1,400	Tax Hikes	500
Defense And Border Funds	300	Cut Green Subsidies In IRA	500
Higher Interest Costs	500		
Total	\$6,300		\$2,500

Reconciliation Instructions By Committee

Deficit Increases (Ceiling) Or Decreases (Floor), \$BN FY2025-2034

	House Budget		Senate Budget	
	Reduce Deficit	Increase Deficit	Reduce Deficit	Increase Deficit
Instructions:				
Agriculture	230		1	
Armed Services		100		150
Ed & Workforce	330		1	
Energy & Commerce	880		1	
Financial Services	1			
Judiciary/Homeland		200		175
Natural Resources	1		1	
Oversight & Govt Reform	50			
Transportation & Infrastructure	10			20
Ways & Means		4,500	1	
TOTAL	\$1,502	\$4,800	\$5	\$345

How To Handle The Expiration Of 2017 Tax Cuts?

Budget Impact Of Extending The Tax Cuts And Jobs Act, \$BN (FY26-FY35)

	Revenue Reduction
10%, 12%, 22%, 24%, 32%, 35%, and 37% Tax Brackets	-\$2,460
Individual AMT Reforms	-\$1,568
Expanded Standard Deduction	-\$1,425
\$2K Child Tax Credit	-\$824
Pass Through Business Deduction	-\$772
Doubled Estate/Gift Tax Exemption	-\$193
Opportunity Zones	-\$74
Active Loss Limitation	\$24
Other	\$20
Limitation on Itemized Deductions (SALT and Mortgage Interest)	\$1,429
Repeal of Personal Exemption	\$1,949
Total Individual & Estate Provisions	-\$3,895
Full Expensing For Equipment	-\$319
Repeal R&D Amortization	-\$152
Extend Lower GILTI/FDII Rates	-\$135
Extend EBITDA Interest Limitation	-\$133
Extend Lower BEAT Rate	-\$24
Total Business Tax Provisions	-\$765
Total Tax Reduction	-\$4,659

Outstanding Issues To Resolve In Reconciliation

- Which spending cuts are on the table?
 - Medicaid
 - Student loans
 - SNAP
- What tax “offsets” are on the table?
 - Possibly:
 - End corporate SALT deduction (~\$310bn)
 - End pass-through SALT workarounds (\$250bn)
 - Roll back IRA tax credits (~\$500bn)
 - Raise endowments tax (\$10bn)
 - Unlikely:
 - Eliminate exclusion for interest on muni bonds (\$250bn)
 - Eliminate exclusion for interest on PAB & other (\$114bn)

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