



TAX NEWS & VIEWS PODCAST

Episode - House and Senate budget resolutions: Tax policy insights

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. Today we are recording a special tax policy edition to discuss the current budget resolutions being introduced in Congress. Joining me are my frequent guests on tax policy topics, John Traub and Anna Taylor from Deloitte's Tax Policy group. So, John, this week we saw the House and Senate Budget committees pass different budget resolutions. Why is this so important?

Jonathan Traub: It's important to understand that before you can move budget reconciliation, which is the legislative policy text, the House and Senate each need to agree on identical budget resolutions that specify levels of spending and revenue, and then give directions to various committees to produce bills that make changes in spending or revenues consistent with them. To unlock reconciliation, which lets you get past a filibuster, the first step is moving on these budget resolutions, which we saw the House and Senate budget committees work on and pass this week.

Carrie Falkenhayn: So are the skids now greased for a tax bill this year?

Anna Taylor: I do think it is a good thing that they have started the process in both the Senate and the House Budget committee with these markups. I wouldn't say the skids are greased because they are working off of very different playbooks right now. You had the House and the Senate budget committees

pass very different budget resolutions. As you said, they're going to need to come to an agreement on a single approach and a budget resolution that is identical, passing both chambers before they can unlock the ability to actually move legislation under the reconciliation rules. While this is good in that the process is starting to move, I don't think we're on a fast track to getting something over the finish line because they are working on two different tracks at the moment.

Carrie Falkenhayn: What are some of those differences Anna mentioned, John?

Jonathan Traub: There are a lot of differences, but the two important ones for us to focus on are that the Senate continues to adopt the idea of doing two bills this year via budget reconciliation. The first one would focus exclusively on energy, immigration, and defense. The second one, presumably later in the year, will be on other issues, including spending cuts and tax cuts. The House bill, as contemplated by the budget resolution approved in the House Budget Committee, is for one big bill that has everything in it—taxes, energy, immigration, spending cuts—and those are very different approaches. There is real merit in both approaches, but they do not exist harmoniously. The second is that they are counting the dollars in a very different way. The House budget contemplates what we call the current law baseline, which assumes the current law is to let the tax rates go up, and in this year, then our baseline assumes we will collect all that additional revenue. The current policy baseline the Senate wants to do basically says, if the rates are low today, it should be free to extend them. That is a major difference in how Congress normally would score the cost of tax and spending bills. It's not clear that this would survive muster with a Senate Parliamentarian, and it surely wouldn't fool the bond markets who know that even if you aren't paying for it, or you're saying it's free because of how you're counting, it would require the issuance of substantial additional federal debt to cover the borrowing costs of extending those tax cuts if they're not paid for. So very big differences between the two, and as Anna said at the get-go, until those are resolved you cannot open the door to actually moving on the policy bills to implement the spending and revenue changes contemplated by the budget resolutions.

Carrie Falkenhayn: Anna, what does the House budget say about a future tax bill?

Anna Taylor: The House budget says that the Ways and Means Committee can put together a tax package with up to four and a half trillion dollars in tax cuts. However, in theory, that four and a half trillion could potentially be reduced if other spending cuts in the package don't total at least two trillion dollars. So the way you have to think about it is that four and a half trillion that you see in the resolution is really kind of a limit, a ceiling to what they may be able to do, and it may be lower depending on what they do on the spending side of the package. Now, it's not clear whether the limitation based on the dollar value of the spending cut, the clawback, is actually binding in the Senate. When you put a bill before the Senate Parliamentarian and say, does this policy language that includes a limitation to lower a reconciliation instruction, is that binding, is that enforceable? I think that's an open question. I don't think we know yet, but regardless, I think that limitation being included even just in a narrative way could define the limits as to what can pass the House. You may not have the votes, even if you could say that the rule is enforceable and isn't enforceable in the Senate. If House members say we don't care if it's enforceable in the Senate or not, we're not voting yes in the House if we don't abide by this limitation, then I do think that it's a real limitation in that sense, even if it's not binding. It was included because they needed the inclusion of that limitation to secure the votes of some of the House Budget Committee's fiscal hawks, and I do think that's an indicator of where that group of members in the House may continue to be as the process moves forward.

Carrie Falkenhayn: Is four and a half trillion enough to accommodate all the tax stuff the GOP wants to do?

Anna Taylor: The short answer is no. We think the total of all of the TCJA provisions that are set to expire at the end of 2025, and then, additionally, all the new policies that President Trump campaigned on, is going to be closer to seven or eight trillion, maybe even more depending on how some of those new Trump policies

are drafted. We just don't know because we don't have official scores. But definitely, we're talking about a package of policies that's going to come in well north of four and a half trillion dollars. So if the House adheres to the four and a half trillion dollar limit that they put in the budget resolution in the markup, it's going to force some major policy changes as part of that package. Now, there are options in terms of how they could do that. They could add more revenue raisers to keep the net total to four and a half trillion. That's what they did in TCJA in 2017—you had a gross tax cut of around five and a half trillion with about four trillion in base broadening, so you had a net deficit impact in TCJA of one and a half trillion. That's why people should be paying close attention to things like a potential cap on a corporate SALT deduction or repeal of the employee retention tax credit, repealing some of the IRA energy credits. All of these things are going to be on the table because they're going to be looking for some ways to add revenue to the package. They could also decide to shorten the duration of the entire package to lower the cost because they do fewer years. If they do less than a ten-year bill, you're going to have a cheaper package at the end of the day, and I think the House seems open to the idea of a shorter duration bill.

Carrie Falkenhayn: John, the Senate doesn't seem to like the idea of the temporary extension, do they?

Jonathan Traub: Definitely not. In fact, we saw this week a letter signed by seven senior Senate Republicans, including Majority Leader John Thune and Finance Committee Chairman Mike Crapo, saying that they would oppose a bill that doesn't make TCJA provisions permanent. As Anna just said, it's very hard to do those things unless you come up with massive spending cuts or massive base broadening, unless the Parliamentarian gives them the green light to adopt a current policy baseline. There are open questions as to whether that works procedurally in the Senate, and I have questions that even if the Senate Parliamentarian lets them do that, whether it would pass muster with House conservatives, who are increasingly flexing their muscles on fiscal discipline. It shows how much hard work lies ahead here. This is why Senate Republicans seem to like the two-bill strategy. They know there's a lot to be worked out on the tax side, so let's focus early on stuff we know we can get across the finish line on immigration, energy, and defense. House Republicans, aghast at the idea, say it would be very hard to do a second budget and doom tax to a very uncertain fate if we try and split them into two packages. The fact that Senate leaders are so adamant on permanence gives a preview of the difficult policy fights coming ahead.

Carrie Falkenhayn: Anna, take us home. What happens next, and what are you watching for?

Anna Taylor: The House is out of session next week, so we're going to have at least a week delay before we see them proceed with their budget resolution on the House floor. The Senate is in session, and I'm sure that Chairman Graham would like to devote substantial floor time to moving the Senate resolution as quickly as he can. It's going to take several days, if not a whole week, to process a budget resolution on the floor of the Senate. Majority Leader Thune has yet to commit that he'll put this on the calendar for next week. He's under pressure to use the limited, valuable Senate floor time for confirming as many of the incoming administration's nominees as possible. There is a tension between trying to move forward with the legislative agenda as quickly as possible and at the same time get as many of their nominees confirmed and into place as quickly as possible. It's unclear how he's going to balance that over the next week or two. Without a doubt, when they do get to that process, the vote process in the Senate on a budget resolution is a rigorous exercise. It will take several days, and it is a painful process for those members because it's really the only opportunity that any Senator has to gain access to the Senate floor to have a vote on whatever they want to have a vote on. You'll see votes on a wide range of issues, and it could take a number of days of voting before they finish that process. What we're all waiting to see is, as the floor processes are starting to take shape in the House and the Senate, if and when President Trump is going to decide to weigh in on these process questions to force the issue so that they line up on the same path. So far he has chosen to focus on what is in the package. He's talked to everybody on the Hill, House and Senate side, about the things he wants to see in the package, but he's not really pressuring them on the how or on the one bill versus two bills strategy. But it's possible that could change if he gets frustrated because things are bogged down and not moving quickly because they have differences of opinion on process. He's going to want to

see action on his priorities, probably sooner rather than later, and that might mean he has to weigh in on the process, even if it's not his preference to do so.

Carrie Falkenhayn: Thank you both so much. I truly look forward to our next conversation. I'm sure it's going to be a very interesting year from a tax policy perspective. If our audience would like more information, you can go to deloitte.com and sign up for a weekly electronic newsletter for Tax News and Views. Just go to deloitte.com and search on Tax News and Views, and you'll see it there. Thank you as always for listening, and I hope you tune in again for our next episode. In the meantime, I hope everyone continues to be well. Take care.

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