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TAX POLICY

Post-OBBBA enactment: Focus shifts to government funding and OBBBA implementation; plus, what's next for tax legislation

With the enactment of the law commonly referred to as the One Big Beautiful Bill Act (OBBBA, P.L. 119-21) behind lawmakers, attention in Washington swiftly turned to the annual appropriations process for fiscal year 2026, which began on October 1.

An intractable disagreement between Republicans and Democrats centered primarily on the potential extension of pandemic-era enhancements to premium assistance tax credits that help qualifying individuals and families purchase coverage on the Affordable Care Act's Health Insurance Marketplace led to a historic 43-day government shutdown.

The appropriations impasse was resolved—at least temporarily—on November 12 when a handful of Democrats in both the House and Senate joined Republicans in passing a continuing resolution that provides full-year funding for a handful of agencies including the Departments of Agriculture and Veterans Affairs and the Food and Drug Administration, while keeping the remainder of the government open—at prior fiscal year spending levels—through January 30, 2026.

The deal is silent on the ACA credit enhancements, which expire at the end of 2025. (Senate Republican leaders have promised Democrats a December vote on the credits, however.)

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Budget impact and IRS operations

Under the contours of the November appropriations accord, the Treasury Department and the IRS are among the federal agencies that are funded at prior-year levels through January 2026. That means that negotiations will continue over a more durable spending bill covering tax administration.

To that end, the House Committee on Appropriations has advanced a bill that would allocate $9.5 billion to the IRS—representing a roughly 23% cut relative to fiscal year 2025 and a proposed reduction that actually goes beyond the 20% cut the Trump administration offered on May 30 when it released additional details supporting its fiscal 2026 spending plans.

Across the Capitol, meanwhile, the leaders of the Senate Appropriations Committee—Chairman Susan Collins (R-Maine) and ranking member Patty Murray (D-Wash.)—have been negotiating bipartisan fiscal 2026 funding bills that, in many cases, would exceed, at least slightly, spending levels from last year. However, the Senate panel has not yet considered its own Financial Services and General Government appropriations bill that would include IRS funding.

The IRS spending debate comes as the agency grapples with the operational consequences of the government shutdown and an IRS workforce that has shrunk significantly since the start of 2025.

On October 1, Treasury Secretary Scott Bessent announced that he was appointing current Commissioner of the Social Security Administration (SSA), Frank Bisignano, to serve in the newly created position of IRS "Chief Executive Officer." It remains to be seen how Bisignano, who will remain in his leadership role at the SSA, and Bessent, who has been serving as Acting Commissioner of the IRS since the departure of former Commissioner Billy Long, will share power and what exactly Bisignano's role will entail.

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OBBBA implementation

Treasury and the IRS have already released some initial guidance under the OBBBA, including proposed regulations on the "No Tax on Tips" provision, rules tightening the "beginning of construction" concept particularly as it relates to wind and solar projects, and new rules for rural opportunity zone investments.

These early actions mark the beginning of a much broader regulatory rollout. As implementation continues, additional guidance is anticipated in the coming months that would clarify other provisions of the law.

Future legislation?

As lawmakers approach year-end, there is at least some discussion about attempting to move a relatively narrow tax bill—or tax title attached to a larger budget measure—on a bipartisan basis. A handful of discrete provisions expiring after December 31 including the work opportunity tax credit, a measure relieving potential double-taxation between the US and Taiwan, and certain tax technical corrections with bipartisan support are among the policies seen as potential contenders.

These talks remain at a very early stage, however, and it remains unclear how the recently resolved government shutdown will impact cross-party negotiations heading into year-end and the next government funding deadline.

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There is also speculation that Republicans could once again turn to the budget reconciliation process to advance additional filibuster-protected legislation in the months ahead while they continue to hold majorities in both the House and Senate. [A parliamentary tool increasingly used by both parties in recent decades most recently by congressional Republicans to send the OBBBA to President Trump's desk, the reconciliation process—provided certain rules are adhered to—can allow budgetary legislation to pass the Senate with a simple majority vote instead of the three-fifths margin usually required to clear procedural hurdles in that chamber.]

It remains unclear, however, how unified the GOP is on this approach and—if they did pursue reconciliation—which fiscal policies they would seek to enact.

Of course, the outcome of the November 2026 midterm elections will determine whether Republicans will continue to harness the power of budget reconciliation during the latter half of President Trump's second term. If control shifts, a return to divided government would likely require bipartisanship to move any major tax or spending legislation forward.