Tax News & Views
Capitol Hill briefing
February 6, 2026

Tax News & Views

In this issue:

Brief partial government shutdown ends

A short-lived, partial government shutdown began Saturday, January 31, and ended just a few days later on Tuesday, February 3, after the House approved the Senate-passed, FY2026 appropriations package by 217-214 and President Trump signed the bill into law. The measure provides full-year funding for five of what were then the six unfinished FY2026 bills and includes short-term funding for the Department of Homeland Security (DHS), the only department not covered by full-year appropriations. The five-bill package covered a wide range of departments and agencies, including Treasury and the IRS, as well as Defense, State, Health and Human Services, Labor, Housing and Urban Development, Transportation, and Education. (The Consolidated Appropriations Act, 2026 (H.R. 7148))

As Republicans worked to lock down final support for the measure early in the week, President Trump urged House lawmakers to quickly approve the Senate-passed funding package and avoid further delays. In a social media post, he wrote: "I am working hard with Speaker Johnson to get the current funding deal, which passed in the Senate last week, through the House and to my desk, where I will sign it into law, immediately! We need to get the Government open, and I hope all Republicans and Democrats will join me in supporting this Bill, and send it to my desk without delay."

The funding agreement removes uncertainty for a number of federal agencies – including the IRS – as the 2026 filing season gets underway. (For prior coverage of the 2026 filing season, see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

IRS funding

The FY2026 IRS funding proposal included in the five-bill appropriations package provides $11.2 billion for the agency – a roughly 9 percent reduction from the prior fiscal year. Major IRS funding categories include tax enforcement, allocated at $5 billion; technology and operations support, which receives nearly $3.2 billion; and taxpayer services, funded at roughly $3 billion. The appropriations package also rescinds $11.66 billion of the nearly $80 billion in IRS funding originally enacted in the 2022 Inflation Reduction Act (IRA, P.L. 117-169), further reducing the agency's access to a dedicated long-term funding stream from which to make investments. This rescission – drawn from the IRS' "operations support" account – is included in the Labor, Health and Human Services portion of the budget package. The budget also includes a provision allowing the IRS to shift up to five percent of its appropriated funds among internal accounts with prior approval from the House and Senate Appropriations Committees. (For prior coverage, see *Tax News & Views*, Vol. 27, No. 4, Jan. 23, 2026.)

In preparation for a short-term funding lapse, the IRS posted guidance on its website stating: "All employees will be exempt from furlough through Saturday, Feb. 7. Employees should report to work on their regular schedules. We will continue to post updates to this page." Because funding was restored before February 7, the IRS continued operations without interruption, with employees reporting to work as scheduled.

The process: Senate passes it first

Last week, the Senate advanced the House-passed FY2026 appropriations package in two parts, voting 71-29 to pass five of the six remaining full-year FY2026 appropriations bills, while simultaneously advancing a short-term continuing measure to fund DHS through February 13 (which Senators said would allow time for Democrats and Republicans to negotiate on guardrails for immigration enforcement activities). The split-track approach followed the failure of a procedural vote that would have included full-year DHS funding as part of the broader appropriations package. Days before that vote, Senate Minority Leader Chuck Schumer (D-N.Y.) said Senate Democrats would not supply the votes needed to advance an appropriations package that included full-year DHS funding. Several days later, he argued that the DHS measure needed additional protections to increase oversight of Immigration and Customs Enforcement (ICE) operations. This move came in the wake of recent immigration enforcement activity in Minneapolis and the shooting death of another citizen by federal officials. (For prior coverage, see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

In floor remarks made several days after final Senate action, Majority Leader John Thune (R-S.D.) praised the Senate's passage of the remaining five appropriations bills, saying it has now "considered 11 of the 12 individual bills on the Senate floor," returning much of the work to the committees under a "member-driven process." He noted the DHS bill is the last outstanding measure and said negotiations should include steps to better "protect federal law enforcement agents and address needs such as "increased training for ICE officers."

Then it went to the House

After returning from a one-week congressional recess, the House took up the Senate-passed funding package – covering the remaining five FY2026 appropriations bills through September 30, along with a short-term funding measure for DHS through February 13 – and approved it by a vote of 217-214, with 196 Republicans and 21 Democrats voting in support. The package advanced only after the House narrowly cleared a protracted, key procedural vote by 217-215, with all but one Republican – Rep. Thomas Massie of Kentucky – voting in favor and no Democratic support. With a razor-thin majority, House Republicans can afford virtually no defections.

Speaker Mike Johnson (R-La.) touted passage of five of the six remaining FY2026 appropriations bills – bringing the total enacted to 11 of the government's 12 separate appropriations measures, which he framed as a "big meaningful move toward regular order," echoing remarks made by Sen. Thune the day before. Johnson said the remaining priority is the DHS funding bill and argued that the administration "has engaged in good faith" with Senate Democrats, and "they've [Democrats] said they would negotiate on the final bill, the Homeland bill." He noted that DHS funding extends beyond ICE and Customs and Border Patrol, covering the Transportation Security Administration (TSA), the Coast Guard, the Secret Service, and the Federal Emergency Management Agency (FEMA). With communities still digging out from winter storms, Johnson warned that "[t]his is no time to jeopardize that funding."

House Minority Leader Hakeem Jeffries (D-N.Y.), for his part, said in a written statement on Tuesday that federal dollars should be spent on "making life more affordable for everyday Americans," rather than funding ICE. He said Democrats are "united" in seeking "substantial reform" at DHS, including requiring "independent investigations when agents break the law" as well as instituting other accountability measures. Without significant reforms, Jeffries added that "there is no credible path forward" for a DHS funding bill on February 13.

Among the House Democrats who voted against advancing the funding measure were party leaders – including Jeffries, Minority Whip Katherine Clark of Massachusetts, and Caucus Chair Peter Aguilar of California – despite Sen. Schumer having helped broker the agreement that cleared the way for Senate passage and the subsequent House vote. Their opposition reflected broader concerns among most Democrats, including House Homeland Security Committee Ranking Member Bennie G. Thompson (D-Miss.), who, along with 12 other committee Democrats, urged colleagues to oppose the package and demand meaningful reforms at ICE and Customs and Border Protection (CBP) before providing additional funding. By contrast, only 21 Democrats supported the measure, including House Appropriations Committee Ranking Member Rosa DeLauro of Connecticut and several other senior members, such as Reps. Steny Hoyer of Maryland and James Clyburn of South Carolina.

Outlook

With the short-term funding patch for DHS set to expire next week, Sen. Schumer and Rep. Jeffries sent a letter to Sen. Thune and Speaker Johnson outlining what they described as “common sense reforms and accountability measures” for DHS, several of which Schumer previewed publicly last week. However, given current positions, it appears doubtful that lawmakers will be able to reach a bipartisan agreement on immigration-related policy changes in time to pass a full-year, FY2026 funding bill for DHS through both chambers and to President Trump’s desk before the temporary funding extension expires on February 13.

Against this backdrop, questions are growing over whether Congress can reach consensus – or muster the political will – to advance another short-term extension if negotiations on a final DHS appropriations bill fall short. Such a move would be required to prevent a lapse in DHS funding that could disrupt agencies, including FEMA and TSA. That calculus may depend on whether immigration negotiations make sufficient progress in the coming days and whether lawmakers can move quickly enough, with just seven days remaining to pass another temporary extension. As a sign of those stakes, just two days before the February 13 deadline, the House Appropriations Committee is scheduled to hold a hearing with several agency heads – including officials from the Coast Guard, Cybersecurity and Infrastructure Security Agency, TSA, Secret Service, and FEMA – to examine how a potential DHS shutdown would affect their operations.

Beyond DHS, other policy priorities that some lawmakers had hoped to advance as part of the FY2026 funding process have made limited progress. Efforts to assemble a broader healthcare compromise package – potentially including an extension of the enhanced premium tax credit (PTC) and other priorities, such as Health Savings Accounts – have stalled beyond a House vote several weeks ago approving a three-year extension of the enhanced PTC. Meanwhile, some lawmakers are pursuing other targeted health policy efforts. This week, Senate Finance Committee Ranking Member Ron Wyden (D-Ore.) announced an outline of a prescription drug agenda aimed at lowering prices, accompanied by a Dear Colleague letter describing three policy goals for this program. (For prior coverage of the House passage of the Democratic-led healthcare bill advanced by a discharge petition, see *Tax News & Views*, Vol. 27, No. 2, Jan. 9, 2026)

Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

House advances resolution to block D.C. decoupling from OBBBA[i]

On Wednesday, the House advanced legislation (H.J. Res. 142) – by a 215-210 party-line vote – which would overturn a District of Columbia law enacted after the city declined to adopt more than a dozen provisions of the law commonly known as the One Big Beautiful Bill Act (OBBBA, P.L. 119-21), including business incentives and new deductions for tipped income and overtime pay. The resolution would disapprove the District of Columbia Income and Franchise Tax Conformity and Revision Temporary Amendment Act of 2025, which the D.C. Council enacted late last year.

Meanwhile, the Senate Homeland Security and Governmental Affairs Committee marked up a companion measure (S.J. Res. 102), and favorably reported it along a party-line vote. Sen. Rick Scott (R-Fla.), the resolution’s sponsor, argued that it would ensure District residents are not denied the benefits of the OBBBA, citing provisions such as “no tax on tips” and “no tax on overtime” which he said would help “hardworking Americans.” Sen. Maggie Hassan (D-N.H.) opposed the bill and countered that it reflects a belief that Congress knows “better” than local officials when it comes to their own tax policy. The Senate would need to act within a limited timeframe set by the Home Rule Act, which provides Congress 30 legislative days to overturn District of Columbia laws.

For further analysis of the OBBBA, see: *A closer look: Inside the new tax law* prepared by Deloitte Tax LLP's professionals.

In explaining its rationale, the D.C. Council said late last year in a written statement that it amended the legislation to decouple the District's tax code from recent federal changes to help balance the city's budget and prioritize relief for lower- and moderate-income individuals and families, particularly those with children. The Council also said the resulting savings would be used to accelerate the District's earned income tax credit match from tax year 2029 to 2025, and establish $1,000 child tax credit starting in tax year 2026.

The effort to overturn the D.C. law follows a written statement issued by Treasury Secretary and Acting IRS Commissioner Scott Bessent criticizing what he described as Democratic-led states – specifically Colorado, New York, and Illinois – for refusing to conform to certain OBBBA provisions. "We call on these holdout states to immediately conform and stop punishing their citizens for partisan games," Bessent said. "The American people voted for bold change, not bureaucratic roadblocks. Treasury stands ready to work with any state committed to delivering on that promise, but we will not stand idly by as this obstructionism drags down the national recovery. This is about fairness."

Bessent speaks on Capitol Hill at House and Senate hearings, discusses OBBBA benefits

On Wednesday, Secretary Bessent testified before the House Financial Services Committee at a hearing on the "Financial Stability Oversight Council's Annual Report to Congress." In addition to broader financial policy issues, Bessent touched on a few tax-related provisions enacted under the OBBBA. Among them was the creation of Trump Accounts, which Bessent said Treasury plans to use to improve financial literacy and broaden participation in the economy, noting that 38 percent of US households do not participate in equity markets. "Over time, the goal here [is] to have everyone own a piece of the American economic engine," he said. "Wall street will work for Main Street, instead of the other way around." Trump Accounts are a new type of tax-preferred savings vehicle that have some features similar to traditional individual retirement accounts (IRAs), but are available only to eligible individuals under the age of 18 and subject to special rules during a defined "growth period."

The Trump Accounts' program is scheduled to go live on July 5, 2026, with a landing page currently providing general information and answering Frequently Asked Questions.

Bessent also predicted that the OBBBA's increase in the state and local tax (SALT) deduction cap – from $10,000 to $40,000 for eligible taxpayers – would generate larger tax refunds this year. The higher cap took effect in 2025 and is set to remain in place for five years, with a phaseout beginning for taxpayers with incomes above $500,000. On business confidence, Bessent stressed the importance of tax certainty and pointed to the OBBBA provision allowing 100 percent deductibility "of equipment, of factories, and of agricultural structures." During the hearing, Bessent also reiterated his criticism of states that have not aligned their tax codes with the OBBBA's new federal benefits, arguing that opting out of provisions, such as tax relief for tipped income and overtime pay, undermines affordability for residents and called it "very unfortunate." He singled out California and New York, urging both Republican and Democratic lawmakers to "push their states to follow through for working Americans."

Turning to the IRS, Bessent said that the agency could improve customer service by expanding its use of artificial intelligence. Democrats, however, have warned for months that customer service and other agency functions are under strain due to staffing reductions at the agency over the past year. This week, Sen. Ruben Gallego wrote on social media that"[y]our refund is at risk because of the Trump administration," adding that, after cutting thousands of jobs, the IRS is "scrambling, reassigning career specialists to do tax work they've never been trained for." (For prior coverage of the 2026 filing season, see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

The following day, Bessent testified before the Senate Banking, Housing, and Urban Affairs Committee at a hearing on the same topic. In response to a question from Sen. Katie Britt (R-Ala.), Bessent said that the IRS has not scaled back enforcement efforts, citing data that the agency has identified $10 billion in tax crimes – up 15 percent from 2024 – and $4.5 billion in tax fraud, an increase of 110 percent from last year. Sen. Cynthia Lummis (R-Wyo.) also raised the issue of the taxation of digital assets, including how the "***de minimis***" rule applies when digital assets are used as a means of exchange and whether such transactions are treated as capital gains. Bessent described the issue as a "complicated subject" and said that Treasury's tax policy group would reach out to her office. (Last summer, Lummis introduced a bill to amend the Internal Revenue Code of 1986 to reform the treatment of digital assets, S.2207)

Treasury, IRS announce release of proposed regulations on clean fuel production credit

Even as Congress considers efforts to overturn the District of Columbia's decision to decouple from certain OBBBA provisions, the Trump administration is moving forward with implementation of the law at the federal level. The Treasury Department and the IRS announced the release of proposed regulations (REG-121244-23) regarding the clean fuel production credit under section 45Z, enacted by the Inflation Reduction Act (IRA, P.L. 117-169) and amended by the OBBBA. The proposed regulations would provide guidance for determining the clean fuel production credit, including credit eligibility rules, emissions rates, and certification and registration requirements. The proposed regulations would affect domestic producers of clean transportation fuel, taxpayers that may claim a credit for a related producer's fuel, and excise tax registrants. A public hearing is being held on May 28, 2026, at 10:00 a.m.

Steven Grodnitzky and Aaron Lorenzo
Tax Policy Group
Deloitte Tax LLP

Ways and Means hearing on foreign influence in non-profits

The House Ways and Means Committee will hold a hearing on Tuesday, February 10, at 10:00 a.m. EST, on the extent to which foreign actors influence American non-profits.

Steven Grodnitzky
Tax Policy Group
Deloitte Tax LLP

Trade corner: US inks previously announced pacts with El Salvador, Guatemala

United States Trade Representative Jamieson Greer signed trade agreements with El Salvador and Guatemala on January 29 and 30, respectively. Both represent progressions from frameworks that were first announced in November. Statements from Greer said the deals strengthen markets for United States exports and lower trade barriers facing American workers and producers. Terms of both arrangements will remove reciprocal tariffs on imports of El Salvadoran- and Guatemalan-origin goods into the United States, including certain textiles and apparel products that qualify under Dominican Republic-Central America-United States Free Trade Agreement, civil aircraft and parts, generic pharmaceuticals, as well as other qualifying items that cannot be grown, mined or naturally produced in the United States. Notably, both trading partners agreed they would not impose digital services taxes. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 45, Nov. 14, 2025.)

Appropriations agreement continues Africa, Haiti preferential trade

Trade preference programs for nearly three dozen sub-Saharan African nations and Haiti were renewed as part of FY2026 federal spending legislation signed by President Trump on February 3. The measure included a retroactive extension of the programs, which had expired on September 30, 2025, authorizing them from that date through the end of 2026. The House had previously passed legislation to extend both programs through December 31, 2028. (For prior coverage, see *Tax News & Views*, Vol. 27, No. 3, Jan. 16, 2026.)

US-India deal announced on social media

President Trump said February 2 that the United States and India had reached a new trade agreement. In a social media post, Trump wrote that the United States would cut reciprocal tariffs to 18 percent from 25 percent while India would lower "to ZERO" its tariffs and non-tariff barriers against the United States. Trump also said India committed to buy more than $500 billion of US energy, technology, agriculture, coal and other unspecified products. Formal terms of the agreement have yet to be released as of press time.

Aaron Lorenzo
Tax Policy Group
Deloitte Tax LLP