

SPOTLIGHT REPORT

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Reconciling the GOP's Reconciliation Ambitions

What's Happening: GOP leadership in Congress is aiming to jump start the budget reconciliation process as soon as next week, but intraparty divides over spending cuts and policy priorities continue to act as a drag on negotiations.

Why It Matters: Having spent the last month outlining the broad contours of a sweeping reconciliation package, GOP lawmakers are now struggling to make the tough decisions necessary to get the ball rolling on the reconciliation process. To begin the week, rank-and-file members of the House GOP majority met with leadership at a Florida retreat to discuss their legislative agenda. As [Politico](#) reports, the party is committed to advancing a package addressing an extension of the expiring Tax Cuts and Jobs Act (TCJA) provisions, border security funding, energy reforms, and defense spending via budget reconciliation. But beyond that, there isn't much agreement on the details. Retreats, such as the one that kicked off this week, haven't meaningfully moved the needle. **On Wednesday morning, Rep. Marjorie Taylor Greene (R-GA) [posted](#) on social media, "After two days at our House Republican winter retreat, we still do not have a plan on budget reconciliation and our Speaker and his team have not offered one."** A GOP lawmaker separately told [Politico](#) on Tuesday that House leadership had been "talking in circles" as far as reconciliation planning was concerned. The complaints from GOP lawmakers over the lack of progress speak to the fundamental problems the party faces in advancing its agenda. **Faced with a paper thin majority in the House, Speaker Mike Johnson (R-LA) is juggling competing demands from members of his caucus who are ideologically committed to opposing policy priorities. As [Axios notes](#), on the one hand there are pro-growth GOP lawmakers and members with specific and expensive priorities, such as the SALT Caucus. Opposite them are fiscal conservatives who won't agree to tax cuts without equivalent spending cuts. And somewhere in the middle are moderate lawmakers who can't accept steep cuts to programs like Medicaid or SNAP. Any one or two members can hold up the process. Meanwhile, President Trump has his own [demands](#) for the package, all of which would significantly increase its cost.** The dynamic is putting Johnson in a bind that he so far hasn't charted a path out of. Earlier this week, the speaker suggested that the party will go ahead with drafting the budget resolution, which outlines the 10-year deficit impact of the reconciliation package, as soon as next week. Still, Johnson and leadership had not settled on an actual number for the bill's deficit impact as of this morning

and there are signs that fiscal conservatives already disagree with his plans. **The key takeaway from all this is that while we expect the party to eventually make the tough decisions necessary to get the reconciliation package over the finish line, we expect the competing priorities within the House GOP to drag out the process well-beyond Johnson's April [timeline](#).** Johnson himself is already privately acknowledging that passage of the bill could slip until May according to Punchbowl [News](#), although even that is likely optimistic.

What's Next: The next step for the GOP is to draft the budget resolution outlining the 10-year deficit impact of the bill as well as the committee instructions. **Johnson argues that the House Budget Committee will begin drafting the resolution next week, but key questions remain unanswered.** Johnson hasn't unveiled a number as to the bill's maximum deficit impact, but House conservatives are already expressing reservations about the speaker's [reportedly](#) cautious approach to spending cuts. **Whether a budget resolution is actually marked up in the House Budget Committee in the next few weeks and how conservatives react to it will be an early sign of whether any progress has been made toward an agreement on spending and the deficit.** Without that, no serious progress on the reconciliation package can be made.

The Core Policy Provisions of the Bill

The one thing we know for certain will make it into this year's reconciliation package is an extension of the expiring provisions of the Tax Cuts and Jobs Act (TCJA).

Trump himself promised repeatedly to extend the cuts on the campaign trail and GOP leadership on the Senate Finance Committee and House Ways and Means Committee have been working on various extension proposals for more than a year. While there isn't complete unanimity within the party over how each provision should be extended or modified, there's no interest in allowing any of the bill's tax cut provisions to expire, an event that would hike taxes on an [estimated](#) 62 percent of Americans. Given this, the core provisions of the TCJA that we expect the party to prioritize in this year's bill include:

Tax Cuts and Jobs Act Individual Provisions

Among the provisions that taxpayers will be the most invested in seeing extended are the TCJA's lower marginal rates. The law reduced the rates for five of the seven tax brackets, excluding only the lowest bracket (which remained at 10 percent) and the second highest (which remained at 35 percent, although the bracket itself was expanded to capture more taxpayers). In an effort to simplify the tax code, the law also roughly doubled the standard deduction and simultaneously eliminated a number of personal and itemized deductions.

While changes could be made at the margins, it's our expectation that this year's reconciliation bill will largely attempt to extend these individual tax code changes.

While negotiations over provisions like the marginal rates are happening behind the scenes, discussions about other individual provisions, like the cap on the State and Local

Tax (SALT) deduction, are playing out in public. **The cap on the SALT deduction is certain to be increased from its current \$10,000 threshold, although by how much is yet to be determined.** Trump [told](#) SALT Caucus lawmakers to come up with a number for him earlier this month and [reportedly](#) some of them have done so in private, although it hasn't been shared widely. Trump allies previously [suggested](#) that simply eliminating the so-called "marriage penalty" could work, but SALT Caucus members are aiming for broader relief. **GOP lawmakers outside of blue states dislike the SALT deduction so it's likely the \$60,000 cap Rep. Mike Lawler (R-NY) has thrown around is closer to a ceiling than a floor. On a related note, the higher exemption levels and phase out threshold of the individual alternative minimum tax (AMT) are more likely than not to stick around.** SALT Caucus member Rep. Nicole Malliotakis (R-NY) has repeatedly [told](#) reporters the caucus isn't interested in a bill that expands the reach of the AMT.

Similar to the AMT and standard deduction, the TCJA doubled the estate and gift tax exemption thresholds. With both provisions set to expire in 2025, there's plenty of GOP support in the House for extending them, although a wholesale repeal of the estate tax, as some have advocated for, would prove challenging given its cost. The Congressional Budget Office [estimated](#) in 2015 that the Death Tax Repeal Act, a bill the GOP has repeatedly introduced to eliminate the estate tax, would cost \$270 billion over 10 years.

The other prominent TCJA individual provision in the conversation is the Child Tax Credit (CTC) enhancement. TCJA increased the maximum benefit to \$2,000 and allowed \$1,400 to be claimed as a refund, but those levels are set to both drop to \$1,000 next year. A number of prominent GOP lawmakers are interested in not only extending, but expanding the 2017 CTC. **GOP Conference Vice Chair Blake Moore (R-UT) introduced a [bill](#) this year that would increase the maximum benefit to \$4,200 for children under five.** Moore's proposal would offset the cost of the enhancement by limiting access to parents with a social security number, simplifying the Earned Income Tax Credit, and extending the SALT cap, among other things. Given the SALT Caucus' efforts to raise the SALT cap, at least part of the proposal is dead on arrival. **The challenge speaks to the more fundamental issue that fiscal conservatives are [skeptical](#) of a significant CTC enhancement that isn't fully offset. In all likelihood, the party will start with its 2017 CTC enhancement and attempt to further expand it, although by how much will be conditional on finding agreeable payfors, many of which are in short supply.**

Tax Cuts and Jobs Act Business Provisions

The top priority of many GOP lawmakers is an extension of the TCJA's small business provisions. The 199A pass through deduction, in particular, has featured prominently in both Senate and House hearings on the TCJA. Ways and Means Committee Chair Jason Smith (R-MO) listed the 199A deduction as the top provision on his [sheet](#) of "Critical Tax Policies for Businesses and Workers" in need of extension. **All indications from existing GOP [legislation](#) and hearing transcripts is that they are seeking to extend the TCJA 199A deduction as is.**

A trio of business deductions that expired in between the time the TCJA was signed into

law and today will make up the other centerpiece of the GOP's business tax policy agenda. **We expect GOP lawmakers to attempt to restore the up-front deduction for domestic research and development (R&D) costs, the 100 percent bonus depreciation for capital investments, and the calculation of deductible business interest with the adjustment for amortization and depreciation.** GOP lawmakers set the full expensing and up-front deduction aspects of those provisions to sunset as a cost saving measure back in 2017 under the incorrect [assumption](#) that a future Congress would prevent the changes from going into effect. **Because business cuts typically project to generate more economic growth than individual cuts, GOP lawmakers are also considering further expanding eligibility for the trio of business provisions. Rep. Randy Feenstra (R-IA) told [Politico](#) this week that one option is for the party to increase the number of investments eligible for 100 percent bonus depreciation.** Of course, given the cost of the deductions, it's also possible that lawmakers limit the immediate R&D expensing to domestic investments as they did in a 2024 compromise bill. In either event, a restoration of the provisions would benefit companies with large R&D or manufacturing-related expenses, such as **Boeing (BA)** and **General Motors (GM)**, according to [Bloomberg](#).

The [trio](#) of business-related foreign tax rates set to increase in 2026 – the Global Intangible Low-Taxed Income (GILTI) rate, the base erosion and anti-abuse tax (BEAT) rate, and the foreign-derived intangible income (FDII) tax rate – are all also likely candidates for reform. Generally speaking, GOP lawmakers want to stave off the projected 2026 increases in all three rates, but the politics are slightly different from those of domestic cuts. Lawmakers have kept any possible changes close to the vest, although they've generally cheered the success of GILTI. As [Bloomberg suggests](#), it's possible that the GOP tweaks FDII in an effort to address President Trump's preference for a corporate rate of 15 percent for companies that onshore domestic manufacturing. Lawmakers may also try to tweak GILTI to address the higher than expected tax rate companies have faced due to a haircut imposed on foreign tax credits used against the tax itself along with an interest allocation issue that reduces the amount of foreign tax credits many US companies can claim. The chair of the House Ways and Means Committee's Global Competitiveness tax working [group](#), Rep. Kevin Hern (R-OK), told [Politico](#) in July, "Foreign tax credits are critical along with the corporate rate to businesses who want to stay in America...we're going to look and see what is working, what's not working, what needs to be added or subtracted or modified."

The Other Tax Policy Changes

An extension of the TCJA will serve as the base of the reconciliation package, but many other tax code changes are in the mix as well. **GOP lawmakers will need to include some version of Trump's campaign trail promises in the final package, likely beginning with the elimination of taxes on certain tipped wages.** Trump [reiterated](#) his promise to implement the policy at a rally in Las Vegas earlier this month. One example bill that could serve as the basis for implementing such a policy is the bipartisan No Tax on Tips [Act](#) led by Senator Ted Cruz (R-TX). **The bill would exempt tipped wages from federal income for workers in a list of industries yet to be established. Only those earning less than \$80,000 per year would be eligible for the benefit.** Where the income

eligibility limit ultimately lands will be a function of the cost of the bill. Speaker Johnson has already [indicated](#) that the no tax on tips bill must be fully paid for, a move that would likely restrict its scope.

Other Trump campaign promises that will be in the mix are the elimination of federal income taxes on [overtime](#) wages as well as the [elimination](#) of the payroll tax on Social Security benefits. Neither change has received the same support in Congress from lawmakers and both proposals are significantly more expensive than the no tax on tips idea, making them possible, but less likely to make the final cut. At least the overtime wages change would likely face a similar income cap to that of the no tax on tips proposal if it's included.

A handful of business-related cuts that weren't included in TCJA are also in the mix. **Trump has oscillated between calling for a wholesale reduction in the corporate rate on the campaign trail to a more recent [pledge](#) for a 15 percent corporate rate, but only for companies that bring their manufacturing to the US. While Trump hasn't detailed how he would do so, one option is to revive Section 199 of the tax code according to [Bloomberg](#).** That would allow companies to deduct a percentage of taxable income for wages and manufacturing among other things. Notably, the GOP eliminated the deduction in 2017, so it would likely require reforms before being revived. **In a related move, there's interest among GOP lawmakers in [eliminating](#) the corporate alternative minimum tax. Doing so could be price prohibitive, but possible carveouts, such as Senator James Lankford's (R-OK) [proposal](#) to create certain exclusions for oil and gas drilling activities, are stronger candidates for inclusion.**

Outside of high profile tax code changes, it's worth remembering that just about every GOP lawmaker will want to tuck their own personal tax code priority into the bill. As the Wall Street Journal [reported](#) earlier this week, lawmakers are already floating deductions for emergency power generators and race horses. Plenty more of these proposals will proliferate in the coming months.

The Non-Tax Policies

While tax code changes will serve as the foundation of the bill, the GOP plans to include a number of other domestic policy priorities in the final legislation. Chief among those is immigration reform with a specific focus on border security. **Politico [reports](#) that the House Homeland Security Committee is targeting about \$90 billion in additional spending, most of which would go toward border security. GOP lawmakers have repeatedly [advocated](#) for the bill to include additional funding for the border wall, the hiring of Immigration and Customs Enforcement officers, and an increase in detention beds. Other reported changes could include a tax on remittances, as [proposed](#) by Vice President Vance, or an increase in customs fees.**

Politico has previously [reported](#) that GOP lawmakers could also try to include more substantial changes to immigration law in the bill, but it's unlikely that those would pass muster with the Senate parliamentarian, as we've previously [written](#). Many of the ideas for

reform stem from the GOP's Secure the Border [Act](#) (better known as HR 2), including changes to asylum screening standards, strict limits on who can apply for asylum, and limits on the president's parole authority.

Policy changes to increase domestic energy production will also be included in the bill, although their scope will be more limited in nature. While President Trump has already issued an executive [order](#) expanding oil and gas exploration in the Arctic National Wildlife Refuge, GOP lawmakers could move to codify the changes in a reconciliation package. **Additionally, the party is looking at requiring a number of offshore oil and gas lease sales over the next few years as a revenue raising measure.** Other energy policy changes could come from the party's 2023 Lower Energy Costs [Act](#) including a repeal of the Clean Air Act's natural gas tax, a ban on further increases to royalty rates for oil companies, and a number of permitting measures to speed construction of energy projects.

One other fairly straightforward non-tax provision will be an expected one-time increase in defense spending. **According to [Politico](#), GOP lawmakers are targeting about \$125 billion in additional defense funding for the reconciliation package**, although previous reporting has pinned the range at anywhere from \$100 to \$200 billion. No decision has been made on how quickly the funds would need to be spent or what exactly they would be spent on, although Senate Armed Services Committee Chair Roger Wicker (R-MS) has previously [suggested](#) it could help cover the cost of a domestic missile defense system.

Where They're Currently Hung Up In Negotiations

While it might seem like the tax policy changes or the border security funding would be the focus of the reconciliation debate, to date, GOP lawmakers have allocated the vast majority of their time to a [debate](#) over the process by which they should advance their legislative priorities. Still unsettled questions about whether to move the agenda via one or two reconciliation bills consumed headlines for the first month of this Congress.

Realistically, the debate over the process is a red herring. It serves as a proxy debate for the real disagreement which is largely over cost. Back in 2017, GOP leadership ran into its fair share of headaches bringing enough members on board to support the TCJA's then stated \$1.5 trillion price tag. At the time, the party had a 235-193 House majority along with a 51-49 Senate majority. Today, the bill costs more, the president wants to see more added to the bill, and the House majority, home to a number of vocal fiscal hawks, is paper thin. **This gets at the most important dynamic through which to view the 2025 negotiations: unlike in 2017, the House has a slimmer GOP majority than the Senate. This makes the politics of the House the limiting factor on the size and scope of the reconciliation bill.** That's a challenge given the messy politics of the House GOP's majority.

Digging in deeper, House Speaker Johnson is balancing competing demands from within his caucus as well as within the White House. The most vocal, and most problematic for

Johnson, is the demands of the fiscal conservatives within the House Freedom Caucus (HFC). They've [derailed](#) House leadership's agenda numerous times dating back to 2023, almost always out of concerns for the cost of legislation. **While the demands of the HFC are unlikely to completely derail the reconciliation process, they can certainly drag it out.** HFC members have repeatedly pointed this out publicly and privately, demanding that any reconciliation bill be offset by roughly \$2.5 [trillion](#) in spending cuts. **The most important player to watch in all of this is HFC Policy Chair Chip Roy (R-TX). Roy's concerns are often representative of those of other fiscal hawks and he has no issue making his opinion known, even when it runs counter to that of Johnson or Trump.** Roy told [Politico](#) last week, "They are counting on the ability to try to take border [funding], put it in reconciliation with tax cuts and roll us on spending...that ain't gonna fly. So they should probably get religion now, or it's gonna be a really long year."

In response to the general pressure to offset the cost of the bill, the House Budget Committee went ahead and circulated a 50-page [memo](#) detailing \$3.7 trillion in revenue raising policy changes that could be included in the reconciliation package. The vast majority of the proposed savings come from changes to Medicaid, SNAP, and a repeal of the Inflation Reduction Act, although the "menu" of ideas runs the gamut from establishing a border adjustment tax, new fees on drivers of electric vehicles, the elimination of student debt relief programs, lowering the cap on mortgage interest deductions, and more. **Importantly, the memo circulated by the Budget Committee is a comprehensive list of proposals that have been around since 2017 or so, not necessarily a list of policies certain to make the cut in this year's bill. Case in point, CQ Roll call [reports](#) that GOP committee chairs had already slimmed down the menu of revenue raising options as of last week, proposing roughly \$2.9 trillion of options in a meeting with GOP leadership.** Many major reforms remain on the table including Medicaid and (expanded) SNAP work requirements, lowering the federal Medicaid matching rate, establishing per capita Medicaid block grants, repealing former President Biden's student debt forgiveness programs, Medicare "site neutral" reforms, and increasing customs fees, among other options.

Of course the problem for Johnson is that the counterweight to the HFC is a group of moderate and blue-state GOP lawmakers opposed to significant cuts to federal aid programs. **While the idea of implementing work requirements on Medicaid is gaining [traction](#) within the GOP, policy changes that would create the largest cost savings, like switching Medicaid to a block grant program, do not have the support of moderate GOP lawmakers.** [Politico](#) reported last week that a group of moderate lawmakers warned House Majority Whip Tom Emmer (R-MN) not to pursue deep cuts to Medicaid, SNAP, or the Affordable Care Act as part of the reconciliation bill. Similar concerns have been raised with regard to efforts to gut the Inflation Reduction Act.

Further complicating the issue for Johnson is that Trump personally isn't particularly concerned with the cost of the bill or the deficit more broadly. Instead, he has his own [list](#) of priorities to include in the legislation that would dramatically increase its cost. Fully implementing the trio of campaign trail proposals that would eliminate federal taxes on tips, overtime wages, and Social Security benefits could cost an [estimated](#) \$3.6

trillion if uncapped according to analysis from the Committee for a Responsible Federal Budget.

The disagreement over spending cuts is the reason that prominent lawmakers including Senate Finance Committee Chair Mike Crapo (R-ID) are [advocating](#) for the party to use a “current policy baseline” to score the bill, zeroing out the cost of extending the existing tax provisions. Not only has the idea caught on with some fiscal conservatives, but also with House Speaker Johnson according to reporting from [Axios](#). Per Axios, “Republicans have yet to make a final decision on the kind of accounting tactics they are going to use, but they are in active discussion with the House parliamentarian about using several different measures.” Still, no final decision has been made and there are a number of procedural [hurdles](#) that could derail the effort. **In either event, it’s important to note that there is no offset, regardless of baseline, that can raise enough revenue to cover the cost of the reconciliation bill. Case in point, recent [estimates](#) from the Brookings Institution show that an extension of expiring tax provisions under a current policy baseline would still increase the deficit to \$3.4 to \$3.6 trillion by 2034. **Johnson himself is already signaling some level of defeat on this front with his plan to take a less aggressive approach to the budget resolution, focusing on minimum [savings](#) to achieve instead of opting for a lower maximum deficit impact number.****

The Timeline For Getting It All Done

A key takeaway from the reporting on the GOP’s internal disagreements over both the reconciliation bill’s provisions and offsets is that it will take longer than is currently projected. Johnson laid out an aggressive [timeline](#) for action earlier this month, suggesting that the budget resolution could get out of the House by late February with the reconciliation bill itself slated for a final vote in the House in early April.

While it’s not impossible to meet Johnson’s timeline, there are a number of factors working against him. For one, the House will be down to a one (or really zero) vote majority once the United Nations ambassador-designate, Rep. Elise Stefanik (R-NY), is confirmed to her role, likely within the next week or two. **Until Florida special elections to replace former Reps. Matt Gaetz (R-FL) and Mike Waltz (R-FL) are held on April 1st, any one GOP lawmaker can prevent the budget resolution or the reconciliation bill from passing the House.**

A separate, but related issue is that the March 14th deadline to fund the government will crop up about halfway through Johnson’s proposed timeline for finalizing work on the reconciliation bill. Appropriations bills are a must-pass item while reconciliation is a “want to pass” item; as such, we expect the former to take priority as the deadline approaches. Notably, there’s a lot of work left to be done to finalize a government funding agreement. Bipartisan talks between appropriators began last week, but they were moving slowly by all accounts and that was before the Office of Management and Budget’s Monday memo threatened to [derail](#) the talks.

Implicit in all of these challenges is the sheer complexity of the bill and the many competing priorities and personalities involved in negotiating it. **There's very little evidence that Johnson and leadership have made any of the tough [decisions](#) necessary to fast-track the reconciliation process. Johnson himself made that clear at the GOP's policy retreat this week, laying out the outline of a budget resolution that would serve in his own [words](#) as a "floor in what we hope to achieve by savings, and not the ceiling."** Decoding the remarks, Johnson is indicating that the party would opt for a larger 10-year deficit number in the budget resolution, giving them greater flexibility to include expensive policy priorities without offsetting them. **There's every reason to believe that conservative lawmakers will balk at this suggestion. If fiscal conservatives pass a budget resolution that doesn't require significant cost savings, they eliminate their leverage in future negotiations over the cost of the bill. For that reason alone, it's quite possible that the budget resolution fight drags on for a while, without even touching on the reconciliation bill itself.**

In 2017, even discounting the time it took to attempt an Affordable Care Act repeal, GOP lawmakers used the better part of the year to finalize TCJA. A similar timeline to 2017 is well within the realm of possibilities this time around. **As we've said previously, Congress often needs a deadline to inspire action. It's likely that at some point between the Easter break and the 100-day mark in Trump's presidency, anger over inaction could force lawmakers to the table for an agreement on the budget resolution.** We expect that the White House will involve itself in the process at some point if things aren't going to plan. **An outside possibility that the Senate attempts to roll the House with its own two-pronged budget [resolution](#) also remains, but doing so would still likely be complicated by reservations within the House over separating tax reform from border funding.**

All told, the complexity of the bill itself would suggest that the looming specter of the August recess is the first real forcing mechanism for action on the underlying reconciliation package. Still, it's important to note that the actual deadline to extend the TCJA is December 31st, 2025, when much of the law expires. In light of the ongoing disagreements over process, there's ample reason to believe that passage of the reconciliation bill could be a second-half of the year event.

