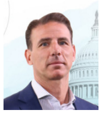
Congressional Budget: Betting on One Big Beautiful Bill

With the budget bill in motion, Congress weighs trade-offs in taxes, spending, and timing.



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Key Points

- The House passed the One Big Beautiful Bill Act just before the Memorial Day recess, following intense negotiations.
- A major component of the bill is the renewal of the 2017 Tax Cuts and Jobs Act, along with new tax, immigration, and defense provisions.
- The Senate will begin debate in June, and while major policy clashes are expected, House momentum and Trump's support make passage likely in late July.

With both the House and Senate having adopted the 2025 budget reconciliation legislation, Congress is now moving forward with crafting the One Big Beautiful Bill Act (OBBBA), though timelines vary depending on who you ask on Capitol Hill. Republicans are trying to advance the legislation using the budget-reconciliation process, enabling them to sidestep a Democratic Senate filibuster. However, this approach involves complex rules that could potentially jeopardize the bill's progress toward becoming law.

On the House side, the 11 committees with jurisdiction over the massive legislation have completed their work. Speaker of the House Mike Johnson (R-LA), with backing from President Donald Trump, managed to pass the bill in one vote just before the Memorial Day recess. Much of Trump's second-term agenda is packed into the OBBBA, and getting it over the finish line will likely be the biggest challenge he and his Republican allies will face.

Although Republicans control both chambers of Congress and are expected to pass the reconciliation bill without Democratic support, the House Ways and Means Committee and the Senate Finance Committee remain divided on key tax proposals and other issues.

Framing the Tax Baseline Debate

For months, Senate Finance Committee Chair Mike Crapo (R-ID) has argued that the cost of extending the 2017 Tax Cuts and Jobs Act (TCJA) provisions—set to expire at the end of 2025—should be measured using a *current policy baseline*. Reconciliation bills, however, have traditionally used a *current law baseline*, making Crapo's proposal a notable departure from past practice.

Under a current law baseline, the Congressional Budget Office and the Joint Committee on Taxation assume that the tax cuts from the TCJA will expire as scheduled on December 31, 2025. That means any extension of those tax cuts would reduce future federal revenue. In fact, making the TCJA provisions permanent is estimated to cost about $4.6 trillion over 10 years—including roughly $800 billion in interest on the added debt.

A current policy baseline, on the other hand, assumes that existing policies will continue—even if they're scheduled to expire. Based on this view, Senator Crapo argues that since the TCJA tax cuts are still in effect today, they should be treated as ongoing policy. So, extending them wouldn't count as a new cost, because it simply maintains the status quo.

Because the current policy baseline assumes there's no cost to extending the TCJA tax cuts, those cuts can be extended permanently without breaking Senate rules that prohibit a budget-reconciliation measure from increasing future deficits outside the budget's 10-year window. It remains to be seen how the difference between the two chambers will be resolved. In the Senate, Democrats are likely to challenge the use of a current policy baseline, prompting the Senate parliamentarian—who interprets chamber rules—to weigh in.

Despite their opposition, House leadership has accepted a current policy baseline as long as the final reconciliation bill contains very substantial spending cuts.

Key Provisions in the House Tax Plan

As Republican lawmakers shape the tax package at the heart of the OBBBA, they're considering a range of proposals aimed at benefiting both individuals and businesses. The House version centers on renewing key provisions of the TCJA, with additional tax changes introduced by the House Ways and Means Committee:

For American Workers:

- No tax on tips – Exempts all tipped wages from income tax
- No tax on overtime – Ends income tax on overtime pay for hourly workers
- Senior tax relief – Adds a $4,000 deduction for low- and middle-income seniors
- Auto-loan deduction – Allows full deduction for US car-loan interest
- Preserves Trump-era tax cuts – Prevents a $1,700 tax hike on working families
- Expands standard deduction – Blocks a $15,000 cut and adds $2,000 per family

For American Families:

- Maintains lower tax rates – Prevents a $1,700 tax increase
- Protects standard deduction – Blocks a $15,000 reduction for families
- Keeps expanded Child Tax Credit – Prevents a $1,000 per child cut
- Alternative Minimum Tax relief – Continues relief for nearly 8 million filers
- Estate-tax exemption – Preserves relief for small businesses and family farms
- Education support – Expands savings and school choice options

Revisiting Corporate Tax Priorities

Corporate Tax Rate and TCJA Provisions

The TCJA reduced the corporate tax rate from 35% to 21% in 2017. Unlike many other TCJA provisions, this lower corporate rate doesn't expire in 2025. However, there's ongoing discussion about changing it again as Trump has previously proposed cutting the rate further to 15% for companies that manufacture in the US. The current House bill keeps the rate at 21%, but it's uncertain whether the Senate will support a further cut, especially given the high cost of extending other TCJA provisions.

Other Corporate Tax Breaks Under Review

Three key corporate tax breaks are also being considered in the reconciliation process. These were originally limited in the TCJA to reduce the bill's overall cost, with the expectation that Congress would revisit them later:

1. Interest Deduction Limits – The TCJA reduced how much interest companies can deduct, with tighter limits added in 2022
2. Research and Development (R&D) Expense Deduction – Since 2022, companies must amortize R&D costs over time instead of deducting them upfront
3. Bonus Depreciation – The TCJA allowed 100% bonus depreciation for certain investments, but it began phasing out in 2023 and ends by 2027

Lawmakers are expected to address these issues in the upcoming reconciliation bill. However, any fixes may only apply going forward, not retroactively to 2022 or 2023.

The proposal also restores and strengthens key Trump-era business tax policies. It renews 100% immediate expensing, reinstates full deductions for R&D and interest expenses, and makes the 23% small-business deduction permanent. In addition, it preserves international tax reforms that boosted US competitiveness and helped repatriate trillions in overseas profits.

Recalibrating the IRA's Impact

House and Senate Republicans have signaled their intent to revisit the Inflation Reduction Act's (IRA) clean-energy tax incentives during reconciliation. While some members are calling for a full repeal, most favor a more targeted approach. This includes accelerating the expiration of certain incentives, limiting or eliminating monetization options such as transferability and direct pay, imposing stricter domestic content requirements, and tightening eligibility rules for companies with ties to Foreign Entities of Concern, such as China.

Despite the IRA being enacted along partisan lines, many of the tax incentives it includes have long enjoyed bipartisan support. This includes incentives for carbon capture and sequestration, biofuels, nuclear energy, battery manufacturing, and electricity from renewable sources.

Moreover, Republican states have benefited the most from the IRA. Since the IRA was enacted, roughly 80% of announced investments tied to the law have been in Republican-led states and congressional districts. With narrow Republican majorities in both chambers, leadership needs near-unanimous support from Republican lawmakers to pass the reconciliation bill, including those Republicans who have weighed in to defend the IRA's energy-tax credits.

Deficit-conscious lawmakers in both the House and Senate are pushing for additional revenue to offset the cost of the reconciliation bill's tax provisions. Though this demand has previously delayed the bill's progress, it appears unlikely that opposition to the reconciliation package will hinge solely on whether it repeals or significantly weakens those incentives.

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House Progress, Senate Uncertainty

Negotiations in the House delivered wins for both moderate and conservative Republicans. But the Senate is expected to make significant changes to the bill—and how those changes will be introduced remains unclear. For example, the Senate Finance Committee reportedly doesn't plan to hold a formal markup session, where amendments could be proposed. Still, a Finance section will eventually be added to the final bill for a full Senate vote.

Now that the House has passed the OBBBA, the Senate will take it up after Memorial Day. Senators will revise the bill, and the final version will face a “vote-a-thon”—a marathon floor session where both parties can offer unlimited amendments.

Once the Senate passes its version, the bill will return to the House for final approval. If the two chambers can't agree, a House-Senate conference committee may be formed to negotiate a compromise, which would then need to pass both chambers again.

The Senate faces pressure to move the bill forward in June, but internal divisions remain. Democrats are also expected to raise procedural objections, adding another layer of complexity. Sen. Majority Leader John Thune (R-SD) will have to navigate the same ideological rifts that slowed progress in the House. Key sticking points are likely to include Medicaid, state and local tax (SALT) deductions, retirement accounts, and the debt ceiling.

Timing Is Everything

Treasury Secretary Scott Bessent and Thune have floated July 4 as the target date for final passage. But with the debt ceiling “X-date” looming in early August (when the government is expected to run out of money), that deadline may slip. These time pressures are critical—without them, lawmakers could drag negotiations out for months. To meet the July 4 goal, the House and Senate must reconcile their versions of the bill. Given the current differences, a July 4 resolution seems optimistic. More likely, final passage will come later in July, just ahead of the debt ceiling deadline—before heading to the president's desk for his signature.

Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington, D.C.

About the Author:

James R. (JT) Taylor serves as Chief Political Strategist and Macro Policy Sector Head at Hedgeye Potomac Research. JT has extensive experience in both government and business in Washington, D.C., with a career spanning the legislative and executive branches as well as the financial-services industry. Prior to joining Potomac Research Group, he ran Pelorus Research, the US public-markets division of the Holdingham Group based in the United Kingdom. He previously led a policy research team as Managing Director at DeMatteo Monness. From 2002-2009, he was Managing Partner of Kemp Partners, a Washington, D.C.-based strategic consulting, business development, and marketing firm he founded with former Housing and Urban Development Secretary Jack Kemp in 2002. At Kemp Partners, he oversaw day-to-day operations and business development while managing client relationships in both the corporate arena and financial-service industries.