Tax Insights
from Tax Policy Services

House approves budget resolution for reconciliation tax and spending reforms

February 25, 2025

In brief

What happened?

The House on February 25 by a vote of 217 to 215 approved a fiscal year (FY) 2025 budget resolution that directs the House Ways and Means Committee to approve net tax cuts of $4.5 trillion over 10 years. Under the House's "one big, beautiful bill" approach for reconciliation legislation, the budget resolution directs other House committees to reduce federal spending by at least $1.5 trillion but makes approval of the full $4.5 trillion in net tax cuts contingent on Congress achieving a higher goal of $2 trillion in spending cuts. The House budget resolution also proposes a $4 trillion increase in the current $36.1 trillion statutory limit on federal debt.

The Senate on February 20 by a vote of 52 to 48 approved a "skinny" FY 2025 budget resolution that contains budget reconciliation instructions related to border and defense spending, domestic energy production, and a minimum level of unspecified spending cuts. The Senate-passed budget resolution does not contain tax reconciliation instructions. Under the Senate two-bill approach for reconciliation legislation, tax cuts policy changes and additional spending cuts would be addressed in a second budget reconciliation authorized under an FY26 budget resolution.

A budget resolution does not require the president's signature, but both the House and Senate must adopt an identical budget resolution to unlock budget reconciliation procedures that would allow legislation to advance with a simple majority vote in the Senate, instead of the 60 votes generally needed to consider bills in the Senate.

House and Senate leaders will need to decide how best to resolve differences between budget resolutions passed by each chamber, either through a House-Senate conference committee or by the House and Senate trading proposed amendments to the resolutions passed by each chamber.

Why is it relevant?

Successful action by House Republicans to advance their one-bill strategy for an FY 2025 reconciliation bill could accelerate action on legislation addressing expiring Tax Cuts and Jobs Act (TCJA) provisions and the other parts of President Trump's legislative agenda.

Action to consider

Business leaders and individuals will need to evaluate the potential effect of a reconciliation tax cut and spending cut bill on the US economy, business, and individuals.

In detail

House and Senate negotiations over differences in the budget resolutions approved by each chamber will affect how business and individual tax provisions are addressed as part of reconciliation legislation addressing both tax and spending issues.

President Trump has called for making permanent expiring TJCA individual income tax and estate tax provisions. He also has proposed to lower the 21% corporate income tax rate to 15% for companies producing goods in the United States, reinstating 100% 'bonus' depreciation, and restoring current expensing for US-based research activities. In addition, he called for numerous targeted individual tax cuts during his campaign, with proposals that range from eliminating taxes on tip income, overtime pay, and Social Security benefits to restoring federal individual itemized deductions for state and local taxes.

During his campaign, President Trump called for increasing the current 1.4% excise tax that is imposed on certain private college and university endowment funds. On February 6, President Trump called for repealing tax rules that allow certain "carried interests" of investment fund managers to be taxed at capital gains tax rates instead of ordinary income tax rates. He also called for limiting tax benefits for certain sports team owners.

Permanent extension of expiring TCJA tax provisions is estimated by the Joint Committee on Taxation (JCT) to reduce federal revenues by $4.0 trillion over the 10-year period (FY 2025-2034) covered by the House Budget Committee's resolution. Some analysts have projected that the cost of President Trump's tax proposals could add roughly $2 trillion to the cost of addressing expiring TCJA provisions.

Observation: A key policy difference that House and Senate Republican leaders will need to resolve is whether to use a "current-law baseline" or a "current-policy baseline" for measuring the revenue effects of TCJA tax provisions that are set to expire under current law on December 31, 2025. How this baseline debate is resolved could affect which tax law provisions are enacted on a "permanent" basis (without an expiration date) and which tax provisions are enacted to sunset within the 9 years left in the budget window or will be subject to some other scheduled change.

The House budget resolution is based on a current-law baseline that reflects CBO's projected revenue cost of extending expiring TCJA tax provisions beyond December 31, 2025. Some in Congress have called for using a current-policy baseline that would assume the cost of extending the TCJA within a revised CBO projection of the federal debt.

Under a current-law baseline approach, a 2025 reconciliation tax bill covering the periods of FY 2025 through FY 2034 could result in temporary extensions of certain TCJA tax provisions for a seven-year period, through the end of 2032, to keep the deficit increase effect of the provisions within the resolution's 10-year period. Such an extension would reduce revenues by about $3.3 trillion, depending on what provisions are included.

Under a current-policy baseline approach, only new tax proposals, such as those proposed by President Trump or modifications to current tax policies, would be considered to require either offsetting spending reductions or tax increases or to be explicitly deficit financed. To comply with Senate reconciliation rules, each of the more than 40 separate current-law expiring TCJA individual tax provisions that would be made “permanent” without a new sunset date under a current-policy baseline would still have to be modified so that a qualifying and measurable budgetary effect results.

House and Senate Republicans will have to reach an agreement over the overall level of tax cuts and spending cuts to be addressed in an FY 2025 reconciliation bill under an identical joint budget resolution approved by both chambers.

The House budget resolution’s tax instruction would allow the House and Senate tax committees to consider tax proposals that have a total gross cost of more than $4.5 trillion, but net cost of the tax legislation would not be able to exceed that amount (not including any increase in net interest outlays). If the reconciliation instructions for tax and spending measures are not followed, the legislation could be subject to a procedural challenge in the Senate and lose its protection against requiring 60 votes in that chamber.

Complying with the reconciliation instructions could require the House and Senate tax committees to consider revenue-raising provisions to offset part of the cost of the legislation.

Observation: Adopting a current-policy baseline could reduce the level of revenue-raising offsets required as part of a 2025 reconciliation bill but would be unlikely to entirely eliminate the need for offsetting tax increases.

Potential revenue-raising offsets that have been identified by the House Budget Committee, various members of Congress, and other policy analysts include:

- Changes to certain business deductions for state and local taxes and restricting the use of elective pass-through entity tax rules that have been enacted by most states that have income taxes could be paired with a change to the current $10,000 cap on individual itemized deductions for state and local taxes.
- Legislation (H.R. 591) recently introduced by Ways and Means Committee Chairman Jason Smith (R-MO) that would provide for retaliation against foreign countries that are determined by the Treasury Department to have imposed extraterritorial or discriminatory taxes on US businesses or individuals.
- Measures to limit or repeal various clean energy tax incentives that were enacted as part of the 2022 Inflation Reduction Act.
- Modifications to the Employee Retention Tax Credit.
- Modifications to the current excise tax on certain stock repurchases.

Observation: Potential opposition to various revenue-raising offsets and spending cuts could affect the ability of the House and Senate to enact a final bill with only Republican votes in the narrowly divided House and Senate.

For more on these issues, see PwC’s 2025 Tax Policy Outlook: A year for action.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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