Overview of Selected Provisions in and Background Behind Reconciliation Legislation

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Table of Contents

Introduction 1
1. Brief Overview of Major Provisions of the Act 1
2. Summary of Selected Tax Cuts 2
3. Behind the Scenes: Background Issues of Primary Importance In the Evolution of the Act 6
4. Estate Tax Repeal? 17
5. Impact of Potential 2025 Legislative Estate and Gift Tax Measures on Planning 17
6. Resources 17

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Introduction

The primary legislative focus of Congress in 2025 has been the massive reconciliation package that includes pretty much all of the Trump administration's domestic legislative priorities. It is known as "One Big Beautiful Bill Act" (OBBBA), though that is not its official title. (The OBBBA is sometimes referred to in this summary as "the Act.") It was enacted under a special "reconciliation" legislative process that allowed it to pass by a only majority vote in the Senate (rather than the traditional 60-vote requirement for ending debate and bringing a bill to a vote).

The Act extends the 2017 Tax Cuts and Jobs Act (TCJA), adds other tax cuts that have been administration priorities, adds substantial additional appropriations for defense, border security, and immigration enforcement, makes a large number (and dollar amount) of spending cuts (including for Medicaid, the Affordable Care Act, and nutrition programs), and includes numerous other miscellaneous measures. The Act cuts taxes by $4.5 trillion over the next ten years, cuts spending by $1.7 trillion, and adds $450 billion of increased spending (largely for defense, border security and immigration enforcement). The nonpartisan Congressional Budget Office estimates that the Act will add $4.1 trillion to the federal debt over ten years (including interest that will be paid on the additional debt).

Of interest to many clients has been whether the federal estate and gift exclusion amount (currently about $14 million) would be extended or whether it would revert to about $7 million in 2026. The Act even further increased the exclusion, increasing it to $15 million in 2026 (to be inflation adjusted in the future). Like the rest of the extension of the TCJA matters, this provision is extended indefinitely (and does not "sunset" after a period of time, as typically happens with reconciliation legislation). The Act includes a number of individual as well as some business income tax provisions.

The indefinite extension of most (but not all) of the tax provisions in the Act was accomplished with a technique that has never been used before in any reconciliation legislation. The Senate determined by majority vote that the chair of the Senate Budget Committee could decide to use a "current policy" (rather than "current law") baseline for measuring the fiscal impact of the Act, and that permitted the indefinite extension of the Act's tax provisions.

Central to the Congressional negotiations was the cost of the Act. It comes with a big price tag—it is estimated to add about $4.1 trillion to the national debt by 2034 (and that is on top of the expected $20 trillion of deficits expected over the next ten years before enactment of the Act).

Selected provisions of the Act are briefly highlighted and background issues behind the negotiations that led to the ultimate assembly of the Act are summarized.

1. Brief Overview of Major Provisions of the Act

The mammoth 878-page Act contains sprawling provisions affecting many disparate areas of domestic policy. As a broad overview, the Act includes measures for the following broad areas (among many other miscellaneous provisions). The cost and savings estimates listed below are over the 10-year budget window (2025-2034).

a. **Tax Cuts.** The Act extends the 2017 Tax Cuts and Jobs Act (TCJA) and extends various business provisions that were in the TCJA but had already expired. The Act also adds various other tax cuts that were priorities of the Trump administration (Cost: $4.45 trillion, as estimated by the Joint Committee on Taxation).

b. **Defense.** An additional $157 billion is allocated to defense.

c. **Border Security and Immigration.** Over $170 billion is added for border security and immigration. ICE's current annual budget is around $10 billion. The agency will receive through 2029: $45 billion for detention facilities; $46 billion for border wall operations; and $14 billion for deportation operations. ICE currently has 6,000 deportation officers and will add an additional 10,000 agents by 2029. For some leaders, this was a key provision in the Act. When the Act was nearing final stages of negotiations in the Senate, Vice-President JD Vance emphasized the importance of the immigration enforcement provisions: "Everything else – the CBO score, the proper baseline, the minutiae of the Medicaid policy – is immaterial compared to the ICE money and immigration enforcement provisions." (Posting on X by JD Vance, June 30, 2025)

d. **Spending Cuts—Medicaid and Affordable Care Act.** The Act reduces federal Medicaid and health care spending by about $1 trillion over 2025-2034. The Congressional Budget Office (CBO) estimated the Senate Budget Committee's version of the bill would increase the number of uninsured people by 11.8 million by 2034. Various members of Congress expressed concern that the cuts would especially impact rural health care, and the Act adds a $50 billion fund (funded with $10 billion over each of the next five years) that could be used to assist rural health care providers. The Act also codifies changes to the Affordable Care Act marketplaces (in addition to the expiration of enhanced premium tax credits that expire at the end of 2025); the CBO estimates that those changes will result in loss of coverage for more than 5 million people. Many of these changes and spending cuts will not take place until after 2026.

e. **Spending Cuts—Nutrition Programs.** The Act cuts about $230 billion over ten years from the Supplemental Nutrition Assistance Program (SNAP), sometimes referred to generically as "food stamps."

f. **Phase-Out or Elimination of Clean Energy Credits**. The phase-out or elimination of various clean energy credits from the Inflation Reduction Act are estimated to result in $543 billion of savings.

g. **Debt Ceiling.** The debt ceiling is increased by $5 trillion. (The U.S. currently runs a deficit of close to $2 trillion per year; it was $1.7 trillion in FY2023, $1.8 trillion in FY2024, and expected to be $1.9 trillion in FY 2025.)

h. **Numerous Other Provisions.** The massive bill has numerous other miscellaneous provisions.

2. Summary of Selected Tax Cuts

The Act indefinitely extends the TCJA (with some modifications), indefinitely extends business provisions in the TCJA that had already expired, and adds various other new tax cuts (some of which last only for five years). Unless indicated to the contrary, all of these tax cut provisions are extended permanently (until a future Congress changes them). The permanence feature is very important even though the provisions could be changed by a future Congress because it means that avoiding the sunset of tax cuts cannot be used as leverage to obtain other concessions. Also, supermajorities in the House and Senate (that is, much larger than 50% for the Senate or 50% plus one for the House) might be needed to reverse the tax cuts. The purpose of the Senate's use of the "current policy" baseline was to extend the tax cuts permanently, without having them expire beyond the ten-year "budget window" of the reconciliation package (as typically happens with tax cuts in reconciliation legislation).

Cost estimates are included for some of the measures, as determined by the Joint Committee on Taxation for 2025-2034. Observe that these are nine-year rather than the traditional ten-year costs in reconciliation legislation because the budget window begins in 2025, and the tax cuts generally are in place for 2025 and are only extended beginning in 2026.

e. **Estate Tax.** The federal estate and gift exclusion amount (currently about $14 million) not only does not revert to about $7 million in 2026, but the exclusion amount is further increased to $15 million in 2026 (to be inflation adjusted in the future). This $15 million amount for 2026 is about $720,000 more than the exclusion amount would have been if the current law was extended. (The Joint Committee on Taxation Report estimates that the exemption would be $14.28 million in 2026 if current law was extended.) The change of the estate tax basic exclusion amount in §2010(c)(3) also automatically adjusts the gift tax exemption amount (§2505(a)(1)) and the GST exemption amount (§2631(c)). Significantly, the Act does not change the estate and gift tax rates or make any other transfer tax changes. There was no serious consideration in the legislative negotiations to repeal the estate tax. ($211.7 billion cost)

f. **Income Tax Rates.** The rate brackets in the TCJA are extended (and an additional year of inflation adjustment is added for the 10%, 12%, and 22% brackets). ($2.19 trillion cost)

g. **Increased Standard Deduction; No Personal Exemption.** The personal exemption is terminated and the increased standard deduction is extended and enhanced; it will be $16,000 (single taxpayer) and $32,000 (married filing jointly) in 2026, and inflation adjusted thereafter. ($1.42 trillion cost for the increased standard deduction)

h. **Alternative Minimum Tax.** The increased exemption amounts and phase-out thresholds for alternative minimum tax (AMT) are extended with modest changes. ($1.36 trillion cost)

i. **Child Tax Credit.** The child tax credit was an important issue in the Presidential campaign. Both parties pledged to retain (or even increase) it. The Act increases the nonrefundable child tax credit to from $2,000 to $2,200 per child beginning in 2025, and it will be inflation adjusted after 2025. The inflation adjusted refundable child tax credit ($1,700 in 2025) is retained. ($817 billion cost)

j. **Qualified Business Income.** The §199A deduction for qualified business income is extended, leaving it as a 20% deduction. (The House proposal had increased it first to 22% and later to 23%, but the final Senate version reduced it back to 20%. This maintains a top effective tax rate of 29.6% on this flow-through income.) The deduction limit phase-in range is increased, and limitations that apply for specified trades or businesses and pass-through entities subject to the wage and investment limitation are relaxed. ($737 billion cost)

k. **State and Local Tax Deduction.** The $10,000 cap on the deduction for state and local income, sales, and property taxes (SALT) is increased to $40,000 ($20,000 for married filing separately) beginning in 2025. The increased deduction phases out for income (married filing jointly) between $500,000 to $600,000 in 2025 (at which time it is back to $10,000). The $40,000 cap and the phase-out thresholds increase by 1% per year. This increased cap is effective only for 2025-2029; thereafter the $10,000 cap applies.) ($325 billion cost for SALT deduction increased cap for five years and the AMT changes)

   Most states have enacted a pass-through entity tax (PTET) as a workaround to the SALT cap. The House version limited the available of the workaround for persons in specified trades or businesses (attorneys, accountants, and doctors, among others), but that provision was not included in the Act. (A PTET election should be considered for eligible taxpayers in high-tax states that have the workaround in place.)

   The significant increase in the SALT deduction cap increases the comparative advantage of using non-grantor trusts, which can now deduct up to $40,000 of state and local taxes and possibly avoid phaseout if income would otherwise have exceeded $500,000 (keeping in mind that the increased cap is only for five years unless it is further extended).

l. **Home Mortgage Interest.** Limitations on the deduction of mortgage interest and home equity interest are made permanent (§163(h)). The deduction of mortgage interest is limited to indebtedness of $750,000 for new mortgages, and no deduction is allowed for home equity loan interest.

m. **Termination of Miscellaneous Itemized Deductions**. The suspension of miscellaneous itemized deductions under §67(g), including investment management and tax preparation fees, is extended permanently.

n. **Pease Limitation**. The Act replaces the Pease provisions with a new limitation, limiting the benefit of itemized deductions to 35% instead of the current 37% level. (The House version had added a limitation related to the SALT deduction, which would have partly eroded the enhanced SALT deduction cap, but that was eliminated in the Senate.)

o. **Individual Charitable Deductions.** The 60% adjusted gross income (AGI) limitation on cash-based charitable contributions is now permanent; however, a new floor will apply in determining total charitable deductions. Contributions will be deductible only to the extent they exceed 0.5% of income. Non-itemizing individuals are entitled to an above-the-line charitable deduction of up to $1,000 ($2,000 for joint filers).

p. **Corporate Charitable Deductions.** Charitable deductions for corporations would be restricted. Corporations may deduct up to 10% of their taxable income. That ceiling on the deduction does not change, but a new 1% floor would be imposed. A corporation would have to make charitable contributions of at least 1% of its income to receive any charitable deduction. (The median corporate grant maker donates 0.92% of its pre-tax profit and thus would not be entitled to any charitable deduction.)

q. **No Increased Excise Tax On Private Foundations.** The House had increased the 1.39% excise tax on the net investment income of larger private foundations. The Act does not include that provision.

r. **Expansion of Qualified Small Business Stock Gain Exclusion.** Code Section 1202 currently provides for the exclusion of 100%, 75%, or 50% (depending on when the stock was acquired) of gain on the sale of qualified small business stock (QSBS) held more than five years. The exclusion is subject to a per-issuer cap—generally the greater of $10 million or 10 times the taxpayer's basis in the stock. Eligibility also depends on the corporation's aggregate gross assets not exceeding $50 million at the time of issuance.

The Act changes the tiered gain exclusion so it will be based on how long the stock has been held rather than when it was acquired. The gain exclusion is 50% for stock held at least three years, 75% for stock held at least four years, and 100% for stock held at least five years. Also, for stock issued after the date of enactment, the Act increases the per-issuer dollar cap from $10 million to $15 million and increases the corporate-level aggregate-asset ceiling from $50 million to $75 million, indexed to inflation beginning in 2027. ($17 billion cost)

These three changes (reduced 3 to 5-year tiered holding period, $15 million dollar cap, and $75 million asset ceiling) are very significant for small business owners. C corporations may become more favored, especially if sales of stock are anticipated in the foreseeable future (but after the stock has been held at least three years). Having multiple non-grantor trusts own QSBS stock becomes more important with the increased $15 million dollar cap allowing "stacking" of QSBS shares.

s. **Gambling Losses.** Gamblers are dealt a bad hand—the deduction for "losses from wagering transactions" is limited to 90% of the losses (only to the extent of the gains from such transactions).

t. **Selected Business Provisions**. Several business provisions in the TCJA that have already expired are extended indefinitely (generally effective beginning in 2025):

- Immediate expensing under §168(k) of certain business property acquired and placed in service on or after Jan. 19, 2025 ($363 billion cost)
- Full expensing of domestic research and experimental expenditures paid or incurred in taxable years beginning after 2024 that are attributable to research in the United States; in addition, accelerated expensing is allowed for expenditures after 2021 and before 2025 ($141 billion cost)
- A relaxation of the limitation on deductions of business interest expense for taxable years beginning after 2024 ($61 billion cost)
- Special 100% depreciation allowance for the cost of certain new factories and improvements ($141 billion cost)

u. **Clean Energy Credits.** The Act repeals or phases out many of the key tax credits enacted in the 2022 Inflation Reduction Act. One example is that clean electricity credits are not allowed for wind and solar projects placed in service starting after 2027 if construction has not begun on the project within 12 months of the date of enactment. A notable change made by the Senate was to remove a new excise tax on new wind and solar facilities that could not meet aggressive material sourcing limits. The residential clean energy credit will be disallowed for any expenditure made after 2025 (moved up from Dec. 31, 2024) and the clean vehicle credit will be disallowed by any vehicle acquired after Sept. 20, 2025 (moved up from Dec. 31, 2032). The "placed in service" timeline is significant; banks may be reluctant to finance projects assuming they would be placed in service by that date because of uncertainties that could lead to construction delays (natural disasters, supply chain issues, etc.).

v. **Miscellaneous New Tax Cuts and Policies.**

(1) **Deduction for Tip Income.** The Act provides an above-the-line deduction of up to $25,000 for qualified tips (generally cash tips received by an individual in an occupation which traditionally and customarily receives tips) for 2025-2028. The deduction phases out if AGI exceeds $150,000 ($300,000 for joint returns). ($39.1 billion 5-year cost). Individuals who already have no taxable income because of the standard deduction will see no benefit from this measure; "it is more of a middle-income benefit, not a low-income benefit." Regulations will be needed for details. ($32 billion five-year cost)

(2) **Deduction for Overtime Compensation.** The Act provides an above-the-line deduction of up to $12,500 ($25,000 for joint returns) for qualified overtime compensation (as described in section 7 of the Fair Labor Standards Act of 1938) for 2025-2028. The deduction phases out if AGI exceeds $150,000 ($300,000 for joint returns). ($90 billion 5-year cost)

(3) **Deduction for Seniors.** The Act grants an additional $6,000 deduction to the standard deduction for seniors (age 65 and above) for 2025-2028, with a 6% phase-out for income in excess of $75,000 ($150,000 for joint returns). ($71.6 billion 5-year cost) (This is added in lieu of excluding Social Security from gross income, because that cannot be included in reconciliation legislation.)

(4) **Deduction for Car Loan Interest.** The Act allows a deduction of up to $10,000 for qualified passenger vehicle loan interest during any year from 2025-2028. This applies to new vehicles for which the final assembly occurs in the United States. The deduction phases out if AGI exceeds $100,000 ($200,000 for joint returns).

(5) **Trump Accounts.** The Act provides for the creation of "Trump Accounts" for persons under age 8 and allows parents, relatives, and other taxpayers to contribute up to $5,000 per year (indexed for inflation) to the accounts until age 18. The account is subject to the unrelated business income tax but is otherwise exempt from tax. No distributions could be made before age 18, up to one-half could be distributed before age 25, and the account would be distributed entirely at age 31. Distributions for qualified purposes (higher education, training programs, small business loans, or first-time home purchases) are taxed as long-term capital gains. Distributions for other purposes re taxed as ordinary income. The government will contribute $1,000 to accounts for persons born in 2025-2029. The accounts would be managed by banks or institutions and would have to be invested in stock index funds or other diversified investments. ($15 billion cost)

(6) **529 Account Enhancements.** Section 529 savings plans have more favorable tax treatment than Trump accounts. As long as the funds are used for qualified education purposes, no tax applies when the proceeds are withdrawn from 529 accounts.

The Act makes significant helpful enhancements for 529 accounts: (1) the list of eligible education expenses is expanded (applicable for distributions after the date of enactment); (2) the annual limit for 529 account distributions for K-12 expenses (expanded beyond just tuition costs) is increased from $10,000 to $20,000 (applicable for tax years after 2025); and (3) "qualified postsecondary credentialing expenses" are added as exempt distributions (applicable for distributions after the date of enactment).

(7) **Increased Excise Tax on Colleges and Universities.** The Act increases the existing 1.4% excise tax on the net investment income of private colleges and universities if they have large endowments. The excise tax rates for particular endowments per student would be: 1.4% ($500,000-$749,999), 4% ($750,000-$1,999,999), 8% (over $2,000,000). (The 8% rate would apply to MIT, Harvard, Princeton, Yale, and Stanford.) International students would not be counted in making the endowment per student calculation. (More than 50 schools paid the 1.4% tax in 2023, and the proposal to exclude foreign students in the calculation would extend the levy to roughly a dozen other institutions (likely including Columbia and Cornell).) Universities have responded that this is essentially a tax on national research and student aid. The House version would have applied much higher excise taxes (21% for the highest tier). A provision to exclude

religious institutions from the higher tax was deemed extraneous by the Senate Parliamentarian and was removed. ($0.8 billion savings)

(8) **Not Included.** The Act does not include a provision for adding a new higher income tax bracket for high-income taxpayers (which had been suggested by President Trump), does not tax "carried interests," and does not include provisions limiting the amortization of intangible assets of sports franchises (which was in the House version).

3. Behind the Scenes: Background Issues of Primary Importance In the Evolution of the Act

a. **Reconciliation Legislative Process.** The Senate can pass tax legislation with a mere majority (as opposed to 60 votes required for most legislation to overcome the filibuster and bring a bill to a vote) under the reconciliation legislative process enacted in the Congressional Budget Act of 1974. That Act was used for the first half of its existence to *reduce* deficits; starting in 2001, it has been used to grow deficits more than half the times it has been used. Republicans have a majority of both the House and Senate in 2025 and passed the Act without bipartisan involvement. (Congress could pass another reconciliation act in the fall of 2025 or next year for the fiscal year beginning Oct. 1, 2025.)

The reconciliation process begins with the adoption of a budget resolution, agreed to by both the House and Senate. The budget resolution sets a "budget window" (traditionally ten years), gives instructions to committees, and sets an overall deficit limitation. The budget resolution gives instructions to House and Senate Committees and the work of their committees is "reconciled" into a single reconciliation act for approval in the House and Senate.

b. **"Byrd Rule" Overview.** The "Byrd rule" applies in the Senate for reconciliation acts. A Senator can call point of order as to (among other things): (1) any item that does not have fiscal impact (a number of provisions in the bill were dropped after the Senate Parliamentarian ruled they did not satisfy this requirement); (2) any item affecting Social Security; or (3) if the act would increase deficits outside the "budget window" (typically ten years). That third item is the reason many reconciliation acts in the past "sunset" and reverted to the prior law at or before the end of the budget window (but the Senate was able to avoid that rule in the Act by applying a current policy baseline to the tax provisions in the Act.)

The Senate Presiding Officer rules on points of order. The Presiding Officer receives advice from the Senate Parliamentarian (and traditionally follows the advice of the Parliamentarian). Issues will often be raised with the Parliamentarian before official points of order are raised, and offending measures are voluntarily removed from the bill. The Senate could override the ruling of the Presiding Officer on a point of order, but 60 votes are required to waive points of order or to successfully appeal the ruling of the Presiding Officer on a point of order under the Byrd rule. Congressional Budget Act §904(d).

c. **Brief History of Adoption of Budget Resolution and the Act.** The initial Senate budget resolution (adopted Feb. 21, 2025) only addressed border security and defense, while the House version also addressed taxes. The initial House budget resolution was adopted Feb. 25, 2025, by a vote of 217-214 (Rep. Thomas Massie (R-KY) was the only Republican to vote against the resolution). The Senate voted 51-48 to adopt an amended version of the budget resolution on April 5, 2025. The amended Senate resolution adopted the novel approach of empowering the Chair of the Senate Budget Committee (Lindsey Graham (R-SC)) to determine the baseline for scoring the legislation, The House voted 216-214 on April 10 to adopt the Senate amended version of the budget resolution (Reps. Thomas Massie (R-KY) and Victoria Spatz (R-IN) voted against the resolution).

The House Ways and Means Committee released marks of the bill on May 9 and May 12 and approved its tax portion of the reconciliation package following a 17-hour markup session on May 13. The House Budget Committee compiled the work of 11 House committees into a single bill. The House Budget Committee rejected the bill on May 16, 2025, by a vote of 21-16 when four budget hawks (Reps. Chip Roy (R-TX), Josh Brecheen (R-OK), Andrew Clyde (R-GA), and Ralph Norman (R-SC)) voted against the bill because it did not make enough spending cuts or slash tax benefits to low-income households (one Republican who supported the bill voted no so the bill could be reconsidered). On May 18, 2025, the House Budget Committee approved the reconciliation package (officially titled the "One Big Beautiful Bill Act," but the official title was removed in the Senate on advice from the Parliamentarian that the title violated the Byrd rule because it did not have fiscal impact) in a 17-16 party-line vote, with four conservatives voting "present" (the same four that voted against the bill on May 16). The House Budget Committee could not make changes to the bill, but assurances were made that changes would be made by the House Rules Committee, which could make changes to the bill. The House Rules Committee began its markup of the reconciliation bill at an unusual hour—1 a.m. on May 21, 2025. The committee session stretched over 21 hours as leaders worked to reconcile differences between moderate and conservative factions, resulting in a 42-page Manager's Amendment which was approved by the Rules Committee after enough votes for passage, especially from holdouts concerned about issues like the state and local tax (SALT) deduction cap and work requirements for social programs. The markup ended after 10:30 p.m..

The House began acting immediately after the bill was advanced from the House Rules Committee. After an all-night session, the bill narrowly passed at 6:45 a.m. on May 22 by a vote of 215-214, with two Republicans casting no votes (Rep. Thomas Massie (R-KY), who has consistently voted against the measure because it produces additional deficits, and Rep. Warren Davidson (R-OH)) and one Republican, Rep. Andy Harris (R-MD), voting present (because he wanted to move the legislation along but had concerns about deficits and Medicaid). Two other Republicans failed to vote (Rep. Andrew Garbarino (R-NY) fell asleep and missed the vote), but they supported the bill.

Negotiations in the Senate included resolving differences among those concerned that the act would add too much to deficits and those that were concerned that spending cuts (particularly to Medicaid and nutrition programs) were too severe. Negotiations among Senators resulted in a wide variety of changes to the bill as approved by the House. A procedural vote in the Senate to move the legislation forward for formal consideration by the Senate was approved on June 28, 2025, after voting was held open for about three hours to obtain the necessary votes. Sens. Rand Paul (R-KY), Thom Tillis (R-NC), and Ron Johnson (R-WI) initially voted no while four other senators withheld their votes. Ultimately, the procedural measure passed 51-49, with Sen. Ron Johnson changing to vote in favor of the measure. The Senate approved the Act in the morning of July 1 by a vote of 51-50 (with the Vice-President voting to break the tie vote). Three Republicans voted against the bill: Sens. Rand Paul (R-KY), Thom Tillis (R-NC), and Lisa Murkowski (R-AK). (A number of special provisions "for non-contiguous states" had been added as a sweetener for obtaining Sen. Murkowski's vote.) The changes in the Senate increased the reduction of net federal revenues from $3.8 trillion to $4.475 trillion for 2025-2034 and increased the addition to deficits from $2.8 trillion to $3.4 trillion (those numbers do not include additional interest that would be paid on the additional national debt).

The House approved the Act on July 3 by a vote of 218-214, with two Republicans voting against the bill (Reps. Thomas Massie (R-KY) and Brian Fitzpatrick (R-PA)). Various Republican representatives who were upset with changes made by the Senate ultimately decided to vote for the legislation, apparently with assurances that future legislation or executive orders would address some of their concerns. President Trump signed the bill into law on July 4, 2025.

d. **Costs; Dynamic Revenue Effect.** The Joint Committee on Taxation has estimated that the Senate-passed amended version of the bill cuts taxes by **$4.475 trillion** dollars over ten years compared to present law (up from $3.8 trillion under the House-passed version) and cuts taxes by **$715.2 billion** dollars over ten years using a current policy baseline. *Estimated Revenue Effects of a Manager's Amendment to the Tax Provisions to Provide Reconciliation of the Fiscal Year 2025 Budget in the Senate Relative to Present Law,* JCX 31-25, JOINT COMMITTEE ON TAXATION (Jan. 28, 2025)*; Estimated Revenue Effects of a Manager's Amendment to the Tax Provisions to Provide Reconciliation of the Fiscal Year 2025 Budget in the Senate Relative to Current Policy,* JCX 30-25, JOINT COMMITTEE ON TAXATION (Jan. 28, 2025). Those numbers are each about $250 billion higher than estimates made by the Committee a week earlier because of additional tax cuts that were added into the package during that week (including about $180 billion of added cuts for SALT deductions and $34 billion of additional cuts for expanded Opportunity Zone investments).

The Congressional Budget Office, on June 27, 2025, estimated that the bill, as amended for consideration in the Senate, would add **$3.36 trillion** for the national debt over ten years (2025-2034). Letter from Phillip Swagel, Director of Congressional Budget Office (July 1, 2025) (updating June 27 report; Senate changes after June 27 increase outlays by $90 billion, decrease revenues by $20 billion, and increase deficits by $110 billion); *Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act Relative to the Budget Enforcement Baseline for Consideration in the Senate*, CONGRESSIONAL BUDGET OFFICE (June 27, 2025). (The CBO report also concluded that the Senate bill cut about $300 billion in food stamp spending and $1 trillion from Medicaid and health care and "would increase by 11.8 million the number of people without health insurance in 2034.") The Committee for a Responsible Federal Budget estimates that the additional interest on the added debt would add about $690 billion, resulting in an overall cost of **$4.1 trillion**. It also estimates that if all the expiring provisions in the Act were made extended for a full ten years, the cost (including additional interest) would be increased to about **$5.5 trillion**. *15 Major Problems with the Senate Reconciliation Bill*, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET (July 2, 2025).

In high contrast with those estimates, the White House Council of Economic Advisors predicts that the One Big Beautiful Bill Act will generate "$2.1 to $2.3 trillion in offsetting deficit reduction due to higher growth from the OBBBA provisions" and "$1.3 to $3.7 trillion in additional offsetting deficit reduction from higher growth unleashed by OBBBA enhanced deregulation and energy practices." Furthermore, it estimates "$8.5 to $11.1 trillion in total offsetting deficit reduction from Trump economic policies anchored by the OBBB, including discretionary spending reductions and tariff revenue." *The One Big Beautiful Bill: Legislation for Historic Prosperity and Deficit Reduction*, at 1, THE COUNCIL OF ECONOMIC ADVISERS (June 2025). The Report concludes:

> The CEA finds that the OBBB will cause investment to surge, GDP to rise, and paychecks to fatten as Americans receive higher wages and keep more of the money they earned. Left-behind Americans and overlooked communities will experience a new era of rising fortunes as the overall economic environment improves and as private-sector driven growth unleashed by policies in the OBBB spreads to every corner of America. Critically, the CEA estimates that the OBBB and the broader Trump economic policies that it supports will bend the trajectory of debt downward ….

Id. at 14.

Economists generally do not agree with the White House that the Act will have large positive dynamic effects. The Congressional Budget Office analysis of the dynamic macroeconomic effects of the initial House-passed version of the bill was that the primary deficits over the budget window would *increase* by $356 billion from $2.4 trillion to $2.8 trillion as a result of economic effects. It concluded that additional debt from interest rate increases that would occur because of the Act would be greater than the reduction of deficits from future growth. *Congressional Budget Office Dynamic Estimate* (June 17, 2025).

The Joint Committee on Taxation on May 22, 2025, estimated that the macroeconomic effects of the tax package as reported by the House Ways and Means Committee on May 12, 2025, would be only $102.8 billion over 10 years (far less than the $2.6 trillion additional revenue from growth assumptions in the House budget resolution).

The Penn Wharton University of Pennsylvania Budget Model estimates that the economic dynamic impact of the reconciliation package passed by the House will actually *increase* deficits during the budget window of 2025-2034 (from $2.787 trillion to $3.198 trillion), because savings from economic growth do not appear until 2033 and 2034.

Some have responded to the economic estimates of the CBO and Joint Committee on Taxation by criticizing them. For example, Republican leaders have argued that the CBO underestimated by $1.5 trillion how much revenues would grow under the 2017 TCJA from 2018 through 2024. However, federal revenue collections were actually lower in the two years following the TCJA implementation and an unexpected revenue surge occurred in 2022. *See* Katie Lobosco, *Congress Races to Extend TCJA Without Knowing Its True Impact*, 187 TAX NOTES FEDERAL 920 (May 5, 2025). The CBO acknowledges the $1.5 trillion underestimation but blames $900 billion of the underestimate on higher than expected inflation and much of the rest on unexpectedly high tariff revenues not included in the original projection. *See id.*; Doug Sword, *Top House Taxwriter Calls Current-Policy Approach 'a Fraud,'* 186 TAX NOTES FEDERAL 1129 (Feb. 10, 2025). The Committee for a Responsible Federal Budget says the data show that all the additional $1.5 trillion revenue can be explained either by higher inflation or by a temporary one-time post-pandemic revenue surge in 2022—"the fifth year after passage of the TCJA and immediately on the heels of a pandemic and inflation crisis." *Has TCJA Paid For Itself?*, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET (Jan. 22, 2025).

Various members of Congress have made very strong statements about not adding to deficits. In explaining why they voted for the House budget resolution, some Representatives spoke of assurances that the final bill would not add to deficits. House Budget Committee Chair Jodey C. Arrington (R-TX) said that what was most important to him was "a commitment from the leadership of the House that we will not put a bill on the floor of our chamber that adds to the national debt." Rep. Arrington stated that "increasing the deficit … would be a nonstarter for a good number of members of the House" and that members who would object are "well beyond our vote margin … probably in the double digits for sure." Doug Sword & Cady Stanton, *Those Troublesome Budget Instructions: They Might Not Matter*, 187 TAX NOTES FEDERAL 767 (April 28, 2025). House Freedom Caucus Chair Andy Harris (R-MD) also reiterated the importance of reassurances that the bill will not increase the deficit and "getting assurances, both from the Senate and the House leadership, that that's not going to happen." Following passage of the House bill, Sen. Ron Johnson (R-WI) on May 22, 2025, warned: "I couldn't care less if [President Trump]'s upset. … We are stealing from our children and grandchildren. Thirty-seven trillion dollars of debt and we are going to add to it as Republicans? That is unacceptable. That's why there's no way I'm going to vote for this bill in its current form." On May 25, 2025, on "CNN Face the Nation," Sen. Johnson said "This is our only chance to set [spending levels] back to that pre-pandemic level of spending…. I think we have enough [objecting senators] to stop the process until the president gets serious about spending reduction and reducing the deficit." *See* Catie Edmondson & Minho Kim, *Fiscal Hawks in Senate Balk at House's Bill to Deliver Trump's Agenda*, NEW YORK TIMES (May 25, 2025).

e. **National Debt.** The national debt has grown from $4.6 trillion in 2005, to $13.1 trillion in 2015, to $36 trillion in 2025.

The national debt is currently 100% of GDP, and the Congressional Budget Office estimates it will grow (even if the TCJA were not extended) to 107% of GDP in 2029 (the highest percentage of GDP it has ever been), to 118% of GDP in 2035, to 156% of GDP in 2055. It would grow to 214% of GDP in 2055 if the TCJA is extended. Jack Lew, Secretary of the Treasury in the Obama administration, observes: That would put us in the company of Sudan—hardly a fiscal badge of honor." Jack Lew, *GOP Tax Bill Will Hurt the Vulnerable and the Deficit*, BLOOMBERG DAILY TAX REPORT (June 10, 2025).

The estimated annual deficit for FY 2025 is $1.9 trillion and is expected to grow to $2.7 trillion by 2035. The Budget and Economic Outlook 2025 to 2035, CONGRESSIONAL BUDGET OFFICE (January 2025). The national debt may grow by about $22 billion even before any tax extensions.

Interest on the national debt has grown from $345 billion in 2020, to $704 billion in 2023, to $950 billion in 2024. Interest on the public debt is now the second largest federal expenditure, second only to Social Security. It exceeds federal spending on defense.

Ferguson's Law, named after English historian Sir James Ferguson, suggests that a civilization begins to decline when its interest expense (debt repayments) exceeds its defense expenditure. It argues that when a society's financial obligations to debt holders become so overwhelming that they surpass the funds needed to defend the society, the civilization is likely to face significant decline or collapse. Historical examples are ancient Egypt, the Roman Empire, the Spanish empire of the 17th century, the British Empire in the 19th and 20th centuries, and the Soviet Union.

Some "budget hawks" in Congress are very concerned about deficits and the growing national debt (but most of the Republican "budget hawks" voted for the Act).

As a practical matter, deficit reduction will likely require a bipartisan effort because it requires painful changes. Balanced budgets were the result of bipartisan agreement during the Clinton administration in 1998-2001. "Real deficit reduction requires compromise and shared pain—some combination of cutting spending and raising revenues. Bipartisan cooperation is the only way to share the political pain as well." Jack Lew, *GOP Tax Bill Will Hurt the Vulnerable and the Deficit*, BLOOMBERG DAILY TAX REPORT (June 10, 2025).

f. **Current Policy Baseline.** The Senate adopted the novel approach (never before used in any reconciliation legislation) to measure the fiscal impact of the Act using a "current policy" baseline (which assumes that the current tax rates or provisions continue indefinitely). The Senate budget resolution empowered the Chair of the Senate Budget Committee (Lindsey Graham (R-SC)) to determine the baseline for scoring the legislation under the authority of section 312 of the Congressional Budget Act of 1974, which says budgetary levels "shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as appropriate." In contrast, legislation is typically scored under a "current law" approach (for example, it would assume that the tax system would revert to its pre-TCJA state as is called for under current law).

The key reason for using the current policy baseline is that it ostensibly would allow the TCJA to be extended permanently despite the Byrd rule (because the system currently in effect is the baseline for judging the fiscal impact of the act). See Item 3.g below regarding whether the current policy baseline approach can be used for purposes of applying the Byrd rule.

Some members of the House and Senate viewed using a current policy baseline as "intellectually dishonest" and "magic math." Republican leaders countered that spending levels are assumed to continue in scoring legislation so making the same assumption for revenue levels would be consistent, but commentators point out that spending appropriations that are specifically limited in time are not assumed to continue indefinitely under the scoring rules. Even if the current policy baseline assumes no revenue impact, the Act still increases deficits over ten years by about $4 trillion. Senate Finance Committee Chair Mike Crapo (R-ID) promised in an April 4, 2025, floor speech that the traditional scoring method (showing larger deficit increases) would be published as well, because it would reflect how big the tax savings are for Americans.

The Congressional Budget Office and the Joint Committee on Taxation are required to "score" fiscal bills using a current law baseline approach. The current policy baseline approach has never been used for a reconciliation act. Section 257 of the Balanced Budget and Emergency Deficit Control Act defines the baseline using a current law approach. The current policy approach taken by the Senate, was taken under the authority in section 312 of the Congressional Budget Act, which authorizes the Chair of the Senate Budget Committee to "estimate" fiscal impacts. That is novel for reconciliation legislation and could dramatically change how reconciliation legislation is used in the future. Shortly after the Senate leadership announced that it would use the current policy baseline under the authority of section 312, other Senators argued that this novel approach was inappropriate under existing law.

> [I]t has been asserted this week that under section 312 of the Congressional Budget Act, the chair of the Budget Committee has the authority to instruct the Congressional Budget Office, known as CBO, and the Joint Committee on Taxation, known as JCT, to ignore budget law when developing cost estimates for legislation, including budget reconciliation bills. It has further been asserted these directed estimates are appropriate to use for budget enforcement purposes claiming that past Budget chairs have taken similar actions. This is false.
>
> I would like to put some facts into the record. Section 257 of the Balanced Budget and Emergency Deficit Control Act defines how CBO and JCT should construct the baseline. This is called the current law baseline…. For 40 years, Congress has used cost estimates based on section 257 of this act. Codifying a baseline established a standard budget enforcement regime, ensuring that CBO and the Office of Management and Budget use the same baseline definition when developing their respective economic forecasts and budget projections…. The section 257 current law baseline has applied to all reconciliation bills since its enactment.

Statement of Sen. Jeff Merkley (D-OR) on Senate floor, 171 CONGRESSIONAL RECORD at S2340 (April 4, 2025).

Under the reconciliation process, the budget resolution, in setting the limit on the amount by which deficits may be increased under the act, conceivably could direct that the deficits be calculated for purposes of that limit using current policy as a baseline (although that has never been done before with reconciliation legislation). Whether that would be effective for applying the Byrd rule has been unknown.

Republicans have pointed to prior uses of a current policy approach, but those have never been used in a reconciliation package and generally have just been used rhetorically to defend legislation rather than being used for official scoring of legislation. The Obama administration promoted the current policy baseline rhetorically to defend extending the Bush tax cuts that were set to expire at the end of 2012, arguing that the extension should be measured against current policy, not the "current law" under which tax cuts would expire. However, the Congressional Budget Office and the Joint Committee on Taxation used the current law baseline for scoring the legislation, as required by congressional rules. The Obama administration and some lawmakers merely highlighted the current policy perspective to justify the compromise. The Obama administration did that to highlight that they were raising revenue compared to current policy by increasing income taxes on wealthy taxpayers by allowing certain tax cuts to expire.

g. **Current Policy and the Byrd Rule.** The Byrd rule allows senators to object to provisions in an Act that cause deficits under the Act beyond the budget window. The current policy baseline approach is designed to thwart that limitation—and it worked. How did that happen?

Soon after the Senate leadership announced its intention of using the current policy baseline under the authority of section 312, other Senators pointed out how inappropriate that was for purposes of applying the Byrd rule.

> Section 313 of the Congressional Budget Act—colloquially referred to as the Byrd Rule—is also in statute. The Byrd Rule provides strict guardrails on what is, or is not, appropriate for inclusion in a reconciliation bill. During adoption of the Byrd Rule in 1985, floor debate indicates it was understood that the Parliamentarian would advise on Byrd Rule violations, and the Senate would vote accordingly; a role for the Budget chair was not mentioned, even by the author and namesake of these constraints—Senator Robert C. Byrd.
>
> Since the Byrd Rule's adoption, it has been long-accepted practice—accepted by both sides of the aisle—to rely on the Parliamentarian to advise the chair on reconciliation privilege and enforcement issues, including evaluating compliance with Byrd Rule tests that all hinge on the scores of the provisions. Section 312 authority has never been asserted to allow the Budget chair to dictate scores to enforce or manipulate the Byrd Rule. The Senate has always relied exclusively on CBO and JCT scores when evaluating the Byrd Rule, and CBO and JCT have always relied on the section 257 current law baseline to produce those scores.
>
> Reconciliation is one of the Senate's few privileged, fast-track mechanisms for passing legislation, particularly legislation of substantial size and scope. The Budget Act grants the Senate this targeted exception from its standard of open debate and cloture protection with an expectation that there will be limitations. The inappropriate assertion that broad authority under section 312 of the Congressional Budget Act allows a Budget chair to ignore budget law, upend multiple layers of procedure, and undermine the Parliamentarian's role, is a clear violation of the Byrd Rule and the Senate precedent around reconciliation limits.

Statement of Sen. Jeff Merkley (D-OR) on Senate floor, 171 CONGRESSIONAL RECORD at S2340-2341 (April 4, 2025).

Sen. Sheldon Whitehouse (D-RI) explained that the Democrats planned to obtain a ruling from the Parliamentarian despite the attempt to end run the Parliamentarian regarding the application of the current policy approach for purposes of enforcement of the Byrd Rule.

> [Since using the nuclear option to put their people on the Supreme Court], it has been: We will never, never, never, never, never, never blow up the filibuster. We will never use the nuclear option.
>
> Well, here is where we are with the Parliamentarian right now: They have done an end run around getting a determination on whether this stunt that they are pulling by pretending that these tax cuts don't have any economic effect and don't add to the debt will get reviewed by the Parliamentarian.
>
> …

> How do you get that by the Parliamentarian? It is very hard to do, so they skip. But the problem is that sooner or later, there will be a parliamentary ruling. Maybe they hope that they have so much steam built up that the Parliamentarian will just roll over or maybe this whole thing just blows up and the Parliamentarian says: No, you can't do that. You have a lie and its own rebuttal in the exact same document. You can't pretend this is a true thing.
>
> Therefore it is not compliant with the budget laws ….
>
> So what does that mean? That means that at some point, the time will come when the Parliamentarian says "nope" and blows the whistle. They think that that is going to happen already, which is why they are doing the end run. When the day comes and it actually happens, that is when they will have to go to the nuclear option because otherwise this all will have been in vain. So we are on a path to the nuclear option. …
>
> …
>
> … When there are budget rules that we have honored for decades, they are going to ignore them. Just blow it through. There is the end run around the Parliamentarian, folks. Then at the end, they go nuclear after saying: We would never, never, never, never, never, never do that.

Statement of Sen. Sheldon Whitehouse (D-OR) on Senate floor, 171 CONGRESSIONAL RECORD at S2317 (April 4, 2025).

In light of that history, how did the Senate proceed with its use of the current policy baseline to extend indefinitely the tax cuts without a ruling from the Parliamentarian (and without having to overrule the Parliamentarian) about the Byrd rule? The Senate simply decided by majority vote that using the current policy baseline did not violate the Byrd rule, apparently without seeking advice (or approval) from the Parliamentarian.

Beginning immediately after the Senate budget resolution empowered Sen. Lindsay Graham, as Chair of the Senate Budget Committee, to determine the baseline for scoring the legislation, Republican senators said the Parliamentarian would not need to rule on use of the current policy baseline. Sen. Graham said on the Senate floor on June 30: "[W[e are not overruling the Parliamentarian because she said it was up to the Budget chairman to set the baseline." However, there is no indication that the Senate Parliamentarian ruled specifically that the current policy baseline approach was appropriate for purposes of applying the "no deficits beyond the budget window" provision in the Byrd rule. Indeed, Senate Republicans apparently specifically avoided posing the direct question to the Parliamentarian.

> Senate Democrats have tried multiple times to have a meeting with their GOP counterparts and the Senate parliamentarian to decide the crucial procedural question of whether extending President Trump's expiring 2017 tax cuts adds to future federal deficits.
>
> And Republicans so far have "flat out refused" to have any such discussion, they say.
>
> …
>
> Democrats say Republicans are trying to dodge Parliamentarian Elizabeth MacDonough from ruling on whether the tax portion of the "big, beautiful bill" exceeds the reconciliation package's deficit target for 2025 to 2034 and whether it increase deficits beyond 2034.
>
> Democrats think that if MacDonough weighs in on the subject, she would rule that Senate precedent requires that changes in tax law be scored on a "current law" baseline.
>
> Such a ruling would show extending the Trump tax cuts permanently violates the Senate's Byrd Rule.
>
> A person close to the conversation said that Senate Budget Committee Republicans "flat out refused" to meet with the parliamentarian to talk about what baseline should be used for Trump's big, beautiful bill.
>
> Democrats "asked that this be adjudicated by the parliamentarian," and Republicans "have refused, basically saying they can do what they want," said the source familiar with the behind-the-scenes debate.
>
> …
>
> Republicans, however, say that the parliamentarian doesn't have a role in judging how much the tax portion of the One Big Beautiful Bill Act would add to the deficit within the bill's 10-year budget window or whether it would add to deficits beyond 2034.

> They argue that Budget Committee Chair Lindsey Graham (R-S.C.) has authority under Section 312 of the Congressional Budget Act "to determine baseline numbers of spending and revenue."
>
> …
>
> Taylor Reidy, a spokesperson for the Budget panel, asserted on the social platform X that "there is no need to have a parliamentarian meeting with respect to current policy baseline because Section 312 of the Congressional Budget Act gives Sen. Graham—as Chairman of the Budget Committee—the authority to set the baseline."

Alexander Bolton, *Senate GOP Declines to Meet With Parliamentarian on Whether Trump Tax Cuts Add to Deficit*, YAHOO!NEWS (June 29, 2025). *See also* Jordain Carney & Benjamin Guggenheim, *Republicans Move Forward With Controversial Megabill Accounting Move*, POLITICO (June 29, 2025) (Republicans "were able to sidestep a situation where senators would be asked to overrule Parliamentarian Elizabeth MacDonough on the baseline question. 'There is nothing to debate and we consider this matter settled…'").

The approval by majority vote in the Senate that using the current policy baseline did not violate the Byrd rule occurred on June 28 and June 30, 2025. Several points of order were considered on the Senate floor regarding the application of the current policy to the Byrd rule. The Senate by party-line votes of 53-47 upheld rulings by the Presiding Officer of the Senate that the current policy baseline did not violate provisions of the Byrd rule.

The summary of Senate Floor Proceedings for June 28 and June 30, 2025 (available at **www.senate.gov**) includes the following actions regarding Senate Amendment 2360 (which is the Senate substitute of the Act):

> [June 28]
>
> S. Amdt. 2360 (Sen. Graham): In the nature of a substitute.
>
> -- Amendment SA 2360 proposed by Senator Thune for Senator Graham.
>
> -- Point of order that the amendment violates section 313(b)(1)(E) of the Congressional Budget Act raised in Senate with respect to amendment SA 2360.
>
> -- Ruling of the Chair that the point of order raised by Senator Thune with respect to amendment SA 2360, is that unless the Budget Committee, speaking through its chairman, asserts that the amendment causes a violation of the Budget Act, the Chair will not so hold.
>
> -- Amendment SA 2360 ruled in order by the chair.
>
> -- Motion by Senator Schumer to appeal the ruling of the Chair that amendment SA2360 is in order made in Senate.
>
> [June 30]
>
> -- Considered by Senate.
>
> -- Motion by Senator Schumer to appeal the ruling of the Chair that amendment SA 2360 does not violate section 313(b)(1)(E) of the CBA is in order, not agreed to by Yea-Nay Vote. 53 - 47.
>
> -- Ruling of the Chair sustained.
>
> -- Point of order that the amendment violates section 313(b)(1)(B) of the Congressional Budget Act raised in Senate with respect to amendment SA 2360.
>
> -- Ruling of the Chair that the point of order raised by Senator Thune with respect to amendment SA 2360, is that unless the Budget Committee, speaking through its chairman, asserts that the amendment causes a violation of the Budget Act, the Chair will not so hold.
>
> -- Amendment SA 2360 ruled in order by the chair.
>
> -- Motion by Senator Merkley to appeal the ruling of the Chair that amendment SA 2360 does not violate section 313(b)(1)(B) of the CBA is in order made in Senate.
>
> -- Motion by Senator Merkley to appeal the ruling of the Chair that amendment SA 2360 does not violate section 313(b)(1)(B) of the CBA is in order, not agreed to by Yea-Nay Vote. 53 - 47.
>
> -- Ruling of the Chair sustained.

Section 313(b)(1) of the Congressional Budget Act lists "extraneous provisions" for purposes of the Byrd Rule.

> Section 313(b)(1)(B): any provision producing an increase in outlays or decrease in revenues shall be considered extraneous if the net effect of provisions reported by the Committee reporting the title containing the provision is that the Committee fails to achieve its reconciliation instructions
>
> Section 131(b)(1)(E): a provision shall be considered to be extraneous if it increases, or would increase, net outlays, or if it decreases, or would decrease, revenues during a fiscal year after the fiscal years covered by such reconciliation bill or reconciliation resolution, and such increases or decreases are greater than outlay reductions or revenue increases resulting from other provisions in such title in such year

The reason for the vote regarding section 313(b)(1)(B), that the Act does not fail to meet reconciliation instructions in the budget resolution, may be because the deficits produced under the Act using a current law baseline, as provided in the instructions to House committees, far exceed the deficit limits allowed under instructions to House committees. The House-passed version would have added $2.4 trillion to deficits over the budget window, and the Act adds $3.4 trillion to primary deficits according to the CBO.

h. **Emasculation of Byrd Rule?** Some commentators view the determination by majority vote in the Senate that the current policy baseline applies even to the limitation on producing deficits beyond the budget window effectively emasculates the Byrd rule regarding that restriction. A tax cut could be enacted for a very short period of time, and it could then be extended indefinitely in a future reconciliation act with a mere majority vote in the Senate. Another example: the Senate might approve universal health care for one year (by majority vote) and extend it permanently in the following year.

> Adopting a current policy baseline in reconciliation would be a dangerous and reckless move, especially given our near-record debt, exploding interest costs, and out-of-control borrowing trajectory. Our deficit is projected to total almost $2 trillion this year, and we're on course to borrow $22 trillion over the decade before any tax extensions. Any new legislation enacted by Congress should improve that trajectory, not make it worse.
>
> While employing a current policy baseline may be tempting to justify the current tax extensions, it would set a dangerous precedent for future actions. For example, if the temporary measures of the American Rescue Plan had been characterized as current policy, lawmakers could have extended them and added trillions of dollars to the debt with a $0 score.

Current Policy Baseline Would Set Dangerous Precedent, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET (Jan. 27, 2025) (statement from Maya MacGuineas, president of the Committee for a Responsible Federal Budget). See also Linda Qiu, *Trump and Republicans Mislead on Policy Bill's Effect*, NEW YORK TIMES (July 1, 2025) ("Congress could create a temporary universal health care or 'Medicare for all' program with a single-year cost of $3 trillion and, in the next year, claim that making the program permanent would cost nothing under a 'current policy' estimate.")

i. **Cuts to Medicaid and Affordable Care Act.** While wanting to cut spending, some members of Congress have been concerned with cuts to Medicare and the healthcare industry. For example, Sen. Josh Hawley (R-MO) expressed strong opposition to large Medicaid cuts. He pointed out that "21 percent of Missourians benefit from Medicaid or CHIP, the companion insurance program for lower-income children…. They're not on Medicaid because they want to be. They're on Medicaid because they cannot afford health insurance in the private market." He pointed out that many Missouri hospitals and health providers depend on the funding from those programs. *See* Catie Edmondson & Minho Kim, *Fiscal Hawks in Senate Balk at House's Bill to Deliver Trump's Agenda*, NEW YORK TIMES (May 25, 2025). Those cuts were vigorously negotiated in the House and Senate by budget hawks who wanted deeper cuts and moderates who wanted fewer cuts.

The Congressional Budget Office, in a preliminary estimate, projects that the Act would reduce federal spending for Medicaid and the Affordable Care Act by more than $1 trillion over ten years and would increase by 11.8 million the number of people without health insurance by 2034. In addition, the expiration of tax credits that subsidize the premiums for health insurance through the Obamacare marketplaces, set to expire at the end of 2025 if they are not extended, would result in an additional

4 million being uninsured. An additional one million people are expected to lose insurance coverage as a recent of recent regulations making it harder to sign up for coverage through the Affordable Care Act. In total, these changes could lead to an additional 17 million people being uninsured. *See* Larry Levitt, *We've Never Seen Health Care Cuts This Big*, NEW YORK TIMES (July 1, 2025).

The Medicaid changes would require beneficiaries to pay more fees and complete more paperwork to use their coverage. The CBO estimates that the paperwork change would cause 2.3 million people to lose Medicaid coverage. States could require work or exemption reports as often as monthly, and many would likely fail to navigate this process. The bill updates the rules regarding "provider taxes," which are assessments levied on entities like hospitals and nursing homes that help states qualify for greater federal matching payments (this would save more than $30 billion over five years). Also, Medicare beneficiaries who earn more than the federal poverty limit (about $15,650 for a single person) would have to pay a $35 co-payment for doctor visits. Also, the proposed legislation would add a work requirement for poor, childless adults (requiring that they work 80 hours every month to stay enrolled in Medicaid). Changes to the Affordable Care Act would make numerous changes to enrollment processes for people who purchase their own insurance coverage in Obamacare marketplaces. *See* Margot Sanger-Katz and Catie Edmondson, *Republicans Propose Paring Medicaid Coverage but Steer Clear of Deeper Cuts,* NEW YORK TIMES (May 12, 2025).

The cuts in Medicaid funding may cause substantial funding concerns for rural hospitals and health care and for nursing home facilities. Medicaid covers one-fifth of hospitalizations and nearly half of all births in rural areas. The Act includes a $50 billion temporary rural health stabilization fund, but that won't fully blunt the cuts, which are permanent. *See* Larry Levitt, *We've Never Seen Health Care Cuts This Big*, NEW YORK TIMES (July 1, 2025).

j. **Nutrition Program Cuts.** The Act reduces spending for the Supplemental Nutrition and Assistance Program (SNAP), commonly referred to as food stamps, and other nutrition assistance programs, by $267 billion over ten years. It expands work requirements for parents with children over age 7, and increases the work requirements age to 64. It shifts 5% of benefit costs and 75% of administrative costs to states beginning in 2028, costs that most states cannot absorb easily.

k. **SALT Deduction Cap Compromise.** Relaxing the $10,000 cap on deductions for state and local taxes was a very hotly negotiated issue in the House. A handful of representatives from high-tax states vowed not to vote for the bill unless significant changes were made. Five House Republicans said they would vote against a bill with only a $30,000 cap. Eventually, the House negotiated to increase the cap to $40,000 with a phase-out for income between $500,000 and $600,000. That provision is costly, and various Senate Republicans (none of whom were from high-tax states) were upset with deficits produced by the House bill and wanted to revert to the $10,000 cap. Several House members again vowed to vote against the bill if the negotiated settlement was not retained. Ultimately a compromise was reached with those House members to keep the $40,000 cap but extend it for only five years (2025-2029).

l. **Political Realities.** Despite significant concerns by various Representatives and Senators, House Speaker Mike Johnson and Senate Majority Leader John Thune, with substantial influence from President Trump, were very successful in whipping votes to secure passage of the Act.

Sen. John Kennedy (R-LA) colorfully predicted back in April that President Trump's arm-twisting would be needed to secure final approval of the Act.

> It'll be a lively 60 days. It will be a job for alcohol, not coffee. But at the end of 60 days, there will not be a consensus. We're going to have to go to the White House, and the president's going to have to be the arbiter, and then he's going to have to put his muscle behind it. That's the way that it will ultimately pass.

Katie Lobosco & Doug Sword, *Ways and Means Markup of Tax Bill Likely Week of May 5*, BLOOMBERG DAILY TAX REPORT (April 30, 2025).

President Trump was very direct in threatening to "primary" Republicans who voted against the Act. He said "Close your eyes and get there. It's a phenomenal bill. Stop Grandstanding. Just stop grandstanding." He posted on his Truth Social platform: "MAGA is not happy, and it's costing you votes."

m. **Investors' Influence May Ultimately Force Congress to Address Deficits.** On May 16, 2025, Moody's lowered its credit score on the U.S. government, citing the country's long streak of large budget deficits and "current fiscal proposals under consideration." The downgrade by Moody's means that all three major rating agencies no longer consider the U.S. qualified for their top credit ratings. Rep. Andy Harris (R-MD), who later voted "present" in the House vote on the bill, responded to the credit downgrade: "Moody's downgrade of America's debt is a signal that we can wait no longer to address the debt crisis," adding that he was not supporting the tax package without substantial changes. *See* Tony Duehren & Joe Rennison, *U.S. Downgraded by Moody's as Trump Pushes Costly Tax Cuts*, NEW YORK TIMES (May 16, 2025).

On May 21, 2055, the 30-year Treasury yield rose to 5.14%, its highest level since October 2023, and the 10-year Treasury rose to 4.61%, a large move reflecting investors' worries over the deficit. *See* Colby Smith & Joe Rennison, *Why Washington's Huge Tax Bill Is Worrying Bond Investors*, NEW YORK TIMES (May 21, 2025). (Those rates have since returned to lower levels.) Also troubling is that while higher rates tend to push up the value of the U.S. dollar, the currency has slid in value against the euro, yen, and others, raising questions about the "safe haven" status of U.S. assets by foreign investors.

> The most troubling part of the market reaction is that the dollar is weakening at the same time. To us this is a clear signal of a foreign buyer's strike on US assets and the associated US fiscal risks we have been warning for some time. At the core of the problem is that foreign investors are simply no longer willing to finance US twin deficits at current level of prices.

David Goldman, *Why the Bond Market Is So Worried About the 'Big, Beautiful Bill,'* at CNN.com (May 22, 2025) (quoting George Saravelos, head of FX research at Deutsche Bank). A crisis in which the U.S. government can no longer finance its debt is "likely to happen" in coming years "if the budget deficit is not cut a lot." Ye Xie, *The Bond Investors Threatening Trump's Tax Bill: Quick Take*, BLOOMBERG DAILY TAX REPORT (May 20, 2025) (quoting Ray Dalio, billionaire founder of Bridgewater Associates hedge fund). The slide of the U.S. dollar has continued throughout 2025; the U.S. dollar index, which measures the currency's strength against a basket of six others, including the pound, euro, and yen, fell 10.8% in the first half of 2025, to its lowest level since February 2022. *See* Alex Kozul-Wright, *Why Is the US Dollar Falling by Record Levels in 2025?*, ALJAZEERA (July 1, 2025).

Jamie Dimon, JPMorgan Chase CEO, warns that the U.S. government's rising debt and budget deficits are a problem that eventually will cause bond market issues. "It's a big deal, you know it is a real problem, but one day … the bond markets are gonna have a tough time. I don't know if it's six months or six years." *See* Eric Revell, *Jamie Dimon Warns US Debt and Deficits Are a Growing Problem*, FOX BUSINESS (June 2, 2025).

Investor actions can influence policy decisions. When the bond market reacted badly to President Trump's extreme tariffs proposal, the administration backed off the proposal on April 9, 2025, but financial markets remained worried about a "bond-market death spiral" possibility in which high debts drive up borrowing costs, which slows the economy, which in turn makes it more difficult for the government to pay back debt, leading to an economic crisis. "Bond vigilantes" have forced policy changes in the past.

- President Bill Clinton was forced to scale back his ambitious domestic agenda (including a middle class tax cut) in the 1990s (Pres. Clinton raged to aides: "You mean to tell me that the success of the economic program and my re-election hinges on the Federal Reserve and a bunch of [expletive deleted] bond traders?")
- Sweden in the 1990s was forced to slash spending when an important investor in a Stockholm-based insurer pledged not to buy "a single Swedish" bond unless the government cut the deficit.
- Massive stimulus payments by governments around the world following the Covid-19 pandemic caused central banks to raise interest rates aggressively, leading to a record 17% loss in returns on government bonds globally in 2022.

- In 2022, the UK abandoned its plan for the biggest tax cuts since 1972 when investors dumped the country's bonds, and the market rout forced Prime Minister Liz Truss to resign, 44 days into her term.

See id.

4. Estate Tax Repeal?

An effort to repeal the estate tax does not seem likely in the foreseeable future – even though Sen. John Thune (R-SD), the Senate majority leader, has repeatedly introduced estate tax repeal bills and initially won his Senate seat in part by running against the "death tax." If Republican leadership had wanted to repeal the estate tax, a repeal measure could have been included in the Act, but it was never seriously considered for inclusion in the Act. Project 2025 does not call for the repeal of the estate tax but to reduce the estate tax rate to 20%. Repealing the estate tax would feed into Democrats' arguments that massive Medicaid and nutrition program cuts and other cuts to the social safety net programs are being made to provide tax breaks for wealthy Americans.

For a discussion of estate tax repeal bills filed in the House and Senate in 2025, see Item 3.b.(22) of LOOKING AHEAD – Estate Planning in 2025 & Current Developments (Including Observations from Heckerling 2025) (June 30, 2025) found **here** and available at **www.bessemertrust.com/for-professional-partners/advisor-insights**. But the active pursuit of estate tax repeal legislation does not appear on the horizon.

5. Impact of Estate and Gift Tax Measures in the Act on Planning

The permanent extension of the increased $15 million exclusion amount has reduced the perceived pressure on clients to take advantage of the large exclusion amount before it may be slashed in half. With indexing for inflation, the exclusion could easily be over $20 million in 10 years. That could be changed by a future Congress, but likely only if Democrats were to have control of the administration, the Senate, and the House, and clients would have plenty of lead time for planning before the exclusion might be decreased. Clients who were not totally comfortable making large gifts are probably the clients most interested in implementing transfer planning with SLATs, so we may see less emphasis on SLATs going forward. Clients who have enough wealth that they are comfortable making gifts are best advised to make the gifts currently, so that future appreciation can be removed from the estate.

The large exclusion amount means that many clients will not have transfer tax concerns. Planning with non-grantor trusts may become more significant for income shifting, taking advantage of increased SALT deduction caps, "stacking" QSBS shares to take advantage of the increased $15 million cap, and saving state income taxes.

6. Resources

For a more detailed discussion of the issues addressed in this paper (up until the time that Act was under final consideration in the Senate) see Item 2.c of LOOKING AHEAD – Estate Planning in 2025 & Current Developments (Including Observations from Heckerling 2025) (June 30, 2025) found **here** and available at **www.bessemertrust.com/for-professional-partners/advisor-insights**.