

TAX TAKE: Making Plans for a 2025 Plan on Taxes

Tax Alert

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If you think tax policymaking is going to be hard, take a look at the process or, more accurately, the process of agreeing on the process. Right now, Republican leaders in Congress are working to agree on how many reconciliation bills to put in play next year and, if it's more than one, which policy topics will move first. The ability to pass a tax reconciliation bill through the House in the first quarter of the year, when the majority will be reduced to just two seats (217 - 215), weighs heavily over these process-related negotiations.

Senate Republicans generally back a plan to advance two reconciliation bills, one covering border security, energy development, and defense, and a second tax-focused bill. House Republicans tend to back a one-bill approach or, failing that, a two-bill plan that leads with a tax reconciliation bill.

Both sides have strong points to make. Supporters of the two-track option argue that President-elect Trump's political capital from the election and his campaign promises make it imperative to deliver quickly on border security, energy, and defense. These issues are less complicated and less likely to divide the Republican caucus.

Quick and early action on such a reconciliation bill inside the first quarter of 2025 would notch a major victory on Trump's campaign scorecard. Even still, complying with budget reconciliation rules, which require that policy changes have a non-incidental revenue impact, could temper the GOP's need for speed. It often requires painstaking back-and-forth consultations with the Senate parliamentarian.

An early victory on border security, energy, and defense would also build momentum for the larger and more complex task of tackling the tax code, which is fraught with political pitfalls and internal caucus divisions. Complicating factors include addressing the state and local tax (SALT) deduction cap, the potential repeal of Inflation Reduction Act (IRA) energy credits, the deficit and potential revenue offsets, Trump campaign tax proposals (such as the proposed tip exclusion), and how to determine the appropriate baseline projections — [current policy or current law](#) — for future policy changes that simply extend current law.

Supporters of the two-bill approach believe that the expiration of Tax Cuts and Jobs Act (TCJA) provisions at the end of 2025 will catalyze Republican solidarity for a follow-on tax-focused reconciliation bill. "Failure is not an option," is how incoming Senate Majority Leader John Thune (R-SD) [characterized](#) the drive. He predicts work on a tax reconciliation bill would start by early summer.

Supporters of the single-bill or tax-first reconciliation option argue that putting taxes second only tempts failure. House Committee on Ways and Means Chairman Jason Smith (R-MO) warns that it's been decades since Congress enacted two reconciliation bills in one year. The task is even more challenging given the razor-thin GOP majority, he says. "My responsibility is to get the president's tax priorities passed out of the House, and I know the dynamics of the House more than any senator does," he told the [Wall Street Journal](#).

President-elect Trump hasn't publicly weighed in on which option is preferable, but he may be leaning toward the Senate approach. Stephen Miller, Trump's incoming White House Deputy Chief of Staff, [observed](#) that "with the current size of the majority in the House, there isn't a proposal to pass taxes in February." At the same time, he made it clear that "tax reform will happen. No one is talking about delaying tax reform."

One thing Republicans seem to agree on is that any indication of preference directly from Trump would resolve the matter and commence a fall-in among GOP committee chairs. In 2017, the GOP majority in Congress took the lead on timing and legislation.

That year, a Republican reconciliation rewrite of the Affordable Care Act (ACA) ran aground in the Senate before congressional leaders pivoted to the TCJA, so although Trump promised tax reform early in his first year, it was not ultimately enacted until December of that year. Republican leaders in Congress obviously want a game plan for an undefeated 2025 policymaking season, not a replay of 2017.

Upcoming Speaking Engagements and Events

Loren will speak at the [DC Bar Tax Conference](#) on January 15.

In the News

Jorge was a guest speaker on the [taxbreak podcast episode 27: Tax Policy in 2025: Challenges & Opportunities](#) .

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