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This update reflects facts as of Monday morning, May 5, 2025. The situation is fluid and may change.

The planned markup this week of the tax provisions of the pending budget reconciliation legislation by the House Ways and Means Committee has been delayed by continuing negotiations over both tax and, in other committees, spending measures. Progress has been made, however, in filling the two key Senate-confirmed tax positions at Treasury and the IRS, even as the Administration released a "skinny" version of its budget for the 2026 fiscal year. New tariffs and proposed tariffs have meanwhile attracted much of the public attention.

Reconciliation legislation. House Republican leadership had planned this week for the Ways and Means Committee to complete action on the tax elements of a budget reconciliation bill. Not surprisingly, however, this accelerated schedule has met with familiar obstacles, a function of the thin seven-vote Republican majority.

Several House Republicans representing high-tax districts in New York, New Jersey, and California are continuing to press for a considerably higher limit on the deduction for state and local taxes. Higher limits have a serious cost in lost revenue. The effect that cost might have on the length of extensions of the TCJA and the viability of other new tax reductions has engendered resistance from Committee and House leadership, and negotiations continue.

Other House committees are instructed by the budget resolution to reduce spending by between $1.5 and $2.0 trillion to offset the cost of the tax reductions. Those committees, too, have encountered resistance. Much of the federal budget with the jurisdiction of the Energy and Commerce Committee is for Medicaid. Members representing districts with substantial numbers of Medicaid recipients are resisting reductions to Medicaid spending, even as the President has repeatedly said he does not support cuts to that program. Similarly, spending reductions that are required of the Agriculture Committee could affect the Supplemental Nutrition Assistance Program, another low-income program favored by Republican members.

A provision in the budget resolution requires reduction in the $4.5 trillion allocated for tax cuts by as much as $500 billion to the extent the full $2.0 trillion in spending reductions is not achieved. That is another factor slowing consideration of taxes by the Ways and Means Committee.

The announced plan for the House to pass a reconciliation bill before the Memorial Day recess also has not changed, despite the Committee delay this week. The goal of Congressional Republicans remains for House and Senate to pass a bill by Independence Day. The Senate may have somewhat different plans for the reconciliation bill, however, and resolving House-Senate differences could be another point of delay.

Tariffs. The previously announced 25% tariff on auto parts came into effect on Saturday, following the elimination of the $800 de minimis tariff exception on Friday. The President also announced a new 100% tariff on foreign films.

Perhaps more importantly, while trade negotiations with other nations have been taking place, the President said over the weekend that his plan calls for some tariffs to be permanent. He did not say which ones or at what level.

The Senate narrowly defeated last week a resolution that would have limited the President's power to impose tariffs. The Vice President broke a tie vote. The Senate passed an earlier, more narrow resolution, but the House has declined to take it up.

Nominations. The Finance Committee voted to advance the nomination of Ken Kies to be Assistant Secretary of the Treasury for Tax Policy. No date has yet been set for floor action on the nomination. The President has also transmitted to the Senate the nomination of Don Korb to be IRS Chief Counsel. Korb, a Sullivan & Cromwell partner, served as Chief Counsel from 2004-2008.

FY 2026 budget. The White House released last week an abbreviated version of its budget request for the 2026 fiscal year that begins October 1. This "skinny budget," so called because it lacks the detail of a full budget, calls for a 23% reduction in nondefense discretionary spending and a 13% increase in defense spending, setting up the possibility of further difficult budget negotiations in the Fall. The budget contains nothing about revenues, not surprising given the uncertainty of the pending budget reconciliation legislation. It does, however, propose a 20% cut in funding for the IRS.

The following information is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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