KPMG

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This update reflects facts as of Tuesday morning, July 22, 2025. The situation is fluid and may change.

Congressional Republicans last week pushed through a rescissions bill requested by the White House that may create problems for upcoming legislation to fund the government. Progress on that funding legislation may be tested in the next two weeks, as the Senate plans to take up a small handful of the twelve annual appropriations bills before adjourning for its August recess. Low-level talk has also begun of another reconciliation bill, one for the 2026 fiscal year, but it is unclear whether there are any political imperatives among the tax issues left unaddressed in the OBBB Act that would provide sufficient impetus for passage.

The rescissions bill. The White House sent to Congress a $9.2 billion rescissions message, that is, a request for Congress to revoke previously appropriated funds. The request included funding for public broadcasting and international programs, including contributions to international organizations. The Budget Act of 1974 provides special rules for Congress to accept such a proposal, including expedited consideration and privileged procedures in the Senate. Most importantly, the latter rules require only 51 votes for Senate passage, instead of the 60 votes ordinarily required for cloture. The Senate passed the rescissions bill 51-48 after removing one rescission request. The House quickly followed, 216-213.

Few details were provided to Congress about the intended use of funds to be rescinded in international organizations accounts. Among the organizations potentially affected is the OECD. The U.S. is in negotiations with the OECD over implementation of Pillar 2 of BEPS. Reduction or elimination of the US contribution to the OECD could affect those negotiations.

FY 2026 funding. Congress is now working in earnest on legislation to fund the government for the fiscal year beginning October 1. The House Appropriations Committee is considering a funding bill that would cut $2.8 billion from this year’s $12.3 billion budget for the IRS. That reduction would include a 44 percent reduction in the IRS enforcement budget.

The Senate is planning to vote next week on the first two or three of the twelve appropriations bills needed; a procedural vote could occur as soon as this week. Negotiation of those bills has been largely bipartisan, being considered politically the easier ones. They could provide a look at how the parties plan to proceed as the government shutdown date approaches, particularly in view of the passage of the recissions measure. Some Congressional Democrats are demanding assurance that agreed funding will not be rescinded.

There isn't much time to reach agreement, at least on a temporary funding measure, as Congress is about to begin its month-long August recess.

A second reconciliation bill. There has been vague talk of another reconciliation bill in 2025, which would be for the 2026 fiscal year. There has been little public discussion, however, of what it might contain.

There were several expiring items left unaddressed by the OBBB Act, like Affordable Care Act tax credit premium subsidies and the Work Opportunity Credit. Members have also mentioned provisions of the OBBB Act they would like to modify like the treatment of gambling losses and changes to Medicaid. And there is bipartisan support for legislation to address double-taxation of cross-border business with Taiwan. It remains to be seen whether agreement might be reached on a second reconciliation bill and what might be included, and whether offsetting revenue measures might be needed.

The above 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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