

Capitol Hill Weekly

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This update reflects facts as of Monday morning, July 28, 2025. The situation is fluid and may change.

The House adjourned early last week to begin its weeks-long Congressional August recess. The Senate is scheduled to remain in session one more week to consider nominations and perhaps begin action on appropriations for the 2026 fiscal year, which begins October 1. The August 2 tariff deadline looms. There has been some discussion of another reconciliation or bipartisan late-year bill—potentially including tax provisions—but that remains vague and uncertain.

Appropriations. The House has passed only 2 of the 12 needed appropriations bills, Defense and Military Construction and Veterans Affairs, and on a mostly partisan basis. The Senate has passed none, although it voted overwhelmingly last week to proceed with its version of the Military Construction and VA bill. It may take up that bill this week and possibly try to add two or three others approved by the Appropriations Committee, such as the Legislative Branch and Agriculture, Development, and FDA bills.

Congress will have, when it returns on September 2, only four weeks to pass legislation to fund the government and prevent a shutdown prior to the expiration of current funding on September 30. It will face not only the problem of time, but differences between House and Senate Republicans over top-line spending numbers. House budget hawks are seeking large reductions in spending from current levels.

Several funding measures will also likely face Democratic opposition, particularly Labor, Health and Human Services and Education. The expected partisan divide has been exacerbated by the passage earlier this month of the \$9 billion rescission bill requested by the Administration that eliminated agreed funding for public broadcasting and international programs. The OMB Director has indicated that the White House may well seek additional rescissions. Democrats are expected to demand assurances that agreed funding for 2026 fiscal year programs is not similarly rescinded, something that can be done by simple majority vote under the Budget Act of 1974.

Tariffs. The August 2 deadline is fast approaching for dramatically increased tariff rates in the absence of trade agreements. Agreements—or “frameworks”—have been announced with

Japan, Indonesia, the Philippines, and Vietnam. On Sunday, the President announced an agreement with the EU. All include new U.S. tariff rates of 15% or more. Other agreements may be announced before the deadline.

Tax legislation? Several matters considered, but not included in the OBBB Act are candidates for year-end legislation. Expanded Affordable Care Act premium tax subsidies and the Work Opportunity Tax Credit expire at the end of the year. Deductibility of gambling losses was eliminated by the OBBB Act, but has gotten significant political pushback from stakeholders and policy makers alike. A third-party litigation tax was dropped from the Act at the last minute and remains controversial. And threats continue to resurrect the section 899 retaliatory tax regime, in one form or another, should there be no resolution of the issue of so-called discriminatory or extra-territorial taxes, such as digital sales taxes or OECD BEPS Pillar 2 taxes.

There has also been talk about offsetting the cost of any bipartisan end-of-year bill with revenue-raising provisions. Those considered but not included in the OBBB Act are among the candidates.

The question is whether any or all of these unresolved measures provide the needed political imperative for either a bipartisan agreement or a second reconciliation bill.

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