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This update reflects facts as of Tuesday morning, September 2, 2025. The situation is fluid and may change.

Congress returns this week from its long August recess facing once again the daunting task of providing funding for the government beyond the September 30 end of the fiscal year. It is scheduled to be in session only 16 days before the deadline. The focus of political debate during the recess, though, has been neither on the budget nor on another tax bill, but on crime. An exception has been the transmission by the White House of another rescissions message, an action that may serve to further complicate passage of funding legislation. And tariff policy took another turn with a court ruling invalidating many of the so-called “reciprocal” tariffs.

Government funding. Congress adjourned in July without passing any of the twelve appropriations bills needed to fund the government for the 2026 fiscal year beginning October 1. The Senate passed three, but House-passed measures differ substantially. The possibility of bipartisan cooperation, already damaged by the passage of a \$9 billion rescissions measure earlier in the summer, suffered another setback with the new White House \$5 billion rescissions message. This later one potentially raises an another potentially controversial issue, something called a pocket rescission. Congress has 45 days to act on a rescission request by the Executive Branch, but with less than 45 days remaining in the fiscal year, the authority to spend the \$5 billion appropriated by Congress that is the subject of the latest request would arguably expire without action by Congress.

The prospects for passage of a comprehensive funding bill for FY 2026 seem unlikely, given the short time available and the existing political differences between both the parties and the Houses of Congress. A short-term continuing resolution to provide more time for agreement seems inevitable, but agreement on even a continuing resolution may prove difficult in view of the rescissions, which lack any Democratic support. Whether a resolution to continue current levels of funding would include FY 2025 funding that has been rescinded is a threshold issue Congress will need to address.

Crime. Perhaps because the White House and Congress are finding the federal budget so difficult, attention has turned to crime. That is a subject ordinarily largely the province of state

and local governments, but the federal-level focus has turned to calls for a crime bill. Exactly what would be included in a federal crime bill is unclear, but it may serve as another distraction from both the need to fund the government and the distant discussion of a year-end tax bill to address matters left from OB3.

Tariffs. It seems no week can pass without further changes in direction on tariff policy. Tentative agreements with the EU and a few countries, not yet finalized, have been put in question. The Court of Appeals for the Federal Circuit held last week that the International Emergency Economic Powers Act (IEEPA) does not provide the authority claimed by the President for many, if not most, of the tariffs he imposed by executive order. The court delayed the effect of its ruling until October 14 to provide time for an appeal to the Supreme Court, but in the meantime the future of the President's "reciprocal" tariffs is uncertain.

Taxes. A year-end tax bill will face many obstacles. Sixty votes will be needed for passage by the Senate absent an unlikely second budget reconciliation resolution, so Democratic support is necessary. The Democrats chief demand will be extension of expanded Affordable Care Act premium tax credit subsidies that expire in 2025, a measure opposed by many Republicans and one that has a revenue cost of about \$30 billion per year.

There are no pending tax measures that appear compelling on the Republican side. Many House Republicans, however, are unsatisfied with the levels of spending and deficits created by OB3 and will see year-end legislation as a final opportunity in 2025 to further reduce spending. Senate Republicans prevented the deeper spending cuts sought by their House colleagues in OB3 and are unlikely to agree to them now; they certainly have no Democratic support.

Partisan and intra-party differences suggest an uncertain future for year-end tax legislation.

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