KPMG

Capitol Hill Weekly

Washington National Tax
Federal Legislative & Regulatory Services

January 20, 2026

This update reflects facts as of Tuesday morning, January 20, 2026. The situation is fluid and may change.

Congress made considerable progress on government funding legislation before adjourning for its recess this week. It now seems likely a major government shutdown may be avoided, although a few problems remain, one of them significant. Much of the attention of Congress has been elsewhere, though, with concerns over Venezuela and Greenland, with possibly new war powers resolutions to consider. And the President has threatened new tariffs, while awaiting the Supreme Court's decision on the validity of the existing International Emergency Economic Powers Act (IEEPA) tariffs. Tax legislation remains something of an afterthought.

Funding. Congress has completed work on three of the twelve needed appropriations bills. It has also made substantial progress on five others in one house or the other, working on a largely bipartisan basis and eschewing many of the spending cuts requested by the Administration. Notable, though, is a 9 percent cut in IRS funding in the House Financial Services bill. Were it accepted by the Senate, that cut could affect IRS activities, depending on the funds that may be left from the Inflation Reduction Act and what is still needed, given the previous reductions in force at the agency.

Issues in the five and in the remaining four appropriations bills, including the largest—Defense and Labor/HHS/Education—are significant. These are of the type that are amenable to compromise and would not ordinarily precipitate a shutdown, which neither side seems to desire. The one exception is the Homeland Security bill. Quite a few Democrats have said they will not vote to extend funding in that bill for Immigration and Customs Enforcement without reforms. Even there, however, it is not clear how much funding is needed, given the large special appropriation made in OB3, or whether enough Democrats might provide the small number of votes needed for passage.

Tariffs. The President has posted online of his intent to impose two new tariffs. First, he has threatened 25% tariffs as secondary sanctions on countries that continue to do business with Iran. Those countries include China, Turkey, Pakistan, and India, among others, so the effect on trade could be significant. Secondly, the President has threatened tariffs on eight European countries of 10 percent, increasing June 1 to 25 percent, if they do not accede to U.S. acquisition of Greenland.

In neither case has an official pronouncement been issued by the White House, so timing and other details are not clear.

The authority mentioned in connection with the secondary sanctions is not IEEPA, the statutory authority that is the subject of the pending case in the Supreme Court, but section 232 of the Trade Expansion Act of 1962. The authority under section 232 for imposing tariffs is clear, but the scope of the authority is limited, which could be the basis for potential legal challenges.

Taxes. Legislation to extend expired and expiring provisions is not imminent while Congress is preoccupied. The same is true of other popular proposals, such as double-taxation relief with respect to Taiwan, incentives for the housing sector, and taxation of cryptocurrency. The last issue encountered another hitch last week as the Senate Financial Services Committee failed again to reach an agreement on regulation of cryptocurrency, a seeming prerequisite to addressing taxation.

Congress is under considerable pressure from the digital asset industry to address cryptocurrency. And housing affordability is an issue of political importance to both parties. These proposals generally enjoy a degree of bipartisan support. Whether the politics of either or both of these issues is sufficiently important to cause Congress to act, however, is unknown. Most have at least some revenue cost, raising the question of the need for unpopular revenue-raising offsets. Congress would also have to sort political priorities among the proposals in an election year. Chief among those is the extension of expired Affordable Care Act premium tax subsidies, which hangs over consideration of tax legislation as a potential barrier to a bipartisan bill.

Contacts

John Gimigliano
Co-Principal in Charge, Federal, Legislative & Regulatory Services
Washington National Tax
T: 202-533-4022
E: jgimigliano@kpmg.com

Jennifer Acuña
Co-Principal in Charge, Federal, Legislative & Regulatory Services
Washington National Tax
T: 202-533-3800
E: jenniferacuna@kpmg.com