KPMG

2026 elections: What it means for tax policy in 2027

KPMG insights and observations

November 13, 2026

kpmg.com/us

Bottom line

Democrats will control both the House and the Senate when the 120th Congress convenes in January 2027, with the largest majorities they have held since 1993. President Trump, however, will remain in the White House for the final two years of his term. Any tax bill Democrats pass will need the president's signature or a two-thirds vote to override a veto. Substantial Republican support will be needed for major changes.

That political dynamic creates a range of possible outcomes for 2027 tax legislation, from nothing at all to a negotiated trade between the parties. We see no clear outcome. It's possible we'll go the whole year with no tax legislation. Narrow tax items could be included when relevant to a larger non-tax package, and an end-of-year tax title with consensus items could come together in 2027. A larger, negotiated bipartisan deal is possible but less likely. A sweeping bipartisan package is a remote, crisis-driven tail case. The need to raise the debt limit in 2027 and the appropriations processes are the most obvious vehicles, and they could push outcomes toward either end of the range of possible outcomes.

Electoral consequences

Democrats flipped both chambers on November 3, 2026. In the Senate, Democrats and the independents who caucus with them hold at least 55 seats, with the Alaska Senate still tallying votes. In the House, Democrats won a clear majority with at least 255 seats (a minimum 75-seat majority) as of November 11, which is likely to grow with 18 seats still to be called. That large majority will reduce the power of small factions that can frustrate legislation. At the same time, the House will have at least 118 new voting members and at least 17 new senators will take office. The abundance of freshmen makes the legislative outlook less predictable than the large margins otherwise suggest.

Leadership. Representative Hakeem Jeffries is the presumptive Speaker of the House, and Senator Chuck Schumer the presumptive Senate Majority Leader, neither without open challengers at present. The leaders will shape which tax measures reach the floor and will be central to any negotiation with the White House. Jim Jordan, who was not previously in leadership, has been selected House Minority Leader, while John Thune returns to lead the Republicans in the Senate as Minority Leader.

Tax-writing committees. Representative Richard Neal is expected to chair the Ways and Means Committee and Senator Ron Wyden the Finance Committee. With the gavels come control of the committee agenda, hearings, and oversight of Treasury and IRS guidance.

Procedure. A tax bill can proceed in one of two ways. Under regular order, 60 votes are needed in the Senate to overcome a filibuster, which would require at least some Republican support in the Senate. Through budget reconciliation, the Senate can pass tax legislation with a simple majority, but only after both chambers adopt a budget resolution with reconciliation instructions. Either route ends at the president's desk, however, and Democrats will not have the two-thirds majorities needed to override a veto.

Timing. The new Congress will convene in January. The current Republican-controlled Congress returns for a lame-duck session this year, and some smaller tax items could be on the agenda.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Evaluating veto risk

Path to passage	What it signals	Veto risk
60 votes in the Senate	Enough Republican senators have signed on that the White House has likely been consulted in advance	Low
Reconciliation without Republican votes	The bill can pass on Democratic votes alone, with or without the president's support	Significant

A bill that attracts 60 votes is likely to have the president's support. Or said another way, any Democratic bill the president supports is also likely to garner enough Republican votes to get to 60. However, any bill passed through reconciliation without Republican votes faces a significant risk of veto. The exception is a reconciliation bill negotiated with the White House in advance, which would carry low veto risk, but it is unclear why a bill with White House support would not be able to attract sufficient Republican support in Congress to overcome the filibuster. The deciding factor is whether the president has agreed to the terms, not which procedure is used.

Four scenarios for 2027

We frame the outlook as four scenarios. They are distinguished by one question: does either party have to give up something it values to get a bill done?

Scenario	Likelihood	What it looks like
No ball	Plausible	No tax legislation
Small ball	Plausible	Modest but consensus items, no real revenue-raisers
Medium ball	Possible but less likely	A negotiated trade between Democrats and the White House with revenue raisers
Home run	Remote	A broad bipartisan package, likely crisis-driven

No ball

Outcome: No tax legislation is enacted in 2027. Relations between Congress and the White House are dominated by Democratic message bills and investigations, where neither side sees an advantage in a deal. A presidential veto prevents enactment. For taxpayers, current law stays in place, provisions expire on schedule, and the action shifts to Treasury and IRS guidance, and to congressional scrutiny of it.

Small ball

Outcome: Congress passes a modest package of items with broad bipartisan support, enough to clear 60 votes in the Senate and win the president's signature. Candidates include extending expired provisions such as the Work Opportunity Tax Credit, which lapsed at the end of 2025, and the U.S.-Taiwan Expedited

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Double-Tax Relief Act, which passed the House 423–1 in January 2025 and awaits Senate action. Other consensus items, such as tax administration reform, disaster tax relief, and technical corrections, could join them.

Neither party has to concede anything significant. Historically, the revenue cost of extender packages has generally not been offset, so pay-fors are unlikely to be an obstacle. A package like this could move on its own or ride on a must-pass bill such as government funding.

Medium ball

Outcome: Each side secures a priority by accepting something it would otherwise oppose. One illustrative trade: Democrats obtain a restoration of the enhanced premium tax credit for Affordable Care Act coverage, which expired at the end of 2025, while the president obtains permanence for the deduction for tips, currently scheduled to expire after 2028, among other asks.

One possible difference between medium ball and small ball is the possibility of revenue raisers. The enhanced premium tax credit is costly, as is the tip deduction, and a deal of this size could require offsets, potentially including provisions aimed at specific industries such as data centers, or broader business tax changes. There could also be a bipartisan pay-for that is much smaller than the spending component, leaving the remainder deficit financed. Measures seen as addressing waste or abuse fit well in this category. It is not clear what appetite either side will have for further deficit spending and how important a pay-for will be. A deal of this kind would require direct negotiation between congressional leaders and the president and could move through regular order or through a reconciliation bill negotiated in advance with the White House.

Home run

Outcome: A broad bipartisan tax package, well beyond a two-item trade. Historically, packages of this scale in divided government have followed a major economic shock (see Precedents). Absent such an event, we view this scenario as remote, but not impossible.

Precedents

Year	Setting	What happened	Scenario it illustrates
2020	President Trump, Democratic House, Republican Senate	CARES Act: roughly $2 trillion in relief, including major tax provisions, enacted within weeks of the pandemic's onset	Home run
2008	President Bush, Democratic House and Senate	Bipartisan rebate checks in the Economic Stimulus Act; after the financial crisis, the TARP legislation carried a large tax package including extenders, an AMT patch, and energy credits	Home run
2015	President Obama, Republican House and Senate	PATH Act made several extenders permanent or extended for several years without offsets along with additional paid-for bipartisan changes	Medium ball

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

2011, 2023	Divided government	Debt-limit agreements produced spending caps, not tax changes	Debt limit as a forcing event (see below)

The 2008 experience most closely mirrors 2027: a president in his final two years facing a Congress controlled by the other party. It shows two kinds of deals in the same setting, one planned and one crisis-driven. It also shows that a crisis does not guarantee a deal: the first House vote on TARP failed before the legislation passed days later.

Swing factors

Several developments could move the outlook from one scenario to another.

- **The debt limit.** The One Big Beautiful Bill Act raised the debt limit to $41.1 trillion. Outside projections suggest borrowing will reach that limit in spring 2027, possibly as early as February or as late as fall. Treasury's extraordinary measures would then extend the deadline for congressional action, potentially into late 2027 or early 2028. The president is expected to want an increase, which gives the new congressional majorities leverage they have not had. That leverage could produce a deal of some size. A standoff could also end in a clean increase with no tax provisions, and past debt-limit agreements produced spending caps rather than tax changes. The debt limit is best understood as a deadline that raises the stakes in both directions, not a guarantee of a deal.

- **The economy.** A slowdown could build pressure for tax relief and raise the odds of a larger package. Accelerating inflation or national debt issues could have the opposite effect. A stable economy lowers the urgency.

- **The expiration calendar.** The enhanced premium tax credit and the Work Opportunity Tax Credit have already lapsed, and the deductions for tips and overtime are scheduled to expire after 2028. Each party has provisions it wants to protect, which is the foundation of any medium-ball trade.

- **Tariffs.** Tariff policy and tariff revenue could enter negotiations, whether as part of a broader deal or in debates over how to offset its cost.

- **The 2028 calendar.** As the presidential campaign approaches, the window for significant legislation narrows. Anything substantial likely needs to happen in 2027, except in the case of a crisis.

- **The unforeseen event.** Over a two-year Congress, some unforeseen event is likely; what cannot be predicted is scale. A modest event, such as a regional natural disaster, may prompt targeted relief consistent with small ball. A major shock, such as a financial crisis or pandemic, could produce the kind of broad bipartisan response seen in 2008 and 2020.

What to watch

Early signals will indicate which scenario is taking shape.

- **The lame-duck session.** Movement on extenders or the Taiwan legislation before January would suggest appetite for small ball. A government shutdown might portend problems with any legislation.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Similarly, a continuing resolution that expires in the first quarter sets the next Congress up for hard decisions early.

- **The tone of the first months.** Whether early 2027 is defined by investigations, partisan message bills, and veto threats, or by joint statements from congressional leaders and the White House.
- **A budget resolution.** Adoption of a budget resolution with reconciliation instructions would keep a simple-majority path open.
- **Debt-limit projections.** Updated Treasury and CBO estimates of where action is required, and whether tax items are being linked to an increase.
- **Revenue raisers on the table.** Specific offsets surfacing in negotiations would signal movement toward medium ball.
- **Economic conditions and unforeseen events.** Their scale will largely determine whether they produce targeted relief or something larger.

Contact us

For more information, contact a KPMG Washington National Tax professional:

John Gimigliano
T: +1 (202) 533-4022
E: jgimigliano@kpmg.com

Jennifer Acuña
T: +1 (202) 533-7064
E: jenniferacuna@kpmg.com

Daniel Winnick
T: +1 (212) 954-2644
E: danielwinnick@kpmg.com

Tom Stout
T: +1 (202) 533-4148
E: tstoutjr@kpmg.com

Cathleen Koch
T: +1 (202) 533-3800
E: cathleenkoch@kpmg.com

The information contained herein 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.

KPMG LLP is the US firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 138 countries and territories and has more than 276,000 partners and employees working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. For more detail about our structure, please visit home.kpmg/governance.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.