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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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The debt ceiling bill will face a few political hurdles, but it will probably clear and pass both the House and Senate later this week. Assuming it passes, it will set up the next debt ceiling showdown in early 2025. That round of negotiations will probably include a major fight over taxes.

The debt ceiling agreement between President Joe Biden and House Speaker Kevin McCarthy would, among other things, suspend the debt ceiling until January 1, 2025. **Congress will probably pass the debt ceiling bill this week, although the legislation faces a few obstacles. It sets up a fight in early 2025 over the Trump tax cuts, some of which sunset after 2025.**

As of this writing, there are three main hurdles that the Fiscal Responsibility Act (FRA) needs to clear in order to pass Congress.

First, the House Rules Committee will meet to debate the bill and write a rule for the consideration of the FRA on the floor. This rule sets the terms of debate (the amount of time for floor debate, permissible amendments to be debated on the floor, etc.). Typically, the Rules Committee is a rubber stamp for the leadership. However, as part of negotiations to win the speakership in January, Speaker McCarthy agreed to put three conservatives on the Rules Committee. All three conservatives who McCarthy appointed to the Rules Committee are opposed to the FRA. If they were to vote against the rule in the committee, the bill could be in trouble. It appears likely, however, that at least one of the conservatives will vote for the rule, which should be enough to pass it through the committee, so the first hurdle is likely to be cleared.

The second hurdle, the House floor vote, should be cleared Wednesday. Numerous conservative Republicans will oppose the bill, as will some progressive Democrats. This dynamic (the two wings of each party voting against a debt ceiling bill) was always a risk, but this block will probably be too small to block the FRA.

The final hurdle, the Senate floor vote, will likely be later in the week. The possibility of conservative Republicans joining with progressive Democrats to block the FRA might be a bigger risk in the Senate than in the House because of the Senate's 60-vote requirement. Even with a super-majority vote requirement, however, the FRA is likely to pass the Senate. **The margin for error in clearing each of these obstacles is narrow, but Congress will likely pass the FRA later this week.**

Assuming the FRA passes, the debt ceiling will be suspended until January 1, 2025. During this time, Treasury will replenish accounts it has drawn down via its extraordinary measures. These are the main tools it has used to manage the federal government's debt ever since the debt limit was breached in January 2023. This should mean that the X-date will occur sometime in the spring of 2025.

**Given the expiration of parts of the Tax Cuts and Jobs Act of 2017 (TCJA) after 2025, the next debt ceiling debate will likely include a debate over taxes.** The Congressional Budget Office recently estimated that extending all expiring provisions of the TCJA would cost approximately \$3 trillion over ten years.

The TCJA's cuts in individual tax rates (as well as a cap on the state and local tax deduction) and an increase in the estate tax exemption will expire after 2025. The TCJA also cut the corporate tax rate to 21 percent, but the corporate tax rate is "permanent" and does not sunset. However, the TCJA also allowed for immediate expensing for some investments, but that provision expired at

the end of 2022 thus requiring businesses to deduct expenses over five years. Congress might consider reinstating bonus depreciation before the next debt ceiling bill but, if not, it could then be part of the wider debate in 2025.

The 2025 debt ceiling debate is likely to include negotiations over individual income tax rates, the cap on state and local tax deductions, and the level of corporate tax rates. The next debt ceiling standoff is shaping up to be a heavyweight battle over tax policy.

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