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WASHINGTON POLICY STRATEGY

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This week's activity in Washington, D.C. could provide clarity for the corporate tax and the foreign aid supplemental spending bills.

The House might vote this week on a corporate tax bill. Then again, it might not. A strong House vote in support of the bill could build momentum for the bill in the Senate, but failure to even vote on the bill could be a warning sign.

Senate negotiations over an immigration bill could also come to a head this week. The odds of Congress passing an immigration bill are remote, but resolution of the immigration bill could open the door for congressional leaders to consider next steps for a foreign aid bill to which the immigration bill has been linked (until now). The foreign aid bill has possible long-term economic ramifications.

Corporate Tax Bill

The House might vote on a corporate tax bill this week. Or it might not. In the week since the House Ways and Means Committee passed a bill that would temporarily allow the immediate expensing of R&D expenditures, restore bonus deprivation rules, and loosen the business interest deduction, not much has changed, and the bill remains in limbo.

The House leadership posted the text of the tax bill and indicated it could be considered this week. However, the bill has yet to be scheduled for a vote, so, currently, it is unclear whether or not the House will vote on the bill this week. If the House votes on the tax bill, it would likely do so under Suspension of the Rules procedures, which allows the bill to go directly to the floor and bypass the Rules Committee, where a group of conservatives could possibly block the bill. However, passing a bill under the Suspension calendar requires a two-thirds vote, and an odd coalition could oppose the bill and defeat it on the floor. This coalition would be comprised of blue state Republicans who want the bill to include relief from the cap on the State and Local Tax (SALT) deduction, conservatives who oppose the expansion of the bill's expansion of the Child Tax Credit (CTC), and progressives who think the CTC expansion is too meager.

The House could punt a vote to next week, but that would probably be a bad sign for the bill and indicate the leadership doubts it has enough votes to pass it. Even if the tax bill passes the House (this week or next), it remains to be seen whether enough Senate Republicans will vote for it. In addition to concerns over the CTC expansion, some Senate Republicans may be wary of giving President Joe Biden a political win during an election year and decide the political costs of supporting the bill outweigh the potential benefit of passing it.

Foreign Supplemental/Immigration Bill

Similar to the status of the tax bill, the future of a foreign aid supplement/immigration bill might come into clearer focus this week. Talks on the immigration component might produce legislative text this week, but chances that an immigration bill can pass this Congress are quite low. Conservatives will be reluctant to give President Biden a win on immigration, and opposition to the bill from Donald Trump, the likely GOP nominee, will make passing it through the Senate very difficult. At least 9 Republicans would be

needed for the bill to pass, and that looks like a high hurdle at this point. Furthermore, House Speaker Mike Johnson (R-Louisiana) has signaled that the bill would be DOA in the House. Since passing an immigration bill will be difficult, supporters of the foreign aid supplemental will probably have to look for an alternative vehicle.

One possibility for passing the foreign aid bill, which includes funding for Israel, Ukraine, and Taiwan, is whatever spending bill(s) comes up in March when the current Continuing Resolution (CR) expires. Speaker Johnson has not closed the door to voting on a foreign aid bill, even though it faces opposition from conservatives over funding for Ukraine and from some progressives who want to attach conditions on the aid to Israel. Johnson could decide to attach the foreign aid bill to a spending bill if he thinks there are enough votes to pass a spending bill plus a foreign aid bill. House conservatives would be unhappy about combining the two bills, but they are likely to vote against whatever sending bills reach the House floor anyway.

The question Johnson would have to consider is whether or not attaching a foreign aid bill to another CR or a longer-term spending bill would lead conservatives to attempt to remove him as Speaker and whether he has enough Democratic support to survive. This could be different than former Speaker Kevin McCarthy's situation, where Democrats disliked McCarthy so much that they would not vote to save him. Democrats do not currently harbor the same level of antipathy towards Johnson.

We reiterate that the outcome of the foreign aid bill will not have an immediate market impact. However, the bill's outcome could have longer-term economic and market ramifications, as failure to pass the bill could cause trading partners and allies to consider America's international role in the future and whether the U.S. intends to reduce its international presence, thus causing trading partners to consider other alternatives and other alliances.

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