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WASHINGTON POLICY STRATEGY

Potomac Perspective

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com



Today President Joe Biden's fiscal year 2025 budget will be released. Like most budgets, it will be DOA, but will still be important for the political message it sends as the 2024 campaign revs up. Congress is still working on this year's budget but seems to have adopted a limited agenda, focusing on programs that will avoid a shutdown and possible sequestration cuts. Negotiations on a corporate tax bill, like the budget bills, seems to be making slow progress. We also take a look at some China-related trade bills that could be part of a lame duck session.

PRESIDENT'S BUDGET

On Monday, the White House will release President Joe Biden's Fiscal year 2025 budget. Presidential budgets don't have the force of law (Congress must pass legislation to enact a budget proposal) and are typically political messaging tools. We expect this budget will be no different than past budgets – DOA in Congress.

SPENDING BILLS

Congress has already passed a package of spending bills that will cover several non-defense related agencies for the remainder of the fiscal year (through September 30, 2024). Legislation for the Departments of Defense, Homeland Security, and State must be passed by March 22 in order to avoid a shutdown of those departments. The remaining bills are more controversial than the legislation that passed last week, so there is no guarantee that they will pass in time to avert a shutdown. The strong vote in favor of last week's bill, however, suggests that there could be enough bipartisan support to pass the next round of spending bills.

TAX BILL TALKS STILL ONGOING

Senate negotiations over a corporate tax bill continue, but it remains uncertain as to when the impasse might be broken. Some Senate Republicans have been pushing for changes to the Child Tax Credit. There are other Senate Republicans, however, who want to move forward and pass the bill, which includes temporary changes to the R&D deduction, bonus depreciation rules, and the formula used to calculate the business interest deduction. The changes would be retroactive to 2023. We think this piece of legislation could be added to the Federal Aviation Administration reauthorization bill, which could be voted on in late April or early May. Despite the delays, we remain fairly bullish on the bill's prospects.

TRADE LEGISLATION

Congress is also working on a trade bill that could come up later this year, possibly during a lame duck session. A bill could reduce the de minimus tax exemption from \$800 to a yet to-be-determined level and restrict the Generalized System of Preferences (GSP) program.

The GSP program allows mostly poor countries to export goods to the U.S. duty free. As of 2021, approximately 119 countries were eligible to participate in the GSP program. China is not eligible for GSP, and Congress is looking to crack down on GSP countries China uses to take advantage of low tariffs. All of this could be coupled with other China-related legislation that would vet certain outbound investments as well as prohibit federal contracting with biotechnology providers connected to foreign countries like China.

Election year politics, plus the complexity of the legislation could prevent Congress from voting on legislation before November. A year-end bill such as the National Defense Authorization Act seems like a possible vehicle to attach this to and the post-election climate might be more favorable for passing these China-related trade bills.

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