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Congress is back in town, and House committees have begun the complex work of drafting the reconciliation bill. The goals of this process are to extend the Trump tax cuts, include some new tax cuts, and cut spending. Competing factions within the Republican Party could complicate the substance and the timing of Congress's work. In this note, we look at possible scenarios of when Congress might finalize this legislation. Currently, we expect the process to be completed before August. The situation is fluid, however, and could change. It's possible that market moving headlines on the bill's substance could pick up this week.

- **House committees will start marking up their respective portions of the reconciliation bill this week.** The goal of House Speaker Mike Johnson (R-Louisiana) is to pass a bill through the House by May 23, the last day before Memorial Day weekend. To meet Johnson's goal, the committees will probably need to finish their work by May 9. This deadline would give the leadership time to solve any problems with the legislation and broker necessary compromises to ensure the bill's passage through the House.
 - Some Republicans want deep cuts in spending, while others will oppose deep cuts in Medicaid (where some of the deepest cuts may have to be made), and some will want relief from the cap on State and Local Tax (SALT) deduction. These differences will have to be resolved before the bill goes to the House floor, which is why the committees need to finish their work well before the full House votes on it.
 - So far, Speaker Johnson and President Donald Trump have successfully maintained Republican support for the reconciliation process. However, earlier votes did not address specific details of the legislation and reluctant lawmakers could be convinced not to block the preliminary steps and to "just keep the process moving." Now comes the hard part.
- **The Senate will go after the House.** This presents potential problems for House members who are worried that they will take a politically difficult vote to slash spending only to be undercut later if the Senate declines to cut spending as aggressively. The Senate seems to be aiming to pass its bill in June. This would leave July to resolve differences between the two versions of the legislation and pass the final bill, which would then be sent to the White House for Mr. Trump's signature.
- **Debt ceiling X-date** – One of the bill's key pressure points will be the X-date when the Treasury Department will exhaust its extraordinary measures to stay under the debt limit. Republicans want to raise the debt ceiling as part of the reconciliation bill, and this date could drive the timing of the overall bill. Treasury has yet to give a precise estimate of when the X-date might occur, but it could provide one this week.
- Regarding the timing of when Congress might finish the reconciliation bill, we think **there are four main scenarios**. We list them in order of likelihood. Also, we describe them from the GOP's perspective (best case, worst case, etc.).
 - **Best case** – Late July. Under this scenario, the X-date is over the summer, which pressures Republicans to stay united. It is a heavy lift, but in this scenario, unity prevails and the GOP gets a bill to President Trump before they head home for August.

- **Modest** – September. Tax receipts run ahead of expectations, which means the debt ceiling does not need to be raised until after Labor Day. Under this scenario, some Republican factions hold out in hopes of extracting concessions on spending cuts or other policies.
- **Second least bad** – Late 2025. Republican unity proves elusive, but the thought of ending the year without extending the Trump tax cuts motivates lawmakers to reach a deal on the bill.
- **Break glass in case of emergency** – This is the least likely scenario, but there is a small chance Republicans could fracture so badly that they cannot agree on a tax bill. In this case, the gap between the budget hawks and moderates is unreconcilable, and Republicans are forced to turn to the Democrats to gain enough votes to extend the Trump tax cuts. Democrats would demand concessions. In this scenario, there would be virtually no spending cuts, and there might be a small increase in the corporate tax rate.

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