May 15, 2025

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

We offer some quick takes about the U.S.-China tariff deal and the House Ways and Means Committee's draft reconciliation bill.

Regarding the trade agreement, the speed of the deal was striking ,as we expected negotiations with China to last much longer. Tariffs will still be significantly higher than they were at the beginning of the year.

The tax bill from the House committee should be seen as an opening bid in what will be a grueling process. Some moderates will oppose the bill because they think State and Local Tax (SALT) relief is inadequate, and some conservatives will push for more deficit reduction, which is in conflict with the moderates. I expect many changes to the bill will occur. The draft is the beginning, not the end.

China Tariff Pause – Clearly, the equity markets liked the news that the U.S. and China had reached an agreement to lower tariffs for 90 days while they continue talks over a longer-term framework. Tariffs imposed on Chinese goods will (30%), however, still be significantly higher than they were at the start of the year. This could raise prices in the short term (just less than previously feared) and dampen economic activity if they are left in place. Perhaps the more significant development was the reinstatement of a *de minimis* exemption, which had previously allowed goods below $800 to escape the tariffs imposed in 2018. Earlier this year, President Trump had ended the exemption and subjected all goods to the new tariffs. We thought that was among the most underappreciated policy changes. A reinstatement could soften the blow of higher tariff levels, at least on many consumer goods.

- Reconciliation Starts – Over the past few days, the House Ways and Means Committee released its portion of the reconciliation bill. This version would extend many of the expiring provisions of the Tax Cuts and Jobs Act of 2017 (TCJA or the Trump tax cuts). Investors should remember that the committee's bill is just the start of an intense process during which the legislation will change numerous times. For example, blue state Republicans who want relief from the current $10,000 cap on the SALT deduction appear dissatisfied with the bill's proposal to raise the cap to $30,000 while also imposing a $400,000 income threshold. The Joint Committee on Taxation (i.e., the official scorer for revenue bills) estimates that the bill will would add $3.72 trillion to the debt over seven years, which is below the $4.5 trillion allocated to the committee in the budget resolution, so Republicans have some room to negotiate on the SALT cap. Here are some notable parts of the bill, but with a caveat that **this is a fluid situation that is subject to change, especially in the Senate.**
    - *Individuals* – Current tax rates would be permanently extended. The deduction rate under Section 199A would be permanently increased from 20% to 22%. The bill currently includes exemptions from taxation for income on tips and overtime pay, but with some restrictions. These changes would phase out after 2028. The bill would not exempt Social Security benefits, but it would increase the standard deduction for seniors. As noted above, the debate over SALT is the biggest political issue in the bill.
    - *Estate Tax* – The estate tax exemption would be permanently increased to $15 million ($30 million for married couples).

- *Corporate* – Corporate tax rates would be left unchanged. Three business provisions (100% bonus depreciation, 100% R&D expensing, and EBITDA as the base for the business interest deduction) would be reinstated retroactively to January 1, 2025, but only extended through 2029. It appears this bill would not change current rules related to carried interest, executive compensation, or stock buy backs.
- *Inflation Reduction Act (IRA)* – The Way and Means bill is a mixed bag for IRA tax credits. As expected, the electric vehicle deduction would be eliminated at the end of 2025 (2026 for some smaller automakers). The clean manufacturing credit (45X) would end one year earlier than scheduled. The biofuels credit (45Z) was actually extended through 2031, and the bill would expand its eligibility rules. Transferability would end in 2028. Foreign sourcing rules would be tightened.
- *Municipal finance* – The municipal finance exemption was left unchanged, and it appears no changes were made regarding Private Activity Bonds. Excise taxes on university endowments would be increased under the bill.
- *Path Forward* – House Republican leaders have wanted to pass the reconciliation bill through the House by Memorial Day weekend. Given the opposition to the bill by some Republicans over the SALT issue, and other Republicans regarding what they see as insufficient spending cuts, passing the bill by their stated goal is not impossible but very ambitious. We think passing a bill through the House in early June seems more likely. Finishing the entire process and sending the final bill to the White House for President Trump's signature by the August recess seems like a very heavy lift. However, the need to increase the debt ceiling (which is included in the reconciliation bill) in July or August could apply enough pressure on Republicans to finish the tax bill by the summer break. Still, we do not rule out the possibility that the legislative process could last into September.

Subscribe to Our Podcast!

Season 4 of the Potomac Perspective podcast is underway. To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.