Policy Backgrounder

Senate Passes Reconciliation Bill

This week, the Senate debated and ultimately voted to pass the reconciliation bill Republicans are using to advance the President's legislative agenda. After weeks of negotiations and a series of last-minute amendments, the revised reconciliation bill heads back to the House as Republicans in Congress race to meet their self-imposed deadline of July 4 to send the bill for the President's signature.

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- Senate Republicans made several key tax policy changes to the reconciliation bill, including fully restoring and making permanent business deductions and expensing and providing some additional flexibility for the phase out of the Inflation Reduction Act (IRA) clean energy tax credits.
- To offset the deficit impact of these tax policy changes, Senate Republicans adopted even steeper cuts to Medicaid than the House, though the nutrition program cuts were not as high in the Senate.
- Senate Republican leadership raced to reach compromises to win over holdouts and address the rulings of the Senate Parliamentarian, securing enough concessions to pass the reconciliation bill by a vote of 51 to 50, with the Vice President breaking the tie.
- The bill now heads back to the House, where Speaker Mike Johnson (R-LA) will have to convince hardline fiscal conservatives concerned about the deficit and moderates concerned about social safety net spending cuts and the state and local tax deduction to vote in favor of the bill.

Senate Crafts Its Version of Reconciliation Bill

In late May, the House passed the reconciliation bill Republicans are hoping to use to enact the President's legislative agenda of tax cuts, increased border security and defense spending, changes to energy policy, and other areas. Despite Republican control of the Senate and only a simple majority of Senators required to pass the bill under reconciliation, Senate Majority Leader John Thune (R-SD) had the challenging task of balancing the demands of fiscal conservatives worried about the deficit and more moderate Republicans concerned about cuts to social safety net spending and the phase out of clean energy tax credits.

Senate Committees Release Bill Text

Once the reconciliation bill reached the Senate, individual Senate Committees began releasing their versions of the bill text according to the instructions in the concurrent budget resolution Congress passed in April. On June 16, Senate Finance Committee Chairman Mike Crapo (R-ID) released his Committee's bill text, which reflected a push to restore and make permanent several business deductions that the House only temporarily restored. To offset the deficit impact of these additional tax breaks, the Senate Finance Committee text also included larger spending reductions to Medicaid, primarily through further limitations on state provider taxes.

Specifically, the Finance Committee's bill text restores and makes permanent full business expensing for domestic research and experimental expenditures, new capital investments such as machinery and equipment, and interest deductibility. This expensing is effective starting in tax year 2025, with small businesses with average annual gross receipts of less than $31 million permitted to apply the domestic R&D expensing retroactively to tax years 2022-2024 and all other taxpayers permitted to elect to accelerate the remaining deductions for such domestic R&D expenditures over a one-year period or a two-year period. The Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) estimate that making permanent the special depreciation allowances for qualified property and expensing for R&D would increase the deficit by more than $600 billion over 10 years (on top of the $2.4 trillion deficit increase CBO estimated for the overall House reconciliation bill). The Finance Committee text also introduces some additional flexibility in the phase out of the IRA clean energy credits, requiring projects using these credits to begin construction by the end of the calendar year instead of 60 days after the bill's enactment date. Finally, the Senate Finance Committee bill text increases the debt ceiling by $5 trillion instead of $4 trillion in the House bill and includes a placeholder for the cap on the state and local tax (SALT) as Senators negotiated with several key House Republicans from New York, New Jersey, and California on a compromise.

To offset the deficit impact of these tax policy changes, the Committee further reduced the ability for states to raise Medicaid provider taxes. For states that expanded Medicaid coverage under the Affordable Care Act (ACA), the hold harmless threshold for provider classes other than nursing or intermediate care facilities will be reduced by 0.5 percentage points annually starting in 2027 until reaching 3.5% in 2031. CMS regulations state that Medicaid provider taxes must not hold providers harmless (*i.e.,* states cannot directly or indirectly guarantee that providers will receive their tax revenues back); however this requirement does not apply if tax

revenues comprise less than 6% of net patient revenues. The Senate's reconciliation bill would reduce this threshold to 3.5% by 2031, reducing the ability for the 40 states (and DC) that have expanded Medicaid to raise Medicaid provider taxes. Currently, 38 states have at least one provider tax over 5.5% of net patient revenues.

The Committee text also includes adults with dependent children over 14 in new work and community engagement requirements for Medicaid recipients. Other significant changes include reducing Medicaid state directed payments from the average commercial rate to 100% of the Medicare rate (for ACA optional expansion states) or 110% of the Medicare rate (for non-expansion states) and limitations on and additional eligibility checks for claiming ACA premium tax credits. Overall, CBO estimated that the health care policies in the bill that moved to the Senate floor would reduce the deficit by more than $1.1 trillion between 2025 and 2034. CBO also projects that the Senate's health policy changes would increase the number of uninsured individuals by 11.8 million in 2034, of whom 1.4 million would be individuals without verified citizenship, nationality, or satisfactory immigration status.

Senate Agriculture Committee Chairman John Boozman (R-AR), who has jurisdiction over the Supplemental Nutrition Assistance Program (SNAP), released the Committee's text on June 11. Compared to the House's agricultural and nutrition policy changes that reduce the deficit by nearly $240 billion over 10 years, CBO estimates that the Senate's policy changes in this area only reduce the deficit by $120 billion over the next decade. A significant reason for the lower spending reductions in the Senate's bill is modifications the Senate made to a new policy requiring states to contribute a percentage of SNAP benefit costs based on their payment error rates. The Senate reduced the top matching funds requirement from 25% to 15% and exempted states with less than a 6% payment error rate from the matching funds requirement, reducing the cost savings from nearly $130 billion to $40 billion over 10 years.

Senate Parliamentarian Rulings

As Senate Republicans are using reconciliation to pass the President's legislative agenda, any legislation coming up for a vote must fully adhere to the Byrd Rule, which prohibits extraneous provisions in the measure or offered as amendments, specifically nonbudgetary provisions or provisions that are contrary to the purposes described in the budget resolution or not germane. Changes to authorizing legislation without any fiscal impact, changes to Social Security, or provisions that are not fully offset (either through spending cuts or revenue increases) beyond the budgetary window under consideration are not allowed.

As Senate Committees released their bill text, the nonpartisan Senate Parliamentarian issued her rulings on a host of provisions in the reconciliation bill to determine compliance with the Byrd Rule. Some notable provisions that had to be reworked or removed included the cap on Medicaid provider taxes, barring Medicaid and SNAP for noncitizens, restricting Medicaid eligibility for adults and children whose citizenship and immigration status are not immediately verifiable, a measure to limit the power of courts to hold the Administration in contempt, and the sale of millions of acres of Federal land owned by the Bureau of Land Management.

Senate Votes on Reconciliation Bill

On Saturday, Senate Budget Committee Chairman Lindsey Graham (R-SC) released the full Senate text for the bill. Later that day, the Senate voted 51 to 49 on a motion to proceed with the bill, with Senators Rand Paul (R-KY) and Thom Tillis (R-NC) joining all Democrats in voting against. This vote set up limited debate under reconciliation rules and a "vote-a-rama" in which Senators could offer an unlimited number of amendments before a final vote on the legislation.

During this sprint to a final vote, Senate Republicans made a slew of amendments and policy choices to secure majority support. Republicans reached a compromise to set the SALT cap at $40,000 for five years starting in tax year 2025 with an income threshold of $500,000 to claim the full deduction, after which the cap reverts to $10,000 starting in tax year 2030. Senate Republicans dropped the proposed surcharge on foreign taxpayers (Section 899 from the House version of the bill) that had caused consternation among Wall Street and global business leaders. A controversial provision that restricted state-level regulation of AI for a decade was also struck from the bill during the amendment voting process. Additionally, Republican Senators adopted a "current policy baseline" that effectively zeroes out the cost of extending the expiring provisions of the 2017 Tax Cuts and Jobs Act. Democrats contend this goes against long-standing budget rules in the Senate, while Senator Graham countered that he has the authority to determine the budget baseline as Chairman of the Senate Budget Committee.

With Senators Paul and Tillis steadfastly against the bill, Republican leadership turned to Senators Susan Collins (R-ME) and Lisa Murkowski (R-AK) as two crucial holdouts who had concerns about the effects of Medicaid and SNAP spending cuts to their states. Republican Senate leadership delayed the implementation of the Medicaid provider tax reductions by a year to 2028 and included a Rural Health Transformation Program appropriating $10 billion annually for five years ($50 billion total) for states to apply for funding for rural hospitals and other specified rural health facilities (*e.g.,* federally qualified health centers, community mental health centers, and rural health clinics). Republican leadership also added several provisions at the last minute to win over Senator Murkowski's vote: delayed implementation of the SNAP matching funds requirements for states with the highest payment error rates (Alaska had the highest payment error rate in 2024), removal of a provision that established an excise tax on solar and wind energy projects, and tax relief for Native Alaskan whaling and other Alaskan fisheries. Ultimately, these concessions secured her support but failed to convince Senator Collins. On Tuesday, the Senate voted 51-50 to pass the reconciliation bill, with the Vice President breaking the tie.

Next Steps in the House of Representatives

The reconciliation bill now goes back to the House, where lawmakers can either decide to accept the Senate's changes in full, amend the legislation and return it to the Senate, or go into Conference Committee where both chambers will hash out their differences and pass a final reconciliation bill. On Wednesday, the House Rules Committee voted to advance the reconciliation bill to the House floor by a vote of 7-6, with Representatives Chip Roy (R-TX) and

Ralph Norman (R-SC) voting with Democrats on the panel against it. This vote reflects the deficit concerns of the House Freedom Caucus, of which Representatives Roy and Norman are members. Some Freedom Caucus members believe the Senate reneged on the budget framework Republicans agreed to before reconciliation started. For reference, CBO and JCT performed a preliminary analysis of the Senate's bill and estimate that it will increase the deficit by $3.4 trillion over 10 years (compared to $2.4 trillion in the House). And it remains to be seen whether moderate House Republicans concerned about cuts to Medicaid, SNAP, and clean energy tax credits and those focused on SALT will support the Senate's reconciliation bill.

As Speaker Johnson pushes for a vote in the House before July 4, the highly partisan nature of the reconciliation process seems to be taking its toll on bipartisanship in Congress. Senator Tillis announced he would not seek reelection in 2026 before voting against the reconciliation bill due to its Medicaid spending cuts. "In Washington over the last few years, it's become increasingly evident that leaders who are willing to embrace bipartisanship, compromise, and demonstrate independent thinking are becoming an endangered species," Senator Tillis said. Representative Don Bacon (R-NE) also announced this week that he would not seek reelection, citing the increasingly polarized political climate in Congress. With the deadline to pass the fiscal year 2026 appropriations bills only a few months away, the deteriorating relationship between Democrats and Republicans in Congress will be put to the test to avoid a government shutdown in October, let alone pass a debt ceiling increase if the reconciliation bill is not enacted over the coming weeks.

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