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Special Washington Update: A Look Into the Reconciliation Bill

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It had a tortuous path with plenty of drama, scrambling and deal-making, but both the Senate and House have narrowly passed the "One Big, Beautiful, Bill." John Nolan and the Governmental Affairs US team take a look at this and much more in this Special Washington Weekly report.

On Tuesday, the Senate passed the giant bill by a 51 to 50 margin. Vice President JD Vance was needed to cast multiple tie-breaking votes to advance the bill. Three Republicans—Senators Rand Paul (KY), Thom Tillis (NC) and Susan Collins (ME)—joined all Senate Democrats in voting against the bill. Senator Paul opposed the bill over the overall cost of the bill. Senators Tillis and Collins voted against the bill for a variety of reasons, but particularly for the large Medicaid cuts. The bill then went back over to the House yesterday. Many House Republicans expressed frustration about some of the changes made in the Senate bill and its overall cost (over $3 trillion), but President Trump and House Republican leaders were able to pressure and cajole enough Republicans to pass the Senate's version of the bill (the House already had passed its version of the bill in May). Below we lay out some of the key provisions in the final bill.

Debt limit.
Congress needs to increase the debt ceiling at some point before mid-August in order to ensure that the US does not default on its debt obligations. Republicans included a debt limit increase in the reconciliation bill to avoid having to negotiate with Democrats on a stand-alone increase. The bill will raise the debt limit by $5 trillion (higher than the $4 trillion that was in the House measure). The higher increase will help ensure that the next debt limit increase wouldn't need to occur until after the 2026 midterm elections. As noted, some Republicans had concerns about the debt limit increase and the overall cost of the bill.

Medicaid cuts.

The bill includes significant changes to Medicaid, the largest since the program began in the 1960s. This is driven mainly by a work requirement and restrictions on state-levied taxes on health care providers. The bill puts in place work requirements of 80 hours per month for adults under the age of 65 (with some exceptions). The Senate bill went further than the House bill in restricting state-levied taxes on health care providers (a key source of funds for Medicaid). The bill does not offer any federally matched funds for new or future increases of existing provider taxes. The bill rolls back funding for many states that have expanded Medicaid. Some Senate Republicans opposed these cuts due to their potential harm to their states. Senator Lisa Murkowski (R-AK), who was the deciding vote on the bill, was able to get some concessions, including $50 billion to the rural hospital fund over five years.

SNAP.
The bill shifts some of the costs of the Supplemental Nutrition Assistance Program (SNAP) to states (the program is currently fully federally funded). The bill will raise the work requirement age from 55 to 65 for adults without dependents. It also will limit the categories of non-citizens eligible for SNAP benefits to lawful permanent residents.

Immigration.
The bill provides about $130 billion to the Homeland Security Department, including $46 billion for US Customs and Border Patrol to build the border wall. It also includes $45 billion for US Immigration and Customs Enforcement to increase detention capacity, including single adult detention and family residential centers. The Biden administration gradually scaled back the use of family residential centers, but the Trump administration is planning to reopen the facilities.

Defense.
The bill includes about $150 billion in funding for the Defense Department, slightly higher than the funding levels in the House's bill. This was not a contentious part of the bill for Republicans in either chamber. The funds go toward Navy shipbuilding programs, weapons and munitions production, missile defense (development of the "Golden Dome"), nuclear deterrence and rare minerals production.

SALT Deduction Cap.
The Senate bill increases the current $10,000 cap on the state and local tax (SALT) deduction to $40,000. However, unlike the House bill's permanent increase, the Senate version sunsets the SALT deduction increase after five years (it would end after 2029 and revert back to $10,000).

Individual Rates.
Permanent extension of current individual tax rates, including the 37% top ordinary income tax rate. There is an additional inflation adjustment for income brackets below $100,000.

Standard Deduction.
The bill sets the standard deduction at $15,750 for individuals ($23,625 for head of households and $31,500 for married couples) starting this year (with annual adjustments for inflation).

Child Tax Credit.
Increase in the child tax credit from $2,000 to $2,200 per child beginning this year.

Small Business Deduction.
Permanent extension of the 20% deduction for small business. The House bill had increased this to 23%, but the Senate reverted back to the current 20% deduction.

Estate Tax and Gift Tax Exemption.
Permanent extension and increase of estate and gift tax exemption to $15 million ($30 million for married couples) effective after Dec. 31, 2025.

Mortgage Interest Deduction.
Permanent extension of the current $750,000 limitation for qualified mortgage interest deduction.

Bonus Depreciation.
Permanent extension of the first-year bonus depreciation deduction.

Research and Development.
Permanent full expensing for domestic R&D.

Retaliatory Tax.
The Senate ultimately dropped a retaliatory tax that was aimed at companies and residents of countries that levied discriminatory taxes on the US. The removal of this provision is welcome news to multinational companies and investors.

Opportunity Zones.
A new round of Opportunity Zones to spur investment in undercapitalized communities with tax incentives. The program will undergo a number of changes, including a narrowing of the definition of "low-income community" that would qualify.

Section 179 Expensing.
Increase in the maximum amount a taxpayer may expense under Section 179 to $2.5 million. Increase of the phaseout threshold amount to $4 million.

Green Energy.
The bill terminated a large number of clean energy tax incentives from the Inflation Reduction Act (IRA). Three credits related to clean vehicles will end on September 30, 2025. Credits related to energy efficient home energy improvements and residential clean energy will expire at the end of the year.

No Tax on Tips and Overtime.
The bill establishes a deduction of up to $25,000 for qualified tips for millions of tipped workers. Also, the bill creates a $12,500 deduction for overtime wages for hourly wage earners.

Tax Deduction for Seniors.
An increase in the standard deduction by an additional $6,000 for seniors at the age of 65 and older. This senior deduction will begin to phase out at $75,000 ($150,000 in the case of a joint return). It will be in effect for the years 2025 through 2028

Remittance Tax.
The bill imposes a 1% tax on remittance payments made via cash, money order, a cashier's check or a similar payment instrument. This provision does not apply to payments made from an account with a financial institution, or via a debit or credit card.

Artificial Intelligence.
The Senate late Monday voted overwhelmingly to eliminate a provision that would have prevented states from regulating artificial intelligence (AI) for 10 years if they received broadband funding from a $500 million federal program. The intent was to prevent a patchwork of different state AI laws from developing while there is no federal AI law. Even though this provision was supported by Trump administration, there was not nearly enough support among Republicans to keep it in the final bill.

For more, see **Washington Weekly**, 3 July, 2025.

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