

House Republicans unveil debt limit proposal ahead of planned vote next week

House Speaker Kevin McCarthy, R-Calif., along with other GOP leaders in the chamber laid out an ambitious plan on April 19 to hike the statutory debt limit until early next year alongside a long list of policy demands that President Biden and congressional Democrats are certain to reject. Republican leaders plan to whip support for the measure—their opening bid in what could be increasingly fraught negotiations with Democrats—ahead of a planned vote during the week of April 24.

The latest official government estimates indicate that without action by lawmakers to raise or suspend the debt limit, the US could be at risk of default sometime between June and September of this year; however, some private stakeholders suggested this week that a June deadline could be more likely given flagging capital gain receipts relative to prior years.

Limit, Save, Grow Act

The House GOP leaders' debt limit bill—dubbed the Limit, Save, Grow Act of 2023—would raise the statutory debt limit by \$1.5 trillion, or suspend the limit through March 31, 2024, whichever comes first. Factoring in the Treasury Department's increasingly common use of so-called “extraordinary measures” to stave off any default, the House GOP bill would likely place the debt limit squarely back in the political spotlight in the run-up to the 2024 presidential and congressional elections.

URL: https://www.speaker.gov/wp-content/uploads/2023/04/LSGA_xml.pdf

But the House GOP bill also attempts to extract concessions from Democrats as a condition of dispensing with the debt limit issue for the rest of the year in the form of policy changes that Republican leaders argue would save more than \$4.5 trillion over the next decade.

The specific policy changes Republicans have demanded—and which the White House and congressional Democrats have already said are nonstarters—include:

- Reducing nondefense appropriations in fiscal year 2024 to those enacted for fiscal year 2022 and placing statutory limits on growth in that category of spending amounting to 1 percent per year through fiscal year 2033.
- Repealing what the GOP has called “market distorting green tax credits,” including many of those enacted by Democrats as part of the Inflation Reduction Act of 2022 (P.L. 117-169) such as the increased energy credit for wind and solar facilities placed in service in low-income areas, the credit for previously owned clean vehicles, and the sustainable aviation fuel credit, and modifying other incentives, such as the residential clean energy credit. (House Republican taxwriters took aim at the Inflation Reduction Act's energy provisions during a Ways and Means Committee hearing this week. More on that below.)

URL: <https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf>

- Enacting the Lower Energy Costs Act (H.R. 1), the House GOP's signature energy legislation which cleared the chamber along strict party lines last month. The measure would, among other things,

streamline energy project permitting and formally disapprove of the Biden administration's proposed repeal of oil and gas tax incentives that were included in its fiscal year 2024 budget proposal released earlier this year.

URL: <https://www.congress.gov/bill/118th-congress/house-bill/1/text>

- Rescinding nearly \$71 billion of the roughly \$80 billion in mandatory spending made available to the Internal Revenue Service over 10 years as part of the Inflation Reduction Act and redirecting the remaining \$9 billion to improving taxpayer services and technology infrastructure. (See separate coverage in this issue for more on the new mandatory IRS funding and the agency's plans for spending it.)
- Rescinding previously enacted but unobligated coronavirus relief funds, which, according to a summary of the legislation produced by Republican leaders, total about \$50 to \$60 billion.
- Nullifying the Biden administration's executive action to cancel certain student loan debts of up to \$20,000 per borrower (a policy that is now before the Supreme Court with a decision expected as early as June of this year).
- Tightening work requirements and other conditions required to receive certain federal benefit payments, such as by raising the age at which potential beneficiaries of the Supplemental Nutrition Assistance Program (SNAP) are exempt from work requirements.
- Enacting the Regulations from the Executive in Need of Scrutiny (REINS) Act of 2023 (H.R. 277), a perennial GOP bill that would require congressional approval for economically significant regulations promulgated by executive branch.

URL: <https://www.congress.gov/bill/118th-congress/house-bill/277/text?s=1&r=21>

McCarthy and Biden trade jabs

According to Speaker McCarthy and other GOP leaders, the spending constraints and other proposals included in the Limit, Save, Grow Act are necessary to counteract what they argue are excessive spending policies put in place over the past two years when Democrats controlled both chambers of Congress and the White House.

"President Biden's reckless spending created record inflation, made us more dependent on China, and undermined Social Security and Medicare. We must address record spending now," McCarthy said in a statement released with House Majority Leader Steve Scalise, R-La., Majority Whip Tom Emmer, R-Minn., Conference Chair Elise Stefanik, R-N.Y., and Budget Committee Chairman Jodey Arrington, R-Texas.

URL: <https://www.speaker.gov/house-gop-leadership-statement-on-the-house-gop-plan-to-address-the-debt-ceiling/>

In separate remarks April 19, Speaker McCarthy called on the president to come to the negotiating table. Aside from an exchange of letters on March 28, Biden and McCarthy have not spoken on issues related to the debt limit since they held a high-level, face-to-face meeting at the White House on February 1. (For prior coverage, see *Tax News & Views*, Vol. 24, No. 12, Mar. 31, 2023.)

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230331_1.html

"[Democrats] need to sit down, negotiate, and address this crisis. Now that we've introduced a clear plan for responsible debt limit increase, they have no more excuse [to] refuse to negotiate," McCarthy said.

Meanwhile, the White House remains emphatic that although the administration is willing to engage in negotiations on deficit reduction, those talks should occur on a separate track and not as a condition of raising the government's borrowing ceiling.

White House Press Secretary Karine Jean-Pierre said in a statement April 20 that "House Republicans are holding the American economy hostage in order to take a hatchet to programs Americans rely on every day to make ends meet."

President Biden, for his part, declared during an economic speech in Maryland on April 19 that the House GOP bill is "not a plan."

"[T]he . . . Republican proposal would cut critical programs, so-called discretionary spending, by 22 percent," Biden said. "That would mean cutting the number of people who administer Social Security and Medicare, meaning longer wait times. Higher costs for child care, . . . preschool, college; higher costs for housing, especially for older Americans, people with disabilities, families with children, [and] veterans."

The president also called on Republicans to "take default off the table, and . . . have a real, serious, detailed conversation about how to grow the economy, lower costs, and reduce the deficit."

House GOP whip operation full speed ahead

Whether the White House changes its position and begins engaging with Republicans on policy changes to accompany a debt limit increase could depend in large part on whether McCarthy is able to muscle the bill through the tightly divided lower chamber. Republicans hold 222 seats in the House compared to 213 for Democrats. Since no Democrats are expected to support the proposal, the GOP can only afford to lose only four votes if it hopes to pass the measure along party lines, assuming all members are present and voting. (At least one Democrat, Rep. Dan Kildee of Michigan, is expected to miss the vote following cancer surgery earlier this week.)

Although early indications suggest that the GOP debt limit plan was well-received by the vast majority of House Republicans, at least a few members of the conference—including Reps. Tim Burchett of Tennessee, Nancy Mace of South Carolina, and George Santos of New York—indicated on April 19 that they had not yet made up their minds.

"I told [McCarthy] I'm not there yet," Burchett told reporters. "I'm just not there yet. [The bill is] 320 pages. . . ."

That puts the onus on the House GOP leadership team, including Majority Whip Tom Emmer and his deputy, Rep. Guy Reschenthaler, R-Pa., to corral widespread support among the rank-and-file ahead of next week's planned vote.

GOP, Democratic House taxwriters spar over green energy incentives

The release of the House GOP's plan to roll back many of the Inflation Reduction Act's green energy tax credits as a condition for raising the debt limit followed a Ways and Means Committee hearing earlier in the day that played out as an in-person, split-screen debate between GOP and Democratic taxwriters. As Republicans argued that the cost of the subsidies will drive the federal debt higher and that the tax credits will primarily benefit large financial institutions and Chinese state-backed companies, Democrats extolled the climate benefits, new jobs, enhanced energy security, and more equitable economy they believe will stem from the provisions.

Republican question costs, economic benefits: Ways and Means Committee Chairman Jason Smith, R-Mo., and GOP taxwriters Vern Buchanan of Florida and David Schweikert of Arizona pointed to a recent Goldman Sachs report estimating that the actual cost of the credits—including those for electric vehicles, carbon capture, and green energy manufacturing—will be more than three times higher than the government's original estimate. When the Inflation Reduction Act was approved in 2022, the nonpartisan Congressional Budget Office forecast the energy and climate provisions would cost \$391 billion between 2022 and 2031, but Goldman Sachs' new estimate puts the tab at \$1.2 trillion. Republicans argued that the explosion in cost is the result of companies rushing to take advantage of uncapped incentives and the Biden administration's loose interpretations of the eligibility requirements for the credits.

URL: <https://www.cbo.gov/publication/58455>

"The design of these credits has allowed large companies, big banks, and the already wealthy to make billions off the backs of hardworking American taxpayers," Smith said in his opening statement, adding that the bill will pay "big dividends to big business and China."

Others in the GOP followed up on the chairman's focus on China—which was reflected in the session's official title, "A Hearing on the US Tax Code Subsidizing Green Corporate Handouts and the Chinese Communist Party"—by describing what Rep. Darin LaHood, R-Ill., called "a lack of safeguards" to keep the law from benefiting "our adversaries" both economically and in the national security realm.

Democrats tout job creation, energy independence: Democratic taxwriters pushed back on all these arguments, saying that there were clear requirements included in the law that companies had to meet to maximize the benefits—such as domestic production standards, wage and apprenticeship standards, and certain environmental justice criteria—and that the Republicans' Tax Cuts and Jobs Act of 2017 provided significantly more benefits for Chinese companies and investors.

"With first-of-their-kind requirements to strengthen American supply chains and create quality, high-paying jobs, this legislation is proving that green jobs are good jobs, and putting the country on a path to responsible, sustainable energy independence," said Rep. Judy Chu, D-Calif.

“The truth is that the Inflation Reduction Act is one of the most impactful laws in our nation’s history to reduce our reliance on China and other foreign markets and move jobs and supply chains back here to the United States,” she added.

Debate likely to continue at Georgia field hearing: Energy costs and the merits of the administration’s green energy incentives are expected to be among the issues discussed at an April 21 Ways and Means Committee field hearing in Peachtree City, Ga., to consider the state of the economy in the southern United States. Coverage of that hearing will appear in the April 28 edition of *Tax News & Views*.

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