House Republicans pass debt limit proposal, but next steps remain unclear

After making a handful of changes to the far-reaching debt limit proposal he unveiled just days ago, House Speaker Kevin McCarthy, R-Calif., was able to corral enough GOP support this week to muscle the revised Limit, Save, Grow Act through the lower chamber; however, the bill is almost certainly dead on arrival in the Democratic-controlled Senate and President Biden and Democratic leaders are thus far sticking to their longstanding demand that any debt limit lift be done on a so-called "clean" basis.

'X-date' approaching

The US reached the statutory debt limit of $31.38 trillion in January, but the Treasury Department has been using "extraordinary measures" since then to avoid defaulting on the nation's credit obligations. However, those extraordinary measures provide just a limited amount of breathing room and the latest government estimates indicate that without action by lawmakers to raise or suspend the statutory debt limit, the US could be at risk of default sometime between June and September of this year. The comparatively low tax receipts flowing into federal coffers in conjunction with the recent April 18 filing deadline—particularly with respect to net capital gain income— has some private observers cautioning that a June or July deadline could be most likely, however.

If the Treasury is able to make its payments in full through June 14—the date on which a tranche of Social Security payments is set to be disbursed—the receipt of estimated tax payments due the next day could extend the debt limit deadline a bit later into the summer.

Limit, Save, Grow 2.0

McCarthy's sprawling debt limit legislation—which passed the House on April 26 by a 217-215 vote with no Democratic support and four GOP defections—closely resembles the original Limit, Save, Grow Act of 2023 that the speaker released on April 19, but for a handful of changes (encapsulated in an amendment offered by House Budget Committee Chairman Jodey Arrington, R-Texas, and adopted by the House Rules Committee prior to floor debate) designed to, among other things, lessen the negative impact of modifications to certain biofuel tax credits and accelerate the effective date of enhanced work requirements needed to qualify for benefits under the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) programs.

A number of House conservatives and members from agriculture-reliant districts came down hard on the initial draft's changes to program eligibility, which some conservatives regarded as weak, and its impact on ethanol producers, which certain midwestern GOP members saw as too heavy-handed.

Tax-focused edits in the new bill would:

- Eliminate certain taxpayer-unfavorable sections of the original proposal that would have modified provisions in the Inflation Reduction Act of 2022 (P.L. 117-169) related to the credit for carbon

sequestration and the effective dates of incentives for biodiesel, renewable diesel, alternative fuels, and second-generation biofuels. Altogether, the Congressional Budget Office (CBO)—using estimates provided by the Joint Committee on Taxation (JCT)—published a letter to Chairman Arrington suggesting these changes would decrease revenues by $38.6 billion over the next decade, relative to the original legislation.
URL: https://www.taxnotes.com/research/federal/legislative-documents/public-laws-and-legislative-history/inflation-reduction-act-of-2022-%28p.l.-117-169%29/7dybc
URL: https://www.cbo.gov/system/files/2023-04/59111-Arrington-Letter-HR2811-amended-22_4-26-23.pdf
- Provide transition relief to certain taxpayers who entered into certain binding, written contracts or took certain other investment actions between August 27, 2022, and April 18, 2023, and who otherwise would be negatively impacted by the legislation's separate proposals to repeal the sustainable aviation fuel credit and the clean fuel production credit.

On the spending side, the revised measure adds rescissions of certain unobligated funding included in various sections of the Inflation Reduction Act

Otherwise, however, the remainder of the Limit, Save, Grow Act as passed by the House hews closely to the original proposal, including provisions that would:

- Raise the debt limit by $1.5 trillion, or suspend it through March 31, 2024, whichever comes first.
- Reduce nondefense appropriations in fiscal year 2024 to those enacted for fiscal year 2022 and place statutory limits on growth in that category of spending amounting to 1 percent per year through fiscal year 2033.
- Repeal—subject to the modifications noted above—what the GOP has called "market distorting green tax credits," including many of those enacted by Democrats as part of the Inflation Reduction Act, 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. (The JCT has estimated that the energy tax title in the legislation as amended would increase federal revenues by some $515 billion over the 10-year budget window.)
URL: https://www.jct.gov/publications/2023/jcx-7-23/
- Enact 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.
- Rescind 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 redirect the remaining $9 billion to improving taxpayer services and technology infrastructure. The CBO has estimated that rescinding the funding would, on net, increase the deficit by roughly $120 billion over the 10-year budget window through the combined effect of $191 billion in foregone tax collections and $71 billion in direct spending reductions. (These mandatory funds dominated the discussion at a House Ways and

Means Committee hearing this week on the Biden administration's fiscal year 2024 budget request for the IRS. See separate coverage in this issue for details.)
URL: https://www.cbo.gov/system/files/2023-04/59102-Arrington-Letter_LSG%20Act_4-25-2023.pdf
- Rescind 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.
- Nullify 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).
- Tighten work requirements and other conditions required to receive certain federal benefit payments, such as by raising the age at which potential recipients of the SNAP benefits are exempt from work requirements.
- Enact 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.

McCarthy: Let's negotiate

Passage of the Limit, Save, Grow Act was seen as perhaps the best chance congressional for Republicans to draw President Biden and congressional Democrats to the negotiating table, given that the administration and Democratic leaders have been adamant that deficit reduction discussions be pursued separately from the debt limit.

Failure to pass the legislation would have dealt a major blow to that effort by demonstrating that the GOP—at least so far—had not coalesced around an approach as an opening offer.

Speaker McCarthy drove home that point April 26 in a joint statement released with Majority Leader Steve Scalise, R-La., Majority Whip Tom Emmer, R-Minn., GOP Conference Chair Elise Stefanik, R-N.Y., and Budget Committee Chair Jodey Arrington.

"House Republicans just delivered a plan that will address the country's debt crisis," wrote the quintet. "Our conference came together to pass the only plan in Washington that will tackle the debt ceiling, stop excessive federal spending and inflation, and put our country back on track for sustained economic growth."

"Today's vote also sends a clear message to President Biden—continuing to ignore the problem is not an option. The [p]resident must come to the table to negotiate."

Across the Capitol, Senate Minority Leader Mitch McConnell, R-Ky., urged President Biden to begin talks and said the speaker "has done an excellent job of unifying our side."

But Democratic leaders, for their part, are still holding strong on their demand for a clean debt limit hike.

“I’m happy to meet with [Speaker] McCarthy, but not on whether or not the debt limit gets extended,” President Biden said after the vote. “That’s not negotiable.”

Senate Majority Leader Chuck Schumer, D-N.Y., echoed the president’s sentiments.

“The speaker should drop the brinkmanship, drop the hostage taking, come to the table with Democrats to pass a clean bill to avoid default,” Schumer said.

Whether Democrats’ position softens as the default deadline draws closer remains to be seen. A determining factor could be the extent to which Senate Republicans remain in lockstep with their House colleagues, as the support of at least nine GOP senators will be required for Schumer to pass a debt limit bill through his chamber, which is currently controlled 51-49 by the Democrats.

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