Debt limit legislation clears House

With the deadline for default on the nation's credit obligations now just five days away, the House of Representatives voted 314-117 on May 31 to approve legislation that would suspend the federal debt limit through January 1, 2025, and make other fiscal policy changes such as spending limitations, a reduction in recently enacted supplemental funding for the Internal Revenue Service, and new work requirements for participants in certain federal benefits programs.
URL: https://docs.house.gov/billsthisweek/20230529/BILLS-118hrPIH-fiscalresponsibility.pdf

The Fiscal Responsibility Act of 2023 was pushed across the finish line by a mix of Democratic and Republican House members. "Nay" votes came chiefly from a bloc of progressive Democrats who felt the policy changes in the measure are too extreme and a contingent of conservative Republicans who felt those changes are too modest to address their goals for reducing federal spending.

The House-approved bill is the product of months of on-again, off-again talks between President Joe Biden, House Speaker Kevin McCarthy, R-Calif., and their respective lieutenants. Biden and McCarthy announced an "agreement in principle" on the legislation on May 27 and legislative language was released one day later.

Policy changes

In addition to addressing the debt limit, the measure includes extraneous policy changes that, among other things, would:

- Keep nondefense discretionary spending flat and limit growth in defense spending to approximately 3.5 percent for fiscal year 2024, with topline federal spending capped at 1 percent annual growth for fiscal years 2025 through 2029 (subject to a carveout for VA health benefits).
- Cut by just over 25 percent the roughly $80 billion in mandatory spending allocated to the Internal Revenue Service over 10 years under the Inflation Reduction Act of 2022 (P.L. 117-169). The debt limit measure would immediately rescind $1.4 billion that had been included in the agency's strategic operating plan to hire new enforcement agents in fiscal year 2023. An agreement between the president and Speaker McCarthy that is not incorporated into the text of the Fiscal Responsibility Act would redirect another $20 billion of the supplemental IRS funding to other (unspecified) nondefense discretionary priorities over the next two fiscal years ($10 billion in fiscal year 2024 and $10 billion in fiscal year 2025).
- Streamline the permitting process for development and deployment of energy projects.
- Strengthen work requirements and make other changes to the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program, with certain exceptions for veterans and homeless individuals.
- Claw back roughly $28 billion in unspent COVID relief funds and end the pandemic-related suspension of repayments on federal student loans.

A section-by-section summary of the legislation is available from House Republican staff.
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230531_1_suppA.pdf

Concessions all around

These and other provisions in the Fiscal Responsibility Act were negotiated in response to demands by Speaker McCarthy and his Republican colleagues for spending constraints and fiscal policy reforms in exchange for their support for bumping up the nation's borrowing authority. The GOP's initial conditions for a debt limit increase were laid out in the House's Limit, Save, Grow Act of 2023 (H.R. 2811), which cleared the chamber on April 26 on the strength of Republican votes alone. That measure drew a veto threat from the White House and was never taken up in the Democratic-controlled Senate. (For details on the Limit, Save, Grow Act, see *Tax News & Views*, Vol. 24, No. 15, Apr. 28, 2023.)
URL: https://www.congress.gov/118/bills/hr2811/BILLS-118hr2811pcs.pdf
URL: https://www.whitehouse.gov/wp-content/uploads/2023/04/LSGA-2023-SAP.pdf
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230428_1.html

The just-approved bill reflects some significant policy concessions by the administration as well as House Republicans. President Biden, for example, initially had sought to move a "clean" debt limit increase—that is, with no extraneous policy provisions attached—and then discuss spending and tax priorities as part of the fiscal year 2024 budget process. After Republicans made clear that they would not consider addressing the debt limit without simultaneous policy changes, the president called for revenue increases as well as spending cuts to bring down the federal deficit—a proposal the speaker flatly rejected.
URL: https://twitter.com/POTUS/status/1660316196909072390?cxt=HHwWjIC-uZmy0IouAAAA

Speaker McCarthy and House Republicans, meanwhile, had called for a more modest adjustment to the debt limit in the Limit, Save, Grow Act, which would have raised the ceiling by $1.5 trillion or suspended it through March 31, 2024, whichever came first. (That provision, had it been enacted, might well have forced the White House and the GOP into another debt limit showdown during the peak of the 2024 presidential and congressional campaigns.) They also had sought more stringent constraints on spending, proposing in the Limit, Save, Grow Act to reduce nondefense appropriations in fiscal year 2024 to fiscal year 2022 levels and then limit growth in nondefense spending to 1 percent per year through fiscal year 2033. On the tax side, House Republicans had sought to rescind almost all of the $80 billion in supplemental IRS funding enacted under the Inflation Reduction Act and repeal the bulk of the clean energy tax incentives in that legislation. Under the agreement between the president and the speaker, however, nearly 75 percent of the IRS funding and all of the Inflation Reduction Act's clean energy provisions remain in place.

CBO weighs in

In a report released May 30, the nonpartisan Congressional Budget Office (CBO) estimates that the Fiscal Responsibility Act as approved would reduce federal deficits by nearly $1.53 trillion over the 10-year budget window (from 2023-2033) relative to the agency's May 2023 baseline projections.
URL: https://www.cbo.gov/system/files/2023-05/hr3746_Letter_McCarthy.pdf
URL: https://www.cbo.gov/publication/59159

According to the CBO, if the measure is enacted into law, projected discretionary outlays would decrease by $1.3 trillion over the budget window; mandatory spending would, on net, decrease by $10 billion; and revenues would, on net, decrease by $2 billion, a reflection of forgone tax collections resulting from the cuts in supplemental funding for IRS enforcement programs. These changes would in turn cause interest on the public debt to decline by $188 billion, the agency said.

Next steps

The Fiscal Responsibility Act now heads to the Senate, where lawmakers will be under pressure to approve it and send it to the White House for President Biden's signature before June 5—the date on which, according to Treasury Secretary Janet Yellen, the US is likely to default on its credit obligations if a debt limit agreement is not in place.
URL: https://home.treasury.gov/news/press-releases/jy1506

Timing for Senate action on the bill will depend on whether Senate leaders can secure the necessary votes to fast-track the legislation or if they instead will have to move it under normal procedural rules—a process that could take several days. Majority Leader Charles Schumer, D-N.Y., told members in a May 28 "Dear Colleague" letter that he "will move to immediately begin consideration" of the measure once it comes over from the House, but noted that if lawmakers do not agree to expedited procedures, debate and votes on the measure are likely to spill over into the weekend of June 3 or beyond.

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