J.P. MORGAN PRIVATE ADVISORY | U.S. WEALTH ADVISORY

Washington Watch

Week ended June 23, 2025

Senate Republicans continue negotiations on tax bill; floor vote possible this week

Highlights

Senate Republicans continue behind-the-scenes negotiations on a tax bill, a draft of which was released by the Senate Finance Committee (SFC) June 16. The SFC draft is a revised version of the One Big Beautiful Bill (OBBB) that passed the House May 22, though it differs from the lower chamber's bill on several key issues, including, among other provisions, the state and local tax (SALT) deduction cap, the extent to which Biden-era clean energy tax incentives would be scaled back, the timing and scope of Medicaid reform, and the overall fiscal impact. The bill could be brought to the Senate floor for a vote this week, assuming these key differences are reconciled, at least within the Senate.

The SFC draft version of the OBBB would make permanent several provisions of the 2017 Tax Cuts and Job Act (TCJA) scheduled to expire at the end of 2025, including some provisions that are, in the House-passed version, only temporarily extended. For more details on the SFC draft, please refer to a summary of key proposals on the next slide.

The non-partisan Joint Committee on Taxation (JCT) estimates the draft SFC tax provisions would increase the deficit by $441.5B over 10 years, far less than the $3.8 trillion estimated cost of the tax provisions in the House-passed bill. However, the significant reductions in the estimated cost – for official scorekeeping purposes, at least – are mostly due to TCJA extenders that are scored using the so-called "current policy" baseline rather than the traditional "current law" baseline. The latest dynamic estimate released June 17 by the nonpartisan Congressional Budget Office (CBO) said the House-passed bill would increase the deficit by $2.8 trillion over the next decade.

The Senate version would increase the U.S.' debt limit – which is set by law – by $5 trillion, in anticipation of, otherwise, a breach of the debt ceiling (which would prompt the U.S. to default on some of its obligations) sometime in August. The House bill would increase the ceiling by $4 trillion.

If and when the Senate passes its version of the OBBB, that bill would need to be sent back to the House for that chamber's approval before enactment. Republican policymakers will need to maintain near-unanimity to pass the OBBB in the coming days and send it to the President's desk before their self-imposed July 4 deadline (Republicans can afford to lose only three votes in either chamber). The SFC draft proposal to make permanent the current $10,000 SALT deduction cap remains a sticking point. Several House Republicans stated publicly last week that they would withhold support for the bill if the Senate did not increase the cap to the $40,000 limit (reduced to $10,000 for high-income earners) set in the House-passed bill.

It remains unclear whether House Republicans will muster enough support for the Senate version of the OBBB for passage by July 4. For two other reasons – the expected debt ceiling breach and Congress' extended August recess – late July is generally considered a firmer deadline.

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Among other proposals, the Senate version of the OBBB would:

- Permanently extend the 37% top income tax rate and set the “base” amount of the estate, gift, and GST exclusions at $15MM, beginning Jan. 1, 2026 (and inflation-adjusted thereafter);
- Retain the current $10K state and local tax (SALT) deduction cap, noting that this “is the subject of continuing negotiations,” compared to the House proposal that would increase the SALT deduction cap to $40K for most households that make less than $500K (less for married filing separately);
- Limit the benefits of the so-called “SALT cap workaround” used by certain pass-through entities (such as partnerships, S corporations and certain LLCs) to allow its owners to deduct, indirectly, state and local taxes paid by the pass-through entity, beyond the current $10K deduction cap on state and local taxes, although the Senate’s current approach to this limitation differs from the House;
- Permanently extend the $750K principal cap on mortgage interest deductibility and disallow miscellaneous itemized deductions (formerly applicable to investment management fees, among other expenses);
- Introduce new limitations on the tax benefit of itemized deductions for high-income taxpayers, including charitable contributions and investment interest expense, effective Jan. 1, 2026;
- Permanently restore business-friendly provisions, such as 100% bonus depreciation, immediate R&D expensing (with potential retroactive effect for small businesses), and more generous limitations on business interest deductibility, in contrast to the temporary extension in the House version, and permanently extend the 20% Qualified Business Income (QBI) deduction for pass-through owners;
- Create a new, permanent round of Qualified Opportunity Zone investment incentives beginning in 2027;
- Expand the qualified small business stock (QSBS) exclusion for QSBS acquired after the date of enactment by: (1) introducing a tiered exclusion for stock that does not meet the 5-year holding period (*i.e.*, 50% if held 3 years, 75% if 4 years, 100% if 5 years), (2) increasing the $10MM exclusion to $15MM, and (3) increasing the corporate gross asset test from $50MM to $75MM;
- Make permanent the limitation on “excess business losses” for non-corporate taxpayers, and eliminate the ability to treat those disallowed losses carried forward as net operating losses (NOLs); and
- Increase the excise tax rate on large private college and university endowment net investment income (from 1.40% up to a top rate of 8%; the House bill sets the top rate at 21%).

The Senate draft would not adopt the House’s proposals to (1) increase taxes on large private foundation net investment income (from 1.39%) or (2) reduce to 50% the amortization benefits for professional sports team owners that acquire teams after the date of enactment. Consistent with the House version, it excludes any proposal to change the tax treatment of carried interest or tax-exempt bonds.

The Senate version would also scale back House-proposed tax increases on cross-border transactions. “Section 899” would increase the U.S. income tax and withholding rates on certain U.S. source income (such as U.S. dividends) of foreign individuals and entities considered tax residents of countries that impose what is considered an “unfair foreign tax,” beginning in 2027. The applicable tax rate would be increased by 5% in the first year and by 5% each subsequent year, capped at 15%. The proposed 3.5% excise tax on “remittance transfers” to a recipient in foreign country by essentially anyone other than a U.S. citizen would include a key exception for transactions facilitated by U.S. financial institutions.

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