TCJA 2.0: Tariffs and the Tax Bill

April 8, 2025

On April 2, dubbed "Liberation Day," President Trump announced expansive new global tariffs on imports, including from significant trading partners. Over the weekend, in the wee hours of April 5, the Senate passed a comprehensive budget resolution aimed at advancing President Trump's tax legislative agenda. This budget resolution would allow for $5.3 trillion of additional deficits, $3.8 trillion to extend expiring provisions of the Tax Cuts and Jobs Act (the "TCJA") and an additional $1.5 trillion to potentially enact a number of the tax cuts President Trump promised on the campaign trail or other Republican tax cut priorities. It remains to be seen if House Republicans will support $5.3 trillion of new deficits. However, it seems clear that Republicans are trying to move quickly and are seeking to enact their tax package in a single, big tax bill.

Tariffs and Linkage to Budget. The tariff package is broad and substantial. It includes:

- A 10% baseline tariff on nearly all imports into the United States;
- A 34% tariff on Chinese imports, totaling 54% when combined with existing duties;
- An additional 20% tariff on imports from the European Union; and
- A 25% tariff on all imported automobiles and auto parts.

Some countries already have begun imposing their own retaliatory tariffs, exacerbating a challenging market environment and creating uncertainty for businesses operating internationally. According to President Trump, some countries have indicated a willingness to negotiate new trade deals with the United States to avoid or mitigate the new tariffs.

The budget provides for a $2 trillion deficit reduction over the next 10 years from reconciliation, executive actions or recissions. Taking into account tariffs as revenue from "executive actions" would suggest that Republican tax policymakers expect a meaningful portion of the tariffs to be lasting. To the extent tariffs raise revenue from higher prices Americans pay for products, they have the effect of an across-the-board tax increase, rather than a more targeted increase, such as one aimed at corporations and higher-income taxpayers.

Senate Budget Resolution. The Senate's budget resolution seeks to make permanent individual tax cuts from the TCJA that are set to expire at the end of 2025 and to maintain the TCJA's increased standard deduction for individuals and child tax credits, as well as other popular tax benefits.

Both chambers must pass identical budget proposals before congressional tax writing committees can move forward with the tax bill that will include the actual tax proposals. The House is expected to consider the Senate's budget proposal this week. As noted, the Senate resolution would increase deficits by $5.3 trillion, higher than the $4.5 trillion deficit proposed by the House budget proposal in February 2025. It is possible that the new proposed resolution will encounter resistance from more deficit-minded House Republicans.

Current-Policy Baseline. Notably, the Senate resolution uses a current-policy baseline. Under that approach, the estimated $3.8 trillion cost of extending the TCJA tax cuts is treated as having no cost, resulting in an official deficit of only $1.5 trillion under the Senate resolution. Historically, reconciliation bills, including the TCJA, have not been scored on a current-policy baseline. Some House Republications have been skeptical of this approach. However, in February, House Republicans agreed to $4.5 trillion of additional deficit, so labels aside, the difference between the House and the Senate is the additional $800 billion of deficit implied by the Senate resolution. Legislation to extend certain tax provisions is routinely passed on a bipartisan basis to prevent tax increases, and in that context, the cost of the extensions usually is not a significant impediment to passage. This history could give House Republicans cover to support the Senate resolution.

The Squeeze: How Much Room for New Tax Cuts? All of the Republican tax break priorities and President Trump's campaign promises will not be able to fit within the $1.5 trillion of budget deficit headroom that is available after taking into account the $3.8 trillion cost of TCJA renewal. As a result, Republican policymakers will need to pick and choose among the tax cut proposals and potentially provide for sunsets for new tax cuts that are included in the bill.

Revenue raising provisions that limit deductions or take away tax preferences may provide additional room. President Trump has mentioned both sports team owners and carried interest as potential targets, and the previous Republican Budget Committee summary of reconciliation options includes a broad array of additional revenue raisers that could be included in eventual tax legislation.

Industry groups and potentially affected taxpayers will be keeping a close eye on the development of these proposals with a view to advocating against these tax increases.

Savings as Deficit Reduction. As discussed above, the Senate resolution calls for executive action by the President to contribute to the $2 trillion in deficit reduction. Although specific programs have not been specified, recent events would suggest that such revenues could be sourced from budget cuts of various federal agencies. Notably, the Senate passed an amendment to the resolution that is intended to protect Medicare and Medicaid from additional cuts.

Next Steps. The Republicans have been clear that they want to move the legislation quickly. If the House is able to pass the Senate resolution this week, it seems plausible that the reconciliation bill could be proposed and passed in the next few months and well before the end of the year.

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Please do not hesitate to contact us with any questions.

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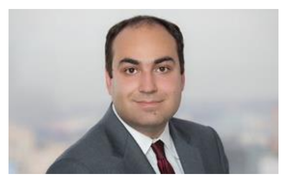

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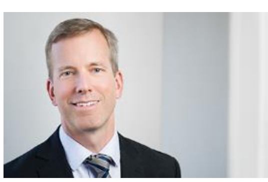

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