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June 24, 2025

Senate Moving Toward Floor Vote on Tax Reform Legislation

On the Hill

Senate leadership has continued its push to advance the "One Big Beautiful Bill," with Majority Leader Thune targeting a potential floor vote as early as this Thursday and vowing to keep the Senate in session through the July 4 recess if necessary to secure final passage. The pressure reflects a strong desire among Senate Republicans to deliver a legislative win on tax reform as soon as possible. Unlike the House process, the Senate will proceed directly to a floor vote rather than hold committee mark-ups of the legislation.

As floor activity nears, attention is turning to how the bill will be scored. Under a current *law* baseline, official cost estimates assume that all tax provisions expire as scheduled—most notably the individual and estate tax provisions of the 2017 Tax Cuts and Jobs Act, which are set to sunset after 2025. In contrast, a current *policy* baseline assumes that if those expiring provisions are extended, the impact will be that the cost allocated to any extensions of the currently existing tax provisions is zero. Unlike the House version, which relied primarily on a current law baseline, the Senate version incorporates select current policy assumptions. These differences may affect the perceived cost of the legislation and complicate bicameral negotiations around revenue neutrality of the bill. Note that the Senate's use of current policy baseline rather than current law baseline is the first time it has done so in tax legislation cost-tracking history.

What This Means for Tax-Exempt Bond Issuers

The Senate bill currently maintains the full federal tax exemption for interest on state and local bonds, including PABs. In the affordable housing sector, the bill permanently reduces the 50% bond test to 25% for 4% LIHTC eligibility—enhancing efficiency for issuers and stretching the scarce volume cap resource. It also provides a permanent 12% increase in the annual 9% LIHTC allocation authority, slightly smaller than the House's temporary 12.5% increase but far more durable.

In anticipation of a reconciliation vote, Senate staff and the Parliamentarian have begun conducting Byrd Rule compliance review. Provisions with limited or incidental budgetary impact may be struck prior to final passage. The Parliamentarian has already struck several revenue raisers, including cost-sharing provisions related to the Supplemental Nutrition Assistance Program and the elimination of funding for various financial oversight programs and entities, including the Consumer Financial Protection Bureau. Due to these revenue raisers being struck, Senators may need to find additional pay-for offsets to appease those who are primarily concerned about increasing the deficit. Given this, the tax-exemption for state and local bonds, including PABs, continues to be at risk.

What's Next

House Republicans have largely welcomed the Senate's forward momentum but expressed concerns about several of its changes. These include the pared-back SALT treatment, as well as the Medicaid provisions and the increased debt ceiling. Whether those objections translate into formal opposition or behind-the-scenes negotiation remains to be seen.

Assuming the Senate passes its version of the bill this week or early next, the House will face a choice: either (1) pass conforming amendments to align its earlier bill with the Senate version, avoiding a conference committee and expediting enactment, or (2) proceed to a formal bicameral conference to negotiate a compromise. With a compressed legislative calendar, House leaders may favor the former—particularly if the Senate's amendments are modest and pre-negotiated.

As always, we will continue to monitor legislative developments closely and provide targeted updates and client briefings as new information becomes available.

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