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One Big Beautiful Bill?

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H.R. 1 of the 119th Congress passed in the U.S. House of Representatives and is now before the Senate. In accordance with the Congressional tradition of coming up with fantastic titles, the official short title is "One Big Beautiful Bill Act." Few advocates for U.S. fiscal responsibility would consider it to be "beautiful." The version passed by the House would allow a $4.5 trillion increase in the deficit from tax cuts over the next decade so long as spending is cut by $1.7 trillion. However, if spending is not cut by $1.7 trillion, the tax cuts will be reduced dollar-for-dollar.

The House version has the following major tax provisions for households:

- Make permanent major provisions of the 2017 Tax Cuts and Jobs Act which are set to expire at the end of 2025.
- Make the expiring standard deduction levels permanent and increase them incrementally through the end of 2028. Increase the standard deduction an additional $4,000 for seniors through 2028, with a phase-out at higher income levels.
- Make the personal exemption elimination permanent. It was essentially replaced by the higher standard deduction levels.
- Make the state and local tax deduction cap permanent at a higher threshold of $40,000 but phasing it down for higher income levels.
- Make the expiring child tax credit permanent and increase it to $2,500 through the end of 2028.
- Make the increase in the alternative minimum tax exemption and phaseout thresholds permanent.
- Repeal several green tax subsidies after 2025, such as electrical vehicle and residential energy efficiency credits.
- Increase the estate and gift tax exemption to $15 million.

There are numerous provisions that affect businesses that I won't attempt to summarize.

The bill would reduce spending on the Supplemental Nutrition and Assistance Program (SNAP). The bill would expand the work requirements for SNAP, by raising the age of work requirements for able-bodied adults without dependents from 54 to 64. Some parents are currently exempt from work requirements until their children are 18, but this requirement would change so only parents caring for dependent children under the age of 7 would be exempt.

The bill would also have a “community engagement” requirement for those on Medicaid, starting on January 1, 2029, after President Trump leaves office. The community engagement requirement would involve at least 80 hours per month of work, education, or service for able-bodied adults without dependents. People would also have to verify their eligibility for the program twice per year, rather than once. Also, applicants will not be able to qualify for Medicaid if they have a home that is valued at more than $1 million.

The bill would increase defense spending by an additional $150 billion, with a major portion of the incremental funding for next-generation aircraft, unmanned and AI-driven weapons platforms, and new ships. According to House Armed Services Committee Chairman Mike Rogers, Republican of Alabama, “Without this generational investment in national defense, we will no longer be able to deter our adversaries or ensure America’s global leadership.” That’s a dubious assertion, but an accurate reflection of common beliefs among members of Congress.

The bill was passed in the House by a vote of 215-214. All House Democrats opposed it along with two Republicans: Thomas Massie (KY) and Warren Davidson (OH). Congressman Massie said, “If we were serious, we’d be cutting spending now, instead of promising to cut spending years from now.” He cited projections that the bill would add $3.3 trillion to the deficit over 10 years. This is in addition to the existing deficit projections. Massie expects the federal debt to increase by $20 trillion over the next decade, a number which is higher than most estimates but may reflect an inevitable recession during the decade.

The recent downgrade of U.S. sovereign debt by Moody’s from Aaa to Aa1 in May received some attention. Moody’s cited the following reasons for the downgrade:

- U.S. national debt has surpassed $36 trillion, with no credible plan to reduce it.
- There has been persistent growth in federal deficits and a lack of political will to implement fiscal reforms.
- The cost of servicing debt has increased with higher interest rates.

While the downgrade was overdue, a more objective credit review would put the U.S. sovereign debt rating in the speculative range, below BBB-.

If you have any questions or comments, please contact me.

Sincerely,
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