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DC Quick Takes: Reconciliation (Tax bill), Immigration (GEO, CXW) and Cabinet Hearings

Joe Lieber

202-964-7473

joe.lieber@capitolpolicypartners.com

While most of the action in DC this week will be ceremonial with Congress certifying the election of President Trump and Vice President JD Vance, much of the talk in town will be on the apparent agreement among Republicans to consider just one reconciliation bill. As a result of this procedural, but crucial, decision, this means that Trump's immigration reform/ deportation plan will likely be delayed, which could be a short-term disappointment for private prison companies such as **GEO Group** (GEO) and **CoreCivic** (CXW). Finally, no Senate committee hearings for President Trump's cabinet nominees have been scheduled for this week; instead, we expect the first scheduled confirmation hearing to be held next week.

Reconciliation Bill/Immigration

On Saturday at the House Republican retreat, an agreement was apparently reached to consider only a single reconciliation bill instead of two, with the one-bill approach reportedly endorsed by President-elect Trump. Of course, Trump could reverse course and push for a two-bill approach in the coming days or weeks. As a reminder, many Republicans, including Senate Majority Leader John Thune (R-SD), had called for a two-bill approach to give the Republicans and Trump a quick victory on **immigration, energy and defense**.

Now those above items will likely be combined into one bill, which will also include a massive tax component, that we see passing in Q3 or Q4.

As for **GEO** and **CXW**, had Congress pursued the two-reconciliation bill strategy, that first reconciliation bill was expected to have included unspecified additional funding for detention centers, which would likely have been material given the large number of deportations the incoming administration is planning. But now that additional detention funding will have to wait to be enacted until that larger reconciliation bill is passed, which we view as likely. Congressional Republicans might believe they can get additional funds for immigration/detention centers in an omnibus spending bill that we expect to pass before the March 14 funding deadline, but we are skeptical Democrats will agree to anything that material. With Republicans only having a 53-47 Senate majority, Democrats will be able to filibuster any spending bill that includes provisions they strongly oppose.

While much of Trump's 2017 tax bill will likely be extended, we also want to point out that we expect some business provisions to be included in this year's single reconciliation bill, including permitting companies to once again immediately write off **R&D** expenses (currently expensed over a five-year period), reinstating **100% bonus depreciation** (currently set at 40%) and allow for **interest deducted** at 30% of EBITDA (currently 30% of EBIT).

On the **energy** front, the GOP also wants to make permitting changes part of the reconciliation measure, but we believe such reforms would violate the so-called Byrd Rule (doesn't have enough of a budgetary impact) and thus, would be disallowed. However, Republicans likely can include opening up federal land to drilling, since the policy would raise revenues and has been allowed in past reconciliation bills.

Republicans might still opt to add funds for **defense spending** in the reconciliation bill if they don't get what they believe constitutes enough money during the appropriations process.

Finally with regard to timing, Speaker Mike Johnson (R-LA) stated on Sunday that he thought the reconciliation bill could pass the House by May. We think this is very ambitious; instead, we put a more realistic timeframe for House passage as late summer, but Senate passage and overall enactment is likely to occur during Q4.

Cabinet Hearings

So far, only one of President-elect Trump's cabinet nominees has a Senate committee hearing scheduled. Pete Hegseth, Trump's Defense Secretary nominee, is slated to testify before the Senate Armed Services Committee on Tuesday, January 14, at 9:30 am.

Keep in mind the Senate needs to pass an organization resolution, which establishes committees for the new Congress, among other things. Until this resolution is passed, which is likely to happen this week, Senate committees can't meet. Additionally, most Senate committees require a week's notification before holding a hearing, which very likely precludes any hearings this week.

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