

Impasse Continues After Debt Ceiling Discussions

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By Alexander Rifaat

A meeting at the White House failed to yield any progress toward an agreement to increase the debt ceiling, as Democrats decried Republican attempts to claw back the tax initiatives in the Inflation Reduction Act (IRA, [P.L. 117-169](#)).

House Speaker Kevin McCarthy, R-Calif., said there were no breakthroughs in his meeting May 9 with President Biden, Senate Majority Leader Charles E. Schumer, D-N.Y., Senate Minority Leader Mitch McConnell, R-Ky, and House Minority Leader Hakeem S. Jeffries, D-N.Y.

“Everybody reiterated the positions they were at. I didn’t see any new movement. I was very clear with the president: We now just have two weeks to go,” McCarthy said.

Democrats countered that House Republicans were the only ones holding up negotiations with the threat of default.

“There’s only one group in Washington, D.C. . . . willing to take us down the path of default,” Jeffries said. “That is reckless, irresponsible, and extreme.”

Schumer argued that, counter to his experience negotiating with the Trump White House, the House GOP was trying to dismantle the Biden administration’s key tax accomplishments.

“When President Trump was president, and I was Democratic minority leader, I could have said, ‘I’m holding it [debt ceiling] hostage unless we repeal the Trump tax cuts, your signature issue.’ I didn’t do that. But McCarthy is saying, ‘I’m holding it hostage unless you repeal the IRA,’ which was our signature issue,” Schumer said.

The IRA includes a slew of tax credits to promote clean energy adoption and manufacturing in the United States as well as an additional \$80 billion in funding for the IRS to replace outdated technology, improve customer service, and go after high-income tax dodgers.

The debt ceiling [proposal](#) passed by Republicans in the House would effectively scrap those provisions.

McConnell said the United States won’t default, but said, “Elections have consequences.”

The leaders will meet again May 12. Treasury Secretary Janet Yellen has said the United States could default on its debt as soon as June 1.

“I’m not ruling anything out. The one thing I am ruling out is default,” Biden said, also pushing back on Republican attempts to repeal the IRA tax credits.

Who Blinks First

A key question in the game of fiscal brinksmanship is who will be the first to budge.

"I think the advantage has moved to the Republican side," Chris Edwards of the Cato Institute told *Tax Notes*. "I'm surprised because historically Democrats have had the upper hand, but Biden's poll numbers are down."

A recent *Washington Post/ABC News* [poll](#) showed the president with an approval rating of 36 percent, with 56 percent of respondents disapproving of his performance.

The same poll found a majority of respondents believed former President Trump — the frontrunner for the Republican presidential nomination in 2024 — handled the economy better than Biden: 54 percent to 36 percent.

While Edwards believes that Biden will hold on tightly to the tax proposals won last year as part of the IRA, he does see room for negotiation.

Edwards noted that the Republican debt ceiling plan, which seeks to claw back \$72 billion of the \$80 billion in extra funding the IRS received in the IRA, did leave money available for business support and taxpayer services.

"The IRS says they need those two things [business support and taxpayer services] repeatedly in their spending plan and essentially deemphasized enforcement," which was allocated the majority of extra funds, Edwards said.

"So it seems they would be happier with shifting some of the money away from enforcement towards things such as taxpayer services," Edwards added.

Edwards also pointed out that the estimated cost for the clean energy tax credits in the IRA, which the GOP is also trying to repeal, has gone up significantly since the administration's previous projection.

A [report](#) by the Penn Wharton Budget Model in April projects the energy tax credits to cost more than \$1 trillion over a decade, far higher than the previous estimate of \$384.9 billion.

Jean Ross of the Center for American Progress believes the bill passed by House Republicans was more theater than substantive legislation.

"I think clawing back the IRS funds showed it wasn't a serious proposal," Ross told *Tax Notes*, adding that it would delegitimize GOP arguments of being fiscally responsible.

"The additional funding will help narrow the budget shortfall by closing the tax gap and raising revenue," Ross argued.

Ross also criticized GOP plans to scrap the IRA energy tax subsidies as being counterproductive to addressing climate change concerns.

“It makes no sense to talk about repealing those credits but on the other hand cut the funding for FEMA,” Ross said, referring to the Federal Emergency Management Agency, which manages responses to environmental disasters.

Last Resort

Biden didn’t rule out invoking the 14th amendment — which obligates the federal government to pay its bills — as a means to abolish the debt limit, but cautioned that it would be a last resort and would nonetheless be subject to intense litigation.

For Erica York of the Tax Foundation, the prospect of default and the extreme alternatives being floated are indicative of a wider issue.

“It’s a reflection of almost the abandonment of the responsibility of budgeting,” York told *Tax Notes*.

York noted that unlike other countries, the United States is unique in separating its budget process and its debt obligations.

“It’s a very bizarre way to run a country,” York said, adding that while she believes both parties need to address serious structural fiscal policy issues, “we shouldn’t be daring the other side to let that line [default] be passed.”

York agrees with Ross that the IRS needs a sustainable amount of funding to increase government revenue, but she believes the IRA tax credits are worth reexamining.

“The costs for those credits have risen since there is no cap and the guidance has been loose,” York said.

York said it is not uncommon for lawmakers to include extra provisions in debt ceiling talks, noting that deals during the Trump presidency included spending increases.

“It’s not an anomaly to attach policies to the debt ceiling. I think the anomaly is a willingness to default,” York said.