City of Bellevue | City Manager's Office

DATE: August 4, 2025

SUBJECT: Federal Legislative Update, July 2025

Overview:

The focus in July has been moving major fiscal legislation. President Trump and congressional Republicans succeeded in pushing through their top legislative priority — a reconciliation package to extend the 2017 tax cuts before they expired at the end of the year and enacting spending increases for immigration and border security. At the President's request, Republicans also pushed through a $9 billion rescissions bill to slash funding for foreign aid programs and public broadcasting.

The annual appropriations process also accelerated in July with the House and Senate Appropriations Committees moving as much legislation as possible before the end of the fiscal year. With limited time remaining on the congressional calendar, it is expected that a stopgap funding bill is needed to prevent a government shutdown at the end of the fiscal year.

Bellevue submitted two appropriations funding requests for FY 2026. Currently, both proposals have advanced in the House bills.

- Lake Washington Sewer Lake Lines Program was included at $500,000 in the House Interior bill.
- Grand Connection project was included at $2 million in the House Transportation-HUD bill.

During the congressional August recess, the City's Intergovernmental Relations (IGR) team has proactively invited delegation members and staff to tour the City's priority projects. The tours feature projects with direct federal funding or programming connections, ongoing funding needs, and opportunities for federal engagement.

Tax & Spending Package — HR 1, "One Big Beautiful Bill Act"

Congressional Republicans successfully pushed through President Trump's top legislative priority — a tax and spending package that extends the 2017 tax cuts and increases funding for border security and other priorities. HR 1, the "One Big Beautiful Bill Act," was enacted in July after months of intra-party wrangling by Republican leaders in the House, Senate, and White House. The bill moved through Congress with narrow Republican party-line support via the budget reconciliation process, which allowed Senate Republicans to move the bill with a simple majority and avoid the threat of a filibuster by Democrats. The Senate passed the bill 51-50, with Vice President J.D. Vance breaking a tie. Three Senate Republicans voted against the bill — Senators Susan Collins (R-ME), Rand Paul (R-KY), and Thom Tillis (R-NC). The House vote was 218-214. The bill achieves President Trump's policy agenda priorities to permanently extend the 2017 tax cuts and boost funding for immigration and border security. It offsets these costs by cutting Medicaid and nutrition assistance by adding new restrictions and requirements and by phasing out certain Biden Administration clean energy tax credits. The package also increases the debt limit. A summary of key provisions follows.

Tax Extensions and Deductions

The bill makes permanent tax and deduction rates from the 2017 tax law that are set to expire at the end of the year, including the lower marginal tax rate set by the 2017 tax law for individuals and the enhanced standard deduction rate. Other notable extensions and changes include:

- Child tax credit is increased — the 2017 law doubled the child tax credit to $2,000, from $1,000. This proposal will add $200, making the total deduction $2,200 starting in 2025 and permanently indexing the deduction to inflation.
- Paid family and medical leave tax credit for employers would be made permanent. The credit allows employers to claim nonrefundable credits ranging from 12.5 percent to 25 percent of the wages paid to workers on paid leave.
- Child care — the Employer-Provided Child Care Credit is permanently increased from $150,000 to $500,000. Limits on shares of childcare expenses claimed increased from 25 percent to 40 percent.
- Estate and Gift tax exemption will be permanently extended and increased from $10 million to $15 million.
- Alternative Minimum Tax — the higher minimum tax owed by higher income households is made permanent.
- State and local tax (SALT) deduction cap would be increased from $10,000 to $40,000 for households with income under $500,000, increasing by 1 percent each year for the next five years. In 2029, the cap will revert to $10,000 per year permanently. The original House version would have made the increase to $40,000 with adjustments permanent.
- Low-Income Housing Credit (LIHTC) would make permanent the 12.5 percent increase from the 9 percent low-income housing tax credit's ceiling on annual state allocations. The measure would also lower the bond-financing threshold for the 4 percent LIHTC to 25 percent instead of 50 percent for projects financed by bonds starting in 2026.
- Lower mortgage interest deduction to the first $750,000 of home mortgage debt, from $1 million, is made permanent.
- Opportunity Zones — the program that provides tax incentives to businesses to invest in lower-income or economically distressed areas is made permanent and would define a low-income community as a census tract that doesn't exceed 70 percent of the state's median income or has a poverty rate of at least 20 percent or median family income that doesn't exceed 125 percent of the state median.
- Charitable Deductions — creates a new, permanent deduction of up to $1,000 in qualified charitable contributions for individuals that don't itemize deductions.
- Corporate Charitable Donations — Corporate taxpayers could deduct charitable contributions between 1 to 10 percent of taxable income. The measure would allow contributions beyond the cap to be carried forward for as long as five tax years.

- Pass-Through Business Income — the bill makes permanent the 2017 deduction of up to 20 percent of qualified income and increases the income phase-in threshold to $75,000 from $50,000.
- The Research and Development (R&D) tax credit would be modified to allow write-off of domestic R&D expenses in the year incurred starting in 2025. Deductions would be allowed for software development expenses and would be prohibited for property acquisitions or oil and gas exploration.
- Business Interest Expenses — starting in 2025, businesses will be able to calculate their adjusted taxable income without including deductions for depreciation and amortization.
- Depreciation deductions — the 100 percent bonus depreciation rate for certain property will be made permanent if the property was placed in service on or after Jan. 19, 2025. Taxpayers can also immediately deduct 100 percent of the cost of qualified production property that's put into service before 2031. The maximum amount that can be deducted for certain depreciable business assets is increased from $1 million to $2.5 million and phase out for property exceeding $4 million.

  Advanced Manufacturing Tax Credit, including for chipmakers, is increased to 35 percent of investments, from 25 percent

New Tax Deductions and Policies

- Tip income would qualify for a tax deduction from 2025-2028. The deduction phases out for income over $150,000 and $300,000 for joint filers. The Federal Insurance Contribution Act would be expanded to cover tip credits for beauty services (i.e., hair and nail salons and spas). The credit is currently limited to the food and beverage industry.
- Overtime pay would be eligible for a deduction from 2025-2028. The deduction would be capped at $12,500 for individual filers and $25,000 for joint filers.
- Enhanced Deduction for Seniors — taxpayers over the age of 65 would be able to deduct an additional $6,000 from their taxable income from 2025-2028. The credit would phase out at a 6 percent rate for individual filers whose income is more than $75,000 or joint filers whose income exceeds $150,000.
- Auto loan interest — up to $10,000 could qualify for a deduction from 2025-2028 on the interest of the loan if final assembly of the vehicle was in the US. The deduction would be reduced for modified adjusted gross income that exceeds $100,000 for individual filers or $200,000 for joint filers.
- Guns — the $200 tax on sales of most guns is repealed.
- Private University Endowments tax is increased to 8 percent, up from a maximum 1.4 percent.
- Trump Accounts — A new form of savings accounts (or trust fund) for individuals under 18 and with a Social Security number is created. Funds in the account could be distributed after the beneficiary turns 18 and would be considered part of gross income. Annual contributions are capped at $5,000 or $2,500 if the contribution is made by an employer. The caps are adjusted annually for inflation. Mutual funds, exchange-trade funds that trade on the S&P 500, and other

investments can also be invested in the account. Beneficiaries can roll over their accounts into an ABLE account, which helps cover qualified disability expenses.

- 529 Plans are expanded to be allowable for more K-12 education expenses, including curricular materials, tutoring, standardized testing fees and educational therapies for students with disabilities. Currently, 529 plans can only be used for K-12 school tuition costs. The bill also makes 529 plans eligible for fees and tuition for postsecondary credentials through recognized vocational and certificate programs.
- Adoption Tax Credit is made partially refundable up to $5,000 starting in 2025 and can be applied to court and attorney fees and related travel expenses. Additional flexibilities are made available for adoptions of a child with special needs.
- Rural Opportunity Fund provides investors in qualified rural opportunity funds up to 30 percent step up in basis if certain requirements are met

Debt Limit

The nation's debt limit would be increased to $5 trillion. Treasury estimated in June that the nation's debt limit would be reached by mid-August. At that time the US will run out of borrowing authority unless the debt limit is increased or suspended.

New Funding and Authorizations

The bill authorizes $150 billion for defense, including missile defense, shipbuilding, munitions, readiness, and supply chain resilience. The Coast Guard receives a $24.6 billion boost for shore and offshore facilities, including heavy polar and Arctic security cutters. Over $132 billion is designated for border security — covering surveillance, checkpoints, and wall construction — while $45.7 billion goes to immigration enforcement and processing, including ICE operations and immigration courts.

FEMA security grants increase by $2.9 billion, with $1.6 billion allocated for the 2028 Olympics and 2026 World Cup, $500 million for drone detection, and $300 million for joint border enforcement. The FAA gets a $12.5 billion increase to upgrade air traffic control and telecom systems.

Healthcare provisions include $50 billion in grants for rural hospitals and $100 million in 2027 for states providing home or community-based services under HHS waivers. Medicare doctor payments rise 2.5 percent in 2026, and high-deductible health plans will permanently cover telehealth, direct primary care, and select ACA plans.

The FCC’s authority to auction spectrum is restored, and NTIA is directed to identify federal spectrum for nonfederal use. The bill does not restrict AI regulation by states. Energy measures include $1 billion for DOE energy capacity loans and $389 million for the Strategic Petroleum Reserve.

To speed up infrastructure, the EPA can charge fees for expedited environmental reviews, requiring completion within 180 days (assessments) or one year (impact statements). Additional funding supports government efficiency, including COVID oversight, benefit verification, and OMB-led cost-saving efforts across the executive branch.

Reconciliation Package Offsets
The cost of the reconciliation package would be offset by limiting eligibility and funding for Medicaid, Supplemental Nutrition Assistance Program (SNAP), modifications in student loan repayments, rolling back clean energy tax credits, and other funding cuts.

The package does not include a proposal to eliminate the tax-exempt status of municipal bonds. This was an issue that local governments and other public entities had great concerns about. Additionally, the final bill excludes a provision to provide additional funding to states and localities that don't regulate artificial intelligence after senators voted ninety-nine to one to remove it. Also omitted was a proposal to sell public lands for housing development, as well as an excise tax on solar and wind projects that use Chinese components.

Clean Energy Credits
Twenty-five clean energy and emission reduction programs enacted under the 2022 climate law (Inflation Reduction Act) are repealed and unobligated funding rescinded, including the following:

- EV tax credit of up to $7,500 for new vehicles and the $4,000 tax credit for certain pre-owned electric and hybrid passenger vehicles and commercial vehicles are eliminated.
- Residential clean energy credits for the installation of clean energy upgrades (i.e., windows, heat pumps, etc.) are eliminated.
- Green and Resilient Retrofit Program that provides funding to energy improvements in multifamily properties receiving HUD assistance are rescinded.
- Energy production and investment tax credits for certain facilities are eliminated.

Federal Healthcare Programs Immigration Status Restrictions
Access and eligibility to Medicare, Medicaid, and Affordable Care Act premium tax credits for health insurance purchased on a health exchange will be limited to non-citizens that are lawful permanent residents; certain nationals from Cuba; and individuals from Micronesia, the Marshall Islands, or Palau. Asylum seekers and refugees will not be eligible.

Medicaid Work Requirements — States will be required to impose "community engagement" rules as a condition of receiving Medicaid benefits starting in 2027. Beneficiaries ages 19 to 64 would have to demonstrate engagement in work, community service, education, or other qualified programs, at least 80 hours per month. States can seek to get additional time to implement rules. Exempted from the work requirements are people under the Temporary Assistance for Needy Families (TANF) and SNAP programs, pregnant women, caregivers of dependent children or individuals with a disability, individuals considered disabled, and inmates of public institutions. States could also include exemptions for short-term hardships.

Other Medicaid Eligibility Changes

- States that make erroneous Medicaid payments, either for ineligible enrollees or services, can have federal contributions reduced. This provision would go into effect in FY 2030.
- Payments to nonprofit family planning clinics that perform abortions, except in cases of rape, incest, or endangerment to the mother's life, will be restricted for one year.
- Other provisions would tighten eligibility standards and require regular eligibility checks on beneficiaries.

State Payments and Provider Taxes

- The federal "safe-harbor" threshold for states' provider taxes is reduced to zero percent, from 6 percent, if states impose new or additional taxes on providers. For ACA expansion states, the safe-harbor limit is reduced to 0.5 percent each year until it reaches the floor of 3.5 percent in FY 2032.
- HHS is to issue rules to limit state-directed payments to providers under Medicaid managed care plans.

SNAP

Program changes/restrictions include:

- Non-citizens eligible for SNAP are limited to lawful permanent residents, certain nationals from Cuba; and individuals from Micronesia, the Marshall Islands, or Palau. Asylum seekers and refugees are not eligible.
- Starting in 2028, states will be required to fund a percentage of SNAP benefits based on their benefit payment error rate (15 percent if their payment error rate is 10 percent or more; 10 percent if error rate is 8-10 percent; 5 percent if error rate is 6-8 percent, zero percent if error rate is less than 6 percent).
- Lower federal share of SNAP administrative costs to 25 percent starting in 2027 from 50 percent.
- Thrift Food Plan changes will not be allowed, except cost-of-living adjustments.
- Age at which able-bodied adults without dependents could be exempt from work requirements is increased from 55 to 65.
    - Able-bodied adults without dependents exemption includes caregivers of dependent children younger than 14 and Native Americans.

Student Loans

- Income contingent repayment plans and unemployment and economic hardship deferments are terminated beginning in July 2027.
- PLUS loans and subsidized Stafford loans for graduate and professional students are terminated starting July 2026.
- Pell Grant eligibility is restricted for students that receive support from other sources. A new "Workforce Pell Grant" program is established for students enrolled in workforce programs at higher education institutions.
- Schools are barred from offering direct federal loans if their graduates make less than the median earnings of 25 to 34-year-olds with no higher education credentials.

Rescissions Package
Another federal funding achievement for President Trump was the passage of the $9 billion rescissions package that cuts previously enacted federal funding for public broadcasters and foreign aid. Rescission packages only require 50 votes in the Senate if they are acted upon within 45 days. Senators Lisa Murkowski (R-AK) and Susan Collins (R-ME) voted with Democrats against the package. The package passed the House 200-212 with four Republicans joining Democrats to oppose the measure. The White House has stated that it plans to send more rescissions packages to Congress based on funding cuts identified by DOGE. More information about HR 4, "Rescissions Act of 2025" can be found here.

FY 2026 Appropriations
With the federal fiscal deadline of September 30 around the corner, the work to complete the 12 annual funding bills went into high gear in July. With the limited time on the congressional work calendar, however, it is expected that a stopgap funding bill will be needed to prevent a government shutdown at the end of the fiscal year.

Thus far, the House has passed two spending bills: Defense and MilCon-VA. The House Appropriations Committee has approved seven of the remaining 10 bills and has prepared these bills for consideration in September: Agriculture-FDA, Energy & Water, Homeland Security, Interior, Legislative Branch, National Security-State (State-Foreign Ops), and Transportation. The Senate has taken up consideration of the House-passed MilCon-VA bill and is considering including other bills into this package before the Senate departs for the August recess. The Senate Appropriations Committee has readied six of its 12 appropriations bills: Agriculture-FDA, Commerce-Justice-Science, Interior, Legislative Branch, and Transportation-HUD.

August Look Ahead
During August recess, the city will coordinate with congressional officials and staff to showcase Bellevue's work on transportation and infrastructure; economic development and workforce; and housing and social services.