

UNITED STATES SENATE COMMITTEE ON  
**FINANCE**  
CHAIRMAN MIKE CRAPO

This document is referenced in an endnote at the Bradford Tax Institute. [CLICK HERE](#) to go to the home page.

## SENATE FINANCE COMMITTEE SECTION-BY-SECTION

### CONTENTS

<b>TITLE VII – COMMITTEE ON FINANCE</b>	<b>5</b>
<b>SUBTITLE A – TAX</b>	<b>5</b>
<b>Chapter 1 – Providing Permanent Tax Relief for Middle-Class Families and Workers</b>	<b>5</b>
Sec. 70101. Extension and enhancement of reduced rates.	5
Sec. 70102. Extension and enhancement of increased standard deduction.	5
Sec. 70103. Termination of deduction for personal exemptions other than temporary senior deduction.	5
Sec. 70104. Extension and enhancement of increased child tax credit.	6
Sec. 70105. Extension and enhancement of deduction for qualified business income.	6
Sec. 70106. Extension and enhancement of increased estate and gift tax exemption amounts.	7
Sec. 70107. Extension of increased alternative minimum tax exemption amounts and modification of phaseout thresholds.	7
Sec. 70108. Extension and modification of limitation on deduction for qualified residence interest.	7
Sec. 70109. Extension and modification of limitation on casualty loss deduction.	7
Sec. 70110. Termination of miscellaneous itemized deductions other than educator expenses.	7
Sec. 70111. Limitation on tax benefit of itemized deductions.	8
Sec. 70112. Extension and modification of qualified transportation fringe benefits.	8
Sec. 70113. Extension and modification of limitation on deduction and exclusion for moving expenses.	8
Sec. 70114. Extension and modification of limitation on wagering losses.	8
Sec. 70115. Extension and enhancement of increased limitation on contributions to ABLE accounts.	8
Sec. 70116. Extension of savers credit allowed for ABLE contributions.	9
Sec. 70117. Extension of rollovers from qualified tuition programs to ABLE accounts permitted.	9
Sec. 70118. Extension of treatment of certain individuals performing services in the Sinai Peninsula and enhancement to include additional areas.	9
Sec. 70119. Extension and modification of exclusion from gross income of student loans discharged on account of death or disability.	9
<b>Chapter 2 – Delivering on Presidential Priorities to Provide New Middle-Class Tax Relief</b>	<b>9</b>
Sec. 70201. No tax on tips.	9
Sec. 70202. No tax on overtime.	10
Sec. 70203. No tax on car loan interest.	10
Sec. 70204. Trump accounts and contribution pilot program.	10
Sec. 70205. Tax treatment of certain international entrepreneurs.	11
<b>Chapter 3 – Establishing Certainty and Competitiveness for American Job Creators</b>	<b>11</b>
<b>Subchapter A – Permanent U.S. Business Tax Reforms and Boosting Domestic Investment</b>	<b>11</b>
Sec. 70301. Full expensing for certain business property.	11
Sec. 70302. Full expensing of domestic research and experimental expenditures.	12
Sec. 70303. Modification of limitation on business interest.	12
Sec. 70304. Extension and enhancement of paid family and medical leave credit.	13
Sec. 70305. Exceptions from limitation on deduction for business meals.	13
Sec. 70306. Increased dollar limitations for expensing of certain depreciable business assets.	13
Sec. 70307. Special depreciation allowance for qualified production property.	14
Sec. 70308. Enhancement of advanced manufacturing investment credit.	14
<b>Subchapter B – Permanent America-First International Tax Reforms</b>	<b>15</b>

<b>Part I – Foreign Tax Credit</b> .....	15
Sec. 70311. Rules for allocation of certain deductions to foreign source “Net CFC Tested Income” (fka Global Intangible Low-Taxed Income) for purposes of foreign tax credit limitation. ....	15
Sec. 70312. Modifications to determination of deemed paid credit for taxes properly attributable to tested income.....	15
Sec. 70313. Sourcing certain income from the sale of inventory produced in the United States.....	15
<b>Part II – Foreign-Derived Deduction Eligible Income (fka Foreign-Derived Intangible Income) and Net CFC Tested Income (fka Global Intangible Low-Taxed Income)</b> .....	16
Sec. 70321. Modification of deduction for foreign-derived deduction eligible income and net CFC tested income.....	16
Sec. 70322. Determination of deduction eligible income.....	16
Sec. 70323. Rules related to deemed intangible income. ....	16
<b>Part III – Base Erosion Minimum Tax</b> .....	17
Sec. 70331. Modifications to base erosion minimum tax.....	17
<b>Part IV – Business Interest Limitation</b> .....	17
Sec. 70341. Coordination of business interest limitation with interest capitalization provisions. ....	17
Sec. 70342. Definition of adjusted taxable income for business interest limitation. ....	18
<b>Part V – Other International Tax Reforms</b> .....	18
Sec. 70351. Permanent extension of look-thru rule for controlled foreign corporations.....	18
Sec. 70352. Repeal of election for 1-month deferral in determination of taxable year of specified foreign corporations. ....	18
Sec. 70353. Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules. ....	18
Sec. 70354. Modifications to pro rata share rules. ....	19
<b>Part VI – Remedies Against Unfair Foreign Taxes</b> .....	20
Sec. 70361. Enforcement of remedies against unfair foreign taxes. ....	20
<b>Chapter 4 – Investing in American Families, Communities, and Small Businesses</b> .....	20
<b>Subchapter A – Permanent Investments in Families and Children</b> .....	20
Sec. 70401. Enhancement of employer-provided child care credit. ....	20
Sec. 70402. Enhancement of adoption credit. ....	21
Sec. 70403. Recognizing Indian tribal governments for purposes of determining whether a child has special needs for purposes of the adoption credit.....	21
Sec. 70404. Enhancement of the dependent care assistance program.....	22
Sec. 70405. Enhancement of child and dependent care tax credit. ....	22
<b>Subchapter B – Permanent Investments in Students and Reforms to Tax-Exempt Institutions</b> .....	22
Sec. 70411. Tax credit for contributions of individuals to scholarship granting organizations. ....	22
Sec. 70412. Exclusion for employer payments of student loans. ....	22
Sec. 70413. Additional expenses treated as qualified higher education expenses for purposes of 529 accounts. ....	23
Sec. 70414. Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts. ....	23
Sec. 70415. Modification of excise tax on investment income of certain private colleges and universities. ....	23
Sec. 70416. Expanding application of tax on excess compensation within tax-exempt organizations. ....	24
<b>Subchapter C – Permanent Investments in Community Development</b> .....	24
Sec. 70421. Permanent renewal and enhancement of opportunity zones. ....	24
Sec. 70422. Permanent enhancement of low-income housing tax credit.....	25
Sec. 70423. Permanent extension of the new markets tax credit.....	26
Sec. 70424. Permanent deduction for charitable contributions made by individuals who do not elect to itemize. ....	26
Sec. 70425. 0.5-percent floor on deduction of charitable contributions made by individuals who elect to itemize. ....	26
Sec. 70426. 1-percent floor on deduction of charitable contributions made by corporations.....	26

Sec. 70427. Extension of rules for treatment of certain disaster-related personal casualty losses. ....	27
<b>Subchapter D – Permanent Investments in Small Business and Rural America</b> .....	27
Sec. 70431. Expansion of qualified small business stock gain exclusion. ....	27
Sec. 70432. Repeal of revision to de minimis rules for third party network transactions. ....	27
Sec. 70433. Increase in threshold for requiring information reporting with respect to certain payees. ....	28
Sec. 70434. Treatment of certain qualified sound recording productions. ....	28
Sec. 70435. Exclusion of interest on loans secured by rural or agricultural real property.....	28
Sec. 70436. Elimination of tax on certain devices under the National Firearms Act. ....	29
<b>Chapter 5 – Ending Green New Deal Spending, Promoting America-First Energy and Other Reforms</b> .....	29
<b>Subchapter A – Termination of Green New Deal Subsidies</b> .....	29
Sec. 70501. Termination of previously-owned clean vehicle credit. ....	29
Sec. 70502. Termination of clean vehicle credit. ....	29
Sec. 70503. Modification and Termination of qualified commercial clean vehicles credit. ....	29
Sec. 70504. Termination of alternative fuel vehicle refueling property credit. ....	30
Sec. 70505. Termination of energy efficient home improvement credit. ....	30
Sec. 70506. Termination of residential clean energy credit.....	30
Sec. 70507. Termination of energy efficient commercial buildings deduction. ....	30
Sec. 70508. Termination of new energy efficient home credit.....	30
Sec. 70509. Termination of cost recovery for qualified clean energy facilities, property and technology. ....	30
Sec. 70510. Modifications of zero-emission nuclear power production credit. ....	31
Sec. 70511. Termination of clean hydrogen production credit. ....	31
Sec. 70512. Phase-out and restrictions on clean electricity production credit. ....	31
Sec. 70513. Phase-out and restrictions on clean electricity investment credit.....	32
Sec. 70514. Phase-out and restrictions on advanced manufacturing production credit. ....	33
Sec. 70515. Restriction on the extension of advanced energy project credit program. ....	33
<b>Subchapter B – Enhancement of America-First Energy Policy</b> .....	34
Sec. 70521. Extension and modification of clean fuel production credit. ....	34
Sec. 70522. Restrictions on carbon oxide sequestration credit.....	34
Sec. 70523. Intangible drilling and development costs taken into account for purposes of computing adjusted financial statement income.....	35
Sec. 70524. Income from hydrogen storage, carbon capture, advanced nuclear, hydropower, and geothermal energy added to qualifying income of certain publicly traded partnerships treated as corporations. ....	35
Sec. 70525. Allow for payments to certain individuals who dye fuel. ....	35
<b>Chapter 6 – Enhancing Deduction and Income Tax Credit Guardrails, and Other Reforms</b> .....	36
<b>Subchapter A – Enhancing deduction guardrails and other reforms</b> .....	36
Sec. 70601. Limitation on individual deductions for certain State and local taxes, etc. (SALT) and addressing SALT workarounds.....	36
Sec. 70602. Extension and modification of limitation on excess business losses of noncorporate taxpayers. ....	36
Sec. 70603. Treatment of payments from partnerships to partners for property or services. ....	37
Sec. 70604. Excessive employee remuneration from controlled group members and allocation of deduction. ....	37
Sec. 70605. Third party litigation funding reform. ....	37
Sec. 70606. Excise tax on certain remittance transfers.....	38
<b>Subchapter B – Enhancing tax credit guardrails and other IRS reforms</b> .....	38
Sec. 70611. Enforcement provisions with respect to COVID-related employee retention credits.....	38
Sec. 70612. Social Security number requirement for American opportunity and lifetime learning credits. ....	39
Sec. 70613. Earned income tax credit reforms.....	39
Sec. 70614. Task force on the termination of Direct File.....	40
Sec. 70615. Increase in penalties for unauthorized disclosures of taxpayer information.....	40
<b>SUBTITLE B - HEALTH CARE</b> .....	40
<b>Chapter 1 – Medicaid</b> .....	40

<b>Subchapter A – Reducing Fraud and Improving Enrollment Processes</b>	40
Sec. 71101. Prohibition on implementation of rule relating to eligibility and enrollment in Medicare savings programs.	40
Sec. 71102. Prohibition on implementation of rule relating to eligibility and enrollment for Medicaid and CHIP.	41
Sec. 71103. Reducing duplicate enrollment under the Medicaid and CHIP programs.	41
Sec. 71104. Ensuring deceased individuals do not remain enrolled.	41
Sec. 71105. Ensuring deceased providers do not remain enrolled.	41
Sec. 71106. Payment reduction related to certain erroneous excess payments under Medicaid.	41
Sec. 71107. Eligibility redeterminations.	42
Sec. 71108. Revising home equity limit for determining eligibility for long-term care services under the Medicaid program.	42
Sec. 71109. Prohibiting federal financial participation under Medicaid and CHIP for individuals without verified citizenship, nationality or satisfactory immigration status.	42
Sec. 71110. Alien Medicaid eligibility.	42
Sec. 71111. Expansion FMAP for certain states providing payments for health care furnished to certain individuals.	42
Sec. 71112. Expansion FMAP for emergency Medicaid.	43
<b>Subchapter B – Preventing Wasteful Spending</b>	43
Sec. 71113. Prohibition on implementation of the final staffing rule for nursing facilities.	43
Sec. 71114. Reducing state Medicaid costs.	43
Sec. 71115. Ensuring accurate payments to pharmacies under Medicaid.	43
Sec. 71116. Spread pricing in Medicaid.	43
Sec. 71117. Prohibiting federal Medicaid and CHIP funding for certain items and services.	44
Sec. 71118. Federal payments to prohibited entities.	44
<b>Subchapter C – Stopping Abusive Finance Practices</b>	44
Sec. 71119. Sunsetting increased FMAP incentive.	44
Sec. 71120. Provider taxes.	44
Sec. 71121. State directed payments.	44
Sec. 71122. Requirements regarding waiver of uniform tax requirement for Medicaid provider tax.	45
Sec. 71123. Requiring budget neutrality for Medicaid demonstration projects under Section 1115.	45
<b>Subchapter D – Increasing Personal Accountability</b>	45
Sec. 71124. Requirement for states to establish Medicaid community engagement requirements for certain individuals.	45
Sec. 71125. Modifying cost sharing requirements for certain expansion individuals under the Medicaid program.	47
<b>Chapter 2 – Medicare</b>	47
Sec. 71201. Limiting Medicare coverage of certain individuals.	47
<b>Chapter 3 – Health Tax</b>	47
<b>Subchapter A – Improving Eligibility Criteria</b>	47
Sec. 71301. Permitting premium tax credits only for certain individuals.	47
Sec. 71302. Disallowing premium tax credit during periods of Medicaid ineligibility due to alien status.	47
<b>Subchapter B – Preventing Waste, Fraud, and Abuse</b>	47
Sec. 71303. Requiring verification of eligibility for the premium tax credit.	48
Sec. 71304. Disallowing premium tax credit in case of certain coverage enrolled in during special enrollment period.	48
Sec. 71305. Eliminating limitation on recapture of advance payment of premium tax credit.	48
<b>SUBTITLE C - INCREASE IN DEBT LIMIT</b>	48
Sec. 72001. Modification of limitation on the public debt.	48

## TITLE VII – COMMITTEE ON FINANCE

### SUBTITLE A – TAX

#### Chapter 1 – Providing Permanent Tax Relief for Middle-Class Families and Workers

##### **Sec. 70101. Extension and enhancement of reduced rates.**

Current Law: Under current law, the modified federal income tax bracket schedule and lower tax rates are set to expire after December 31, 2025.

Provision: This provision makes permanent the modified federal income tax bracket schedule and lower tax rates created by the *Tax Cuts and Jobs Act*. The provision also adds an additional year of inflation adjustment to the 10 percent, 12 percent and 22 percent brackets.

Tax Rates & Brackets (2026)		
Bracket	If TCJA Expires	Provision
1	10.0%	10.0%
2	15.0%	12.0%
3	25.0%	22.0%
4	28.0%	24.0%
5	33.0%	32.0%
6	35.0%	35.0%
7	39.6%	37.0%

##### **Sec. 70102. Extension and enhancement of increased standard deduction.**

Current Law: An individual who does not elect to itemize deductions reduces adjusted gross income (AGI) by the amount of the applicable standard deduction in arriving at taxable income. The basic standard deduction varies depending upon a taxpayer's filing status.

The *Tax Cuts and Jobs Act* temporarily increased the basic standard deduction for taxable years beginning after December 31, 2017, and before January 1, 2026. For tax year 2025, the amount of the basic standard deduction is \$15,000 for a single filer, \$22,500 for a head of household and \$30,000 for married individuals filing jointly. Under present law, the increased standard deduction will expire after December 31, 2025, and the amount of the basic standard deduction for taxable year 2026 will be \$8,300 for a single filer, \$12,150 for a head of household and \$16,600 for married individuals filing jointly.

Provision: This provision makes permanent the nearly doubled standard deduction created by the *Tax Cuts and Jobs Act*. Additionally, for taxable years beginning after 2025, the standard deduction is increased to \$16,000 for a single filer, \$24,000 for a head of household and \$32,000 for married individuals filing jointly and adjusted for inflation thereafter.

##### **Sec. 70103. Termination of deduction for personal exemptions other than temporary senior deduction.**

Current Law: Under current law, the deduction for personal exemptions is set to return after December 31, 2025.

Provision: This provision permanently reduces the deduction for personal exemptions to zero and temporarily adds a deduction for seniors of \$6,000 for each qualified individual. The senior deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$75,000 (\$150,000 in the case of a joint return). A qualified individual means a taxpayer who has attained age 65 (and in the case of a joint return, the

taxpayer's spouse, if such spouse has attained age 65). No senior deduction is allowed unless the qualified individual includes his or her social security number (SSN) on the tax return for the tax year (and if the qualified individual is married, such tax return must also include the SSN of such individual's spouse). The senior deduction is allowed for taxable years 2025 through 2028.

#### **Sec. 70104. Extension and enhancement of increased child tax credit.**

Current Law: Under current law, the child tax credit will return to pre-2017 levels after December 31, 2025. This means that the credit amount will drop from \$2,000 to \$1,000 per child, the child SSN requirement will be eliminated, and fewer American families will qualify for the credit as the income phase-out levels return to much lower thresholds. Additionally, the \$500 nonrefundable credit for non-child dependents will expire after December 31, 2025.

Provision: This provision makes permanent the doubled child tax credit of \$2,000 per child and also makes permanent the refundable child tax credit of \$1,400, adjusted for inflation (\$1,700 in 2025). It also makes permanent the increased income phase-out threshold amounts of \$200,000 (\$400,000 in the case of a joint return), as well as the \$500 nonrefundable credit for each dependent of the taxpayer other than a qualifying child.

Additionally, this provision permanently increases the nonrefundable child tax credit to \$2,200 per child beginning in tax year 2025 and also permanently indexes the nonrefundable credit amount for inflation beginning after tax year 2025 (rounded down to the nearest \$100).

Further, the requirement that the child's SSN be provided for purposes of claiming the credit is made permanent and expanded upon to require the taxpayer's SSN and, for joint filers, at least one of the spouse's SSNs, in order to claim the credit. The SSNs provided must be considered work-eligible in order to claim the credit.

#### **Sec. 70105. Extension and enhancement of deduction for qualified business income.**

Current Law: Under current law, certain non-corporate taxpayers may deduct 20 percent of qualified business income (QBI) from a partnership, S corporation or sole proprietorship, as well as 20 percent of certain real estate investment trust dividends and publicly traded partnership income.

Special rules apply to taxpayers with taxable income in excess of the "threshold amount," which, for tax year 2025, is \$394,600 for married taxpayers filing jointly and \$197,300 for all other taxpayers. The threshold amounts are indexed annually for inflation. For taxpayers with taxable income in excess of the threshold amounts, the deduction for QBI is limited based on (1) the W-2 wages and capital investment of each relevant business (the "wage and investment limitation"), and (2) whether each relevant business is a specified service trade or business (the "SSTB limitation"). Both limitations phase-in over a fixed range of taxable income (\$100,000 for married taxpayers filing jointly and \$50,000 for all other taxpayers).

The deduction for qualified business income will expire for taxable years beginning after December 31, 2025.

Provision: This provision makes the deduction for qualified business income permanent.

This provision also expands the deduction limit phase-in range by increasing the \$50,000 (non-joint returns) and \$100,000 (joint returns) amounts to \$75,000 and \$150,000, respectively. The provision eases the impact of the limitations for both SSTBs and those pass-through entities subject to the wage and investment limitation.

Additionally, this provision introduces a new, inflation-adjusted, minimum deduction of \$400 for taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which the taxpayer materially participates. This ensures small business owners with a certain QBI level are entitled to an enhanced baseline deduction.

**Sec. 70106. Extension and enhancement of increased estate and gift tax exemption amounts.**

Current Law: Under current law, the increased estate and lifetime gift tax exemption amount is set to expire after December 31, 2025.

Provision: This provision permanently extends the estate and lifetime gift tax exemption, increases the exemption amount to \$15 million for single filers (\$30 million for married filing jointly) in 2026 and indexes the exemption amount for inflation thereafter.

**Sec. 70107. Extension of increased alternative minimum tax exemption amounts and modification of phaseout thresholds.**

Current Law: Under current law, the increased individual alternative minimum tax exemption amounts and exemption phaseout thresholds are set to expire for taxable years beginning after December 31, 2025.

Provision: This provision permanently extends the increased individual alternative minimum tax exemption amounts and reverts the exemption phaseout thresholds to 2018 levels of \$500,000 (\$1,000,000 in the case of a joint return), indexed for inflation thereafter.

**Sec. 70108. Extension and modification of limitation on deduction for qualified residence interest.**

Current Law: Under current law, the deduction for qualified residence interest, also known as the home mortgage interest deduction, will increase from the first \$750,000 in home mortgage acquisition debt to \$1 million after December 31, 2025. Also, after December 31, 2025, the aggregate limitation on a taxpayer's acquisition indebtedness with respect to a principal residence and a second residence that may give rise to deductible interest is \$1.1 million.

Provision: This provision permanently lowers the deduction for qualified residence interest to the first \$750,000 in home mortgage acquisition debt and the exclusion of interest on home equity indebtedness from the definition of qualified residence interest is made permanent. Additionally, the provision treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest.

**Sec. 70109. Extension and modification of limitation on casualty loss deduction.**

Current Law: Under current law, the itemized deduction for uncompensated personal casualty losses resulting from a fire, storm, shipwreck, other casualty or theft is set to return after December 31, 2025.

Provision: This provision permanently limits the itemized deduction for personal casualty losses to such losses resulting from federally declared disasters and certain state-declared disasters.

**Sec. 70110. Termination of miscellaneous itemized deductions other than educator expenses.**

Current Law: Under current law, individuals are not allowed to deduct "miscellaneous itemized deductions" for taxable years 2018 through 2025. Deductions listed in Section 67(b) of the Internal Revenue Code<sup>1</sup> (meaning deductions that are not miscellaneous itemized deductions and are allowable itemized deductions) include the deduction for interest, the deduction for state, local and foreign taxes, the charitable contribution deduction, and the deduction for medical expenses that exceed 7.5 percent of adjusted gross income. Miscellaneous itemized deductions include, among many other expenses, investment expenses, legal fees and unreimbursed employee business expenses.

Provision: This provision makes permanent the temporary suspension of miscellaneous itemized deductions and removes unreimbursed employee expenses for eligible educators from the list of miscellaneous itemized deductions.

An eligible educator is an individual who is a kindergarten through grade 12 teacher, instructor, counselor, interscholastic sports administrator or coach, principal or aide in a school for at least 900 hours during a school year.

---

<sup>1</sup> Unless otherwise provided, section references are to the Internal Revenue Code of 1986, as amended.

Unreimbursed employee expenses for eligible educators include expenses such as books, supplies, computer equipment and supplementary materials used by eligible educators as part of instructional activity.

**Sec. 70111. Limitation on tax benefit of itemized deductions.**

Current Law: Under current law, in taxable years beginning after December 21, 2025, certain individual taxpayers will be subject to an overall limitation on itemized deductions known as the “Pease limitation.” In 2026, the Pease limitation is expected to apply to taxpayers with adjusted gross income above the following thresholds: \$339,850 for single filers, \$373,850 for head of household filers and \$407,850 for married joint filers. A taxpayer subject to the Pease limitation is generally required to reduce itemized deductions by three percent of the amount by which the taxpayer’s adjusted gross income exceeds the applicable income threshold.

Additionally, the value of a taxpayer’s itemized deductions depends on the taxpayer’s marginal income tax rate. For instance, generally, for a taxpayer in the 37 percent individual income tax bracket, each dollar of itemized deductions has a value of \$0.37.

Provision: This provision permanently repeals the Pease limitation and replaces it with a new overall limitation on the tax benefit of itemized deductions. This provision caps the value of each dollar of otherwise allowable itemized deductions at \$0.35, in most cases, and applies only to taxpayers in the highest individual income tax bracket. This new limitation is effective for taxable years beginning after December 31, 2025.

**Sec. 70112. Extension and modification of qualified transportation fringe benefits.**

Current Law: Under current law, the \$20 per month qualified bicycle commuting reimbursement exclusion received by an employee from an employer is set to return for taxable years beginning after December 31, 2025.

Provision: This provision permanently eliminates the qualified bicycle commuting reimbursement exclusion; for qualified transportation fringe benefits other than the qualified bicycle commuting reimbursement, the provision adds an additional year of inflation adjustment.

**Sec. 70113. Extension and modification of limitation on deduction and exclusion for moving expenses.**

Current Law: Under current law, both the exclusion for qualified moving expenses reimbursement and the deduction for moving expenses are set to return for taxable years beginning after December 31, 2025.

Provision: This provision permanently repeals both the exclusion for qualified moving expenses reimbursement and the deduction for moving expenses, except for active-duty members of the Armed Forces and members of the Intelligence Community.

**Sec. 70114. Extension and modification of limitation on wagering losses.**

Current Law: Under current law, “losses from wagering transactions” are allowed a deduction only to the extent of gains from such transactions. The term “losses from wagering transactions” includes any deduction otherwise allowable under chapter 1 of the Code incurred in carrying on any wagering transactions.

Provision: This provision permanently clarifies that the term “losses from wagering transactions” includes any deduction otherwise allowable under chapter 1 of the Code incurred in carrying on any wagering transactions and further limits the term “losses from wagering transactions” to 90 percent of the amount of such losses, only to the extent of the gains from such transactions

**Sec. 70115. Extension and enhancement of increased limitation on contributions to ABLE accounts.**

Current Law: Under current law, the additional contribution limit to Achieving a Better Life Experience (ABLE) accounts for individuals with a disability who are employed is equal to the lesser of (1) the applicable federal poverty level for a one-person household in the prior year, or (2) the beneficiary’s compensation for the year. This additional contribution limit is set to expire on December 31, 2025.

Provision: The provision permanently allows this additional contribution to ABLE accounts. The provision also provides an additional year of inflation adjustment for the base amount of the limit.

**Sec. 70116. Extension of savers credit allowed for ABLE contributions.**

Current Law: Under current law, eligibility for the Saver's Credit for designated beneficiaries who make qualified contributions to their ABLE accounts is set to expire on December 31, 2025.

Provision: This provision permanently allows designated beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit.

**Sec. 70117. Extension of rollovers from qualified tuition programs to ABLE accounts permitted.**

Current Law: Under current law, the ability to make tax-free rollovers of amounts from Section 529 qualified tuition programs to qualified ABLE programs is set to expire on December 31, 2025.

Provision: This provision permanently allows tax-free rollovers of amounts in Section 529 qualified tuition programs to qualified ABLE programs.

**Sec. 70118. Extension of treatment of certain individuals performing services in the Sinai Peninsula and enhancement to include additional areas.**

Current Law: Under current law, the Sinai Peninsula will no longer be considered a qualified hazardous duty area for tax purposes after December 31, 2025.

Provision: This provision permanently lists the Sinai Peninsula, in addition to Kenya, Mali, Burkina Faso and Chad, as a qualified hazardous duty area for tax purposes.

**Sec. 70119. Extension and modification of exclusion from gross income of student loans discharged on account of death or disability.**

Current Law: Under current law, any income resulting from the discharge of student debt on account of death or total disability of the student is excluded from taxable income. This treatment of discharge income due to death or disability is set to expire after December 31, 2025.

Provision: This provision permanently extends the exclusion from a taxpayer's income any income resulting from the discharge of student debt on account of death or total disability of the student. This provision also adds a requirement that the taxpayer provide a work-eligible Social Security number in order to claim such an exclusion. This provision applies to discharges after December 31, 2025.

**Chapter 2 – Delivering on Presidential Priorities to Provide New Middle-Class Tax Relief**

**Sec. 70201. No tax on tips.**

Current Law: Not applicable.

Provision: This provision provides a deduction of up to \$25,000 for qualified tips received by an individual in an occupation which customarily and regularly receives tips during a given taxable year. The deduction is allowed for both employees receiving a W-2 and independent contractors receiving a 1099-K, 1099-NEC or reported by the taxpayer on Form 4317. The deduction is allowed for both itemizers and non-itemizers. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). Qualified tips are defined as any cash tip received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary of the Treasury. The list of those occupations is to be published by the Secretary of the Treasury within 90 days of enactment. In order to be considered a qualified tip, the tip amount must be paid voluntarily, is not subject to negotiation and is determined by the payor. Furthermore, qualified tips do not include any amount received in the course of a specified service trade or business. No tip deduction is allowed unless the individual receiving the tips includes his or her SSN on the tax return for the tax year (and if the individual is married, such tax

return must also include the SSN of such individual's spouse). The deduction is allowed from taxable years 2025 through 2028.

**Sec. 70202. No tax on overtime.**

Current Law: Not applicable.

Provision: This provision provides a deduction of up to \$12,500 (\$25,000 in the case of a joint return) for qualified overtime compensation received by an individual during a given tax year. The deduction is allowed for both itemizers and non-itemizers. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). Qualified overtime compensation is defined as overtime compensation paid to an individual required under Section 7 of the *Fair Labor Standards Act of 1938* that is in excess of the regular rate (as used in such section) at which such individual is employed. Overtime deductions are only allowed for qualified overtime compensation if the total amount of qualified overtime compensation is reported separately on the Form W-2. No overtime deduction is allowed unless the individual receiving the qualified overtime compensation includes his or her SSN on the tax return for the tax year (and if the individual is married, such tax return must also include the SSN of such individual's spouse). The deduction is allowed from taxable years 2025 through 2028.

**Sec. 70203. No tax on car loan interest.**

Current Law: Not applicable.

Provision: This provision provides a deduction of up to \$10,000 for qualified passenger vehicle loan interest during a given taxable year. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of a joint return). Qualified passenger vehicle loan interest means any interest that is paid or accrued during the tax year on indebtedness incurred by the taxpayer after December 31, 2024 for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use.

An applicable passenger vehicle means any vehicle (1) the original use of which commences with the taxpayer; (2) which is manufactured primarily for use on public streets, roads and highways; (3) which has at least two wheels; (4) which is a car, minivan, van, sport utility vehicle, pickup truck or motorcycle; (5) which is treated as a motor vehicle for purposes of title II of the Clean Air Act; and (6) the final assembly of which occurs in the U.S.

For purposes of the final assembly requirement, final assembly is the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

The deduction is allowed from taxable years 2025 through 2028.

**Sec. 70204. Trump accounts and contribution pilot program.**

Current Law: Not applicable.

Provision: This provision reflects the text included in the House-passed H.R. 1 to establish Trump accounts, a new kind of savings account designed to build financial security for the next generation. The accounts are administered by a bank or similar financial institution and the overall program is overseen by the Department of Treasury.

Starting January 1, 2026, parents of any child under the age of eight years old may open a Trump account for their child. These accounts are eligible to receive contributions from parents, relatives, and other taxable entities as well as non-profit and government entities facilitated by the Treasury Department. To be eligible to open an account, the child must be a U.S. citizen and at least one parent must provide their SSN. The SSN

provided must be considered work-eligible in order to open an account. Trump account funds must be invested in a diversified fund that tracks an established index of U.S. equities.

*Contributions:*

Taxable entities may contribute up to \$5,000 annually of after-tax dollars to a Trump account. The \$5,000 contribution limit is indexed for inflation.

Contributions provided to Trump accounts from tax exempt entities, such as private foundations, are not subject to the \$5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group (i.e. all children in a state, specific school district or educational institution, etc.). No additional contributions of any kind shall be made to Trump accounts after the beneficiary has attained age 18.

*Distributions:*

Trump account holders may not take distributions until age 18. Between age 18 and age 25, account holders may access up to 50 percent of funds for higher education, training programs, small business loans, or first-time home purchases. At age 25, account holders may withdraw any amount up to the full balance of the account for these limited purposes. At age 30, account holders have access to the full balance of the account for any purpose.

Distributions taken for qualified purposes are taxed as long-term capital gains, while distributions for any other purposes are taxed as ordinary income.

*Pilot Program:*

This provision builds off of the previous section and creates a newborn pilot program for Trump accounts.

For U.S. citizens born between January 1, 2024, and December 31, 2028, the federal government will contribute \$1,000 per child into every eligible account. For newborns, Trump accounts may be opened by parents or guardians. To be eligible to open an account and receive the \$1,000 contributions, the child must be a U.S. citizen at birth and both parents must provide their SSNs. The SSNs provided must be considered work-eligible in order to claim the credit.

If the Secretary of Treasury determines that an eligible individual does not have an account opened for them by the first tax return where the child is claimed as a qualifying child, the Secretary shall establish an account on the child's behalf, taking into account, to the extent possible, the parents' preferred custodian and investment fund. Parents will be provided the option to opt out of the account.

*Further refinements to the text included in the House-passed H.R. 1 with respect to the Trump accounts program continue to be developed and finalized in coordination with the Trump Administration.*

**Sec. 70205. Tax treatment of certain international entrepreneurs.**

[RESERVED]

**Chapter 3 – Establishing Certainty and Competitiveness for American Job Creators**

**Subchapter A – Permanent U.S. Business Tax Reforms and Boosting Domestic Investment**

**Sec. 70301. Full expensing for certain business property.**

Current Law: Under current law, bonus depreciation is available through 2026 (2027 for longer production period property and certain aircraft). Specifically, qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2024, for longer production period property and certain aircraft), as well as specified plants planted or grafted after September 27, 2017, and before January 1, 2023, are eligible for 100-percent bonus depreciation. The 100-percent allowance is phased down by 20 percent per calendar year for qualified property acquired after September 27, 2017, and placed in service after

December 31, 2022 (after December 31, 2023, for longer production period property and certain aircraft), as well as for specified plants planted or grafted after December 31, 2022. Thus, to be eligible for bonus depreciation, qualified property must be placed in service before January 1, 2027 (January 1, 2028, for longer production period property and certain aircraft). Similarly, specified plants must be planted or grafted before January 1, 2027.

Provision: This provision permanently extends and modifies the additional first-year depreciation deduction. The allowance is increased to 100 percent for property acquired and placed in service on or after January 19, 2025, as well as for specified plants planted or grafted on or after January 19, 2025.

### **Sec. 70302. Full expensing of domestic research and experimental expenditures.**

Current Law: Under current law, for taxable years beginning after December 31, 2021, taxpayers must capitalize and amortize specified research or experimental expenditures ratably over a five-year period (or, in the case of expenditures attributable to research that is conducted outside of the United States, over a 15-year period), beginning with the midpoint of the taxable year in which those costs are paid or incurred. Specified research or experimental expenditures are research or experimental expenditures paid or incurred in connection with a taxpayer's trade or business

Provision: This provision allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2024. Research or experimental expenditures attributable to research that is conducted outside the United States must continue to be capitalized and amortized over 15 years under Section 174.

Additionally, small business taxpayers with average annual gross receipts of \$31 million or less will generally be permitted to apply this change retroactively to taxable years beginning after December 31, 2021.

Furthermore, all taxpayers that made domestic research or experimental expenditures after December 31, 2021, and before January 1, 2025, will be permitted to elect to accelerate the remaining deductions for such expenditures over a one-year period or a two-year period.

This provision includes rules to coordinate the immediate deductibility of domestic research or experimental expenditures with the research credit, rules clarifying the treatment of foreign research or experimental expenditures and other coordinating changes.

### **Sec. 70303. Modification of limitation on business interest.**

Current Law: Under current law, the deduction for business interest expense for a taxable year is generally limited to the sum of (1) the taxpayer's business interest income for the taxable year, (2) 30 percent of the taxpayer's "adjusted taxable income" for the taxable year, and (3) the taxpayer's "floor plan financing interest" for the taxable year. "Adjusted taxable income" corresponds with the financial accounting concept of earnings before interest and taxes (EBIT).

"Floor plan financing interest" refers to interest paid or accrued on indebtedness used to finance the acquisition of motor vehicles held for sale or lease to retail customers and secured by the inventory so acquired. A "motor vehicle" means a motor vehicle that is: (1) any self-propelled vehicle designed for transporting person or property on a public street, highway or road; (2) a boat; or (3) farm machinery or equipment.

Provision: This provision increases the cap on the deductibility of business interest expense for taxable years beginning after December 31, 2024. Specifically, it provides that "adjusted taxable income" is computed without taking into account deductions for depreciation, amortization or depletion. As a result, "adjusted taxable income" corresponds with the financial accounting concept of earnings before interest, taxes, depreciation and amortization (EBITDA).

This provision also permanently modifies the definition of “motor vehicle” to include certain trailers and campers designed to be towed by or affixed to a motor vehicle. This change allows interest on floor plan financing for such trailers and campers to be deducted.

**Sec. 70304. Extension and enhancement of paid family and medical leave credit.**

Current Law: Under current law, the paid family and medical leave (PFML) tax credit, created by the *Tax Cuts and Jobs Act*, allows eligible employers to claim a general business credit equal to 12.5 percent of the amount of eligible wages (based on the normal hourly wage rate) paid to qualifying employees during any period in which such employees are on family and medical leave. The credit is increased by 0.25 percentage points (but not above 25 percent) for each percentage point by which the rate of payment exceeds 50 percent. The maximum amount of family and medical leave that may be taken into account with respect to any qualifying employee for any taxable year is 12 weeks.

For an employer to claim the credit they must (1) provide at least two weeks of PFML to all eligible employees annually, (2) have a written policy in effect, and (3) pay at least 50 percent of normal wages to employees during their leave. An eligible employee is a full- or part-time employee that has (1) worked for the employer for at least one year and (2) earns no more than 60 percent of the “highly compensated employee” limit (\$96,000 in 2025).

The PFML credit is set to expire after December 31, 2025.

Provision: The provision extends the paid family and medical leave credit permanently and makes three modifications. First, it modifies the credit to allow it to be claimed for an applicable percentage of premiums paid or incurred by an eligible employer during a taxable year for insurance policies that provide paid family and medical leave for qualifying employees. Second, it makes the credit available in all states. Third, it lowers the minimum employee work requirement from 1-year to 6-months. The provision applies to taxable years beginning after December 31, 2025.

**Sec. 70305. Exceptions from limitation on deduction for business meals.**

Current Law: Under current law, amounts incurred and paid after December 31, 2017, and before January 1, 2026, or expenses of the employer associated with providing food or beverages to employees through an eating facility that meets the requirements for de minimis fringes and for the convenience of the employer are limited to a 50 percent deduction. Such amounts incurred and paid after December 31, 2025, are not deductible.

Under current law, certain expenses remain deductible, including food or beverages provided to crew members of a commercial vessel.

Provision: This provision maintains the current exemptions from the deduction limitation, as well as adds food or beverage provided on certain fishing vessels or certain fish processing facilities to the exemption.

**Sec. 70306. Increased dollar limitations for expensing of certain depreciable business assets.**

Current Law: Under current law, a taxpayer may elect to expense the cost of qualifying property, rather than to recover such costs through tax depreciation deductions, subject to limitation. Under current law, the maximum amount a taxpayer may expense is \$1 million of the cost of qualifying property placed in service for the taxable year. The \$1 million amount is reduced by the amount by which the cost of such property placed in service during the taxable year exceeds \$2.5 million. The \$1 million and \$2.5 million amounts are adjusted for inflation for taxable years beginning after 2018, and are \$1.25 million and \$3.13 million in 2025, respectively. In general, qualifying property is defined as depreciable tangible personal property, off-the-shelf computer software and qualified real property that is purchased for use in the active conduct of a trade or business.

Provision: This provision increases the maximum amount a taxpayer may expense under Section 179 to \$2.5 million, reduced by the amount by which the cost of qualifying property exceeds \$4 million. The \$2.5 million

and \$4 million amounts are adjusted for inflation for taxable years beginning after 2025. The proposal applies to property placed in service in taxable years beginning after December 31, 2024.

**Sec. 70307. Special depreciation allowance for qualified production property.**

Current Law: Under current law, taxpayers generally must capitalize the cost of property used in a trade or business held to produce income and recover such cost over time through periodic deductions for depreciation or amortization. In general, nonresidential real property is depreciated over a 39-year recovery period.

Provision: This provision allows taxpayers an additional first-year depreciation deduction equal to 100 percent of the adjusted basis of qualified production property. Qualified production property is nonresidential real property (1) which is used by the taxpayer as an integral part of a qualified production activity, (2) which is placed in service in the United States or any possession of the United States, (3) the original use of which commences with the taxpayer, (4) the construction, reconstruction or erection of which by the taxpayer begins after January 19, 2025, and before January 1, 2029 and (5) is placed in service after the date of enactment and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date by up to two years.

“Qualified production property” does not include the portion of any nonresidential real property used for offices, administrative services, lodging, parking, sales activities, software development or engineering activities, or other functions unrelated to manufacturing, production or refining of tangible personal property.

“Qualified production property” does not include any property to which the alternative depreciation system applies, or any food or beverage prepared in the same building as a retail establishment in which such property is sold.

A “qualified production activity” is the manufacturing, production or refining of a qualified product. Such activities of the taxpayer must result in a substantial transformation of the property comprising the product.

This provision also provides a special acquisition rule that allows a taxpayer to claim the qualified production property deduction for nonresidential real property (1) which is acquired by the taxpayer after January 19, 2025, and before January 1, 2029, (2) which was not used in a qualified production activity (without regard to the substantial transformation rule) at any time during the period beginning on January 1, 2021, and ending on May 12, 2025, (3) which was not used by the taxpayer or a related party at any time prior to such acquisition, (4) which is used by the taxpayer as an integral part of a qualified production activity, (5) which is placed in service in the United States or any possession of the United States, and (6) is placed in service after the date of enactment and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date by up to two years.

Recapture rules apply in certain cases where, during the 10-year period after qualified production property is placed in service, the use of the property changes.

This provision is effective for property placed in service after the date of enactment.

**Sec. 70308. Enhancement of advanced manufacturing investment credit.**

Current Law: Under current law, an investment tax credit is available for qualified investments in an advanced manufacturing facility by an eligible taxpayer for property the construction of which begins prior to January 1, 2027. The advanced manufacturing investment tax credit is equal to 25 percent of the qualified investment for a taxable year for any advanced manufacturing facility of an eligible taxpayer.

Provision: This provision will increase the credit rate to 30 percent effective for property placed in service after December 31, 2025.

## Subchapter B – Permanent America-First International Tax Reforms

*Except as otherwise noted, the international tax provisions described below would be effective for taxable years beginning after December 31, 2025.*

### Part I – Foreign Tax Credit

#### **Sec. 70311. Rules for allocation of certain deductions to foreign source “Net CFC Tested Income” (fka Global Intangible Low-Taxed Income) for purposes of foreign tax credit limitation.**

Current Law: The provision modifies the rules for the allocation and apportionment of deductions to income in the global intangible low-taxed income (GILTI) category for the purposes of determining the foreign tax credit (FTC) limitation. Under present law, in order to determine its FTC limitation, a taxpayer must first determine its taxable income from foreign sources by allocating and apportioning deductions between U.S.-source gross income and foreign-source gross income in each limitation category. In general, deductions are allocated and apportioned to the gross income to which the deductions “definitely relate.” If a deduction is not definitely related to any gross income, the deduction must be apportioned ratably. Thus, subject to certain exceptions, deductions for interest expense, stewardship expenses, research and experimental expenses, and certain other deductions are apportioned based on certain ratios.

Provision: The provision limits the deductions of a U.S. shareholder allocable to income in the GILTI category to only: (1) the Section 250 deduction relating to GILTI allowed under Section 250(a)(1)(B) (and any deduction allowed under Section 164(a)(3) for taxes imposed on such amounts); and (2) any other deduction only if such deduction is directly allocable to such income. Any deduction that would have been allocated or apportioned to income in the GILTI category but for this proposal will only be allocated or apportioned to U.S.-source income.

#### **Sec. 70312. Modifications to determination of deemed paid credit for taxes properly attributable to tested income.**

Current Law: The provision modifies the rules under Section 960(d)(1), which currently provide that, for GILTI included in gross income, domestic corporations are deemed to have paid 80 percent of the corporation’s inclusion percentage multiplied by the aggregate foreign income taxes paid or accrued with respect to tested income (but not tested loss) by each controlled foreign corporation (CFC) with respect to which the domestic corporation is a U.S. shareholder. The inclusion percentage means the ratio of the domestic corporation’s GILTI divided by the aggregate amount of its pro rata share of the tested income (but not tested loss) of each CFC with respect to which it is a U.S. shareholder.

Provision: The provision increases that allowance to 90 percent.

#### **Sec. 70313. Sourcing certain income from the sale of inventory produced in the United States.**

Current Law: Under present law, gains, profits, and income from the sale or exchange of inventory property produced by the taxpayer are allocated and apportioned between sources within and outside the United States solely on the basis of the production activities with respect to such property. Thus, income from the sale or exchange of inventory property produced by the taxpayer in the United States would be treated as U.S.-source income.

Provision: The provision provides that solely for purposes of the FTC limitation, if a U.S. person maintains an office or other fixed place of business in a foreign country, the portion of taxable income from the sale or exchange outside the United States of inventory property produced in the United States and which is attributable to such office or other fixed place of business is treated as foreign-source taxable income. However, the amount treated as foreign-source income cannot exceed 50 percent of the total taxable income from the sale or exchange of the inventory property.

## **Part II – Foreign-Derived Deduction Eligible Income (fka Foreign-Derived Intangible Income) and Net CFC Tested Income (fka Global Intangible Low-Taxed Income)**

### **Sec. 70321. Modification of deduction for foreign-derived deduction eligible income and net CFC tested income.**

Current Law: The provision makes changes to the Section 250 deduction for foreign-derived intangible income (FDII) and GILTI. Currently, under Section 250(a)(1), a domestic corporation is allowed a deduction equal to the sum of: (1) 37.5 percent of the FDII of such domestic corporation for such taxable year; plus (2) 50 percent of the GILTI which is included in the gross income of such domestic corporation for such taxable year (and the associated amount included as a dividend under Section 78). Section 250(a)(3) reduces the deduction percentages for taxable years beginning after December 31, 2025 (reducing the FDII deduction to 21.875 percent from 37.5 percent, and the GILTI deduction to 37.5 percent from 50 percent).

Provision: The provision decreases the Section 250 deduction percentage for taxable years beginning after December 31, 2025, to 33.34 percent for FDII and 40 percent for GILTI, resulting in an effective tax rate of 14 percent for both FDII and GILTI (after considering the GILTI FTC “haircut” described in Sec. 70312).

### **Sec. 70322. Determination of deduction eligible income.**

Current Law: Under current law, a domestic corporation’s FDII is the amount which bears the same ratio to the deemed intangible income of such corporation as the foreign-derived deduction eligible income (FDDEI) bears to the deduction eligible income (DEI) of such corporation. DEI is the gross income of such domestic corporation reduced by certain categories of income, including subpart F inclusions and Section 956 amounts, GILTI inclusions, financial services income, certain dividends, domestic oil and gas extraction income and foreign branch income, as well as the deductions, including taxes, properly allocable to such income.

Provision: The provision modifies the definition of DEI in three ways:

- First, except as otherwise provided by the Treasury Secretary, DEI would not include any income or gain from the sale or other disposition (including the deemed sale or other deemed disposition) of property of a type that gives rise to rents or royalties. This modification would apply to sales or other dispositions (or deemed sales or other deemed dispositions) occurring after June 16, 2025.
- Second, DEI would not include any income described in clause (i) or (ii) of Section 904(d)(2)(B) (determined without regard to clause (iii)(II) thereof). In general, this would exclude from the definition of DEI any income of a kind which would be foreign personal holding company income and amounts includible in gross income under Section 1293 with respect to passive foreign investment companies for which a qualified electing fund election has been made, both determined without regard to the high-tax kickout. This modification would apply to income attributable to amounts received or accrued after June 16, 2025.
- Third, instead of DEI being reduced by deductions, including taxes, properly allocable to such income, DEI would be reduced by expenses and deductions, including taxes, directly related to such income. This modification would apply to taxable years beginning after December 31, 2025.

### **Sec. 70323. Rules related to deemed intangible income.**

Current Law: Under current law, a U.S. shareholder’s GILTI inclusion is calculated as such shareholder’s net CFC tested income for a taxable year reduced by such shareholder’s net deemed tangible income return (NDTIR) for such taxable year. In general, and subject to reduction for certain interest expense, NDTIR is 10 percent of the aggregate of such shareholder’s pro rata share of the qualified business asset investment (QBAI) of each CFC with respect to which such shareholder is a U.S. shareholder for such taxable year. With respect to any CFC for a taxable year, QBAI means the average of the adjusted bases as of the close of each quarter of such taxable year in specified tangible property used in a trade or business and of a type with respect to which a depreciation deduction is allowable.

A domestic corporation's FDII is the amount which bears the same ratio to the deemed intangible income (DII) of such corporation as the FDDEI bears to the DEI of such corporation. The DII of a domestic corporation is the excess of the DEI of such corporation over the deemed tangible income return (DTIR) of the corporation. The DTIR means an amount equal to 10 percent of the corporation's QBAI.

Provision: The provision eliminates both the DTIR currently utilized in determining a domestic corporation's FDII and the NDTIR currently utilized in determining a U.S. shareholder's GILTI inclusion. By eliminating the DTIR, the terms DII and FDII become unnecessary and thus are struck from the Code, resulting in current law FDII now being referred to as foreign-derived deduction eligible income (FDDEI). Similarly, by eliminating the NDTIR, the term GILTI becomes unnecessary and thus is struck from the Code, resulting in current law GILTI now being referred to as Net CFC Tested Income (NCTI).

### **Part III – Base Erosion Minimum Tax**

#### **Sec. 70331. Modifications to base erosion minimum tax.**

Current Law: Under current law, the base erosion and anti-abuse tax (BEAT) is an additional tax imposed on certain multinational corporations. For a taxpayer subject to the BEAT (an "applicable taxpayer"), the additional tax generally equals the taxpayer's base erosion minimum tax amount (BEMTA) for the taxable year. The BEMTA is currently 10 percent of the "modified taxable income" of the taxpayer, over the taxpayer's "regular tax liability" reduced (but not below zero) by certain credits (as reduced, the "adjusted regular tax liability"). Modified taxable income means the taxable income of the taxpayer determined without regard to: (1) reductions to taxable income ("base erosion tax benefits") arising from payments to foreign related parties ("base erosion payments"); or (2) the base erosion percentage of any net operating loss (NOL) deduction allowed under Section 172 for the taxable year. For taxable years beginning after December 31, 2025, the BEMTA is modified in two ways: (1) the rate on modified taxable income is increased to 12.5 percent (from 10 percent); and (2) the adjusted regular tax liability is the regular tax liability reduced by generally all credits. Under Section 59A(e)(1)(C), only taxpayers with a base erosion percentage above a threshold percentage of three percent (or two percent in the case of taxpayers that are part of an affiliated group including a bank or securities dealer registered under Section 15(a) of the Securities Exchange Act of 1934) are applicable taxpayers. The base erosion percentage is the taxpayer's (or the taxpayer's affiliated group's) total base erosion tax benefits divided by its total deductible costs (and other base erosion tax benefits).

Provision: The provision makes multiple changes to the BEAT regime:

- Adjusts the BEMTA calculation to be 14 percent of modified taxable income over adjusted regular tax liability;
- Strikes the modifications to the calculation of allowable credits for taxable years beginning after December 31, 2025;
- Exempts from treatment as base erosion payments those payments that are subject to a sufficient level of foreign income tax (i.e., payments subject to an effective tax rate that is greater than 18.9 percent (90 percent of the highest rate of tax under Section 11));
- Reduces the base erosion percentage threshold from three percent to two percent for all taxpayers; and
- Treats certain capitalized interest expense (other than interest capitalized under Sections 263(g) or 263A(f)) as a base erosion payment.

### **Part IV – Business Interest Limitation**

#### **Sec. 70341. Coordination of business interest limitation with interest capitalization provisions.**

Current Law: Under current Section 163(j), with certain exceptions, in the case of any taxpayer for any taxable year, the deduction for business interest is limited to the sum of (1) business interest income of the taxpayer for the taxable year, (2) 30 percent of the adjusted taxable income (ATI) of the taxpayer for the taxable year (not less than zero), and (3) the floor plan financing interest of the taxpayer for the taxable year. The amount of any business interest not allowed as a deduction for any taxable year may be carried forward indefinitely.

Treasury regulations generally provide that Section 163(j) applies after the application of provisions that subject interest expense to disallowance, deferral, capitalization or other limitation. Certain provisions in the Code, such as Sections 263(a) and 266, provide certain elections for the capitalization of interest. Sections 263A(f) and 263(g) provide for certain mandatory capitalization of interest.

Provision: The provision provides that the Section 163(j) limitation is calculated prior to the application of any interest capitalization provision, defined as any provision under which interest is (1) required to be charged to capital account or (2) may be deducted or charged to capital account. Any interest which is capitalized under Section 263(g) or 263A(f) is not treated as business interest for purposes of Section 163(j). The amount of business interest allowed after taking into account the limitation is applied first to amounts which would be capitalized and the remainder, if any, to amounts which would be deducted. No portion of any business interest carried forward is treated as business interest to which an interest capitalization provision applies.

#### **Sec. 70342. Definition of adjusted taxable income for business interest limitation.**

Current Law: Under present law, a taxpayer's ATI is based on taxable income with certain adjustments. In certain circumstances, a U.S. shareholder's ATI may include subpart F and GILTI inclusions and associated Section 78 gross-up amounts, as well as amounts determined under Section 956.

Provision: The provision excludes subpart F and GILTI inclusions and the associated Section 78 gross-up amounts, as well as amounts determined under Section 956, from a taxpayer's ATI.

### **Part V – Other International Tax Reforms**

#### **Sec. 70351. Permanent extension of look-thru rule for controlled foreign corporations.**

Current Law: Section 954(c)(6) is colloquially referred to as the "CFC look-through rule" and it currently applies to taxable years of foreign corporations beginning before January 1, 2026, and to taxable years of U.S. shareholders with or within which such taxable years of foreign corporations end. The CFC look-through rule excludes from foreign personal holding company income (FPHCI) dividends, interest, rents and royalties received or accrued by one CFC from a related CFC to the extent attributable or properly allocable to income of the payor which is neither subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States (ECI).

Provision: The provision makes Section 954(c)(6) permanent.

#### **Sec. 70352. Repeal of election for 1-month deferral in determination of taxable year of specified foreign corporations.**

Current Law: In general, specified foreign corporations are required to use as a taxable year the taxable year of their majority U.S. shareholder (the "majority U.S. shareholder year"). A specified foreign corporation, however, may elect a taxable year beginning one month earlier than the majority U.S. shareholder year (a "one-month deferral year").

Provision: The provision repeals the election for a one-month deferral year. Thus, a specified foreign corporation using a one-month deferral year is required to change to use its majority U.S. shareholder year.

The provision applies to taxable years of specified foreign corporations beginning after November 30, 2025. A transition rule provides that a specified foreign corporation's first taxable year beginning after November 30, 2025, ends at the same time as the first required year (within the meaning of Section 898(c)(1)) ending after such date, and provides authority for the Treasury Secretary to issue guidance for allocating foreign taxes paid or accrued in such year and the succeeding taxable year among such taxable years.

#### **Sec. 70353. Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules.**

Current Law: For purposes of determining when a person is a U.S. shareholder, Section 958 applies the constructive ownership rules of Section 318(a), with a few modifications. Section 318(a)(3) provides rules for when a corporation, partnership, trust, or estate is considered to own stock owned by a shareholder, partner,

or beneficiary (so-called “downward attribution”). For example, under Section 318(a)(3)(C), a corporation is considered as owning stock owned, directly or indirectly, by or for any shareholder that owns 50 percent or more of the corporation. Before the repeal of Section 958(b)(4), stock owned by a foreign person was not attributed downward to a U.S. person. As a result, a wholly-owned domestic subsidiary of a foreign corporation was not treated as owning stock in other foreign corporations owned by the foreign parent. Since the repeal of Section 958(b)(4), attribution of certain stock of a foreign corporation owned by a foreign person to a related U.S. person is required for purposes of determining whether the U.S. person is a U.S. shareholder of the foreign corporation and, therefore, whether the foreign corporation is a CFC.

**Provision:** The provision restores the limitation on downward attribution of stock ownership, former Section 958(b)(4), when applying the constructive ownership rules.

The provision also creates a new Section 951B to allow for downward attribution from a foreign person in certain cases. In general, Section 951B applies the CFC inclusion rules (i.e., subpart F and GILTI) to a foreign controlled U.S. shareholder (FCUSS) of a foreign controlled foreign corporation (FCFC) as if the former were a U.S. shareholder and the latter were a CFC. An FCUSS is a U.S. person that would be a U.S. shareholder with respect to a foreign corporation if: (1) to be a U.S. shareholder the U.S. person must own more than 50 percent of the stock of the foreign corporation; and (2) downward attribution from foreign persons applies. An FCFC is a foreign corporation, other than a CFC, more than 50 percent of which is owned by an FCUSS (as determined under the Section 958(a) and 958(b) constructive ownership rules, but without regard to Section 958(b)(4)).

The provision grants Treasury regulatory authority to treat an FCUSS or an FCFC as a U.S. shareholder or as a CFC, respectively, for purposes of other tax Code provisions (including any reporting requirement) and to provide guidance with respect to the treatment of FCFCs that are passive foreign investment companies (PFICs).

#### **Sec. 70354. Modifications to pro rata share rules.**

**Current Law:** Under present law, a U.S. shareholder of a foreign corporation that is CFC at any time during any taxable year and who owns stock in the foreign corporation on the last day, in such year, on which the foreign corporation is a CFC must include in gross income for the U.S. shareholder’s taxable year in which or with which such taxable year of the foreign corporation ends the U.S. shareholder’s pro rata share of the foreign corporation’s subpart F income for such year and, in general, the amount determined under Section 956 with respect to such shareholder for such year.

In determining the pro rata share described above, a U.S. shareholder’s subpart F inclusion is based on the amount of the CFC’s subpart F income that would have been distributed to the U.S. shareholder, but reduced (i) for the portion of the year on which the foreign corporation was not a CFC; and (ii) for any dividends paid to any other person on the stock the U.S. shareholder owns (directly or indirectly), but only to the extent of the subpart F income allocable to those shares and the portion of the CFC’s year during which the U.S. shareholder did not own the shares. Similar pro rata share rules apply in the calculation of a U.S. shareholder’s GILTI inclusion.

**Provision:** The provision modifies these rules to provide that if a foreign corporation is a CFC at any time during a taxable year of the foreign corporation (a “CFC year”), each U.S. shareholder which owns stock in such corporation during the CFC year must include in gross income such shareholder’s pro rata share of the corporation’s subpart F income for the CFC year, and, in general, each U.S. shareholder which owns stock in such corporation on the last day, in the CFC year, on which the corporation is a CFC must include in gross income the amount determined under Section 956 with respect to such shareholder for the CFC year.

A U.S. shareholder’s pro rata share of a CFC’s subpart F income for a CFC year is the portion of such income which is attributable to (i) the stock of the corporation owned by the shareholder, and (ii) any period of the CFC year during which the shareholder owned the stock, the shareholder was a U.S. shareholder, and the corporation was a CFC. Similar modified pro rata share rules apply in the calculation of a U.S. shareholder’s GILTI inclusion.

## **Part VI – Remedies Against Unfair Foreign Taxes**

### **Sec. 70361. Enforcement of remedies against unfair foreign taxes.**

Current Law: Not applicable.

Provision: This provision provides a mechanism by which the United States can protect its tax base, raise revenue, and defend Americans from unfair foreign taxes imposed by foreign governments on U.S. persons or certain foreign entities owned by U.S. persons. Such unfair foreign taxes, which include both discriminatory and extraterritorial taxes, threaten the durability of the U.S. tax system.

The provision would protect against unfair foreign taxes that are extraterritorial taxes by imposing increased rates of tax on certain affected taxpayers connected to the offending foreign country, which is any foreign country with one or more extraterritorial or discriminatory taxes. These affected taxpayers, referred to as applicable persons, include foreign governments, resident individuals, resident corporations, resident foreign private foundations, and entities owned by such persons. The increased rates of tax would apply to certain income and withholding taxes as well as excise taxes imposed on such applicable persons. The increase to the rates of tax otherwise applicable would occur each year, in five-percentage point increments, that the unfair foreign tax is imposed, not to exceed 15 percent. Such increases would not apply to certain items such as portfolio interest.

The provision would also protect against unfair foreign taxes more broadly, including both extraterritorial and discriminatory taxes, by subjecting certain domestic entities owned by a tax resident of an offending foreign country to certain modifications to the BEAT. These modifications would expand the scope of entities subject to the BEAT by eliminating the gross receipts threshold and reducing the threshold percentage of base erosion payments from 2 percent to 0.5 percent. The taxable base on which BEAT liability is computed would expand by adding back certain amounts not otherwise included pursuant to the regular BEAT computation, namely, the tax benefit attributable to a base erosion payment for which tax was imposed by section 871 or 881 and withheld under section 1441 or 1442, certain payments relating to related-party services, payments subject to sufficient foreign tax, and certain amounts paid to a foreign-related party that are capitalized and otherwise would have been treated as a base erosion payment but for the fact that the taxpayer capitalized such amounts.

The applicability of the increased rates of tax relating to foreign countries with extraterritorial taxes begins as of the “applicable date” with respect to such offending foreign country. The applicable date with respect to any offending foreign country with either an extraterritorial tax or a discriminatory tax is the first day of the first calendar year beginning on or after the latest of the date which is one year after the date of enactment, the date which is 180 days after the date of enactment of the unfair foreign tax that causes such country to be treated as an offending foreign country, or the first date that an unfair foreign tax of such country begins to apply. The increased rates and BEAT modifications apply to any applicable person each taxable year beginning (i) on or after the latest of the date which is one year after the date of enactment of the provision, the date which is 180 days after the date of enactment of the unfair foreign tax that causes the relevant foreign country to be treated as an offending foreign country, or the first date that an unfair foreign tax of such country begins to apply, and (ii) before the last date on which the offending foreign country imposes an unfair foreign tax. In effect, for applicable persons with a calendar year end, this provision will not apply until a taxable year beginning after December 31, 2026. In the case of withholding taxes on payments made to an applicable person, the increased rates apply to each calendar year beginning during the period that such person is an applicable person.

## **Chapter 4 – Investing in American Families, Communities, and Small Businesses**

### **Subchapter A – Permanent Investments in Families and Children**

#### **Sec. 70401. Enhancement of employer-provided child care credit.**

Current Law: Under current law, the employer-provided child care credit (Section 45F) provides businesses a nonrefundable tax credit of up to \$150,000 per year on up to 25 percent of qualified child care expenses

provided to employees. Therefore, an employer must spend at least \$600,000 on child care related expenses to receive the full credit.

**Provision:** This provision permanently increases the employer-provided child care credit, creates a separate credit amount for qualified small businesses and indexes the maximum credit amounts for inflation.

Specifically, this provision increases the maximum credit from \$150,000 to \$500,000 and the percentage of qualified child care expenses covered from 25 percent to 40 percent. Therefore, a business must spend at least \$1.25 million on child care related expenses to receive the full credit. Additionally, Section 45F is further strengthened for small businesses by increasing the maximum credit to \$600,000 and the percent of qualified child care expenses covered to 50 percent. Therefore, a small business must spend at least \$1.2 million on child care related expenses to receive the full credit. An eligible small business is one that meets the gross receipts test of less than or equal to \$25 million (inflation adjusted) based on the 5-year period (rather than 3-year period) preceding the taxable year. In 2025, the small business gross receipts threshold is \$31 million.

Additionally, this provision allows for small businesses to pool their resources to provide child care to their employees and for businesses to use a third-party intermediary to facilitate child care services on their behalf.

Employer-Provided Child Care Tax Credit (Section 45F)		
Provision	Current Law	Provision
Maximum Credit	\$150,000	\$500,000
Maximum Credit (Small Businesses)	n/a	\$600,000
% of Expenses Covered	25%	40%
% of Expenses Covered (Small Businesses)	n/a	50%
Small Business Pooling	NO	YES
Intermediaries	NO	YES

#### **Sec. 70402. Enhancement of adoption credit.**

**Current Law:** Under current law, for the 2024 tax year, the adoption tax credit is capped at \$16,810 for qualified adoption expenses when adopting an eligible child. The credit begins to phase out for AGIs over \$252,150 and completely phases out at AGIs over \$292,150. Both the credit and AGI limits are indexed for inflation. The credit is nonrefundable; however, any unused credit can be carried forward for up to five years.

**Provision:** This provision makes the adoption tax credit partially refundable up to \$5,000 (indexed for inflation) beginning in taxable years starting after December 31, 2024. The refundable portion of the credit cannot be carried forward.

#### **Sec. 70403. Recognizing Indian tribal governments for purposes of determining whether a child has special needs for purposes of the adoption credit.**

**Current Law:** Under current law, state governments are able to determine whether a child has “special needs” for purposes of the adoption tax credit. A child is considered to be special needs if they are difficult to place in a home (i.e. are older, have a disability or health condition, or are part of a sibling group). When a child is deemed special needs by a state government, the adoptive family becomes eligible for the full adoption tax credit.

**Provision:** This provision provides parity to Indian tribal governments, giving them the same ability as state governments to determine whether a child has special needs for the purposes of the adoption tax credit.

**Sec. 70404. Enhancement of the dependent care assistance program.**

Current Law: Under current law, the maximum annual exclusion for dependent care assistance is \$5,000 (\$2,500 in the case of a married individual filing separately). Section 129 provides that gross income of an employee does not include amounts paid or incurred by an employer for dependent care assistance provided to an employee if the amounts are furnished pursuant to a dependent care assistance program.

Provision: This provision increases the exclusion for dependent care assistance up to \$7,500 annually (\$3,750 in the case of a married individual filing separately), effective for taxable years beginning after December 31, 2025.

**Sec. 70405. Enhancement of child and dependent care tax credit.**

Current Law: Under current law, a taxpayer with one or more qualifying individuals, such as a child or other dependent, may claim a credit against income tax liability for employment-related expenses for child and dependent care. For this purpose, employment-related expenses are expenses for household services and expenses for the care of a qualifying individual. The credit is calculated by multiplying the amount of qualifying expenses – a maximum of \$3,000 if the taxpayer has one qualifying individual, and up to \$6,000 if the taxpayer has two or more qualifying individuals – by the appropriate credit rate. The credit rate varies by the taxpayer's adjusted gross income, with a maximum credit rate of 35 percent that declines, as AGI increases, to 20 percent for taxpayers with AGI above \$43,000.

Provision: This provision increases the maximum credit rate to 50 percent (currently 35 percent), reduced by one percentage point, but not below 35 percent, for each \$2,000 or fraction thereof by which the taxpayer's AGI exceeds \$15,000. For AGIs between \$43,001 and \$75,000 (\$86,001 and \$150,000, respectively, in the case of a joint return), the credit rate is 35 percent. This credit rate is further phased down to 20 percent for AGIs between \$75,001 and \$105,000 (\$150,001 and \$210,000, respectively, in the case of a joint return). This provision is effective for taxable years after December 31, 2025.

**Subchapter B – Permanent Investments in Students and Reforms to Tax-Exempt Institutions****Sec. 70411. Tax credit for contributions of individuals to scholarship granting organizations.**

Current Law: Not applicable.

Provision: This provision creates a new income tax credit for charitable contributions made to scholarship granting organizations, tax-exempt organizations that provide scholarships to elementary and secondary school students. The credit allowed to a taxpayer for a taxable year may not exceed the greater of 10 percent of the taxpayer's adjusted gross income or \$5,000. An individual is allowed the credit only to the extent that the Secretary of the Treasury, subject to an aggregate volume cap described below, allocates the credit to the individual. Students who benefit from the scholarships must be members of a household with an income not greater than 300 percent of the area median gross income and be eligible to enroll in a public elementary or secondary school.

This provision would establish a permanent program with an aggregate annual volume cap on the total amount of credits at \$4 billion. The provision is effective for taxable years beginning after December 31, 2026 in order to allow Treasury sufficient time to establish the program.

**Sec. 70412. Exclusion for employer payments of student loans.**

Current Law: Under current law, an employee may exclude from gross income and the employer may exclude from wages for employment tax purposes up to \$5,250 annually of educational assistance provided by the employer to the employee. Employer-provided educational assistance includes the payment, by an employer, of an employee's educational expenses (including, but not limited to, tuition, fees, and similar payments, books, supplies, and equipment). Only student loan payments made before January 1, 2026 qualify as educational assistance.

Provision: This provision removes the requirement that a student loan payment must be made before January 1, 2026, to qualify as educational assistance and thus makes the exclusion permanent. This provision would also inflation adjust the maximum exclusion for taxable years beginning after 2026.

**Sec. 70413. Additional expenses treated as qualified higher education expenses for purposes of 529 accounts.**

Current Law: Under current law, 529 savings plans are tax-advantaged accounts designed to fund education expenses, with federal law allowing tax-free withdrawals for the following qualified expenses: tuition (including up to \$10,000 annually for K-12 education), fees, books, supplies, equipment required for enrollment, room and board (for students enrolled at least half-time), computers, software, internet access, special needs services and costs for registered apprenticeship programs.

Provision: This provision allows tax-exempt distributions from 529 savings plans to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary school, including:

- curriculum and curricular materials;
- books or other instructional materials;
- online educational materials;
- tutoring or educational classes outside the home;
- certain testing fees;
- fees for dual enrollment in an institution of higher education; and
- certain educational therapies for students with disabilities.

The provision applies to distributions made after the date of enactment.

**Sec. 70414. Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts.**

Current Law: Under current law, 529 savings plans are tax-advantaged accounts designed to fund education expenses, with federal law allowing tax-free withdrawals for the following qualified expenses: tuition (including up to \$10,000 annually for K-12 education), fees, books, supplies, equipment required for enrollment, room and board (for students enrolled at least half-time), computers, software, internet access, special needs services and costs for registered apprenticeship programs.

Provision: This provision allows tax-exempt distributions from 529 savings plans, made after the date of enactment, to be used for additional qualified higher education expenses, including “qualified postsecondary credentialing expenses” in connection with “recognized postsecondary credential programs” and “recognized postsecondary credentials”. The provision applies to distributions made after the date of enactment.

**Sec. 70415. Modification of excise tax on investment income of certain private colleges and universities.**

Current Law: Under current law, Section 4968 imposes an excise tax on an applicable educational institution for each taxable year equal to 1.4 percent of the net investment income of the institution for the taxable year.

An applicable educational institution is an eligible education institution: (1) that has at least 500 tuition-paying students during the preceding taxable year; (2) more than 50 percent of the tuition-paying students of which are located in the United States; (3) that is not described in the first sentence of section 511(a)(2)(B) (generally describing State colleges and universities); and (4) the aggregate fair market value of the assets of which at the end of the preceding taxable year (other than those assets that are used directly in carrying out the institution’s exempt purpose) is at least \$500,000 per student. For these purposes, the number of students of an institution is based on the average daily number of full-time students attending the institution, with part-time students being taken into account on a full-time student equivalent basis.

Provision: The proposal amends the current excise tax on net investment income framework for certain private colleges and universities under Section 4968 with a tiered system based on an institution’s student-adjusted

endowment (see table below). For purposes of calculating an institution's student-adjusted endowment, this provision amends such calculation by excluding students who do not meet the requirements under Section 484(a)(5) of the *Higher Education Act of 1965*. Additionally, the proposal modifies the term “applicable educational institution” to mean an eligible education institution (as defined in Section 25A(f)(2)): (1) that has at least 500 tuition-paying students during the preceding taxable year; (2) more than 50 percent of the tuition-paying students of which are located in the United States; (3) that is not described in the first sentence of Section 511(a)(2)(B) (generally describing State colleges and universities); (4) that is not a qualified religious institution; (5) the student adjusted endowment of which is at least \$500,000; and (6) has participated in a program under title IV of the *Higher Education Act of 1965*. Finally, this provision includes student loan interest income and certain royalty income for the purposes of calculating a school’s net investment income.

Student-Adjusted Endowment	Excise Tax Rate
\$500,000 - \$749,999	1.4%
\$750,000 - \$1,999,999	4%
\$2,000,000+	8%

**Sec. 70416. Expanding application of tax on excess compensation within tax-exempt organizations.**

Current Law: Under current law, Section 4960 imposes an excise tax on excess compensation paid to certain highly compensated employees by applicable tax-exempt organizations. The excise tax rate is equal to the corporate tax rate multiplied by the sum of (1) any remuneration in excess of \$1 million paid to a covered employee for a taxable year, and (2) any excess parachute payment paid to a covered employee.

Provision: This provision strikes the text following “means any employee (including any former employee) of an applicable tax-exempt organization” from the definition of “Covered Employee” under Section 4960(c)(2). As a result, a covered employee includes any employee of an applicable tax-exempt organization that receives remuneration in excess of \$1 million.

**Subchapter C – Permanent Investments in Community Development**

**Sec. 70421. Permanent renewal and enhancement of opportunity zones.**

Current Law: Under current law, opportunity zones (OZs) exist as an economic development tool used to revitalize distressed communities across the country. Created in the *Tax Cuts and Jobs Act*, OZs are eligible census tracts that have been nominated by state governors and certified by the U.S. Department of Treasury as eligible areas for qualified investments. Investments in qualified opportunity funds are entitled to tax benefits at the taxpayer’s election. The current round of OZ designations will end on December 31, 2028.

*Definitions:*

Low-Income Community (LIC): A census tract that has a poverty rate of at least 20 percent or a median family income that does not exceed 80 percent of the area median income.

Qualified Opportunity Fund (QOF): A qualified opportunity fund is an investment vehicle organized as a corporation or a partnership for the purpose of investing in qualified opportunity zone property.

*Designation:*

Following the enactment of the *Tax Cuts and Jobs Act*, governors in each state were able to nominate up to 25 percent of LICs as OZs. In the event that a state had less than 100 eligible tracts, then up to 25 eligible tracts were allowed to be designated. Additionally, under certain circumstances, a contiguous tract that was not a LIC was able to be designated along with the LIC that was designated as an OZ.

*Tax Benefits:*

Investments in qualified opportunity funds are entitled to three tax benefits, at the taxpayer's election:

1. a temporary deferral of the capital gain reinvested in the qualified opportunity zone (the "rollover gain");
2. a permanent 10 or 15 percent reduction in the amount of such gain that must be recognized if the investment is held for five or seven years, respectively; and
3. a permanent exclusion of future gains resulting from the investment in the opportunity zone if the investment is held for at least 10 years.

To qualify, the rollover gain is generally required to be invested in the qualified opportunity fund during a 180-day period that begins on the date of the sale or exchange that generated the gain.

Provision: This provision establishes a permanent OZ policy that builds off of the original OZ structure. The provision creates rolling, ten-year OZ designations beginning on January 1, 2027. This provision maintains the OZ designation process from the *Tax Cuts and Jobs Act* and strengthens the eligibility requirements by updating the definition of an LIC and eliminating the ability for contiguous tracts that are not LICs to be designated as OZs.

The definition of "low-income community" is narrowed to census tracts that have a poverty rate of at least 20 percent or a median family income that does not exceed 70 percent of the area median income. Additionally, a guardrail is added to ensure that the term "low-income community" does not include any census tract where the median family income is 125 percent or greater of the area median family income.

The provision preserves the three taxpayer benefits from the *Tax Cuts and Jobs Act* but allows investors to receive incremental reduction in gain starting on the first anniversary of investment. In the seventh year of the designation window, investors will be required to realize their initial gains reduced by any step-up in basis. For each year that an investor is invested in the fund, their basis will be increased according to the following schedule:

Years Invested	Additional Step-Up in Basis
Years 1 - 3	1%
Years 4 - 5	2%
Year 6	3%

Additionally, the provision establishes a type of QOF that invests solely in rural areas. Investment in these "qualified rural opportunity funds" will receive triple the step-up in basis. Additionally, a special rule is created that lowers the "substantial improvement" threshold of existing structures from 100 percent to 50 percent in rural areas.

Lastly, this provision adds reporting requirements for the OZ program and provides funding to the Internal Revenue Service to carry out the reporting requirements.

The first round of OZs available under the permanent policy will begin on January 1, 2027.

#### **Sec. 70422. Permanent enhancement of low-income housing tax credit.**

Current Law: A taxpayer may claim the low-income housing tax credit annually over a 10-year period for the costs of building or rehabilitating rental housing occupied by low-income tenants. To be eligible for the credit, a low-income building must have received a credit allocation from the State (the "9 percent" credit) or been financed with the proceeds of certain tax-exempt bonds that are subject to the private activity bond volume limit (the "4 percent" credit).

For any calendar year, the total amount of housing credits available for allocation by a State is limited to the State housing credit ceiling. However, the amount of housing credit allocated to a low-income building reduces the State housing credit ceiling only once, in the year the housing credit is allocated. For calendar year 2025,

the population component of the State housing credit ceiling is equal to the greater of (1) \$3.00 multiplied by the State population or (2) \$3,455,000.

Alternatively, if 50 percent or more of the aggregate basis of the building and the land on which the building is located is financed by the proceeds of tax-exempt bonds, a low-income housing tax credit is allowable with respect to the entire eligible basis of the project without an allocation from the State or local housing credit agency. The tax-exempt bonds must be subject to the volume cap for private activity bonds and once bond proceeds are used to finance a project, principal payments on such financing must be applied within a reasonable period to redeem the bonds.

Provision: This provision would permanently increase the state allocation ceiling by 12 percent and lower the bond-financing threshold to 25 percent for projects financed by bonds starting in 2026.

**Sec. 70423. Permanent extension of the new markets tax credit.**

Current Law: The New Markets Tax Credit (NMTC) is a competitively awarded nonrefundable tax credit intended to encourage private capital investment in eligible, low-income communities. Low-income communities are designated by the Community Development Financial Institutions Fund (CDFI), a bureau within the Department of the Treasury using criteria set in statute. NMTCs are allocated by the CDFI under a competitive application process. Investors who make qualified equity investments reduce their federal income tax liability by claiming the credit (39 percent over 7 years). The NMTC is set to expire on December 31, 2025.

Provision: This provision would permanently extend the NMTC program.

**Sec. 70424. Permanent deduction for charitable contributions made by individuals who do not elect to itemize.**

Current Law: Under current law, only taxpayers who elect to itemize can receive a deduction for charitable contributions.

Provision: This provision creates a permanent deduction for taxpayers who do not elect to itemize. Specifically, for taxable years after December 31, 2025, non-itemizers can claim a deduction of up to \$1,000 for single filers (\$2,000 for married filing jointly) for certain charitable contributions.

**Sec. 70425. 0.5-percent floor on deduction of charitable contributions made by individuals who elect to itemize.**

Current Law: Under current law, individuals who choose to itemize are able to deduct a portion of their qualified charitable contributions. The deduction amount is subject to a specified limitation based on the type of contribution gifted.

Provision: This provision imposes a 0.5-percent floor on charitable contributions for taxpayers who elect to itemize for taxable years after December 31, 2025. Specifically, the amount of an individual's charitable contributions for a taxable year is reduced by 0.5 percent of the taxpayer's contribution base for the taxable year. Additionally, the provision would permanently extend the increased contribution limitation for cash gifts made to qualified charities.

**Sec. 70426. 1-percent floor on deduction of charitable contributions made by corporations.**

Current Law: Under current law, total deductions for charitable contributions by corporate taxpayers for any taxable year are generally limited to 10 percent of the taxpayer's taxable income. Charitable contributions over the percentage limitation in any taxable year can be carried forward to the next five taxable years.

Provision: This provision allows a deduction for corporate charitable contributions only to the extent that the aggregate of corporate charitable contributions exceeds one percent of a taxpayer's taxable income (the "one-percent floor") and does not exceed 10 percent of the taxpayer's taxable income (the "10-percent limit"). This limitation would apply for taxable years beginning after December 31, 2025.

Contributions in excess of the 10-percent limit may be carried forward to the subsequent five taxable years and are treated as allowed on a first-in, first-out basis. The amount of charitable contributions disallowed under the one-percent floor may be carried forward only from years in which the taxpayer's charitable contributions exceed the 10-percent limit. Any carryforward is applied after contributions made in the current taxable year for the purposes of the one-percent floor and 10-percent limit.

**Sec. 70427. Extension of rules for treatment of certain disaster-related personal casualty losses.**

Current Law: Under current law, taxpayers may claim disaster-related personal casualty losses, without having to itemize, for qualified disasters that ended no later than January 11, 2025 and were declared by the President no later than February 10, 2025. For individual taxpayers, personal casualty losses are losses of property not connected with a trade or business, or a transaction entered into for profit, if such losses arise from fire, storm, shipwreck, or other casualty or from theft.

Provision: This provision extends this tax treatment of disaster-related personal casualty losses through thirty days after the date of enactment.

**Subchapter D – Permanent Investments in Small Business and Rural America**

**Sec. 70431. Expansion of qualified small business stock gain exclusion.**

Current Law: Current law provides for the partial exclusion of gain on the sale of qualified small business stock (QSBS) held for more than five years. For stock acquired after September 27, 2010, the exclusion is 100 percent; for stock acquired in earlier periods, the exclusion is 50 percent or 75 percent, depending on the acquisition date. Gain excluded under Section 1202 is not treated as a preference item for alternative minimum tax (AMT) purposes for post-2010 acquisitions. The exclusion is subject to a per-issuer cap: generally, the greater of \$10 million or 10 times the taxpayer's basis in the stock. Eligibility also depends on the corporation's aggregate gross assets not exceeding \$50 million at the time of issuance.

Provision: This provision modifies the QSBS gain exclusion by providing a tiered gain exclusion for QSBS acquired after the date of enactment. In particular, the provision allows a 50 percent exclusion after three years, 75 percent after four years and 100 percent after five years. Also, the proposal increases the per-issuer dollar cap to \$15 million for post-enactment shares, indexed to inflation beginning in 2027. For stock issued after the applicable date, the corporate-level aggregate-asset ceiling is increased to \$75 million, indexed to inflation beginning in 2027.

The provision is generally effective for stock issued or acquired, and to taxable years commencing, on or after the date of enactment.

**Sec. 70432. Repeal of revision to de minimis rules for third party network transactions.**

Current Law: Under current law, third-party settlement organizations issue Form 1099-K to participating payees receiving gross payments exceeding \$600 for goods or services, regardless of the number of transactions. A third-party settlement organization is the central organization that has the contractual obligation to make payments to participating payees (generally, a merchant or business) in a third-party payment network. The change in reporting thresholds was supposed to take effect following the *American Rescue Plan of 2021* (ARPA). However, due to delays in implementation, for the 2024 tax year, third-party settlement organizations must issue a Form 1099-K for payees receiving gross payments exceeding \$5,000 for goods or services, regardless of the number of transactions. This threshold decreases to \$2,500 for 2025 and is set to drop to \$600 for 2026 and beyond, as originally mandated by ARPA, though the IRS has repeatedly delayed full implementation.

Provision: This provision modifies requirements for third-party settlement organizations to eliminate their reporting requirement with respect to the transactions of their participating payees unless they have earned more than \$20,000 on more than 200 separate transactions in an applicable tax period. This reverses the ARPA provision that lowered the reporting threshold to \$600 with no minimum on the number of transactions.

**Sec. 70433. Increase in threshold for requiring information reporting with respect to certain payees.**

Current Law: Under current law, the reporting threshold for payments by a business for services performed by an independent contractor or subcontractor and for certain other payments is generally \$600. In some cases, the reporting threshold is based on payments made during the taxable year.

Provision: This provision generally increases the threshold to \$2,000 and adjusts it for inflation for taxable years beginning after December 31, 2024. The new threshold is based on payments during the calendar year. This provision applies to payments made after December 31, 2024.

**Sec. 70434. Treatment of certain qualified sound recording productions.**

Current Law: Under current law, a taxpayer may elect under Section 181 to deduct up to \$15 million of the aggregate production costs of any qualified film, television or live theatrical production that commences before January 1, 2026. Instead of capitalizing and recovering those production costs through depreciation allowances once the production is placed in service, taxpayers deduct the costs when it pays or incurs them. The dollar limit is increased to \$20 million if a significant amount of the production costs is incurred in areas eligible for designation as a low-income community or eligible for designation by the Delta Regional Authority as a distressed county or isolated area of distress.

Qualified property eligible for bonus depreciation under Section 168(k) includes qualified film, television and live theatrical productions placed in service after September 27, 2017, and before January 1, 2027, for which a deduction otherwise would have been allowable under Section 181, without regard to the dollar limitation or termination of such section. A qualified production is considered to be placed in service, and thus eligible for bonus depreciation, at the time of initial release, broadcast or live staged performance.

Provision: The provision expands the special expensing rules for qualified film, television and live theatrical productions under Section 181 to include aggregate qualified sound recording production costs of up to \$150,000 per taxable year. A qualified sound recording production is a sound recording (as defined in 17 U.S.C. sec. 101) produced and recorded in the United States. Like qualified film and television productions or qualified live theatrical productions, the Section 181 deduction only applies to qualified sound recordings that commence before January 1, 2026.

The proposal also expands the definition of qualified property eligible for bonus depreciation to include qualified sound recording productions. A qualified sound recording production is placed in service at the time of initial release or broadcast.

This provision applies to productions commencing in taxable years ending after the date of enactment.

**Sec. 70435. Exclusion of interest on loans secured by rural or agricultural real property.**

Current Law: Not applicable.

Provision: This provision permanently allows banks insured under the Federal Deposit Insurance Act, domestic entities owned by a bank holding company, State or Federally regulated insurance companies, domestic entities owned by a State law insurance holding company and the Federal Agricultural Mortgage Corporation ("Farmer Mac") to exclude from gross income 25 percent of interest income derived from qualified real estate loans.

Qualified real estate loans are the following types of original loans made after the date of enactment to a person other than a specified foreign entity:

- Loans secured by domestic real property that is substantially used to produce agricultural products (e.g. farms and ranches) or a leasehold mortgage on such property;
- Loans secured by domestic real property that is substantially used in the trade or business of fishing or seafood processing or a leasehold mortgage on such property; and

- Loans secured by any domestic aquaculture facility or a leasehold mortgage on such facility.

This provision treats qualified real estate loans as tax-exempt obligations for purposes of disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry such loans.

This provision applies to original debt incurred in taxable years ending after the date of enactment.

#### **Sec. 70436. Elimination of tax on certain devices under the National Firearms Act.**

Current Law: Under current law, silencers, short-barreled rifles and short-barreled shotguns are defined as a “firearm” under Section 5845(a). As a result of this designation, each of these devices are subject to both a \$200 transfer tax under Section 5811(a) and a manufacturing tax under Section 5821.

Provision: This provision would remove silencers, short-barreled rifles, short-barreled shotguns and certain other devices from the definition of “firearm” for purposes of Section 5845, resulting in the elimination of the transfer and manufacturing tax on these devices. The provision would also preempt certain state or local licensing or registration requirements which are determined by reference to the National Firearms Act by treating anyone who acquires or possesses these rifles, shotguns, or other weapons in compliance with federal statute to be in compliance with the state or local registration or licensing requirements.

### **Chapter 5 – Ending Green New Deal Spending, Promoting America-First Energy and Other Reforms**

#### **Subchapter A – Termination of Green New Deal Subsidies**

#### **Sec. 70501. Termination of previously-owned clean vehicle credit.**

Current Law: Under current law, taxpayers may claim a tax credit for previously owned clean vehicles. The credit is worth the lesser of \$4,000 or 30 percent of the sale price and is limited to incomes of \$75,000 for single filers, \$112,500 for head of household filers and \$150,000 for joint filers. The credit is set to expire December 31, 2032.

Provision: This provision terminates the credit for vehicles acquired more than 90 days after enactment.

#### **Sec. 70502. Termination of clean vehicle credit.**

Current Law: Under current law, taxpayers may claim a tax credit of up to \$7,500 for new clean vehicles placed in service in a given taxable year. The maximum credit is comprised of two equal parts: the first \$3,750 credit value is determined based on the critical mineral sourcing of the vehicle’s battery and the second \$3,750 credit value is determined based on the sourcing of the battery components. The credit is limited to incomes of \$150,000 for single filers, \$225,000 for head of household filers, and \$300,000 for joint filers. The credit is available to vans with a Manufacturer’s Suggested Retail Price (MSRP) of \$80,000, SUVs with an MSRP of \$80,000, pickup trucks with an MSRP of \$80,000, and other vehicles with an MSRP of \$55,000. The credit is set to expire December 31, 2032.

Provision: This provision terminates the credit for vehicles acquired more than 180 days after enactment.

#### **Sec. 70503. Modification and Termination of qualified commercial clean vehicles credit.**

Current Law: Under current law, taxpayers may claim a tax credit for commercial clean vehicles placed in service in a taxable year. For vehicles weighing less than 14,000 pounds the credit value is \$7,500 and for other vehicles the credit value is \$40,000. Unlike for new clean vehicles, commercial clean vehicles are not subject to MSRP, income, assembly or sourcing limitations. The credit is set to expire December 31, 2032.

Provision: This provision terminates the credit for vehicles acquired more than 180 days after enactment. This provision also subjects commercial vehicles with a gross vehicle weight rating of less than 14,000 pounds to limitations like those applicable to new clean vehicles, effective as of the date the legislation was introduced.

**Sec. 70504. Termination of alternative fuel vehicle refueling property credit.**

Current Law: Under current law, taxpayers may claim a tax credit for advanced refueling property placed in service in a given taxable year. The credit value is 30 percent of the cost of the property not exceeding \$100,000. The credit expires December 31, 2032.

Provision: This provision terminates the credit with respect to property placed in service after the date that is 12 months after the date of enactment.

**Sec. 70505. Termination of energy efficient home improvement credit.**

Current Law: Under current law, taxpayers may claim a tax credit for household energy efficient improvements. The value of the credit is 30 percent of qualified energy efficient improvements, residential energy property or home energy audits not exceeding \$1,200 annually (\$2,000 if for heat pumps and biomass stoves). The credit expires December 31, 2032.

Provision: This provision terminates the credit with respect to property placed in service after the date which is 180 days after the date of enactment.

**Sec. 70506. Termination of residential clean energy credit.**

Current Law: Under current law, taxpayers may claim a credit for residential expenditures for solar electric property, solar water heating property, fuel cell property, small wind energy property, geothermal heat pump property and battery storage property placed in service by December 31, 2024. The value of the credit is 30 percent of the expenditures through December 31, 2032, 26 percent of expenditures in taxable year 2033, and 22 percent expenditures in taxable year 2034.

Provision: This provision terminates the credit with respect to expenditures made after the date that is 180 days after enactment.

**Sec. 70507. Termination of energy efficient commercial buildings deduction.**

Current Law: Under current law, taxpayers may deduct certain energy efficient commercial building property expenditures, specifically those installed as part of interior lighting systems, HVAC and hot water systems, or the building envelope. The base deduction is calculated on a per square foot basis, with base values ranging from \$0.50 per square foot to \$1.00 per square foot depending on how much energy/power costs are certified to be reduced (with these values \$2.50 to \$5 per square foot where prevailing wage and apprenticeship requirements are met).

Provision: The provision terminates the deduction with respect to property constructed after the date that is 12 months after enactment.

**Sec. 70508. Termination of new energy efficient home credit.**

Current Law: Under current law, contractors may claim a credit for homes built that meet certain Energy Star standards. Homes that are considered Zero Energy Ready are eligible for a \$5,000 credit and homes certified at a lower energy efficient level are eligible for a credit of either \$2,500 or \$1,000. The credit expires December 31, 2032.

Provision: This terminates the credit for homes acquired after the date which is 12 months after the date of enactment.

**Sec. 70509. Termination of cost recovery for qualified clean energy facilities, property and technology.**

Current Law: Under current law, taxpayers generally must capitalize the cost of property used in a trade or business held to produce income and recover such cost over time through periodic deductions for depreciation or amortization. In lieu of the recovery period and method that would otherwise apply, a special five-year recovery period applies to certain energy investment credit property, including zero-emission electric generation facilities, qualified biogas property, microgrid controllers, certain electrochromic glass and energy storage technology.

Provision: The provision terminates the special recovery period for these types of property for property placed in service after date of enactment.

#### **Sec. 70510. Modifications of zero-emission nuclear power production credit.**

Current Law: Under current law, there is a credit available for electricity produced by existing nuclear power plants. The value of the credit is 0.3 cents per kilowatt-hour (kWh) generally or 1.5 cents per kWh if a taxpayer meets prevailing wage and apprenticeship requirements or exceptions in constructing, repairing or altering the qualified facility. The credit gradually reduces as power prices rise above a \$25 per megawatt hour (MWh) index. To the extent a taxpayer does not have the tax liability to absorb a credit, the credits are eligible to be transferred to an unrelated taxpayer. The credit expires December 31, 2032.

Provision: This provision disallows the zero-emission nuclear power production credit where the taxpayer uses fuel produced in a covered nation (as such term is defined in 10 U.S.C. section 4872(f)) or by a covered entity, including in instances designed to circumvent the restriction. The provision requires the taxpayer to certify that fuel used in a credit-qualifying facility complies with these restrictions. The provision has an exception from these requirements for fuel acquired by the taxpayer pursuant to a binding written contract in effect before January 1, 2023. These changes are effective for taxable years beginning after December 31, 2027.

This provision restricts access to the credit for certain prohibited foreign entities. Specifically:

1. No credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity (as such term is defined in new section 7701(a)(51)).
2. No credit is allowed for taxable years that begin two years after date of enactment for a foreign-influenced entity (as such term is defined in new section 7701(a)(51)(D) without regard for clause (i)(II) thereof).

#### **Sec. 70511. Termination of clean hydrogen production credit.**

Current Law: Under current law, taxpayers may claim a credit per kilogram of qualified clean hydrogen produced for sale or use. The credit applies for the 10-year period from the date the facility is originally placed in service. The value of the credit is a percentage of \$0.60, ranging from 20 percent to 100 percent depending on the greenhouse gas emissions rate of the production process. To the extent a taxpayer does not have the tax liability to absorb a credit, the credits are eligible to be transferred to an unrelated taxpayer. The credit is currently available for facilities that commence construction before January 1, 2033.

Provision: This provision accelerates the expiration to facilities the construction of which begins after December 31, 2025.

#### **Sec. 70512. Phase-out and restrictions on clean electricity production credit.**

Current Law: Under current law, taxpayers may claim a credit for electricity produced and sold by a qualifying facility. For the purposes of this section, a “qualified facility” is one that is determined to have greenhouse gas emissions less than zero. The value of the credit is 0.3 cents per kWh generally or 1.5 cents per kWh if a taxpayer meets prevailing wage and apprenticeship requirements or exceptions in constructing, repairing, or altering the qualified facility. Taxpayers receive the credit for a 10-year period after a qualified facility is placed in service. To the extent a taxpayer does not have the tax liability to absorb a credit, the credits are eligible to be transferred to an unrelated taxpayer. This credit currently is set to begin phasing out at the later of 2032 or the calendar year in which domestic greenhouse gas emissions from the production of electricity are 25 percent of the amount emitted in 2022.

Provision: This provision phases out the clean electricity production credit. For electricity produced by wind or solar technology, the provision begins phasing out in calendar year 2026, with credit values for such qualified facilities the construction of which begins in 2026 receiving only 60 percent of the value of the credit. In 2027, these facilities receive only 20 percent of the credit, and by 2028, there is no longer a production tax credit for these technologies. For all other qualified facilities that generate electricity, such as hydropower, nuclear, and geothermal, the provision phases out as if the “later of” rule did not apply, with these facilities receiving 100

percent of the credit for qualified facilities the construction of which begins in 2033, 75 percent in 2034, 50 percent in 2035, and 0 percent in 2036.

The provision also denies the credit for wind and solar leasing to residential customers.

This provision restricts access to the credit for prohibited foreign entities. Specifically:

1. no credit is allowed for a facility that commences construction after December 31, 2025 that includes any material assistance from a prohibited foreign entity; and
2. no credit is allowed for taxable years beginning after enactment if the taxpayer is a prohibited foreign entity (PFE).

This provision also includes the definitions of several terms related to prohibited foreign entities, which apply for all other Code sections (as relevant):

**Prohibited Foreign Entity:** This term means specified foreign entities and foreign influenced entities.

**Specified Foreign Entity:** This term means various types of foreign entities that are related to or controlled by foreign adversary nations, such as a foreign entity of concern as described in the *William M. (Mac) Thornberry National Defense Authorization Act of FY 2021*. In addition, the term means a foreign-controlled entity.

**Foreign-Controlled Entity:** This term means certain foreign nationals and governments, as well as entities that are directly controlled by them using standard ownership and governance principles.

**Foreign-Influenced Entity:** This term means an entity with respect to which one or more specified foreign entities has certain indicia of effective control, ranging from having significant ownership stakes, to the ability to appoint board members or executive officers, to certain contractual arrangements (including certain licenses).

In addition to these definitions, the provisions also contain several rules necessary to make determinations of whether or not an entity is a PFE, as well as an exception from many foreign-influenced entity rules for publicly traded companies.

**Material Assistance from a Prohibited Foreign Entity:** The provision defines the meaning of material assistance from a PFE. The term means a material assistance cost ratio in excess of certain threshold amounts set for Sections 45Y and 48E, as well as for Section 45X. The material assistance cost ratio is the quotient of a fraction, the numerator of which is total costs minus total costs attributable to a PFE, and the denominator of which is total costs.

The provision has numerous rules to calculate material assistance from a PFE, including safe-harbor tables to rely on in determining the total costs attributable to a PFE.

### **Sec. 70513. Phase-out and restrictions on clean electricity investment credit.**

**Current Law:** Under current law, there is a credit allowed for qualified investment in an electricity facility or energy storage technology. For the purposes of this section, a “qualified facility” is one that is determined to have greenhouse gas emissions less than zero. The value of the credit generally is six percent of qualified investment increased to 30 percent if a taxpayer meets prevailing wage and apprenticeship requirements or exceptions. To the extent a taxpayer does not have the tax liability to absorb a credit the credits are eligible to be transferred to an unrelated taxpayer. This credit currently is set to begin phasing out at the later of 2032 or the calendar year in which domestic greenhouse gas emissions from the production of electricity are 25 percent of the amount emitted in 2022.

**Provision:** This provision phases out the clean electricity investment credit. For investments in wind or solar technology, the provision begins phasing out in calendar year 2026, with credit values for such investments the construction of which begins in 2026 receiving only 60 percent of the value of the credit. In 2027, these

investments receive only 20 percent of the credit, and by 2028, there is no longer an investment tax credit for these technologies. For all other qualified facilities, such as hydropower, nuclear and geothermal, the provision phases out as if the “later of” rule did not apply, with these facilities receiving 100 percent of the credit for qualified facilities the construction of which begins in 2033, 75 percent in 2034, 50 percent in 2035 and 0 percent in 2036.

The provision has a recapture rule and addresses a flaw in the domestic content bonus structure.

This provision restricts access to the credit for prohibited foreign entities. Specifically:

1. no credit is allowed for a facility that commences construction after December 31, 2025 that includes any material assistance from a prohibited foreign entity; and
2. no credit is allowed for taxable years beginning after enactment if the taxpayer is a prohibited foreign entity (PFE).

**Sec. 70514. Phase-out and restrictions on advanced manufacturing production credit.**

Current Law: Under current law, taxpayers may claim a credit for U.S. production of various eligible components, including certain inverters, solar energy components, wind energy components and battery components that are sold to an unrelated person. Taxpayers may also claim a credit for various critical minerals produced and sold to an unrelated person. Credit amounts vary by component. To the extent a taxpayer does not have the tax liability to absorb a credit, the credits are eligible to be transferred to an unrelated taxpayer. Currently, for components sold during calendar year 2030 there is a 25 percent reduction to the credit, for components sold during calendar year 2031 a 50 percent reduction, for components sold during calendar year 2032 a 75 percent reduction, and no credit allowed after December 31, 2032, except for the credit for critical mineral production which is permanent.

Provision: This provision makes several modifications to the advanced manufacturing production tax credit. It phases out the credit for producing critical minerals, with 75 percent of the credit allowed in 2031, 50 percent allowed in 2032, 25 percent in 2033, and no credit beginning in 2034. The provision also phases out the credit early for wind components, applicable to components produced and sold after December 31, 2027. For all eligible components, it strikes a rule that deemed eligible components that have been integrated into another eligible component to have been sold to an unrelated party, applicable to components sold during taxable years after December 31, 2026.

This provision also restricts access to the credit for certain prohibited foreign entities.

Specifically:

1. no credit is allowed for “components manufactured” beginning in 2026 that are the subject of material assistance from a prohibited foreign entity within the meaning of section 7701, as modified by this bill; and
2. no credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity or foreign influenced entity;

**Sec. 70515. Restriction on the extension of advanced energy project credit program.**

Current Law: Under current law, taxpayers were eligible to apply for a 30 percent investment tax credit with respect to their qualifying advanced energy projects. \$10 billion of these credits were issued by the Secretary, of which \$4 billion were reserved for certain energy community census tracts. Following acceptance of their application by the Secretary, taxpayers have two years to provide the Secretary with evidence substantiating the grant’s certification terms. Once certified, taxpayers have two years to place the project in service. Credits that are not expended, such as those that are reclaimed by the Secretary if a project fails to certify, are to be returned to the credit grant program for later reissuance.

Provision: The provision restricts funds returned to the Secretary from being later reissued and is effective as of the date of enactment.

## Subchapter B – Enhancement of America-First Energy Policy

### **Sec. 70521. Extension and modification of clean fuel production credit.**

Current Law: Under current law, taxpayers may claim a credit for the production of certain transportation fuel, including aviation fuel, to the extent it meets certain greenhouse gas emission standards. The value of the credit is an applicable amount per gallon multiplied by an emissions factor. The applicable amounts are \$0.20 per gallon for transportation fuel that is not sustainable aviation fuel (nonaviation fuel) and \$0.35 per gallon for sustainable aviation fuel, multiplied by five if the taxpayer meets prevailing wage and apprenticeship requirements or exceptions. This credit applies for fuel sold before January 1, 2028.

Provision: This provision makes certain modifications to the clean fuel production credit. This provision extends the credit through December 31, 2031. The provision imposes a 20 percent haircut on the value of the credit for fuel produced from feedstocks produced or grown outside the U.S., effective for transportation fuel produced after December 31, 2025. The provision excludes indirect land use changes for the purposes of lifecycle greenhouse gas emissions and provides the Secretary of the Treasury authority to establish distinct emission rates for specific manure feedstocks, effective for transportation fuel produced December 31, 2025. It generally prevents negative emissions rates for fuels, effective for emissions rates published for taxable years beginning after December 31, 2025.

The provision authorizes the Secretary to provide rules addressing certain related-party sales. The provision addresses overlapping claims for this credit as well as an excise tax credit in Section 6426(k)(1), by reducing the value of this credit to the extent the credit under Section 6426(k)(1) was taken, effective for fuel sold after 12/31/24, as well as terminating the Section 6426(k) credit for periods after September 30, 2025.

This provision restricts access to the credit for certain prohibited foreign entities, effective for taxable years beginning after the date of enactment. Specifically:

1. no credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)).
2. no credit is allowed for taxable years that begin two years after the date of enactment for a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D) without regard for clause (i)(II) thereof).

### **Sec. 70522. Restrictions on carbon oxide sequestration credit.**

Current Law: Under current law, taxpayers may claim a credit available per metric ton of qualified carbon oxide captured and disposed of or used by a taxpayer. In a given tax year beginning after December 31, 2016 and before January 1, 2027, the value of the credit is \$17 per metric ton if the carbon oxide is disposed of in secure geological storage, and \$12 per metric ton if the taxpayer utilizes the carbon oxide as a tertiary injectant and then securely stores it, or utilizes it by fixing it through photosynthesis or chemosynthesis, chemically converting it to securely store it, or for another purpose for which a commercial market exists. Credits exist for the 12-year period after the relevant equipment is placed in service.

For direct air capture facilities placed in service after December 31, 2022, the value is \$36 per metric ton if the carbon oxide is disposed of in secure geological storage, and \$26 per metric ton if the taxpayer utilizes the carbon oxide as a tertiary injectant and then securely stores it, or utilizes it by fixing it through photosynthesis or chemosynthesis, chemically converting it to securely store it or for another purpose for which a commercial market exists. Credits are increased fivefold if the prevailing wage and apprenticeship provisions are met. The credit amounts are indexed for inflation beginning after December 31, 2026. To the extent a taxpayer does not have the tax liability to absorb a credit, the credits are eligible to be transferred to an unrelated taxpayer. The credit currently applies to qualified facilities that commence construction before January 1, 2033.

Provision: This provision conforms credit values for captured carbon oxide that is disposed of in secure geological storage and that which is utilized first and then sequestered, effective for equipment placed in service after December 31, 2022.

This provision restricts access to the credit for certain prohibited foreign entities, effective for taxable years beginning after the date of enactment. Specifically:

1. no credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)).
2. no credit is allowed for taxable years that begin two years after date of enactment for a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D) without regard for clause (i)(II) thereof).

**Sec. 70523. Intangible drilling and development costs taken into account for purposes of computing adjusted financial statement income**

Current Law: Under current law, C corporations meeting certain requirements (“applicable corporations”) are subject to a corporate AMT that is based on adjusted financial statement income (AFSI). The tax equals the excess (if any) of (1) the tentative minimum tax for the taxable year, over (2) the regular tax (as defined in Section 55(c)) plus the tax imposed by the BEAT for the taxable year. The tentative minimum tax for an applicable corporation for a taxable year is the excess of (i) 15 percent of the AFSI (as reduced by certain financial statement NOLs) for the taxable year, over (ii) the book minimum tax foreign tax credit for such taxable year. AFSI is the net income or loss of the taxpayer set forth on the taxpayer’s applicable financial statement for such taxable year adjusted as set forth in Section 56A.

Provision: This provision requires AFSI to also be (i) reduced by any deduction allowed for expenses under Section 263(c) with respect to property described therein to the extent of the amount allowed as deductions in computing taxable income for the year, and (ii) adjusted to disregard any amount of depletion expense that is taken into account on the taxpayer’s applicable financial statement with respect to the intangible drilling and development costs of such property. This provision is effective for taxable years beginning after December 31, 2025.

**Sec. 70524. Income from hydrogen storage, carbon capture, advanced nuclear, hydropower, and geothermal energy added to qualifying income of certain publicly traded partnerships treated as corporations.**

Current Law: Under current law, publicly traded partnership rules allow certain enterprises to be treated as partnerships for tax purposes but also have interests that are regularly traded on established securities markets or are readily tradable on a secondary market. To qualify for this treatment 90 percent of gross income must come from qualifying income sources. One of those sources is the income and gains derived from exploration, development, mining or production, processing, refining, transportation or the marketing of any mineral or natural resources, industrial source carbon dioxide, or the transportation or storage of specified fuels.

Provision: For taxable years beginning after December 31, 2025, this provision expands the activities that can be categorized as qualifying income to include the transportation or storage of liquified hydrogen or compressed hydrogen, production of electricity from hydropower, generation of electricity or capture of carbon dioxide at a direct air capture or carbon capture facility, generation of electricity from an advanced nuclear facility, production of electricity or thermal energy from geothermal deposits or hydropower, and operation of property to produce, distribute or use energy from a geothermal deposit or property that uses the ground or ground water as a thermal energy source or thermal energy sink.

**Sec. 70525. Allow for payments to certain individuals who dye fuel.**

Current Law: Federal excise taxes are imposed on taxable fuels, with taxes typically imposed once the fuel leaves bulk transfer. Whereas moving fuel via inter-terminal pipelines does not cause fuel to leave bulk transfer, trucking fuel between terminals is considered to be a non-bulk transfer, resulting in the imposition of federal fuel excise taxes regardless of the actual ultimate use of the fuel. Some fuels are not subject to excise taxes because they are used for agricultural or other off-road purposes. These fuels are indelibly dyed.

At present, there is no mechanism to obtain a refund for fuel that has been subjected to excise tax but which ultimately went to a non-taxable use (e.g., which was dyed and used for agricultural or off-road purposes).

Provision: The provision would allow for refunds of federal fuel excise taxes actually paid on fuel indelibly dyed for off-road or agricultural purposes, effective for eligible indelibly dyed diesel fuel or kerosene removed on or after the date that is 180 days after the date of the enactment of this section.

## **Chapter 6 – Enhancing Deduction and Income Tax Credit Guardrails, and Other Reforms**

### **Subchapter A – Enhancing deduction guardrails and other reforms**

#### **Sec. 70601. Limitation on individual deductions for certain State and local taxes, etc. (SALT) and addressing SALT workarounds.**

Current Law: Under current law, in the case of an individual, the itemized deduction for state and local taxes is capped at \$10,000 (\$5,000 for a married taxpayer filing a separate return) (the “SALT cap”). In general, income taxes paid or accrued in carrying on a trade or business or an income-producing activity are subject to the individual SALT cap. The SALT cap is set to expire for taxable years beginning after December 31, 2025.

Provision: This provision would permanently extend the current SALT cap at \$10,000 (\$5,000 for a married taxpayer filing a separate return) for taxable years beginning after December 31, 2025. Notwithstanding this extension, the amount of the individual SALT cap is the subject of continuing negotiations. The provision disallows any deduction for personal foreign real property taxes.

The provision also includes several changes to prevent taxpayers from avoiding application of the SALT cap. Generally, this provision clarifies and modifies the list of taxes subject to the SALT cap (“specified taxes” and pass-through entity taxes (PTETs)); a list of taxes not subject to a SALT cap (“excepted taxes”); provides that certain payments that substitute for specified taxes are also subject to the SALT cap; requires partnerships and S corporations to treat specified taxes and PTETs as separately stated items; imposes an addition to tax in certain cases where a partnership makes a state or local tax payment, one or more partners receives a state or local tax benefit, and the allocation of the tax payment differs from the allocation of the tax benefit; prevents the capitalization of specified taxes; and grants the Secretary of the Treasury regulatory authority to prevent avoidance of the SALT cap. The definition of excepted tax includes any tax described in section 164(a)(1) and (2) that is paid or accrued in carrying on a trade or business; thus, a partnership or S corporation’s state and local real or personal property taxes fall outside the SALT deduction limitations.

The provision establishes an individual-level limitation for a partnership or S corporation owner’s separately stated share of PTETs. The PTET limitation allows an individual pass-through entity owner to deduct any unused portion of their SALT cap plus the greater of: (i) \$40,000 of their allocation of the PTET or (ii) 50 percent of their allocation of the PTET.

This provision applies to taxable years beginning after December 31, 2025.

#### **Sec. 70602. Extension and modification of limitation on excess business losses of noncorporate taxpayers.**

Current Law: Under current law, in the case of a noncorporate taxpayer, for taxable years beginning before January 1, 2029, no deduction is allowed for an excess business loss. Excess business losses are the excess of current-year net business losses over a specified amount. In 2025, these specified amounts are \$626,000 for married couples filing jointly and \$313,000 for all other taxpayers. These specified amounts are adjusted for inflation each year.

The limitation on excess business losses is set to expire for taxable years beginning after December 31, 2028.

Provision: This provision makes the excess business loss limitation permanent. The provision also provides that excess business losses disallowed in taxable years beginning after December 31, 2024, are taken into account in determining a taxpayer’s excess business losses in subsequent taxable years.

New rules are introduced to govern the treatment of excess business losses upon the termination of an estate or trust. The proposal also subjects excess business loss carryovers to the tax attribute reduction rules applicable to cancellation of debt income under Section 108 and carryover of tax attributes in Section 1398.

**Sec. 70603. Treatment of payments from partnerships to partners for property or services.**

Current Law: Under current law, Section 707(a)(2) applies to certain payments from a partnership to a partner only as prescribed by Treasury regulations.

Provision: The proposal clarifies the statute, revising “under regulations prescribed” with “except as provided.” The provision applies prospectively to services performed and property transferred after the date of enactment, with no inference as to the treatment of prior transactions.

**Sec. 70604. Excessive employee remuneration from controlled group members and allocation of deduction.**

Current Law: Under current law, publicly held corporations are denied a tax deduction for compensation paid to certain covered employees (typically the CEO, CFO, and the next three highest-paid officers) exceeding \$1 million per year. The *Tax Cuts and Jobs Act* expanded the scope by eliminating the performance-based compensation exception and including more entities, like certain publicly traded partnerships, as covered corporations. The limitation applies to taxable years beginning after December 31, 2017. ARPA expanded the definition of “covered employees” to include the five highest-compensated employees beyond the CEO, CFO, and three highest-paid officers, effective for taxable years beginning after December 31, 2026. Unlike the original covered employees, these additional five are not subject to the “once covered, always covered” rule and are determined annually based on deductible compensation.

Provision: This provision adds an entity aggregation rule for purposes of the deduction disallowance. The rule provides that in the case of any publicly held corporation which is a member of a controlled group, if any person which is a member of such controlled group provides applicable employee remuneration to an individual who is a specified covered employee of such controlled group and the aggregate amount of applicable employee remuneration provided by all such members with respect to such specified covered employee exceeds \$1,000,000 then the deduction allowed to such members of the controlled group for the applicable employee remuneration paid to such specified covered employee is limited to \$1,000,000. Controlled group means any group treated as a single employer under the rules used to treat related entities as a single employer for other employee benefit purposes.

In any case in which remuneration is paid to the specified covered employee by more than one member of the controlled group for a taxable year and the aggregate amount of such remuneration exceeds \$1 million (determined without regard to this rule), the proposal allocates the amount of the \$1 million deduction among each member of the controlled group that paid remuneration to such specified covered employee for the taxable year.

This provision applies to taxable years beginning after December 31, 2025.

**Sec. 70605. Third party litigation funding reform.**

Current Law: Third-party litigation financing arrangements – where outside investors fund legal claims in exchange for a share of the recovery – are generally taxed under ordinary income or capital gains rules. These proceeds may be subject to general partnership, corporate, or individual taxation rules, and there is no specific tax regime or withholding requirement applicable to litigation finance income. Gains may, in some cases, be classified as capital assets unless otherwise excluded under Section 1221. In addition, there is no statutory exclusion from gross income for litigation finance proceeds, nor any special withholding mechanism tied to such proceeds.

Provision: The provision creates a new framework addressing income received by third-party entities under litigation financing agreements. Specifically, a new tax is imposed on qualified litigation proceeds received by covered parties, which include third-party investors, domestic or foreign, who fund litigation in exchange for a

contingent financial interest. The tax would be equal to the highest individual income tax rate plus 3.8 percent and would apply at the entity level for pass-through entities. Qualified litigation proceeds would be excluded from capital asset treatment under Section 1221 and excluded from gross income under Section 139L. Additionally, the proposal disallows loss offsets and overrides Sections 104(a)(2) and 892(a)(1) exclusions.

The proposal imposes a withholding obligation where any named party or affiliated law firm that has executed a litigation-financing agreement is required to deduct and withhold, from any distribution to the covered party” an amount equal to 50 percent of the applicable percentage specified in proposed Section 5000E-1(b). The proposal requires the withholding agent to be liable for the withheld taxes and receives a creditable offset against its own tax liability, though ultimate liability remains with the recipient if there is an underwithholding. There is a \$10,000 de minimis exception, a carveout for non-contingent loan arrangements and an interest rate safe harbor. The provision also covers indirect financial interests through instruments substantially similar to litigation financing agreements (e.g., swaps, forwards, or options).

The provision applies to taxable years beginning after December 31, 2025.

#### **Sec. 70606. Excise tax on certain remittance transfers.**

Current Law: Not applicable.

Provision: This provision imposes a 3.5 percent excise tax on certain remittance transfers to be paid for by the sender with respect to such transfers. The provision requires that the tax be collected by remittance transfer providers, which are responsible for remitting such tax quarterly to the Secretary of the Treasury. The provision also provides that remittance transfer providers have secondary liability for any tax that is not paid at the time that the transfer is made.

The provision creates an exception for remittance transfers for which the funds being transferred are:

1. Withdrawn from an account held in certain financial institutions that are subject to the requirements under subchapter II of chapter 53 of title 31; or
2. Funded with a debit card or a credit card issued in the United States.

Additionally, the provision provides a refundable tax credit for any excise taxes required to be paid by individuals with work-eligible SSNs. Lastly, the provision also includes an anti-conduit rule.

The excise tax is effective for transfers made after December 31, 2025. The tax credit available to senders with a work-eligible SSN applies to taxable years ending after December 31, 2025.

### **Subchapter B – Enhancing tax credit guardrails and other IRS reforms**

#### **Sec. 70611. Enforcement provisions with respect to COVID-related employee retention credits.**

Current Law: Under current law, paid tax return preparers are subject to a penalty of \$500 for each failure to comply with due diligence requirements relating to the filing status and amount of certain credits with respect to a taxpayer’s return or claim for refund.

Further, to deter taxpayers who may take aggressive positions on refund claims, a separate penalty is imposed equal to 20 percent of the amount by which the claimed income tax refund exceeds the amount due under the Code. However, this penalty is not currently applicable to excessive refund claims for employment taxes.

Under current law, an eligible employer was entitled to claim a refundable employee retention tax credit (“ERTC”) against applicable employment taxes for the second, third and fourth calendar quarters in 2020 and the first, second and third quarters of 2021 in an amount equal to a percentage of the qualified wages with respect to each employee of such employer for such calendar quarter. Taxpayers could claim a COVID-related ERTC until April 15, 2025.

Provision: In addition to paid tax return preparers, this provision requires a COVID-ERTC promoter to comply with due diligence requirements with respect to a taxpayer's eligibility for (or the amount of) an ERTC and applies a \$1,000 penalty for each failure to comply.

This provision also extends the penalty for excessive refund claims to employment tax refund claims.

Additionally, this provision bars the IRS from issuing any additional unpaid claims under Section 3134, unless a claim for a credit or refund was filed on or before January 31, 2024. Additionally, it coordinates and extends limitations periods for certain corrective action by the IRS for credits or refunds under Section 3134.

**Sec. 70612. Social Security number requirement for American opportunity and lifetime learning credits.**

Current Law: Under current law, a student, taxpayer, or spouse must have a valid taxpayer identification number (TIN) issued or applied for on or before the due date of the return (including extensions) in order to claim the American Opportunity Tax Credit (AOTC) and/or Lifetime Learning Credit (LLC). A TIN is an SSN, an individual taxpayer identification number (ITIN), or an adoption taxpayer identification number (ATIN). The AOTC and/or LLC cannot be claimed if the TIN is issued after the due date of the return (including extensions).

Provision: This provision adds requirements for the student and taxpayer (if filing on behalf of the student) to include their SSN on their tax return in order to receive either the AOTC or LLC under Section 25A. This provision applies to taxable years beginning after December 31, 2025.

**Sec. 70613. Earned income tax credit reforms.**

Current Law: Under current law, low- and moderate-income taxpayers may be eligible for the refundable earned income tax credit (EITC). The amount of the EITC is based on the presence and number of qualifying children in the worker's family, family status, AGI, and earned income. As a result of various common errors in calculating the EITC, the IRS often provides refunds for duplicative claims, and the EITC has a high rate of improper payments.

Provision: This provision creates a new EITC certification program for taxable years after 2027, with transition rules beginning in 2024, for the IRS to detect and manage duplicative EITC claims. The Treasury Secretary is required to establish a program under which, on the taxpayer's application for the child, the Secretary is required to issue an EITC certificate to establish a child's status as a qualifying child of the taxpayer for a tax year.

The provision details the application requirements and how to resolve competing claims. The Secretary is not permitted to issue an EITC certificate unless the taxpayer applies under the program and provides information and documentation as the Secretary by regulation requires. In the case of competing claims, the Secretary is prohibited from issuing an EITC certification to any taxpayer making an application with respect to the child for that tax year unless the Secretary can establish the child, based on information and supporting documentation provided, as the qualifying child of one taxpayer for that tax year.

For taxable years beginning after 2027, in the case of a taxpayer who claims a child as a qualifying child for whom an EITC certificate has not been issued, the Secretary is not permitted to credit the portion of any overpayment for such tax year that is attributable to the taxpayer claiming the child as a qualifying child, unless the taxpayer obtains an EITC certificate.

The provision provides transition rules for taxable years beginning in 2024 and before 2027. During that time period, if there is a duplicate claim, the Secretary is required to send both claimants a notice stating that the child's SSN was used twice. For taxpayers making a claim the following year, the Secretary will hold refunds until October 15 and use its math error authority to correct any duplicative claims. Taxpayers can obtain a refund if they respond to the math error notice and provide information and supporting documentation that satisfactorily demonstrates the child is a qualifying child of the taxpayer for the tax year.

This provision also creates a task force to provide the Secretary a report on various items with respect to the administration of the EITC and provides an appropriation of \$10,000,000. The report is required to include recommendations for improvement of the integrity of the administration of the EITC, the potential use of third-party payroll and consumption datasets to verify income, and the integration of automated databases to allow horizontal verification to reduce improper payments, fraud and abuse.

Finally, this provision provides Purple Heart recipients whose Social Security disability insurance benefits were terminated due to returning to work with an additional EITC amount equivalent to one year of the lost disability insurance benefits.

#### **Sec. 70614. Task force on the termination of Direct File.**

Current Law: Under current law, the IRS may prepare and file tax returns online, for free, to qualifying taxpayers in 25 participating states (Direct File program). In addition, the IRS offers a Free File program where a number of tax preparation and filing software industry companies provide their online tax preparation and filing for free.

Provision: This provision directs Treasury to terminate the current Direct File program at the IRS and author a report evaluating the establishment of a public-private partnership between the IRS and private sector tax preparation services to offer free tax filing, potentially replacing both the existing Direct File and Free File programs.

#### **Sec. 70615. Increase in penalties for unauthorized disclosures of taxpayer information.**

Current Law: Under current law, the maximum fine for unauthorized disclosure of taxpayer information is \$5,000. The maximum term of imprisonment upon conviction of a Section 7213 violation is five years. Additionally, under current law, a willful unauthorized disclosure involving the returns or return information of multiple taxpayers is unclear.

Provision: This provision increases the specified maximum fine in Section 7213 to \$250,000 and the maximum term of imprisonment to 10 years. This provision also clarifies that a separate violation occurs with respect to each such taxpayer whose return or return information is disclosed, upon the willful unauthorized disclosure involving the returns or return information of multiple taxpayers. This provision applies to disclosures made after the date of enactment of this Act.

## **SUBTITLE B - HEALTH CARE**

### **Chapter 1 – Medicaid**

#### **Subchapter A – Reducing Fraud and Improving Enrollment Processes**

#### **Sec. 71101. Prohibition on implementation of rule relating to eligibility and enrollment in Medicare savings programs.**

Current Law: State Medicaid programs administer Medicare Savings Programs (MSPs) to some dual-eligible Medicaid and Medicare beneficiaries. Through MSPs, states may cover certain Medicare expenses, including premiums and cost-sharing. The MSP final rule, promulgated by Centers for Medicare & Medicaid (CMS) on September 21, 2023, changes certain MSP enrollment processes and grants automatic MSP entitlement to qualifying Medicare beneficiaries without requiring a separate application. It also requires states to use Medicare Part D Low-Income Subsidy (LIS) information for the purposes of determining MSP eligibility.

Provision: This provision would prohibit the Secretary of Department of Health and Human Services (HHS) from implementing, administering, or enforcing this final rule.

## **Sec. 71102. Prohibition on implementation of rule relating to eligibility and enrollment for Medicaid and CHIP.**

Current Law: CMS finalized the “Medicaid Program; Streamlining the Medicaid, Children's Health Insurance Program, and Basic Health Program Application, Eligibility Determination, Enrollment, and Renewal Processes” final rule on April 2, 2024. The rule simplifies eligibility and enrollment processes for Medicaid, the State Children’s Health Insurance Program (CHIP), and the Basic Health Program (BHP).

Provision: This provision would prohibit the HHS Secretary from implementing, administering, or enforcing this final rule under Medicaid or CHIP.

## **Sec. 71103. Reducing duplicate enrollment under the Medicaid and CHIP programs.**

Current Law: State Medicaid agencies are not required to coordinate with other state agencies to obtain beneficiary information, which CBO estimates results in nearly 1.4 million beneficiaries being simultaneously enrolled in more than one state Medicaid program.

Provision: This provision would require state Medicaid programs to regularly obtain and act upon updated address information from reliable data sources, including from managed care entities. The HHS Secretary would be required to establish a system to prevent simultaneous Medicaid enrollment in multiple states. Unless exempt by the HHS Secretary, the section would require states to submit specified information on a monthly basis to CMS and to take action when a case of multiple state enrollment is identified. This provision provides \$10 million to HHS for FY2026 to establish the address verification system and standards to operate the system and \$20 million for FY2029 for system maintenance.

## **Sec. 71104. Ensuring deceased individuals do not remain enrolled.**

Current Law: States must redetermine Medicaid eligibility at least annually and between regularly scheduled renewals if an enrollee’s change in circumstance might impact eligibility. States must disenroll ineligible individuals, subject to specified processes. CMS guidance identifies data sources to match Medicaid enrollment and payment against information on deceased individuals and suggests states conduct monthly data reviews.

Provision: This provision would require states to review the Social Security Administration’s (SSA) Death Master File (or other electronic data sources) at least quarterly to determine if any enrollees are deceased. The provision would specify processes for disenrollment of deceased enrollees and for reinstatement of coverage in the event of an error.

## **Sec. 71105. Ensuring deceased providers do not remain enrolled.**

Current Law: Medicaid regulations require states to check the SSA’s Death Master File to determine whether providers or suppliers are deceased as part of the enrollment and re-enrollment process.

Provision: This provision would codify the requirement for states to check the SSA’s Death Master File during a provider or supplier’s enrollment and reenrollment and would add a new requirement for states to check the file not less than quarterly.

## **Sec. 71106. Payment reduction related to certain erroneous excess payments under Medicaid.**

Current Law: For states with erroneous excess Medicaid payments over the allowable error rate of 3 percent, the HHS Secretary is required to reduce federal Medicaid payments by the amount that exceeds the threshold. However, the HHS Secretary may waive this reduction in federal payments if the state is unable to reach the allowable rate despite a good faith effort.

Provision: This provision would reduce the amount of erroneous excess payments that the Secretary may waive and would expand the definition of erroneous excess payments to include items and services furnished to individuals who are not eligible for federal reimbursement in Medicaid.

**Sec. 71107. Eligibility redeterminations.**

Current Law: States must redetermine Medicaid eligibility annually and between regularly scheduled renewals if an enrollee's change in circumstance might impact eligibility. States must disenroll ineligible individuals, subject to specified processes.

Provision: This provision would require states to conduct eligibility redeterminations once every 6 months for individuals enrolled through the Patient Protection and Affordable Care Act's (ACA) Medicaid expansion.

**Sec. 71108. Revising home equity limit for determining eligibility for long-term care services under the Medicaid program.**

Current Law: Generally, an individual may be excluded from eligibility for Medicaid-covered long-term services and supports (LTSS) if the individual's equity in a home exceeds a state-determined limit. These state-determined limits typically must fall within a minimum and a maximum amount indexed to inflation. As of 2025, the home equity limit minimum is \$730,000 and the maximum is \$1,097,000.<sup>11</sup>

Provision: This provision would cap the home equity limit maximum at \$1,000,000 regardless of inflation indexing, except for certain homes on agricultural lots. The section also would prohibit states from excluding certain income or assets when determining an individual's eligibility for Medicaid-covered LTSS without applying home equity limits. Additionally, the section would require the application of home equity limits for the purposes of determining eligibility for Medicaid-covered LTSS for modified adjusted gross income (MAGI)-excepted enrollees.

**Sec. 71109. Prohibiting federal financial participation under Medicaid and CHIP for individuals without verified citizenship, nationality or satisfactory immigration status.**

Current Law: Medicaid and CHIP applicants must be U.S. citizens or have immigration statuses that meet the requirements for being qualified aliens to be eligible for coverage. If the agency cannot promptly verify the citizenship or satisfactory immigration status, states must provide services to otherwise eligible enrollees and may provide services to otherwise eligible applicants during a reasonable opportunity period while that individual's U.S. citizenship or satisfactory immigration status is being verified.

Provision: This provision would eliminate the requirement for states to provide coverage during the reasonable opportunity or other allowable period(s). The provision would allow states to elect to provide coverage to applicants during such period, but would prohibit the use of federal funds for amounts spent on services unless U.S. citizenship or nationality or satisfactory immigration status is verified before the end of the period.

**Sec. 71110. Alien Medicaid eligibility.**

Current Law: The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) provides certain non-citizens, referred to as qualified aliens, access to public benefits. Qualified aliens are defined as: (1) lawful permanent residents (LPRs); (2) refugees; (3) aliens granted parole for at least one year; (4) aliens granted asylum or related relief; (5) certain abused spouses and children; (6) certain victims of trafficking; (7) Cuban-Haitian entrants; and (8) Citizens of the Freely Associated States (COFA migrants) residing in states and territories. Qualified aliens are only eligible for Medicaid after the first five years of U.S. residency.

Provision: This provision would amend the definition of qualified alien to include: (1) LPRs; (2) certain Cuban immigrants; and (3) individuals living in the United States through a Compact of Free Association (CoFA).

**Sec. 71111. Expansion FMAP for certain states providing payments for health care furnished to certain individuals.**

Current Law: States receive a 90 percent federal medical assistance percentage (FMAP) rate for ACA Medicaid expansion enrollees. Under PRWORA, aliens not considered to be qualified aliens generally are barred from Medicaid and CHIP coverage.

Provision: This provision would reduce the federal share of Medicaid expansion expenditures for "specified states" from 90 percent to 80 percent. Specified states would include states that, during a quarter, provide state-based Medicaid coverage to aliens who are not qualified aliens.

**Sec. 71112. Expansion FMAP for emergency Medicaid.**

Current Law: Coverage of Medicaid-eligible unlawfully present aliens and other individuals without a satisfactory immigration status are limited to services necessary for the treatment of an emergency medical condition, commonly known as “emergency Medicaid.” The FMAP for these payments reflects the corresponding eligibility category of the individual.

Provision: Unlawfully present aliens that would otherwise qualify for Medicaid expansion if not for their immigration status qualify for the enhanced ACA expansion FMAP of 90 percent. This provision would equalize the FMAP for otherwise ineligible aliens receiving emergency Medicaid, ensuring that they do not receive a higher FMAP than the traditional Medicaid population.

**Subchapter B – Preventing Wasteful Spending****Sec. 71113. Prohibition on implementation of the final staffing rule for nursing facilities.**

Current Law: In May 2024, the HHS Secretary finalized a rule to set minimum staffing standards for Medicare and Medicaid long-term care facilities. These standards include requirements on nursing home personnel and the minimum threshold of staff-to-resident ratios.

Provision: This provision would prohibit the HHS Secretary from implementing, administering or enforcing any part of the final rule.

**Sec. 71114. Reducing state Medicaid costs.**

Current Law: States are required to cover Medicaid benefits retroactively for the three months prior to enrollment.

Provision: This provision would limit retroactive coverage to the month preceding enrollment for ACA Medicaid expansion beneficiaries, and two months preceding enrollment for the traditional Medicaid beneficiaries.

**Sec. 71115. Ensuring accurate payments to pharmacies under Medicaid.**

Current Law: The Deficit Reduction Act of 2005 authorized the HHS Secretary to conduct a retail price survey of outpatient drugs and to disclose the survey results to states and the public. As a result, CMS created the voluntary National Average Drug Acquisition Cost (NADAC) survey to identify retail community pharmacy drug acquisition costs, or the estimated prices retail community pharmacies paid to purchase all Medicaid-covered outpatient drugs.

Provision: This provision would expand the NADAC survey to include certain non-retail pharmacies (e.g., specialty and mail-order pharmacies), and would require applicable pharmacies to respond to the survey. This section also would require pharmacies to report the net of all price concessions, such as discounts or rebates. Pharmacies that do not comply with the survey requirements may be subject to civil monetary penalties. The OIG of HHS would receive \$5 million to conduct periodic studies of the survey, and the HHS Secretary would receive \$8 million for each year from FY2026 through FY2033 to carry out the survey.

**Sec. 71116. Spread pricing in Medicaid.**

Current Law: States have flexibility to determine reimbursement methodologies for outpatient prescription drugs covered by Medicaid, although payment methodologies are approved by CMS through the state plan amendment (SPA) process. States must ensure federal Medicaid funds do not exceed upper payment limits set by CMS.

Provision: This provision would require pharmacy benefit managers (PBMs) to reimburse pharmacies or providers for the dispensing drugs using a “pass-through” structure. Under the pass-through pricing structure, the PBM would reimburse the pharmacy or provider for an amount that is the sum of the ingredient cost and a professional dispensing fee, passed through in its entirety from the PBM to the pharmacy or provider. For drugs purchased through the 340B program, the ingredient cost paid for dispensing the drug would be allowed to exceed the actual acquisition cost of the drug by the covered entity. Any form of spread pricing, whereby the PBM charges the state or MCO an amount for the dispensing of a drug that exceeds the amount paid to

the pharmacies or providers, net of all pricing concessions, would not be allowable for purposes of claiming federal matching funds. Compensation to PBMs would be limited to an administrative fee that reflects fair market value for services performed.

#### **Sec. 71117. Prohibiting federal Medicaid and CHIP funding for certain items and services.**

Current Law: State Medicaid programs and CHIP may cover items and services related to gender transition procedures.

Provision: This provision would prohibit federal Medicaid or CHIP funds for amounts spent on specified items and services for gender transition purposes. The provision includes certain exceptions, including cases of disease, injury or chromosomal anomaly.

#### **Sec. 71118. Federal payments to prohibited entities.**

Current Law: In general, Medicaid enrollees may obtain family planning services from a participating provider of their choice. Medicaid is subject to the Hyde Amendment, which prohibits the use of federal funds for abortions, except in the cases of rape, incest, or endangerment of a woman's life.

Provision: This provision would prohibit federal Medicaid payments for items and services provided by "prohibited entities" for a period of 10 years beginning on the date of enactment. Prohibited entities include tax-exempt essential community providers that deliver family planning and abortion services, other than those allowable under the Hyde Amendment. Further, a prohibited entity is defined as one that received federal and state Medicaid reimbursements exceeding \$800,000 in 2023.

### **Subchapter C – Stopping Abusive Finance Practices**

#### **Sec. 71119. Sunsetting increased FMAP incentive.**

Current Law: The American Rescue Plan Act provides qualifying states (defined as non-expansion states in March 2021) with a five percent increase to the traditional FMAP for eight quarters after a state expands Medicaid.

Provision: This provision would eliminate the five percentage-point increase to the traditional FMAP rate for states implementing ACA Medicaid expansion.

#### **Sec. 71120. Provider taxes.**

Current Law: States are able to use revenues from health care provider taxes to help finance the state share of Medicaid expenditures. Federal statute and regulations define a provider tax as a health care-related fee, assessment, or other mandatory payment for which at least 85 percent of the burden of the tax revenue falls on health care providers. Under the so-called hold harmless threshold, the federal government and states may make providers whole for net patient revenue up to 6 percent.

Provision: This provision would prohibit non-expansion states from increasing the rate of current provider taxes or increasing the base of the tax to a class or items of services that the tax did not previously apply. Beginning in 2027, the hold harmless threshold in expansion states for provider classes other than nursing or intermediate care facilities would be reduced by 0.5 percent annually until the maximum hold harmless threshold reaches 3.5 percent in 2031.

#### **Sec. 71121. State directed payments.**

Current Law: Medicaid state directed payments are supplemental payments to providers under managed care organization contracts. The total payment rate for inpatient hospital services, outpatient hospital services, nursing facility services or qualified practitioner services at an academic medical center may not exceed the average commercial rate.

Provision: This provision would direct the HHS Secretary to revise the payment limit for state directed payments. For states that have implemented ACA Medicaid expansion, the current payment limit would be reduced from the average commercial rate to 100 percent of the Medicare payment rate. In non-expansion states, the payment limit would be reduced to 110 percent of the Medicare payment rate. Further, existing

state-directed payment limits would be reduced by 10 percent annually until the allowable Medicare-related payment limit is achieved. The section would provide the HHS Secretary with \$7 million for each of FY2026 through FY2033 for implementation.

**Sec. 71122. Requirements regarding waiver of uniform tax requirement for Medicaid provider tax.**

Current Law: For states to draw down federal Medicaid matching funds, provider taxes must be both broad-based (i.e., imposed on all providers within a specified class of providers) and uniform (i.e., the same tax for all providers within a specified class of providers). The HHS Secretary may waive the broad-based and uniform requirements if the net impact of the tax is generally redistributive and the amount of the tax is not directly correlated to Medicaid payments.

Provision: This provision would limit the definition of generally redistributive to qualify for a waiver of the uniform requirement. For instance, provider taxes would not be considered generally redistributive if (1) the tax rate is lower for providers with a lower volume or percentage of Medicaid taxable units or (2) the tax rate on Medicaid taxable units is higher than the tax rate imposed on non-Medicaid taxable units.

**Sec. 71123. Requiring budget neutrality for Medicaid demonstration projects under Section 1115.**

Current Law: Section 1115 of the Social Security Act provides HHS with broad authority to waive federal Medicaid requirements to allow states to make budget-neutral changes to their Medicaid programs. Current law has allowed for waivers to be approved that result in spending that is higher than what states would have spent in the absence of a demonstration.

Provision: This section would codify and strengthen budget neutrality requirements for demonstration projects under section 1115 of the Social Security Act. CMS's Chief Actuary would be required to certify that the total federal expenditures do not exceed what would otherwise have been spent under Medicaid absent the demonstration project. The HHS Secretary would also be required to develop methodologies for applying savings generated under a project to allowable expenditures in a project's extension.

**Subchapter D – Increasing Personal Accountability**

**Sec. 71124. Requirement for states to establish Medicaid community engagement requirements for certain individuals.**

Current Law: Medicaid enrollees are not subject to work requirements under current law.

Provision: This provision would require certain specified nonpregnant, nondisabled, childless adults, aged 19 through 64, to complete a minimum of 80 hours of qualifying community engagement activities prior to initial application as a condition of Medicaid eligibility.

*Exempted Individuals:* The provision would exempt certain specified groups from meeting community engagement requirements, including:

- Veterans with a disability rated as total;
- Individuals who are medically frail or otherwise have special medical needs ;
- Individuals who are blind, have a substance use disorder, a disabling mental disorder, a physical or intellectual disability that significantly impairs their ability to perform one or more activities of daily living, or a serious or complex medical condition;
- Parents, guardians, and caretaker relatives of children aged 14 or under or a disabled individual;
- Foster care youth through the age of 26;
- Individuals who are Indians, Urban Indians, California Indians, and other Indians who are eligible for the Indian Health Service as determined by the HHS Secretary through regulations; or
- Individuals who are inmates in a public institution or who were inmates in a public institution at any point during the three-month period prior to the month where compliance with community engagement activities is being verified.

*Good Cause Exemptions:* The provision would permit states to exempt “applicable individuals” from the community engagement requirement for short-term hardships during a month. Short-term hardships would be defined as for all or part of the month that the requesting individual:

- Receives inpatient hospital services, nursing facility services, services in an intermediate care facility for individuals with intellectual disabilities, inpatient psychiatric hospital services or other services of similar acuity (including outpatient care), as determined by the HHS Secretary;
- Resides in an area where there is declared an emergency or disaster by the President pursuant to the National Emergencies Act or the Robert T. Stafford Disaster Relief and Emergency Assistance Act;
- Lives in areas with an unemployment rate that is at or above the lesser of 8 percent or 1.5 times the national unemployment rate; or
- Must travel outside of their community for an extended period of time to receive medical services not available within their community of residence.

*Qualifying Activities:* The provision would require “qualifying individuals” to meet one or more of the four qualifying activities for a combined total of at least 80 hours per month. Qualifying activities include:

- Work;
- Participation in a work program;
- Participation in community service;
- Enrollment in an education program; or
- To have a monthly income “that is not less than the applicable minimum wage requirement under Section 6 of the Fair Labor Standards Act of 1938, multiplied by 80 hours.”

*Consequences for Not Meeting the Community Engagement Requirement:* The provision would stipulate that failure to meet the community engagement requirement would result in denial of eligibility or disenrollment for noncompliance.

*State Verification Requirements:* The provision would require states to verify compliance with the community engagement requirement at eligibility redeterminations or more frequently at the option of the state.

*State Procedures for Noncompliance:* The provision would require states to establish processes and use reliable information available to the states (e.g., payroll data) without requiring, where possible, the applicable individual to submit additional information. The state would be required to provide notice of noncompliance. Within 30 days from the date the notice is received, the enrollee must demonstrate either compliance with the requirement or that the individual does not meet the definition of applicable individual. After 30 days, if the noncompliance has not been resolved, the state must provide timely and adequate written notice (as specified) and deny or terminate eligibility within 30 days.

*Outreach and Enrollee Education Requirements:* The provision would require states to notify individuals subject to the Medicaid community engagement requirements at least three months before the requirement becomes effective and periodically thereafter by mail, electronic format, and one or more additional methods, including telephone, text message, website or other available electronic means. Enrollee education would include information on who is impacted, how to comply, how to report compliance and consequences for noncompliance.

*Implementation Funding to States:* For FY2026, the provision would appropriate \$100 million for the HHS Secretary to award grants to states to establish systems necessary to carry out the community engagement requirements. States would be awarded a share of these funds based on the ratio of the total number of applicable individuals residing in the state as compared to the total number of applicable individuals residing in all states.

*Implementation Funding to Federal Agency:* For FY2026, the provision would appropriate \$50 million (to remain available until expended) to the HHS Secretary to carry out the section.

## **Sec. 71125. Modifying cost sharing requirements for certain expansion individuals under the Medicaid program.**

Current Law: States may impose premiums on certain enrollees, such as individuals with incomes above 150 percent of the federal poverty level (FPL). States can impose nominal co-payments, coinsurance or deductibles on most covered benefits, but there are limits on the amounts, the eligibility groups that can be required to pay, and the services for which cost sharing can apply. Special cost-sharing rules exist for certain services, such as prescription drugs and nonemergency use of emergency room services.

Provision: This provision would require Medicaid expansion enrollees earning more than 100 percent of FPL to pay cost-sharing amounts up to \$35 per service. The requirements would not apply to primary, prenatal, pediatric or emergency room care (except for non-emergency services provided in an emergency room).

## **Chapter 2 – Medicare**

### **Sec. 71201. Limiting Medicare coverage of certain individuals.**

Current Law: In general, non-citizens must be otherwise eligible for Medicare and be lawfully present in the United States to enroll in or receive benefits under Medicare. PRWORA limits Medicare eligibility to certain non-citizens, referred to as qualified aliens. Qualified aliens are defined as: (1) lawful permanent residents (LPRs); (2) refugees; (3) aliens granted parole for at least one year; (4) aliens granted asylum or related relief; (5) certain abused spouses and children; (6) certain victims of trafficking; (7) Cuban-Haitian entrants; and (8) Citizens of the Freely Associated States (CoFA migrants) residing in states and territories.

Provision: This provision would limit non-citizen eligibility for Medicare to the following groups: (1) LPRs; (2) certain Cuban immigrants; and (3) CoFA migrants lawfully residing in the United States. Additionally, individuals would have to be otherwise eligible for Medicare to enroll in or receive benefits under the program. The Social Security Commissioner would be required to identify non-citizen Medicare beneficiaries who no longer qualify for the program within six months after the date of enactment. The Commissioner would then be required to notify such non-citizens as soon as practicable, and in a manner designed to ensure comprehension, that their Medicare entitlement or enrollment will be terminated effective one year after the date of enactment.

## **Chapter 3 – Health Tax**

### **Subchapter A – Improving Eligibility Criteria**

#### **Sec. 71301. Permitting premium tax credits only for certain individuals.**

Current Law: Eligible individuals may receive a premium tax credit (PTC) to subsidize the cost associated with enrolling in specified health plans offered through health insurance exchanges. U.S. citizens, U.S. nationals or lawfully present individuals may be eligible for the PTC.

Provision: This provision would limit eligibility for the PTC to the following defined eligible aliens: (1) LPRs; (2) certain Cuban immigrants; and (3) CoFA migrants lawfully residing in the United States.

#### **Sec. 71302. Disallowing premium tax credit during periods of Medicaid ineligibility due to alien status.**

Current Law: Eligible individuals may receive a PTC to subsidize the cost associated with enrolling in specified health plans offered through health insurance exchanges. U.S. citizens, U.S. nationals or lawfully present individuals may be eligible for the PTC. Lawfully present individuals who are not eligible for Medicaid with annual incomes below 100 percent of FPL may be eligible for the PTC.

Provision: This provision would disallow lawfully present individuals who are ineligible for Medicaid with incomes below 100 percent of FPL from receiving the PTC.

### **Subchapter B – Preventing Waste, Fraud, and Abuse**

**Sec. 71303. Requiring verification of eligibility for the premium tax credit.**

Current Law: Eligible individuals may receive a PTC to subsidize the cost associated with enrolling in specified health plans offered through health insurance exchanges. For purposes of determining eligibility, an exchange is required to verify an individual's attested income and other information included in an insurance application, as specified under statute and accompanying regulations.

Provision: This provision would require verification of specific insurance application information in order for an enrollee to qualify for the PTC. Such information would include household income, any immigration status, any health coverage status or eligibility for coverage, place of residence, family size and other information that may be determined by the Secretary of the Treasury to be necessary to conduct verification. The Secretary would be allowed to waive the verification requirement for an individual who enrolls in an exchange plan during a special enrollment period (SEP) due to a change in family size. An exchange would be required to implement a pre-enrollment verification process to allow insurance applicants to verify their income for enrollment in exchange plans and the PTC.

**Sec. 71304. Disallowing premium tax credit in case of certain coverage enrolled in during special enrollment period.**

Current Law: Eligible individuals may receive a PTC to subsidize the cost associated with enrolling in specified health plans offered through health insurance exchanges. Generally, individuals may enroll in such plans only during an open enrollment period or a SEP if they experience circumstances specified in regulations. Such circumstances may involve a change in income, family composition, employment, access to subsidized health benefits or other changes.

Provision: This provision would disallow the PTC for individuals who enrolled in an exchange plan during an income-based SEP that is not connected to a change in other circumstances.

**Sec. 71305. Eliminating limitation on recapture of advance payment of premium tax credit.**

Current Law: Eligible individuals may receive a PTC to subsidize the cost associated with enrolling in specified health plans offered through health insurance exchanges. Individuals may receive an advanced PTC based on an estimate of annual income. The total advanced PTC amount is reconciled during annual income tax returns based on actual income. Excess advanced PTC amounts must be returned to the Treasury, with partial repayments of excess amounts allowed for individuals with incomes below 400 percent of FPL.

Provision: This provision would disallow partial repayments of excess advanced PTCs, requiring taxpayers to repay the full amount of any excess. Individuals with estimated annual income at or above 100 percent of FPL that received an advanced PTC, but whose actual income is less than 100 percent of FPL, would not be required to return excess payments unless the Secretary determines the individual provided incorrect information intentionally or with "reckless disregard for the facts."

**SUBTITLE C - INCREASE IN DEBT LIMIT**

**Sec. 72001. Modification of limitation on the public debt.**

Current Law: The current statutory debt limit was established on January 2, 2025, following a debt limit suspension period.

Provision: This provision increases the statutory debt limit by \$5 trillion.