SENATE FINANCE COMMITTEE SECTION-BY-SECTION

As signed into law on July 4, 2025

This document provides a summary of the provisions in Title VII of the One Big Beautiful Bill Act (P.L. 119-21) prepared by the Senate Finance Committee Republican staff.

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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*. This provision also adds an additional year of inflation adjustment to the 10 percent and 12 percent brackets.

Tax Rates & Brackets (2026)		
Bracket	Current Law	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 current law, the increased standard deduction will expire after December 31, 2025, and the amount of the basic standard deduction for taxable year 2026 is estimated to 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 increased standard deduction created by the *Tax Cuts and Jobs Act*. Additionally, for taxable years beginning after 2024, the standard deduction is further increased to $15,750 for a single filer, $23,625 for a head of household, and $31,500 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 zero until 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 married, files a joint return. The SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment. 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-2018 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 permanently increases the nonrefundable child tax credit to $2,200 per child beginning in tax year 2025 and makes permanent the refundable child tax credit of $1,400, adjusted for inflation ($1,700 in 2025). It permanently indexes the nonrefundable credit amount for inflation beginning after tax year 2025 (rounded down to the nearest $100). This provision 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.

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 (for joint filers, at least one of the spouse's SSNs) in order to claim the credit. The SSNs must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment in order to claim the credit.

This provision is effective for taxable years beginning after December 31, 2024.

Sec. 70105. Extension and enhancement of deduction for qualified business income.
Current Law: Under current law, individuals, trusts, and estates may deduct 20 percent of certain 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.

While ineligible for the general QBI deduction, specified agricultural or horticultural cooperatives (or certain of their patrons) may deduct the lesser of 9 percent of their qualified production activities income or taxable income as an alternative deduction under section 199A(g).

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 QBI deduction 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).

Provision: This provision permanently extends the 20 percent QBI deduction and special deduction for specified agricultural and horticultural cooperatives and their patrons.

This provision also eases the impact of the SSTB and wage and investment limitations by increasing the phase-in range to $150,000 (for joint returns) and $75,000 (for all other returns).

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 that small business owners are entitled to an enhanced baseline deduction.

This provision is effective for taxable years beginning after December 31, 2025.

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 of $10 million plus inflation ($20 million for married couples) is set to expire after December 31, 2025, when it will revert to $5 million plus inflation ($10 million for married couples).

Provision: This provision permanently increases the exemption amount to $15 million ($30 million for married couples) for gifts made and decedents dying in 2026 and beyond. The exemption amount is indexed for inflation for years after 2026.

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 makes permanent the increased individual alternative minimum tax exemption amounts and sets the 2026 the exemption phaseout thresholds at 2018 levels ($1,000,000 in the case of a joint return or surviving spouse, $500,000 for any other taxpayer indexed for inflation thereafter). This provision also increases the rate at which alternative minimum tax exemptions phase out from 25 to 50 percent.

Sec. 70108. Extension and modification of limitation on deduction for qualified residence interest.
Current Law: Under current law, after December 31, 2025, the deduction for qualified residence interest (also known as the home mortgage interest deduction) will apply to interest on the first $1,000,000 ($500,000 for a married individual filing separately) of acquisition indebtedness. Also, after December 31, 2025, the aggregate amount of a taxpayer's acquisition indebtedness and home equity indebtedness that may give rise to deductible interest is $1.1 million ($550,000 for a married individual filing separately).

Provision: This provision permanently lowers the deduction for qualified residence interest to apply to interest on the first $750,000 in acquisition indebtedness ($375,000 for a married individual filing separately). This provision makes permanent the exclusion of interest on home equity indebtedness from the definition of qualified residence interest. Additionally, this provision reinstates the provision (which expired after December 31, 2021) allowing certain mortgage insurance premiums paid or accrued on acquisition indebtedness to count as qualified residence interest.

Sec. 70109. Extension and modification of limitation on casualty loss deduction.
Current Law: Under current law, an individual may only claim an itemized deduction for a personal casualty loss in excess of personal casualty gain if the loss is attributable to a disaster declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. A loss is only allowed to the extent that it exceeds $100 (the "$100 requirement"). Disaster-related losses are deductible only to the extent of the sum of the individual's personal casualty gains plus the amount by which aggregate net disaster-related losses exceed 10 percent of the individual taxpayer's adjusted gross income (the "AGI requirement"). For taxable years beginning after December 31, 2025, all personal casualty losses are deductible, subject to the $100 requirement and the AGI requirement.

Provision: This provision permanently limits the itemized deduction for personal casualty losses in excess of personal casualty gain to losses resulting from federally-declared disasters and certain state-declared disasters. This provision does not modify the $100 or AGI requirement.

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. Miscellaneous itemized deductions are all itemized deductions other than those listed in Section 67(b) of the Internal Revenue Code. Itemized deductions in section 67(b) that remain deductible in 2018 through 2025 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.

A limited, inflation-indexed deduction ($300 in 2025) is allowed for certain unreimbursed employee expenses of eligible educators who do not itemize deductions. Unreimbursed employee expenses for which the deduction is allowed include expenses such as books, supplies, computer equipment, and supplementary materials used by eligible educators in the classroom. An eligible educator is an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Provision: This provision makes permanent the suspension of miscellaneous itemized deductions and adds to the Section 67(b) list of itemized deductions that are not miscellaneous itemized deductions (and that, as a consequence, remain deductible) a deduction for certain unreimbursed employee expenses of eligible educators.

For purposes of this new itemized deduction, an eligible educator includes an eligible educator under the current law deduction as well as interscholastic sports administrators or coaches in a school for at least 900 hours during a school year. Unreimbursed employee expenses for which the deduction is allowed include expenses such as books, supplies, computer equipment, and supplementary materials used by eligible educators as part of instructional activity whether or not in the classroom. Individuals who do not itemize deductions are still allowed the limited educator expense deduction that was in effect before enactment of this provision.

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, or, if lower, by 80 percent of the amount of itemized deductions otherwise allowable.

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 an additional itemized deduction reduces the taxpayer's tax liability by 37 cents.

Provision: This provision permanently repeals the Pease limitation and replaces it with a new overall limitation on the tax benefit of itemized deductions, applicable to individuals, estates, and trusts. For a taxpayer with taxable income that, before reduction for itemized deductions, exceeds the dollar amount at which the 37-percent tax rate bracket begins, this provision generally caps the tax-reducing value of each dollar of otherwise allowable itemized deductions at 35 cents. 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, this provision adds an additional year of inflation adjustment. This provision is applicable to taxable years beginning after December 31, 2025.

Sec. 70113. Extension and modification of limitation on deduction and exclusion for moving expenses.
Current Law: The Tax Cuts and Jobs Act temporarily repealed the deduction and exclusion for moving expenses except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station. 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. This provision limits the deduction to the lesser of (1) 90 percent of the wagering losses for the taxable year, or (2) the wagering gains for the taxable year.

Sec. 70115. Extension and enhancement of increased limitation on contributions to ABLE accounts.
Current Law: Under current law, the base amount of the limit on contributions to Achieving a Better Life Experience (ABLE) accounts for individuals with disabilities is equal to the gift tax exclusion in effect for the year ($10,000 plus inflation from 1997, or $19,000 in 2025). The account beneficiary themselves may be eligible to make contributions beyond the base amount if they are employed. The limit for this additional contribution 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. The ability to make this additional contribution is set to expire on December 31, 2025.

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

Sec. 70116. Extension and enhancement 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. Under this provision, for taxable years beginning after December 31, 2026, eligible Saver's Credit contributions are limited to ABLE account contributions made during the taxable year by the account's beneficiary. This provision also increases the maximum annual contribution amount eligible for the Saver's Credit from $2,000 to $2,100 for taxable years beginning after December 31, 2026.

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, a qualified hazardous duty area will no longer be treated as a combat zone for tax purposes after December 31, 2025.

Provision: This provision lists the Sinai Peninsula, in addition to Kenya, Mali, Burkina Faso and Chad, during times of special pay as qualified hazardous duty areas and permanently treats qualified hazardous duty areas as combat zones 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: For taxable years 2018 through 2020, gross income generally did not include income from the discharge of a student loan on account of the death or total and permanent disability of the student. For taxable years 2021 through 2025, this exclusion for student loan discharge income was broadened to include income from most discharges of student loans (whether or not by reason of the death or disability of the student). This exclusion (including for a discharge on account of the student's death or disability) expires under current law after 2025.

Provision: This provision makes permanent the exclusion from a taxpayer's income for any income resulting from the discharge of student debt on account of the death or total disability of the student. This provision also adds a requirement that the taxpayer include the taxpayer's SSN on the tax return for the year for which the exclusion is claimed. The SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment. This provision applies to discharges after December 31, 2025.

Sec. 70120. Limitation on individual deductions for certain state and local taxes, etc.
Current Law: Under current law, in the case of an individual, estate, or trust, 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 increases the SALT cap in 2025 from $10,000 to $40,000 for both single and joint filers, phased down to $10,000 for filers with modified adjusted gross income between $500,000 and $600,000; the $40,000 limitation and phaseout thresholds increase by one percent each year until 2029; after 2029, the SALT cap reverts back to $10,000 for single and joint filers (in the case of a married person filing separately, all preceding dollar amounts are half of those for single and joint filers). Adjusted gross income for an individual, estate, or trust is determined under Section 62. This provision applies to taxable years beginning after December 31, 2024.

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

Sec. 70201. No tax on tips.
Current Law: All tips received by an individual are subject to federal income taxation including (1) cash tips received directly from customers, (2) electronically paid tips from credit and debit card charge customers, and (3) tips received under a tip-splitting or tip-pooling arrangement. The value of noncash tips received, such as tickets, passes or other goods or commodities that a customer gives the individual are generally also subject to income taxation. However, service charges that an employer adds on to a customer's bill and pays to an employee are treated as wages to the individual, not tips. The following factors generally determine whether a payment qualifies as a tip; normally, each of the following must apply: (1) the payment is made free from compulsion; (2) the customer has the right to determine the amount of the payment; (3) the payment isn't subject to negotiation or dictated by employer policy; and (4) the customer generally has the right to determine who receives the payment.

Employees normally include tips in income when they are received. However, employees who are required to report cash tips to their employer in a written statement are treated as receiving the tips when they provide this statement. For this purpose, cash tips include tips paid by cash, check, debit card and credit card.
If an employee receives cash tips of $20 or more in any calendar month, the employee must report those tips to the employer in one or more written statements by the tenth of the month following the month the tips were received. The employer reports that tip income to the employee on the employee's W-2.

Provision: This provision provides a deduction of up to $25,000 for qualified tips during a given taxable year that are included on certain statements furnished to an individual, including both employees receiving a W-2 and independent contractors or self-employed individuals receiving a 1099-K, 1099-NEC or reported by the taxpayer on Form 4137. 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 cash tips 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 term cash tips include tips received from customers that are paid in cash or charged, and, in the case of an employee, tips received under any tip-sharing arrangement. The list of those occupations is to be published by the Secretary of the Treasury within 90 days of enactment. The term qualified tips shall not include any amount unless such amount is paid voluntarily, is not the subject of 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 deduction for qualified tips is allowed unless the taxpayer includes his or her SSN on the tax return for the taxable year, and if married, files a joint return. The SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment. This provision adds new reporting requirements that require separate reporting of cash tips and the designation of the occupation for which the cash tips were received as described above. The deduction is allowed for taxable years 2025 through 2028. This provision also expands the FICA tip tax credit to beauty service establishments, applicable to taxable years beginning after December 31, 2024.

A transition rule applies to any cash tips required to be reported for periods before January 1, 2026, allowing those required to file certain returns and statements to approximate the amounts designated as cash tips by any reasonable method specified by the Secretary.

Sec. 70202. No tax on overtime.
Current Law: Under current law, overtime is generally includible in an individual's gross income.

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 during a given taxable year and included on certain tax statements furnished to the individual. 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 but does not include any qualified tip as defined in section 70201 of the Act. Overtime deductions are only allowed for qualified overtime compensation paid to an employee 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 taxable year and if married, files a joint return. The SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment. The deduction is allowed for taxable years 2025 through 2028.

A transition rule applies to qualified overtime compensation required to be reported for periods before January 1, 2026, allowing those required to file certain returns and statements to approximate the amounts designated as qualified overtime compensation by any reasonable method specified by the Secretary.

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; (6) which has a gross vehicle weight rating of less than 14,000 pounds; and (7) the final assembly of which occurs in the United States.

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 whether or not a taxpayer itemizes deductions and is in effect for taxable years 2025 through 2028.

This provision includes new information return and reporting requirements for a person who receives $600 or more in a calendar year in interest that the payor may deduct under this provision.

Sec. 70204. Trump accounts and contribution pilot program.
Current Law: Not applicable.

Provision: This provision establishes a new long-term savings account (Trump account). The term Trump account means a traditional individual retirement account (IRA) in which (1) the account (a) is created or organized by the Treasury Secretary for the exclusive benefit of an eligible individual or such eligible individual's beneficiaries or (b) is created or organized in the U.S. for the exclusive benefit of an individual who has not attained the age of 18 before the end of the calendar year (or such individual's beneficiaries) and funded by a qualified rollover contribution; (2) the account is designated at the time of establishment of the account as a Trump account; and (3) the written governing instrument creating the account meets certain requirements, including that no part of the account funds may be invested in any asset other than an eligible investment during any period before the first day of the calendar year in which the account beneficiary turns age 18.

The term eligible individual means an individual (1) who has not attained the age of 18 before the close of the calendar year in which the election is made for a Trump account; (2) has an SSN issued before the date of such election (such SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment); and (3) for whom (a) an election is made by the Treasury Secretary if the Secretary determines that such individual meets the requirements and no prior election has been made for such individual or (b) an election is made by a person other than the Secretary for the establishment of a Trump account if no prior election has been made for such individual.

The term eligible investment means any mutual fund or exchange-traded fund which meets certain requirements, including such fund shall not have annual fees and expenses of more than 0.1 percent of the balance of the investment in the fund.

Contributions:
Individuals, families, friends, and employers may contribute up to an aggregate amount of $5,000 annually to a Trump account (the $5,000 contribution limit does not include qualified rollover contributions, qualified contributions from state, local, or tribal governments or 501(c)(3) organizations, or contributions made under the pilot program). Individual contributions are made post-tax. Employer contributions to the account of an employee or the employee's dependents are excluded from the employee's taxable income, up to $2,500 per year. The $5,000 contribution limit and $2,500 exclusion are indexed for inflation.

State, local, or Tribal governments and 501(c)(3) organizations may also contribute to Trump accounts under a program to be established by the Treasury. These contributions are not subject to the $5,000 annual limit and must be provided to all children within a qualified group (i.e. all children of a specific age or in a specific geographic area).

The contribution rules described above apply only to contributions made before the calendar year in which the account beneficiary attains age 18. Starting in the calendar year when the account beneficiary attains age 18, the contribution rules for traditional IRAs will apply.

Distributions:
Account beneficiaries may not take distributions until age 18, except for the purpose of rolling over one Trump account to another Trump account, addressing excess contributions made to the account, or rolling over into an ABLE account (if eligible). This limit on distributions prior to age 18 also means that these accounts should not count against resource or asset limits for means-tested programs, such as Supplemental Security Income, the Supplemental Nutrition Assistance Program and benefits provided to veterans, their survivors, and beneficiaries, during this time period.

Starting in the calendar year when the account beneficiary attains age 18, the current law rules for IRA distributions, including early distributions, will apply.

Pilot Program: This provision creates a pilot program for Trump accounts. In the case of an individual who makes an election with respect to an eligible child of the individual, such eligible child will receive a $1,000 payment from the Treasury Secretary to the eligible child's Trump account. The term eligible child generally means a qualifying child (1) who is born on or after January 1, 2025, and before January 1, 2029, and who is a U.S. citizen. With respect to the individual making the election for the eligible child, such individual must include in that election the SSN of the eligible child. The SSN must be issued to a U.S. citizen or pursuant to a provision of the Social Security Act relating to lawful U.S. employment. The pilot program contribution does not count against the annual $5,000 contribution limit per Trump account.

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.

<u>Current Law:</u> 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 the flexibility to immediately deduct or capitalize and amortize 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, most small business taxpayers with average annual gross receipts of $31 million or less may elect to apply this change retroactively to taxable years beginning after December 31, 2021. Furthermore, all taxpayers that made domestic research or experimental expenditures in taxable years beginning after December 31, 2021, and before January 1, 2025, may elect to accelerate the remaining unamortized deductions for such expenditures over a one or two-year period.

This provision includes rules to coordinate domestic research or experimental expenditures with the research credit, clarify 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 qualifying eligible employees annually (a special calculation applies to part-time employees), (2) have a written policy in effect, and (3) pay at least 50 percent of normal wages to qualifying employees during their leave. A qualifying 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). Employers within a controlled group are generally not aggregated for purposes of the credit

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

<u>Provision:</u> This 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 includes an aggregation rule and as a result, each member of a controlled group must have a written policy providing paid family and medical leave that meets the requirements of section 45S. However, an employer that is otherwise eligible to receive the PFML tax credit would not fail to be eligible merely because another member of the employer's controlled group provides paid leave under a State or locally mandated policy. Third, it permits the employer to lower the minimum employee work requirement from 1 year to 6 months. This provision applies to taxable years beginning after December 31, 2025.

Sec. 70305. Exceptions from limitation on deduction for business meals.
<u>Current Law</u>: Under current law, amounts incurred and paid after December 31, 2017, and before January 1, 2026, for 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. However, expenses for goods or services (including the use of facilities) sold by the taxpayer in a bona fide transaction for adequate and full consideration in money or money's worth are permitted the full 100 percent deduction. This latter category includes the costs of food or beverage items purchased by a restaurant or catering business in connection with providing meals to customers that are also consumed by employees. These amounts (both those subject to the 50 percent deduction and those subject to the 100 percent deduction) are not deductible if they are incurred and paid after December 31, 2025.

Under current law, certain expenses for food or beverages provided to crew members of a commercial vessel or provided on an oil or gas platform or drilling rig or certain support camps are fully deductible. However, such amounts are no longer deductible after December 31, 2025, to the extent such amounts are 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.

<u>Provision:</u> This provision maintains the current exemption from the deduction limitation for expenses for goods or services (including the use of facilities) sold by the taxpayer in a bona fide transaction for adequate and full consideration in money or money's worth (such as meals provided to restaurant employees). It also maintains the deduction for expenses for food or beverages provided to crew members of a commercial vessel or on an oil or gas platform or drilling rig or certain support camps, as well as expanding such deduction allowance to food or beverages provided on certain fishing vessels or at certain fish processing facilities.

Sec. 70306. Increased dollar limitations for expensing of certain depreciable business assets.
<u>Current Law:</u> 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 certain limitations. 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 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. This provision 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 or 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, (5) a portion of which is designated by the taxpayer in an election, and (6) is placed in service after July 4, 2025 and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date.

Qualified production property excludes the portion of any nonresidential real property used for offices, administrative services, lodging, parking, sales activities, research activities, software development or engineering activities, or other functions unrelated to manufacturing, production or refining of tangible personal property. Qualified production property also excludes any property to which the alternative depreciation system applies.

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

A qualified product is any tangible personal property if that property is not a food or beverage prepared in the same building as a retail establishment in which such property is sold.

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 (subject to a written binding contract rule) 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 July 4, 2025 and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date.

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 July 4, 2025.

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 before 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 increases the credit rate to 35 percent effective for property placed in service after December 31, 2025.

Sec. 70309. Spaceports are treated like airports under exempt facility bond rules.
Current Law: Qualified private activity bonds are tax-exempt private activity bonds issued to provide financing for specified privately used facilities. The definition of a qualified private activity bond includes an exempt facility, qualified mortgage, veterans' mortgage, small issue, redevelopment, 501(c)(3), or student loan bond.

Exempt facility bonds are often used to finance infrastructure projects. To qualify as an exempt facility bond, 95 percent of the net proceeds must be used to finance an eligible facility.

Specifically, exempt facility bonds may be issued to finance airports. Exempt facility bonds for airports are not subject to the State volume cap. However, all tax-exempt-bond-financed airport property must be governmentally owned. Property eligible for this financing includes land, terminals, runways, public parking facilities, and related equipment. Airplanes are not eligible for tax-exempt financing. Additionally, certain real property facilities (and related equipment) are excluded from this financing: (1) hotels and other lodging facilities; (2) retail facilities (including food and beverage facilities) located in a terminal, if the facilities are in excess of a size necessary to serve passengers and employees at the airport; (3) office buildings for individuals who are not employees of a governmental unit or of the public airport operating authority; and (4) industrial parks or manufacturing facilities.

Provision: This provision adds spaceports as an eligible facility for exempt facility bonds, providing similar treatment as airports. However, a spaceport is not required to be available for use by the general public and spaceport industrial parks or manufacturing facilities are not excluded from financing.

This provision also provides that spaceport property located on land leased by a governmental unit from the United States shall not fail to be treated as owned by a governmental unit if the requirements under Section 142(b)(1) are met by the lease and any subleases of the property.

This provision applies to obligations issued after July 4, 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. Modifications related to foreign tax credit limitation.
Current Law: Under current law, in order to determine its foreign tax credit (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 generally apportioned based on certain ratios.

Provision: This provision modifies the rules for the allocation and apportionment of deductions to income in the net CFC tested income (NCTI) category (formerly the global intangible low-taxed income (GILTI) category) for purposes of determining the FTC limitation. Only the following deductions of a U.S. shareholder are allocated and apportioned to income in the NCTI category: (1) the Section 250 deduction relating to NCTI 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. No amount of interest expense or research and experimental expenditures is allocated or apportioned to income in the NCTI category. Any deduction that would have been allocated or apportioned to income in the NCTI category but for this provision 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: Under current law, Section 960(d)(1) provides that, if GILTI is included in the gross income of a domestic corporation, the domestic corporation is deemed to have paid 80 percent of its inclusion percentage multiplied by the aggregate foreign income taxes paid or accrued with respect to tested income (but not tested loss) of 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: This provision increases the allowance from 80 percent to 90 percent. This provision also disallows an FTC for 10 percent of any foreign income taxes paid or accrued (or deemed paid) with respect to any amount excluded from gross income under Section 959(a) by reason of an inclusion in gross income under Section 951A(a) if the exclusion occurs after June 28, 2025. As a result, if the amount excluded from gross income under Section 959(a) is distributed on or before June 28, 2025, the 10 percent disallowance will not apply. But if the distribution excluded from gross income under Section 959(a) occurs after June 28, 2025, the 10 percent disallowance applies.

Sec. 70313. Sourcing certain income from the sale of inventory produced in the United States.
Current Law: Under current law, gains, profits, and income from the sale or exchange of inventory property produced by the taxpayer within the United States and sold outside the United States are allocated and apportioned 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 entirely in the United States would be treated as 100 percent U.S.-source income.

Provision: This 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 income that is (1) from the sale or exchange outside the United States of inventory property (within the meaning of Section 865(i)(1)) which is produced in the United States, which is for use outside the United States, and to which the third sentence of Section 863(b) applies; and (2) attributable to such office or other fixed place of business is treated as foreign-source income. However, the amount treated as foreign-source income cannot exceed 50 percent of the total 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: Currently, under Section 250(a)(1), a domestic corporation is generally allowed a deduction equal to the sum of: (1) 37.5 percent of the foreign-derived intangible income (FDII) of such domestic corporation for such taxable year, described in Section 250(a)(1)(A); 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), described in Section 250(a)(1)(B). Section 250(a)(3) reduces the FDII and GILTI deduction percentages for taxable years beginning after December 31, 2025 (to 21.875 percent and 37.5 percent, respectively).

<u>Provision:</u> This provision changes the Section 250 deduction percentage for taxable years beginning after December 31, 2025, to 33.34 percent for amounts described in Section 250(a)(1)(A) and 40 percent for amounts described in Section 250(a)(1)(B), generally resulting in an effective tax rate of 14 percent for both (after considering the FTC "haircut" described in Sec. 70312).

Sec. 70322. Determination of deduction eligible income.
<u>Current Law:</u> Under current law, a domestic corporation's FDII is the amount which bears the same ratio to the deemed intangible income (DII) 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.

<u>Provision:</u> This provision modifies the definition of DEI in two ways:

- First, except as otherwise provided by the Treasury Secretary, DEI does not include any income or gain from the sale or other disposition (including the deemed sale or other deemed disposition or pursuant to a transaction subject to section 367(d)) of intangible property (as defined in section 367(d)(4)) and any other property of a type that is subject to depreciation, amortization, or depletion by the seller. This modification would apply to sales or other dispositions (or deemed sales or other deemed dispositions or pursuant to a transaction subject to section 367(d)) occurring after June 16, 2025.

- Second, instead of DEI being reduced by deductions, including taxes, properly allocable to such income, DEI would be reduced by expenses and deductions, including taxes, other than interest expense and research or experimental expenditures, properly allocable to such income. This modification would apply to taxable years beginning after December 31, 2025.

Sec. 70323. Rules related to deemed intangible income.
<u>Current Law:</u> 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 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.

<u>Provision:</u> This 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 NCTI.

Part III – Base Erosion Minimum Tax

Sec. 70331. Extension and modification of base erosion minimum tax amount.

Current Law: Under current law, the base erosion and anti-abuse tax (BEAT) is an additional tax imposed on certain corporations that are part of multinational groups that meet certain requirements (an "applicable taxpayer"). The additional tax 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) certain 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: This provision adjusts the BEMTA calculation to be 10.5 percent of modified taxable income over adjusted regular tax liability and strikes the modifications to the calculation of allowable credits for taxable years beginning after December 31, 2025.

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 263(g) and 263A(f) provide for certain mandatory capitalization of interest.

Provision: This 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 current 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: This provision excludes subpart F and GILTI inclusions and the associated Section 78 gross-up amounts (and the portion of the deductions allowed under Sections 245A(a) (by reason of Section 964(e)(4)) and 250(a)(1)(B) by reason of such inclusions), 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 related 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: This 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: This 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.

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

This 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 NCTI) 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)).

This 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 current 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: This 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 inclusion of NCTI.

A transition rule provides that certain dividends paid (or deemed paid) by a CFC are not treated as dividends for purposes of applying Section 951(a)(2)(B) (as in effect before the amendments made by this provision).

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 and up to 10 percent of qualified child care resource and referral expenditures. 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 (adjusted for inflation) and the credit rate from 25 percent to 40 percent of qualified child care expenses. Therefore, a business may claim the full amount of the credit if it spends at least $1.25 million on qualified child care related expenses. Additionally, Section 45F is further strengthened for small businesses by increasing the maximum credit to $600,000 (adjusted for inflation) and the percent of qualified child care expenses covered to 50 percent. Therefore, a small business may claim the full amount of the credit if it spends at least $1.2 million on child care related expenses. An eligible small business is one that meets the gross receipts test of $25 million or less (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)	$150,000	$600,000
% of Qualified Child Care Expenses Covered	25%	40%
% of Qualified Child Care Expenses Covered (Small Businesses)	25%	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 is a “child with ~~has~~ ~~“~~special needs” for purposes of the adoption tax credit under § 23. A child is considered to be special needs if they are difficult to place in a home (i.e. due to ethnic background, age, medical condition or disability, or membership in a minority or sibling group). When a child is deemed special needs by a state government, the adoptive family becomes eligible, subject to income limitations, for the full adoption tax credit for the tax year the adoption becomes finalized, regardless of the amount of qualified adoption expenses actually paid or incurred for the adoption.

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 ($43,001 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 $103,001 ($150,001 and $206,001, 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 an individual who is a U.S. citizen or resident in an amount equal to qualified contributions made during the taxable year up to $1,700 (reduced by the amount allowed as a credit on any State tax return of the taxpayer for qualified contributions during the taxable year). A qualified contribution is a charitable contribution of cash made to a scholarship granting organization that uses the contribution to fund scholarships for eligible students solely within the State in which the organization is listed. A State that elects to participate must provide to the Secretary a list of scholarship granting organizations that meet the requirements for such organizations and are located in the State. An eligible student is an individual who is (1) a member of a household with an income not greater than 300 percent of the area median gross income and (2) eligible to enroll in a public elementary or secondary school. This provision is effective for taxable years ending after December 31, 2026.

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 also inflation adjusts 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.

This provision applies to distributions made after July 4, 2025.

In addition, this provision increases the amount of qualified education expenses during any taxable year from $10,000 to $20,000 beginning after December 31, 2025.

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, 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 July 4, 2025, 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". This provision applies to distributions made after the July 4, 2025.

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 (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); 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: This provision replaces the current excise tax on net investment income with a tiered system based on an institution's student- adjusted endowment (see table below). Additionally, this provision modifies the term "applicable educational institution" to mean an eligible education institution (as defined in Section 25A(f)(2)): (1) that has at least 3,000 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 student adjusted endowment of which is at least $500,000. Under this provision, student loan interest income and certain royalty income are included in the calculation of a school's net investment income. This provision also requires an applicable educational institution that is required to file an annual information return (Form 990) to include on the return (1) the number of tuition-paying students, and (2) the number of students of the institution determined after application of section 4968(e) (determining number of students of an institution based on daily attendance).

Student-Adjusted Endowment	Excise Tax Rate
$500,000 - $750,000	1.4%
>$750,000 - $2,000,000	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 ("covered 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. A covered employee for this purpose is an employee (including any former employee) of an applicable tax-exempt organization if the employee is one of the five highest compensated employees of the organization for the taxable year or was a covered employee of the organization (or a predecessor) for any preceding taxable year beginning after December 31, 2016.

Provision: This provision amends the definition of a covered employee to include any employee of an applicable tax-exempt organization (or any predecessor of such organization) and any former employee of such an organization (or predecessor) who was such an employee during any taxable year beginning after December 31, 2016.

This provision is applicable for taxable years beginning after December 31, 2025.

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 that provides tax benefits upon election to investors that invest in designated low-income communities across the country. Created in the *Tax Cuts and Jobs Act*, OZs are eligible census tracts based on poverty rates and median household income that have been nominated by state governors and certified by the U.S. Department of

Treasury as eligible areas for qualified investments. 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, which remain in effect for 10 years. In the event that a state had fewer 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. There is also a special rule that designates all census tracts in Puerto Rico that are LICs as OZs.

Tax Benefits:
Investments in QOFs are entitled to three tax benefits, at the taxpayer's election:

1. a temporary deferral of any qualifying capital or Section 1231 gain that is reinvested in the qualified opportunity zone (the "rollover gain"), which ends either at disposition of the qualified investment, or on December 31, 2026;
2. a permanent 10 or 15 percent reduction in the amount of such gain to 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 OZ if the investment is held for at least 10 years.

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

<u>Provision:</u> This provision establishes a permanent OZ policy that builds off of the original OZ structure. This provision creates rolling, ten-year OZs that are first designated beginning on July 1, 2026, and available to investors beginning on January 1, 2027. This provision maintains the OZ designation process from the *Tax Cuts and Jobs Act* and narrows 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 "low-income community" cannot include any census tract where the median family income is 125 percent or greater of the area median family income.

This provision replicates most of the taxpayer benefit structure from the *Tax Cuts and Jobs Act* for the newly designated OZs. Similar to the OZ policy under the *Tax Cuts and Jobs Act*, taxpayers maintain the ability to temporarily defer the rollover gain and benefit from a permanent exclusion of future gains if the investment is held for at least 10 years, up to 30 years after investment. Another similarity is the 10 percent reduction that the taxpayer receives in the amount of such gain on the fifth year of the investment. This provision requires taxpayers to recognize their rollover gain on the fifth year after they have received the 10 percent step-up and repeals the additional 5 percent reduction in the rollover gain that previously occurred if the investment was held for seven years.

Additionally, this provision establishes that a qualified rural opportunity fund (QROF), which is a QOF that invests at least 90 percent in rural OZs, receives more generous tax benefits. Investment in these QROFs will receive a step-up in basis equal to 30 percent of the rollover gain, compared to the 10 percent for a non-rural QOF. Additionally, a special rule is created that lowers the "substantial improvement" threshold of existing structures from 100 percent to 50 percent in rural areas.

This provision also eliminates the special rule for Puerto Rico that previously allowed all LICs in Puerto Rico to be classified as OZs, instead subjecting Puerto Rico to the 25 percent rule for future OZ designations. The repeal of the special rule is effective on December 31, 2026.

Lastly, this provision adds reporting requirements as well as related penalties for noncompliance for both the QOFs and the qualified opportunity zone businesses. There are additional reporting requirements for QROFs and qualified rural opportunity zone businesses. This provision also creates reporting requirements for Treasury on data on QOFs and QROFs and provides funding to the Internal Revenue Service to carry out the reporting requirements.

Investors can begin to invest in the newly designated OZs under the new provision beginning 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 buildings placed in service in taxable years beginning after December 31, 2025.

Sec. 70423. Permanent extension of the new markets tax credit.
Current Law: The New Markets Tax Credit (NMTC) is a nonrefundable tax credit intended to encourage private capital investment in eligible, low-income communities. Investors can claim tax credits for a qualified equity investment in a qualified community development entity (CDE), which provide investment capital to low-income communities. Low-income communities are population census tracts that generally qualify through criteria based on poverty rates and family median income as set in statute. NMTCs are allocated by the Community Development Financial Institutions Fund (CDFI) to CDEs under a competitive application process. Investors can claim as credit 5 percent of their qualified equity investments for the first three years and 6 percent for the remaining four years, for a total of 39 percent over seven years. The taxpayer must continue to hold the qualified equity investment to be eligible for the credit each of the seven years. The NMTC is set to expire on December 31, 2025.

Provision: This provision permanently extends the NMTC program by authorizing CDFI to continue allocating 5 billion dollars of NMTCs to CDEs each year. This provision also modifies the carryover limitations such that new carryover periods for unused NMTC allocations by the CDFI follow five calendar years after each allocation year, starting in 2026.

Sec. 70424. Permanent and expanded reinstatement of partial deduction for charitable contributions of 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. Contributions taken into account for this purpose include only contributions made in cash during the taxable year to a charitable organization described in section 170(b)(1)(A), other than contributions to (i) a supporting organization described in section 509(a)(3) or (ii) for the establishment of a new, or maintenance of an existing, donor advised fund (as defined in section 4966(d)(2)). Contributions of noncash property, such as securities, are not qualified contributions.

Sec. 70425. 0.5-percent floor on deduction of charitable contributions made by individuals.
Current Law: Under current law, individuals who elect to itemize are able to deduct a portion of their qualified charitable contributions. For an individual taxpayer, in any taxable year, the amount deductible as a charitable contribution is limited to a percentage of the taxpayer's contribution base (generally, the taxpayer's adjusted gross income). The applicable percentage of the contribution base varies depending on the type of recipient organization and property contributed. Certain cash contributions to organizations described in section 170(b)(1)(A) taken into account before January 1, 2026, are subject to a higher 60-percent limit. Charitable contributions that exceed the applicable percentage limit generally may be carried forward for up to five years.

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. Under the floor, a taxpayer's contributions are allowable only for the portion of the aggregate contributions that exceeds 0.5 percent of the taxpayer's contribution base for the taxable year. In the case of a taxable year in which there is an excess contribution, the amount not allowed under the 0.5-percent floor may be carried over. Additionally, this provision permanently extends 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"). Thus, in the case of a taxpayer that makes aggregate contributions exceeding the one-percent floor, the contributions are allowable only for the portion of such contributions exceeding the floor (subject to the 10-percent limit). This limitation applies 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. Permanent increase in limitation on cover over of tax on distilled spirits.
Current Law: Under current law, excise taxes are imposed on distilled spirits either produced in or imported into the U.S. Generally, the rate of excise tax is $13.50 per proof gallon. In lieu of these taxes, section 7652(a) imposes an equalization tax equal to the tax imposed in the United States upon like articles of merchandise of domestic manufacture, including distilled spirits, produced in Puerto Rico and brought into the United States, and section 7652(b) imposes an equalization tax equal to the tax imposed in the United States upon like articles of merchandise of domestic manufacture, including distilled spirits, produced in the U.S. Virgin Islands and brought into the United States. A portion of the excise taxes on rum produced in Puerto Rico or the U.S. Virgin Islands and brought into the U.S. are transferred (i.e., "covered over") to the Treasuries of Puerto Rico and the U.S. Virgin Islands, respectively. In addition, the revenues from the excise tax imposed on rum imported into the United States (less certain administrative costs) are covered over to the Treasury of Puerto Rico and the Treasury of the U.S. Virgin Islands. For purposes of both the cover over of the equalization tax and the cover over of the tax imposed on rum imported into the United States, the amount covered over is the lesser of $10.50 per proof gallon ($13.25 for rum brought into the United States after June 30, 1999, and before January 1, 2022) and the tax imposed.

Provision: This provision permanently extends cover over for rum in the amount of $13.25 per proof gallon for distilled spirits brought into the U.S. after December 31, 2025.

Sec. 70428. Nonprofit community development activities in remote native villages.
Current Law: Not applicable

Provision: Under this provision, any activity substantially related to participation or investment in fisheries in the Bering Sea and Aleutian Islands statistical and reporting areas carried on by an Alaska Community Development Quota program entity identified in Section 305(i)(1)(D) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1855(i)(1)(D)) is considered substantially related to the exercise or performance of the purpose constituting the basis of the entity's tax exemption under Section 501(a) if the conduct of such activity is in furtherance of 1 or more of the following purposes:

- To provide eligible western Alaska villages with the opportunity to participate and invest in fisheries in the Bering Sea and Aleutian Islands Management Area;
- To support economic development in western Alaska;
- To alleviate poverty and provide economic and social benefits for residents of western Alaska; or
- To achieve sustainable and diversified local economies in western Alaska.

Activities substantially related to participation or investment in fisheries include the harvesting, processing, transportation, sales, and marketing of fish and fish products of the Bering Sea and Aleutian Islands statistical and reporting areas.

In addition, this provision provides that, within 18 months after enactment, income producing assets may be transferred from a taxable subsidiary wholly owned by such an entity to the parent entity without taxable gain or income to either party.

This provision is effective on July 4, 2025, and remains effective during the existence of the western Alaska community development quota program established by Section 305(i)(1) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1855(i)(1)), as amended.

Sec. 70429. Adjustment of charitable deduction for certain expenses incurred in support of Native Alaskan subsistence whaling.
Current Law: Under current law, an individual who is recognized by the Alaska Eskimo Whaling Commission as a whaling captain charged with the responsibility of maintaining and carrying out sanctioned whaling activities and who engages in such activities during the taxable year is allowed to deduct up to $10,000 of reasonable and necessary whaling expenses as a charitable contribution.

Provision: Under this provision, the maximum amount of whaling expenses that may be deducted is increased from $10,000 to $50,000. This provision is effective for taxable years beginning after December 31, 2025.

Sec. 70430. Exception to percentage of completion method of accounting for certain residential construction contracts.
Current Law: Under current law, the taxable income from a long-term contract is generally determined under the percentage-of-completion method, under which a taxpayer reports taxable income based on the percentage of a contract completed during the year. Certain residential construction contracts with four or fewer dwelling units (*i.e.*, "home construction contracts") are excepted from the requirement to use the percentage-of-completion method and may use the completed contract method. Other residential construction contracts only benefit from a partial exception.

Provision: This provision extends eligibility to use the completed contract method for regular tax and AMT purposes for all residential construction contracts, including condominiums and apartments.

This provision applies to contracts entered into in taxable years beginning after July 4, 2025.

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 (reduced by certain prior-year excluded gain) or 10 times the taxpayer's basis in the stock. For the stock to be QSBS, the corporation's aggregate gross assets (*i.e.*, cash plus aggregate adjusted basis of other property) may not exceed $50 million before and immediately after issuance.

Provision: This provision modifies the QSBS gain exclusion by providing a tiered gain exclusion for QSBS acquired after July 4, 2025. In particular, this provision allows a 50 percent exclusion of gain on QSBS held for three years, 75 percent if held for four years and 100 percent if held for five or more years. Also, this provision increases the $10 million per-issuer dollar cap to $15 million for post-enactment shares, indexed for inflation beginning in 2027. For stock issued after the applicable date, the corporate-level aggregate-asset ceiling is increased to $75 million, indexed for inflation beginning in 2027.

This provision is generally effective for stock issued or acquired after July 4, 2025, and taxable years beginning after that date.

Sec. 70432. Repeal of revision to de minimis rules for third party network transactions.
Current Law: Under current law, third-party settlement organizations issue Forms 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 threshold also applies to backup withholding requirements for third-party settlement organizations. 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 raises the reporting threshold such that a third-party settlement organization is not required to report unless the aggregate value of third-party network transactions with respect to a participating payee for the calendar year exceeds $20,000 and the aggregate number of such transactions with respect to a participating payee exceeds 200. This new law reverses the ARPA provision that lowered the reporting threshold to more than $600 with no minimum on the number of transactions. The increased threshold also applies to the backup withholding requirements for third-party settlement organizations who have not had reportable payments in the previous calendar year.

This provision applies to returns for calendar years beginning after December 1, 2021. For backup withholding purposes, this provision applies to returns for calendar years beginning after December 1, 2024.

Sec. 70433. Increase in threshold for requiring information reporting with respect to certain payees.
Current Law: Under current law, the reporting threshold for compensation to a person in the course of a trade or business or payments of renumeration for services is $600. The reporting threshold is based on payments made during the taxable year. This threshold also applies to backup withholding requirements for the payor.

Provision: This provision generally increases the threshold to $2,000 and adjusts it for inflation for every calendar year beginning after December 31, 2025. No change has been made to the reporting threshold for direct sales. This new inflation-adjusted threshold also applies to backup withholding requirements. This provision also changes the applicable period for payments from the taxable year to the calendar year. This provision applies to payments made after December 31, 2025.

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 ($20 million for productions produced in certain low-income and distressed communities) 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.

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 $15 or $20 million dollar limitation or the December 31, 2025, Section 181 termination date. 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: This 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.

This provision 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 July 4, 2025.

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 July 4, 2025, 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 disallows a deduction for 25 percent of the interest on any indebtedness incurred to purchase or carry a qualified real estate loan.

This provision applies to original debt incurred in taxable years ending after July 4, 2025.

Sec. 70436. Reduction of transfer and manufacturing taxes for certain devices.
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. In addition, Section 4181 imposes a tax equal to 10 percent of the purchase price on firearms, with Section 4182 exempting items for which a tax has been paid under Section 5811.

Provision: This provision would remove the excise taxes under Section 5811 and 5821 on silencers, short-barreled rifles, short-barreled shotguns and certain other devices. This provision would also deem that for purposes of Section 4182 the excise taxes on these exempt devices have been paid, thereby preempting the application of the Section 4181 10 percent purchase tax.

Sec. 70437. Treatment of capital gains from the sale of certain farmland property.
Current Law: Not applicable.

Provision: In the case of gain from the sale or exchange of qualified farmland property to a qualified farmer, a taxpayer may elect to pay tax on gain from the sale of the farmland in four equal annual installments. The first installment must be paid on the due date for the tax return for the year of the sale or exchange, and each subsequent installment must be paid on the due date for the tax return for each of the three succeeding taxable years. The tax that may be paid in installments is the excess of the amount of the taxpayer's net income tax for the year of the sale or exchange over the amount of the taxpayer's net income tax for that year determined without taking into account gain from the sale or exchange.

Qualified farmland property is U.S. real property which has been used by the seller as a farm for farming purposes or leased to a qualified farmer for farming purposes during substantially all of the 10-year period ending on the date of the sale or exchange, and which is subject to a covenant or other legally enforceable restriction that prohibits the farmland for use for anything other than as a farm for farming purposes for 10 years following the sale or exchange. A qualified farmer is defined as an individual actively engaged in farming (within the meaning of section 1001(b) and (c) of the Food Security Act of 1986).

A taxpayer electing to pay tax in installments under this provision must include with the tax return for the year of the sale or exchange a copy of the covenant or other legally enforceable restriction.

This provision is effective for sale or exchanges occurring in taxable years beginning after July 4, 2025.

Sec. 70438. 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 have an incident period beginning on or after December 28, 2019, and on or before December 12, 2024 (date of enactment of the Federal Disaster Tax Relief Act of 2023), 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 the qualified disaster-related personal casualty losses treatment attributable to major Federal disasters with an incident period which begins after December 28, 2019, and on or before July 4, 2025.

Sec. 70439. Restoration of taxable REIT subsidiary asset test.
Current Law: Under current law, a corporation, trust, or association shall not be considered a real estate investment trust for any taxable year unless not more than 20 percent of the value of its total assets is represented by securities of one or more taxable REIT subsidiaries.

Provision: This provision amends the REIT subsidiary asset test from 20 percent to 25 percent, effective for taxable years beginning after December 31, 2025.

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 sale prices of $25,000 or less and to taxpayers with 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 after September 30, 2025.

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 taxpayers with 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 up to $80,000, SUVs with an MSRP of up to $80,000, pickup trucks with an MSRP of up to $80,000, and other vehicles with an MSRP of up to $55,000. The credit is set to expire December 31, 2032.

Provision: This provision terminates the credit for vehicles acquired after September 30, 2025.

Sec. 70503. 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. The maximum credit is $7,500 for vehicles with a gross vehicle weight rating (GVWR) less than 14,000 pounds and $40,000 for other vehicles. For 2024, the credit value is $7,000 for compact vehicles with a GVWR less than 14,000 pounds, $7,500 for other vehicles with a GVWR less than 14,000 pounds, and $40,000 for vehicles with a GVWR of 14,000 pounds or more. 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 after September 30, 2025.

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 non-urban area or a low-income community in a given taxable year. For depreciable property, 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 June 30, 2026.

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. A separate $2,000 annual limit applies for heat pumps, heat pump water heaters, and biomass stoves and boilers. The credit expires December 31, 2032.

Provision: This provision terminates the credit with respect to property placed in service after December 31, 2025.

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 December 31, 2025.

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 maximum deduction is calculated on a per square foot basis, with values for 2025 ranging from $0.58 per square foot to $1.16 per square foot depending on how much energy/power costs are certified to be reduced (with these values being $2.90 to $5.81 per square foot if prevailing wage and apprenticeship requirements are met). This maximum deduction is the total deduction that may be claimed for a building with respect to the current taxable year plus the three preceding taxable years.

Provision: This provision terminates the deduction with respect to property the construction of which begins after June 30, 2026.

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 efficiency standards. Homes that are considered Zero Energy Ready are eligible for a $5,000 (or $1,000 for multifamily) credit and Energy Star certified homes are eligible for a credit of $2,500 (or $500 for multifamily). The credit expires December 31, 2032.

Provision: This provision terminates the credit for homes acquired after June 30, 2026.

Sec. 70509. Termination of cost recovery for energy 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.

For some assets, the recovery period for the asset is provided in section 168. In other cases, the recovery period of an asset is set forth in Rev. Proc. 87-56. In lieu of the recovery period and method that would otherwise apply, a special five-year recovery period applies to certain energy property, including solar energy equipment, geothermal equipment, qualified fuel cell property, qualified microturbine property, combined heat and power system property, wind energy property, thermal energy equipment, waste energy recovery property, energy storage technology, qualified biogas property, and microgrid controllers. 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), 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). 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). Energy property is generally eligible for bonus depreciation.

Provision: This provision terminates the special five-year recovery period for these types of energy property if the construction of such property begins after December 31, 2024. If otherwise eligible, this provision does not impact the eligibility of energy investment credit property for bonus depreciation or depreciation as otherwise provided in section 168 and/or Rev. Proc. 87-56.

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 is reduced by 16 percent of the excess of gross receipts from electricity produced and sold over the number of kilowatts sold times 2.5 cents. 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 provision expires for taxable years beginning after December 31, 2032.

Provision: This provision restricts access to the credit for certain prohibited foreign entities. Specifically, for taxable years beginning after July 4, 2025:

1. No credit is allowed for any taxable year beginning after July 4, 2025, if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)).
2. No credit is allowed for any taxable year beginning two years after July 4, 2025, 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 (or multiplied by five if certain prevailing wage and apprenticeship requirements are met), 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 qualified clean hydrogen production facilities that commence construction before January 1, 2033 (Sec. 45V(c)(3)).

In lieu of the Section 45V credit, a taxpayer may make an irrevocable election to claim an energy credit under Section 48(a)(15) for a “specified clean hydrogen production facility.” A specified clean hydrogen facility is a “qualified clean hydrogen production facility (as defined in Section 45V(c)(3))” and which meets certain other requirements.

Provision: This provision accelerates the expiration to facilities the construction of which begins after December 31, 2027, for both section 45V and the related election under Section 48(a)(15).

Sec. 70512. Termination 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 a greenhouse gas emissions rate that is not greater than zero. The value of the credit is 0.3 cents per kilowatt hour (kWh) generally or 1.5 cents per kWh if a taxpayer meets the prevailing wage and apprenticeship requirements in constructing, repairing, or altering the qualified facility or meets certain exceptions. 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 is set to begin phasing out at the later of 2034 or two years after 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. Wind or solar facilities that begin construction on or before the date which is 12 months after July 4, 2025 (i.e., July 4, 2026) remain eligible for the credit~~,~~ (subject to the modifications described in the paragraphs below). Wind or solar facilities that begin construction after July 4, 2026, are eligible to claim the credit if they are placed in service on or before December 31, 2027. Wind or solar facilities that begin construction after July 4, 2026, are ineligible for the credit if they are placed in service after December 31, 2027.

For all other qualified facilities that generate electricity, such as hydropower, nuclear, and geothermal, this 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.

This provision also denies the credit for any production of electricity with respect to small wind energy property and solar heating property that is leased to a third party.

This provision restricts access to the credit for prohibited foreign entities (PFEs). In general:

1. no credit is allowed for a facility that commences construction after December 31, 2025, that includes any material assistance from a PFE; and
2. no credit is allowed for taxable years beginning after July 4, 2025, if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)) or a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D)).

With respect to a taxpayer, each of the credits under sections 45Y, 48E, and 45X are separately evaluated each taxable year to determine whether the taxpayer is a foreign-influenced entity by virtue of a specified foreign entity exercising effective control, and a determination that effective control exists in such a case results in the loss of all credits determined with respect to the taxpayer under that section (but not any of the other sections).

This provision also includes the definitions of several terms related to PFEs, 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 includes foreign-controlled entities.

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 control, ranging from having significant ownership stakes, to having the ability to appoint board members or executive officers, to being able to exercise effective control over the taxpayer via certain contractual arrangements (including certain licenses).

Effective Control: This term generally means one or more agreements or arrangements which provide one or more contractual counterparties of a taxpayer with specific authority over key aspects of the production of eligible components, energy generation of a qualified facility, or energy storage which are not included in the measures of control through authority, ownership, or debt held which are elsewhere described. The Secretary is directed to issue guidance defining these agreements or arrangements. Until such time as this guidance is issued, this provision specifies a number of scenarios that rise to the level of effective control (including certain licenses for this provision of intellectual property with respect to a qualified facility, energy storage technology, or the production of an eligible component).

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 various alternative foreign-influenced entity and foreign-controlled entity rules for publicly traded companies (and certain of their subsidiaries).

Material Assistance from a Prohibited Foreign Entity: This 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. For Sections 45Y and 48E, the material assistance cost ratio is the amount (expressed as a percentage) equal to the quotient of a fraction, the numerator of which is the total direct costs to the taxpayer attributable to all manufactured products (including components) that are incorporated into the qualified facility or energy storage technology minus total direct costs attributable to manufactured products (including components) that are mined, produced, or manufactured by a PFE, and the denominator of which is total direct costs to the taxpayer attributable to all manufactured products (including components) that are incorporated into the qualified facility or energy storage technology. For eligible components under Section 45X, the material assistance cost ratio is the amount (expressed as a percentage) equal to the quotient of a fraction, the numerator of which is total direct material costs paid or incurred by the taxpayer for the production of the eligible component minus total direct material costs that are paid or incurred by the taxpayer for the production of the eligible component that are mined, produced, or manufactured by a PFE, and the denominator of which is the total direct material costs paid or incurred by the taxpayer for the production of the eligible component.

This provision has numerous rules to calculate material assistance from a PFE, including the utilization of safe-harbor tables and other rules taxpayers may rely on in determining the total direct costs or total direct material costs, as applicable, attributable to a PFE prior to the time the Secretary provides updated guidance and/or safe harbor tables, as well as authority for the Secretary to provide additional guidance pertaining to the calculation of the material assistance cost ratio, including guidance pertaining to fact patterns demonstrating that a taxpayer is circumventing the material assistance rules because the taxpayer has not in fact begun construction, as such term is defined in IRS Notice 2013-29 and IRS Notice 2018-59 (as well as any subsequently issued guidance clarifying, modifying, or updating either such Notices), as in effect on January 1, 2025.

With respect to qualified facilities, qualified interconnection property, and energy storage technology, the material assistance rules are effective for facilities the construction of which begins after December 31, 2025. With respect to eligible components, the material assistance rules are effective for products sold in taxable years beginning after July 4, 2025.

This provision directs the Secretary to consider certain studies in determining a greenhouse gas emissions rate for certain types of facilities.

This provision allows taxpayers to receive the energy communities bonus credit for facilities that are located in “nuclear energy communities” and defines “nuclear energy communities.”

This provision clarifies the rules surrounding additional capacity to certain facilities.

This provision prohibits the transfer of Section 45Q, 45U, 45X, 45Y, 45Z, or 48E credits to specified foreign entities.

This provision extends the statute of limitations for determining errors with respect to determining material assistance from a PFE, provides a basis for computing a penalty for substantial understatement of tax due to disallowance of certain energy credits, based on an improper computation of material assistance, and imposes a new penalty for certain misstatements on a supplier certification where the supplier knew (or reasonably should have known) that the certification was false.

Sec. 70513. Termination 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 a greenhouse gas emissions rate that is not greater 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 meets certain 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 2034 or two calendar years after 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. Wind or solar facilities that begin construction on or before the date which is 12 months after July 4, 2025 (i.e., July 4, 2026) remain eligible for the credit (subject to the modifications described in the paragraphs below). Wind or solar facilities that begin construction after July 4, 2026, are eligible to claim the credit only if they are placed in service on or before December 31, 2027. Wind or solar facilities that begin construction after July 4, 2026, are ineligible for the credit if they are placed in service after December 31, 2027.

For all other qualified facilities, such as hydropower, nuclear and geothermal, this 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.

This provision creates a 10-year recapture rule that recaptures a Section 48E credit if the taxpayer makes a payment to a specified foreign entity pursuant to a contract or agreement that allows the specified foreign entity to exercise effective control over any qualified facility or energy storage technology or over the extraction, processing, or recycling of any applicable critical mineral or the production of an eligible component which is not an applicable critical mineral. This rule applies to taxpayers that are allowed a Section 48E credit for any taxable year beginning after the date which is two years after July 4, 2025.

This provision more closely aligns the domestic content bonus requirements in Section 48E with those in Section 45Y. This modification is effective on or after June 16, 2025.

This provision denies the credit for any qualified investment with respect to small wind energy property and solar heating property that is leased to a third party.

This provision clarifies certain rules for geothermal heat pumps for purposes of the credit under section 48 for taxable years beginning after July 4, 2025.

This provision terminates the residual two percent credit (not including bonus credits) under section 48 for property that begins construction on or after June 16, 2025.

This provision provides a 30 percent clean electricity investment credit for qualified fuel cell property (as defined in section 48(c)(1)) that begins construction after December 31, 2025. Qualified fuel cell property is not eligible for any bonus credits.

This provision restricts access to the credit for prohibited foreign entities, relying on the rules and definitions adopted by section 70512 of the bill. Specifically:

1. no credit is allowed for a facility or interconnection property 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 July 4, 2025 if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)) or a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D), with analysis of whether the entity is a foreign-influenced entity conducted independently for purposes of this credit).

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 is allowed after December 31, 2032, except for the credit for critical minerals which is permanent.

Provision: This provision makes several modifications to the advanced manufacturing production tax credit. It generally 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. This provision also terminates the credit early for wind components, applicable to components produced and sold after December 31, 2027.

This provision modifies certain rules for integrated components, requiring certain taxpayers to have at least 65 percent of such component's direct material costs attributable to primary components which are mined, produced, or manufactured in the U.S. for such integrated component to be credit eligible. These rules are applicable to components sold during taxable years beginning after December 31, 2026.

This provision adds metallurgical coal to the list of critical minerals with a reduced credit rate of 2.5 percent, applicable to metallurgical coal produced on or before December 31, 2029.

This provision also modifies a definition of battery module.

This provision also restricts access to the credit for certain prohibited foreign entities, relying on the rules and definitions adopted by section 70512 of the bill.

Specifically:

1. no credit is allowed for eligible components sold after calendar year 2025~~6~~ (2029 for critical minerals) that include 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 July 4, 2025 if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)) or a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D), with analysis of whether the entity is a foreign-influenced entity conducted independently for purposes of this credit).

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 allocated by the Secretary, of which $4 billion were allocated 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 requirements for certification. 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, may be reallocated.

<u>Provision:</u> This provision restricts credits returned to the Secretary from being later reissued and is effective as of July 4, 2025.

Subchapter B – Enhancement of America-First Energy Policy

Sec. 70521. Extension and modification of clean fuel production credit.
<u>Current Law:</u> 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.

<u>Provision:</u> This provision makes certain modifications to the clean fuel production credit. This provision extends the credit through December 31, 2029. This provision restricts the credit to fuel exclusively derived from feedstocks produced or grown within the U.S., Mexico, or Canada effective for transportation fuel produced after December 31, 2025. This provision directs the Secretary to develop rules to exclude any emissions attributed to indirect land use changes for the purposes of emissions rates and as well as to establish distinct emission rates for specific manure feedstocks, effective for emissions rates published for transportation fuel produced after December 31, 2025. It generally prevents negative emissions rates for fuels, effective for emissions rates published for taxable years beginning after December 31, 2025.

This provision prevents double credits (i.e., producing a credit-eligible fuel from feedstock for which a credit is already allowable), eliminates the special credit rate for sustainable aviation fuel, and addresses overlapping credit claims by eliminating the Section 6426(k) credit for fuel for which the 45Z credit is allowable.

This provision authorizes the Secretary to provide rules addressing certain related-party sales. This provision terminates the Section 6426(k) credit for periods after September 30, 2025. This provision corrects a statutory amendment execution error in Pub. L. 117-169 regarding registration of clean fuel producers.

This provision restricts access to the credit for certain prohibited foreign entities, effective for taxable years beginning after July 4, 2025. Specifically:

1. no credit is allowed for taxable years beginning after July 4, 2025, if the taxpayer is a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)).
2. no credit is allowed for taxable years that begin two years after July 4, 2025, for a foreign-influenced entity (as such term is defined in new Section 7701(a)(51)(D) without regard for clause (i)(II) thereof).

This provision also reinstates and modifies the small agri-biodiesel producer credit at 20 cents per gallon through December 31, 2026.

Sec. 70522. Restrictions on carbon oxide sequestration credit.
<u>Current Law:</u> Under current law, taxpayers may claim a credit equal to an applicable dollar amount per metric ton of qualified carbon oxide captured and disposed of or used by a taxpayer. For facilities or equipment that are placed in service after December 31, 2022, the applicable dollar amount is $17 per metric ton if the taxpayer disposes of the carbon oxide 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. A taxpayer generally receives Section 45Q credits for the 12-year period after the relevant facility or equipment is placed in service.

For direct air capture facilities placed in service after December 31, 2022, the applicable dollar amount is $36 per metric ton if the carbon oxide is disposed of in secure geological storage, and $26 per metric ton if the taxpayer uses 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.

The applicable dollar amounts are increased fivefold if the prevailing wage and apprenticeship provisions are met. The applicable dollar 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 increases the applicable dollar amounts for captured carbon oxides that are utilized in an allowable manner or used as a tertiary injectant and then disposed of in secure geological storage to match the applicable dollar amounts for captured carbon that is disposed of in secure geological storage (and not used as tertiary injectant). This provision adjusts the applicable dollar amounts for inflation for taxable years beginning after 2026. These changes are effective for facilities or equipment placed in service after July 4, 2025.

This provision restricts access to the credit for certain prohibited foreign entities, effective for taxable years beginning after July 4, 2025. Specifically, no credit is allowed for taxable years beginning after the date enactment if the taxpayer is:

- a specified foreign entity (as such term is defined in new Section 7701(a)(51)(B)) or
- 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, certain large C corporations ("applicable corporations") that exceed a financial statement income threshold (generally a corporation with a three-year average annual income in excess of $1 billion) are subject to a corporate AMT on their 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 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 taxpayers to (i) reduce AFSI for any deduction allowed for intangible drilling and development costs (IDCs) under Section 263(c), and (ii) adjust AFSI for any depletion expense that is taken into account on their applicable financial statement with respect to such IDCs. 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.

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 undyed fuel between terminals is considered to be a non-bulk transfer, resulting in the imposition of federal fuel excise taxes. Diesel fuel and kerosene destined for a nontaxable use that is indelibly dyed at removal is not subject to tax.

Under Section 4081(e), if fuel tax is paid and reported to the government on more than one taxable event (e.g. removal from a terminal), the person paying the "second tax" on such fuel may claim a refund (without interest) of that second tax. When tax-paid fuel is indelibly dyed at a second removal, there is no "second tax" and relief under Section 4081(e) is not available.

Provision: This provision would allow for refunds of federal fuel excise taxes actually paid on fuel indelibly dyed for a nontaxable use, 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.

Subchapter C – Other Reforms

Sec. 70531. Modifications to de minimis entry privilege for commercial shipments.
Current Law: Pursuant to 19 U.S.C. § 1321, a shipment of articles imported by one person on one day generally may enter the United States free of duty and of any tax imposed on or by reason of importation, provided that the aggregate fair retail value of the articles in such shipment do not exceed $800 (i.e. de minimis). De minimis entries must comply with U.S. customs law.

Provision: This provision would introduce, effective until July 1, 2027, a civil penalty of up to $5,000 on any person who, under the de minimis exemption, enters, introduces, facilitates, or attempts to introduce an article whose importation violates any provision of U.S. customs law. In the case of repeat offenders, the penalty may rise up to $10,000 per violation. Additionally, this provision repeals, effective on July 1, 2027, the de minimis treatment of shipments.

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

Subchapter A – Enhancing Deduction Guardrails and Other Reforms

Sec. 70601. Extension and modification of limitation on excess business losses of noncorporate taxpayers.
Current Law: Under current law Section 461(l), in the case of a noncorporate taxpayer, for taxable years beginning before January 1, 2029, no deduction is allowed for an excess business loss. An excess business loss not allowed for a taxable year is treated as a net operating loss ("NOL") for the taxable year that is carried over to subsequent taxable years under applicable NOL carryover rules. Excess business losses are the excess of current-year net business losses (excluding capital loss deductions) 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. Section 461(l) applies after the application of other limitations on losses, namely the passive activity loss limitation, the at-risk limitation, and in the case of a taxpayer who is a partner or S corporation shareholder, the rules limiting the taxpayer's

distributive share or pro rata share of loss for the taxable year to the taxpayer's adjusted basis in the partnership interest or in the S corporation stock and debt.

Under current law Section 461(l) and (j), in the case of a noncorporate taxpayer, for any taxable years beginning before January 1, 2029, the limitation on excess farm losses does not apply.

The limitation on excess business losses and the inapplicability of the limitation on excess farm losses are set to expire for taxable years beginning after December 31, 2028.

Provision: This provision makes the excess business loss limitation permanent and revises the limitation amounts to 2018 levels of $500,000 for married couples filing jointly and $250,000 for all other taxpayers, indexed for inflation thereafter. This provision also permanently removes the restriction on excess farm losses.

Sec. 70602. 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.

Provision: This provision amends the statute, revising "under regulations prescribed" with "except as provided" to clarify that regulations are not necessary to apply the rules of such statute. This provision applies prospectively to services performed and property transferred after July 4, 2025, with no inference as to the treatment of prior transactions.

Sec. 70603. 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 of this provision by eliminating the performance-based compensation exception and including more entities, such as certain publicly traded partnerships, as covered corporations, and 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 five 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.

A specified covered employee means (1) the CEO and CFO of the publicly held corporation at any time during the taxable year (or an individual acting in such capacity during the taxable year); the next 3 highest compensated officers of the publicly held corporation during the taxable year; and any employee who was the CEO, CFO or among the next 3 highest compensated officers of the publicly held corporation (or any predecessor) which is a member of such controlled group for any preceding taxable year beginning after December 31, 2016; and (2) in the case of any taxable year beginning after December 31, 2026, any employee who is among the next 5 highest compensated employees determined by taking into account the employees of all members of such controlled group.

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, this provision 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. 70604. Excise tax on certain remittance transfers.
Current Law: Not applicable.

Provision: This provision imposes a 1 percent excise tax on cash remittance transfers to be paid for by the sender with respect to such transfers. This 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. This 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.

This 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.

Lastly, this provision also includes an anti-conduit rule.

The excise tax is effective for transfers made after December 31, 2025.

Sec. 70605. 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: 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. A penalty of $1,000 applies 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. It also coordinates and extends limitations periods for certain corrective action by the IRS for credits or refunds under Section 3134.

Sec. 70606. Social Security number requirement for American opportunity and lifetime learning credits.
Current Law: Under current law, a taxpayer is allowed the American Opportunity Tax Credit (AOTC) and/or Lifetime Learning Credit (LLC) for qualified tuition and related expenses of an individual for a taxable year only if the taxpayer includes on the tax return for that year the individual's name and taxpayer identification number

(TIN). A TIN is an SSN, an individual taxpayer identification number (ITIN), or an adoption taxpayer identification number (ATIN).

Provision: This provision changes the TIN requirement to an SSN-only requirement, and it provides that, in the case of an AOTC or LLC with respect to qualified tuition and related expenses of an individual other than the taxpayer or the taxpayer's spouse (for example, the dependent child of the taxpayer), the taxpayer is allowed the credit only if the taxpayer includes on the return the SSN of both the individual and the taxpayer. This provision applies to taxable years beginning after December 31, 2025.

Sec. 70607. Task force on the replacement of Direct File.
Current Law: Under current law, qualifying taxpayers may prepare and file Federal tax returns online directly with the IRS, for free, in 25 participating states (the IRS 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 services for free.

Provision: This provision directs Treasury to author a report on the cost and feasibility of enhancing and establishing public-private partnerships between the IRS and private sector tax preparation services to offer free tax filing, and to replace the existing Direct File program.

SUBTITLE B - HEALTH CARE

Chapter 1 – Medicaid

Subchapter A – Reducing Fraud and Improving Enrollment Processes

Sec. 71101. Moratorium on implementation of rules 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 certain provisions in this final rule until September 30, 2034.

Sec. 71102. Moratorium on implementation of rules 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 certain provisions in this final rule under Medicaid or CHIP until September 30, 2034.

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.

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 $1,097,000.11.

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. 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 and Haitian immigrants; and (3) COFA migrants lawfully residing in the U.S.

Sec. 71110. 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. 71111. Moratorium 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 until September 30, 2034.

Sec. 71112. 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. 71113. 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 1 year 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. 71114. 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 future states implementing ACA Medicaid expansion.

Sec. 71115. 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 the cost of provider taxes up to 6 percent of net patient revenue.

Provision: This provision would set the hold harmless threshold at the current applicable rate in given state for a specific class of providers. Beginning in 2028, the hold harmless threshold in expansion states for provider classes other than nursing or intermediate care facilities would be reduced from 6 percent by 0.5 percent annually until the maximum hold harmless threshold reaches 3.5 percent in 2032.

Sec. 71116. 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, beginning in 2028, existing state-directed payment limits would be reduced by 10 percent annually until the allowable Medicare-related payment limit is achieved.

Sec. 71117. 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. 71118. 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. 71119. Requirement for states to establish Medicaid community engagement requirements for certain individuals.
<u>Current Law:</u> Medicaid enrollees are not subject to work requirements under current law.

<u>Provision:</u> 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 13 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, or to accompany a dependent receiving 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;
- 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;" or
- To have an average monthly income over the preceding 6 months that is not less than the applicable minimum wage requirement and is a seasonal worker.

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 $200 million for the HHS Secretary to award grants to states to establish systems necessary to carry out the community engagement requirements.

Sec. 71120. Modifying cost sharing requirements for certain expansion individuals under the Medicaid program.
<u>Current Law:</u> 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.

<u>Provision:</u> 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), or services provided by a Federally qualified health center, a certified community behavioral health clinic, or a rural health clinic.

Subchapter E – Expanding Access to Care

Sec. 71121. Making certain adjustments to coverage of home or community-based services under Medicaid.
<u>Current Law:</u> Home and community-based services (HCBS) are long-term services and supports provided in a noninstitutional setting to older adults; individuals with intellectual, developmental, or physical disabilities; and individuals with mental health and substance use disorders, among other populations. HCBS are covered by state Medicaid programs under different federal statutory authorities, including section 1915(c) waivers.

<u>Provision:</u> This provision authorizes states to cover HCBS for individuals who need such services, but do not meet the current-law requirement of having an “institutional level of care” under section 1915(c) of the SSA.

Chapter 2 – Medicare

Subchapter A – Strengthening Eligibility Requirements.

Sec. 71201. Limiting Medicare coverage of certain individuals.
<u>Current Law:</u> 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) 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) 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 and Haitian 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.

Subchapter B – Improving Services for Seniors

Sec. 71202. Temporary payment increase under the Medicare Physician Fee Schedule to account for exceptional circumstances.
Current Law: Physicians and non-physician practitioners who furnish care to eligible Medicare beneficiaries are paid under Part B according to the Medicare Physician Fee Schedule. The annual update is set to the conversion factor that determines how payments are adjusted year over year.

Provision: This provision would increase the conversion factor to 2.5 percent in calendar year 2026.

Sec. 71203. Expanding and clarifying the exclusion for orphan drugs under the Drug Price Negotiation Program.
Current Law. The Inflation Reduction Act created the Medicare Drug Price Negotiation Program. Under that program, orphan drugs are excluded from selection if they are approved as an orphan drug for "only one rare disease or condition" and their only approved indication is for such disease or condition.

Provision: This provision excludes drugs that are designated for "one or more" rare disease or conditions from Medicare Drug Price Negotiation Program eligibility.

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 and Haitian 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.

Subchapter C – Enhancing Choice for Patients

Sec. 71306. Permanent extension of safe harbor for absence of deductible for telehealth services.
Current Law: To be eligible to contribute to a Health Savings Account (HSA) on a tax-preferred basis, an individual must be covered under a high deductible health plan (HDHP). The characteristics of an HDHP, including deductible and out-of-pocket level requirements, are outlined in statute. A plan does not fail to qualify as an HDHP by reason of failing to have a deductible for preventive care.

Provision: This provision would provide a permanent safe harbor under which a plan does not fail to be treated as an HDHP merely by reason of providing, without satisfaction of the plan's deductible, telehealth and other remote care services.

Sec. 71307. Allowance of bronze and catastrophic plans in connection with Health Savings Accounts.
Current Law: To be eligible to contribute to an HSA on a tax-preferred basis, an individual must be covered under a HDHP. The characteristics of an HDHP, including deductible and out-of-pocket level requirements, are outlined in statute. Individual market health plans available on the Exchanges are defined by various metal categories, which correspond to the percentage of costs an enrollee is expected to incur. A bronze plan provides coverage that is designed to provide benefits actuarially equivalent to 60 percent of the full actuarial value of the plan. Catastrophic plans do not have fall into a metal tier, have high deductibles, and have limited eligibility.

Provision: This provision would allow individuals to contribute to an HSA if covered under a bronze or catastrophic plan.

Sec. 71308. Treatment of direct primary care services arrangements.
Current Law: To be eligible to contribute to an HSA on a tax-preferred basis, an individual must be covered under an HDHP. An individual cannot be covered under any health plan that is not an HDHP. Under current law, a direct primary care service arrangement may constitute other health coverage.

Current Law: This provision would allow individuals to contribute to an HSA on a tax-preferred basis while participating in direct primary care service arrangements.

Chapter 4 – Protecting Rural Hospitals and Providers

Sec. 71401. Rural health transformation program.
Current Law: There is no provision in current law.

Provision: This section would appropriate a total of $50 billion from (FY) 2026 through FY 2030, to the 50 states. Under the program, a state would be required to submit an application to the CMS Administrator in order to receive federal funding to carry out specified activities. A state would only need to apply once in order to be approved for the entirety of the program's duration. The rural health transformation plan must describe how the state would use funds from the program to:

- Improve access to hospitals, other health care providers, and health care items and services furnished to rural residents of the state;
- Improve health care outcomes of rural residents of the state;
- Prioritize the use of new and emerging technologies that emphasize prevention and chronic disease management;
- Initiate, foster and strengthen local and regional strategic partnerships between rural hospitals and other health care providers in order to promote measurable quality improvement, increase financial stability, maximize economies of scale, and share best practices in care delivery;
- Enhance economic opportunity for, and the supply of, health care clinicians through enhanced recruitment and training;
- Prioritize data and technology driven solutions that help rural hospitals and other rural health care providers furnish high-quality health care services as close to a patient's home as is possible;
- Outline strategies to manage long-term financial solvency and operating models of rural hospitals in the state; and
- Identify specific causes driving the accelerating rate of stand-alone rural hospitals at risk of closure, conversion, or service reduction.

Of the annual appropriation, 50 percent would be distributed equally to the 50 states and 50 percent would be distributed to states based on a procedure to be determined by the CMS Administrator. In determining the allocation procedure, the CMS Administrator would be required to consider a state's rural population, proportion of health care facilities in rural areas, and the situation of hospitals who serve a high proportion of low-income patients. States would be required to have an approved application to receive funds.

Annual allotments distributed to states would remain available for use through the end of the second succeeding FY. Beginning in 2028, amounts allotted but unused would be redistributed in accordance with a methodology specified by the CMS Administrator. Redistributed amounts would remain available for use by the state through the end of the second succeeding fiscal year. States would not be required to match awarded allotments. Funds could only be used for allowable activities, such as:

- Promoting evidence-based, measurable interventions to improve prevention and chronic disease management;
- Providing payments to health care providers for the provision of health care items or services, as specified by the Administrator;

- Promoting consumer-facing, technology-driven solutions for the prevention and management of chronic diseases;
- Providing training and technical assistance for the development and adoption of technology-enabled solutions that improve care delivery in rural hospitals, including remote monitoring, robotics, artificial intelligence, and other advanced technologies;
- Recruiting and retaining clinical workforce talent to rural areas, with commitments to serve rural communities for a minimum of 5 years;
- Providing technical assistance, software, and hardware for significant information technology advances designed to improve efficiency, enhance cybersecurity capability development, and improve patient health outcomes;
- Assisting rural communities to right size their health care delivery systems by identifying needed preventative, ambulatory, pre-hospital, emergency, acute inpatient care, outpatient care, and post-acute care service lines;
- Supporting access to opioid use disorder treatment services (as defined in section 1861(jjj)(1)), other substance use disorder treatment services, and mental health services;
- Developing projects that support innovative models of care that include value-based care arrangements and alternative payment models, as appropriate; and
- Additional uses designed to promote sustainable access to high quality rural health care services, as determined by the Administrator.

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.

SUBTITLE D - UNEMPLOYMENT

Sec. 73001. Ending unemployment payments to jobless millionaires.
Current Law: Not applicable.

Provision: This provision prevents individuals whose wages during the base period are equal to or exceed $1,000,000 from receiving federal unemployment insurance benefits.