Ending Tax Breaks for Massive Sovereign Wealth Funds Act

The *Ending Tax Breaks for Massive Sovereign Wealth Funds Act* would eliminate a special tax exemption granted to the largest sovereign wealth funds and similar foreign government investment funds. When foreign countries like Saudi Arabia have more than $100 billion globally in investments like stocks, hedge funds, and private equity, they may potentially lose the special tax exemption granted for income from their U.S. investments.

Under current law, if payments such as dividends or interest are made to a foreign person, they are subject to a 30 percent withholding tax. Under section 892 of the tax code, foreign governments are exempted from this withholding tax on certain types of payments (the "892 benefit"). This includes their instrumentalities, such as subnational governments and, most importantly, sovereign wealth funds.

The legislation would remove the 892 benefits provided to foreign governments that have more than $100 billion in funds available for investment globally. For payments made after 2023, these non-exempt foreign governments would be subject to withholding tax on payments made from the U.S. Other reductions or exemptions to withholding, such as through a tax treaty or the portfolio interest rule, would still be available to these governments. Even if the country has $100 billion in global investment, there is an exception where they would retain the 892 benefit if: 1) they have a free trade agreement or a tax treaty in place with the U.S., and 2) are not a "country of concern." For taxpayer certainty, Treasury would be required to publish a list of the countries treated as non-exempt foreign governments.

Grandfathering rule: These jurisdictions have significant investments in the U.S.. To prevent significant disruption to existing investment and give time for adjustments to be made, a grandfathering rule applies until 2026. The following types of investments would be grandfathered:

- Capital deployed prior to the date of enactment of the bill,
- Investments in publicly-traded companies, as long as investment is under 10 percent,
- Investments that are made after enactment, if done under a binding written contract with specific investment amounts contractually required.

During the grandfathering period, primarily new capital deployed in the U.S. will face the loss of the 892 benefit. Starting in 2026, there is no grandfathering, and all payments to the six countries would lose 892 benefits.