DESCRIPTION OF THE BUDGET RECONCILIATION LEGISLATIVE RECOMMENDATIONS RELATED TO TAX

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INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup for May 13, 2025, of the Budget Reconciliation Legislative Recommendations Related to Tax. This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the tax provisions of this bill.[2]

[1] This document may be cited as follows: Joint Committee on Taxation, *Description of the Budget Reconciliation Legislative Recommendations Related to Tax* (JCX-18-25), May 9, 2025. This document can also be found on the Joint Committee on Taxation website at www.jct.gov. All section references in the document, and all references in the text of the bill to a section or provision, are to the Internal Revenue Code of 1986, as amended (the "Code"), unless otherwise stated.

[2] The bill provides that section 15 does not apply to any tax rate change resulting from any provision of the bill.

SUBTITLE A—MAKE AMERICAN WORKERS AND FAMILIES THRIVE AGAIN

A. Extension of Modification of Rates

Present Law

In general

To determine regular tax liability, individual, estate, and trust taxpayers generally must apply the tax rate schedules (or the tax tables) to their regular taxable income.[3] The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income bracket increases.

Tax rate schedules

Separate rate schedules apply based on an individual's filing status. Public Law 115-97 changed the rate schedules for taxable years beginning after December 31, 2017, and beginning before January 1, 2026. For 2025, the regular individual, estate, and trust income tax rate schedules are as follows:

Table 1.–Federal Individual, Estate, and Trust Income Tax Rates for 2025[*]

If taxable income is:	Then income tax equals:
	Single Individuals
Not over $11,925	10% of the taxable income
Over $11,925 but not over $48,475	$1,192.50 plus 12% of the excess over $11,925
Over $48,475 but not over $103,350	$5,578.50 plus 22% of the excess over $48,475
Over $103,350 but not over $197,300	$17,651 plus 24% of the excess over $103,350
Over $197,300 but not over $250,525	$40,199 plus 32% of the excess over $197,300
Over $250,525 but not over $626,350	$57,231 plus 35% of the excess over $250,525
Over $626,350	$188,769.75 plus 37% of the excess over $626,350

[3] Sec. 1.

If taxable income is:	Then income tax equals:
Heads of Households	
Not over $17,000	10% of the taxable income
Over $17,000 but not over $64,850	$1,700 plus 12% of the excess over $17,000
Over $64,850 but not over $103,350	$7,442 plus 22% of the excess over $64,850
Over $103,350 but not over $197,300	$15,912 plus 24% of the excess over $103,350
Over $197,300 but not over $250,500	$38,460 plus 32% of the excess over $197,300
Over $250,500 but not over $626,350	$55,484 plus 35% of the excess over $250,500
Over $626,350	$187,031.50 plus 37% of the excess over $626,350
Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $23,850	10% of the taxable income
Over $23,850 but not over $96,950	$2,385 plus 12% of the excess over $23,850
Over $96,950 but not over $206,700	$11,157 plus 22% of the excess over $96,950
Over $206,700 but not over $394,600	$35,302 plus 24% of the excess over $206,700
Over $394,600 but not over $501,050	$80,398 plus 32% of the excess over $394,600
Over $501,050 but not over $751,600	$114,462 plus 35% of the excess over $501,050
Over $751,600	$202,154.50 plus 37% of the excess over $751,600
Married Individuals Filing Separate Returns	
Not over $11,925	10% of the taxable income
Over $11,925 but not over $48,475	$1,192.50 plus 12% of the excess over $11,925
Over $48,475 but not over $103,350	$5,578.50 plus 22% of the excess over $48,475
Over $103,350 but not over $197,300	$17,651 plus 24% of the excess over $103,350
Over $197,300 but not over $250,525	$40,199 plus 32% of the excess over $197,300
Over $250,525 but not over $375,800	$57,231 plus 35% of the excess over $250,525
Over $375,800	$101,077.25 plus 37% of the excess over $375,800
Estates and Trusts	
Not over $3,150	10% of the taxable income
Over $3,150 but not over $11,450	$315 plus 24% of the excess over $3,150
Over $11,450 but not over $15,650	$2,307 plus 35% of the excess over $11,450
Over $15,650	$3,777 plus 37% of the excess over $15,650

* Rev. Proc. 2024-40, 2024-45 I.R.B. 1100, November 4, 2024.

For taxable years beginning after December 31, 2025, the changes made to the rate schedules by Public Law 115-97 no longer apply. For 2026, the regular individual, estate, and trust income tax rate schedules are projected to be as follows:

Table 2.–Federal Individual, Estate, and Trust Income Tax Rates for 2026*

If taxable income is:	Then income tax equals:
Single Individuals	
Not over $12,150	10% of the taxable income
Over $12,150 but not over $49,300	$1,215 plus 15% of the excess over $12,150
Over $49,300 but not over $119,400	$6,787.50 plus 25% of the excess over $49,300
Over $119,400 but not over $249,100	$24,312.50 plus 28% of the excess over $119,400
Over $249,100 but not over $541,550	$60,628.50 plus 33% of the excess over $249,100
Over $541,550 but not over $543,800	$157,137 plus 35% of the excess over $541,550
Over $543,800	$157,924.50 plus 39.6% of the excess over $543,800
Heads of Households	
Not over $17,350	10% of the taxable income
Over $17,350 but not over $66,050	$1,735 plus 15% of the excess over $17,350
Over $66,050 but not over $170,550	$9,040 plus 25% of the excess over $66,050
Over $170,550 but not over $276,200	$35,165 plus 28% of the excess over $170,550
Over $276,200 but not over $541,550	$64,747 plus 33% of the excess over $276,200
Over $541,550 but not over $577,750	$152,312.50 plus 35% of the excess over $541,550
Over $577,750	$164,982.50 plus 39.6% of the excess over $577,750
Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $24,300	10% of the taxable income
Over $24,300 but not over $98,600	$2,430 plus 15% of the excess over $24,300
Over $98,600 but not over $199,000	$13,575 plus 25% of the excess over $98,600
Over $199,000 but not over $303,250	$38,675 plus 28% of the excess over $199,000
Over $303,250 but not over $541,550	$67,865 plus 33% of the excess over $303,250
Over $541,550 but not over $611,750	$146,504 plus 35% of the excess over $541,550
Over $611,750	$171,074 plus 39.6% of the excess over $611,750

If taxable income is:	Then income tax equals:
Married Individuals Filing Separate Returns	
Not over $12,150	10% of the taxable income
Over $12,150 but not over $49,300	$1,215 plus 15% of the excess over $12,150
Over $49,300 but not over $99,500	$6,787.50 plus 25% of the excess over $49,300
Over $99,500 but not over $151,625	$19,337.50 plus 28% of the excess over $99,500
Over $151,625 but not over $270,775	$33,932.50 plus 33% of the excess over $151,625
Over $270,775 but not over $305,875	$73,252 plus 35% of the excess over $270,775
Over $305,875	$85,537 plus 39.6% of the excess over $305,875
Estates and Trusts	
Not over $3,300	15% of the taxable income
Over $3,300 but not over $7,800	$495 plus 25% of the excess over $3,300
Over $7,800 but not over $11,900	$1,620 plus 28% of the excess over $7,800
Over $11,900 but not over $16,200	$2,768 plus 33% of the excess over $11,900
Over $16,200	$4,187 plus 39.6% of the excess over $16,200

* JCT staff projections.

Indexing for inflation

The income bracket thresholds, the amounts where a higher rate bracket begins and a lower rate bracket ends, are indexed for inflation using a cost-of-living adjustment.[4] The cost-of-living adjustment for the regular income tax brackets for 2025 is the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for 2024 exceeds the chained CPI for 2017.[5]

Description of Proposal

The proposal makes permanent the regular income tax rate schedules for individuals, estates, and trusts enacted by Public Law 115-97.

The proposal generally modifies the indexing for inflation for bracket thresholds by providing one additional year of inflation in the cost-of-living adjustment. Under the proposal, the cost-of-living adjustment for the regular income tax brackets for 2026 is generally the

[4] Sec. 1(f).

[5] Sec. 1(j)(3). In general, provisions in the Code that are inflation adjusted using the Consumer Price Index calculate the inflation adjustment for a given calendar year by comparing the price index in the preceding calendar year to the price index in a "base year."

percentage by which the chained CPI for 2025 exceeds the chained CPI for 2016.[6] The result is that the bracket thresholds are larger than they would otherwise be absent this additional year of inflation.

However, the dollar amount at which the 37-percent rate bracket begins and the 35-percent rate bracket ends (the "37-percent rate bracket threshold") is not provided this additional year of inflation in the cost-of-living adjustment. Thus, the cost-of-living adjustment for the 37-percent rate bracket threshold for 2026 is the percentage by which chained CPI for 2025 exceeds the chained CPI for 2017.

Under the proposal, for 2026, the regular individual income tax rate schedules are projected to be as follows:

Table 3.–Federal Individual, Estate, and Trust Income Tax Rates for 2026 Under the Proposal*

If taxable income is:	Then income tax equals:
Single Individuals	
Not over $12,375	10% of the taxable income
Over $12,375 but not over $50,275	$1,237.50 plus 12% of the excess over $12,375
Over $50,275 but not over $107,200	$5,785.50 plus 22% of the excess over $50,275
Over $107,200 but not over $204,700	$18,309 plus 24% of the excess over $107,200
Over $204,700 but not over $259,925	$41,709 plus 32% of the excess over $204,700
Over $259,925 but not over $639,275	$59,381 plus 35% of the excess over $259,925
Over $639,275	$192,153.50 plus 37.0% of the excess over $639,275
Heads of Households	
Not over $17,650	10% of the taxable income
Over $17,650 but not over $67,300	$1,765 plus 12% of the excess over $17,650
Over $67,300 but not over $107,200	$7,723 plus 22% of the excess over $67,300
Over $107,200 but not over $204,700	$16,501 plus 24% of the excess over $107,200
Over $204,700 but not over $259,900	$39,901 plus 32% of the excess over $204,700
Over $259,900 but not over $639,250	$57,565 plus 35% of the excess over $259,900
Over $639,250	$190,337.50 plus 37.0% of the excess over $639,250

[6] Absent this modification, the cost-of-living adjustment for this purpose for 2026 is the percentage by which the chained CPI for 2025 exceeds the chained CPI for 2017.

If taxable income is:	Then income tax equals:
Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $24,750	10% of the taxable income
Over $24,750 but not over $100,550	$2,475 plus 12% of the excess over $24,750
Over $100,550 but not over $214,400	$11,571 plus 22% of the excess over $100,550
Over $214,400 but not over $409,400	$36,618 plus 24% of the excess over $214,400
Over $409,400 but not over $519,850	$83,418 plus 32% of the excess over $409,400
Over $519,850 but not over $767,150	$118,762 plus 35% of the excess over $519,850
Over $767,150	$205,317 plus 37.0% of the excess over $767,150
Married Individuals Filing Separate Returns	
Not over $12,375	10% of the taxable income
Over $12,375 but not over $50,275	$1,237.50 plus 12% of the excess over $12,375
Over $50,275 but not over $107,200	$5,785.50 plus 22% of the excess over $50,275
Over $107,200 but not over $204,700	$18,309 plus 24% of the excess over $107,200
Over $204,700 but not over $259,925	$41,709 plus 32% of the excess over $204,700
Over $259,925 but not over $383,575	$59,381 plus 35% of the excess over $259,925
Over $383,575	$102,658.50 plus 37.0% of the excess over $383,575
Estates and Trusts	
Not over $3,300	10% of the taxable income
Over $3,300 but not over $11,850	$330 plus 24% of the excess over $3,300
Over $11,850 but not over $15,950	$2,382 plus 35% of the excess over $11,850
Over $15,950	$3,817 plus 37% of the excess over $15,950

* JCT staff calculations.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

B. Extension of Increased Standard Deduction and Temporary Enhancement

Present 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 standard deduction is the sum of the basic standard deduction and, if applicable, the additional standard deduction.[7] The basic standard deduction varies depending upon a taxpayer's filing status. For taxable years beginning in 2025, the amount of the basic standard deduction is $15,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return,[8] $22,500 for a head of household, and $30,000 for married individuals filing a joint return and a surviving spouse.[9]

An additional standard deduction is allowed to an individual who has attained age 65 before the close of the taxable year or is blind at the close of the taxable year.[10] For 2025, the additional amount is $1,600 for a married taxpayer (for each spouse meeting the applicable criteria in the case of a joint return) and a surviving spouse. The additional amount for a single individual and head of household is $2,000. An individual who is both blind and has attained age 65 is entitled to two additional standard deductions, for a total additional amount (for 2025) of $3,200 or $4,000, as applicable.

In the case of a dependent for whom a deduction for a personal exemption[11] is allowable to another taxpayer, the standard deduction may not exceed the greater of (i) $1,350 (in 2025) or (ii) the sum of $450 (in 2025) plus the dependent's earned income.[12] The standard deduction for an estate or trust is zero.[13] The amounts of the basic and additional standard deduction are indexed annually for inflation.[14]

Public law 115-97 temporarily increases the basic standard deduction for tax years beginning after December 31, 2017, and before January 1, 2026. Under present law, relative to taxable years beginning in 2025, the standard deduction will decrease for taxable years beginning

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[7] Sec. 63(c)(1).

[8] In the case of a married individual filing a separate return where either spouse itemizes deductions, the standard deduction is zero. Sec. 63(c)(6).

[9] Rev. Proc. 2024-40, 2024-45 I.R.B. 1100, November 4, 2024.

[10] Sec. 63(f).

[11] For taxable years beginning in 2018 through 2025, the personal exemption amount is reduced to zero. Sec. 151(d)(5). This reduction is not taken into account in determining the limitation on the standard deduction for dependents. See sec. 151(d)(5).

[12] Sec. 63(c)(5).

[13] Sec. 63(f).

[14] Sec. 63(c)(4) and (c)(7)(B).

in 2026, with the amount of the basic standard deduction being $8,300 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return,[15] $12,150 for a head of household, and $16,600 for married individuals filing a joint return and a surviving spouse.[16] The additional standard deduction was not modified by Public Law 115-97.

Description of Proposal

The proposal strikes the expiration date of the temporary increases to the standard deduction enacted by Public Law 115-97.

In addition, the proposal temporarily increases the amount of the standard deduction by $2,000 in the case of married individuals filing a joint return and a surviving spouse, $1,500 in the case of a head of household, and $1,000 in any other case for taxable years beginning after December 31, 2024, and before January 1, 2029. These temporary amounts are not indexed for inflation.

As a result, the amount of the basic standard deduction for taxable years beginning in 2025 will increase to $16,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $24,000 for a head of household, and $32,000 for married individuals filing a joint return and a surviving spouse. For taxable years in beginning in 2026 the standard deduction is projected to be $16,300 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $24,500 for a head of household, and $32,600 for married individuals filing a joint return and a surviving spouse.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2024.

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[15] In the case of a married individual filing a separate return where either spouse itemizes deductions, the standard deduction is zero. Sec. 63(c)(6).

[16] JCT staff projections.

C. Termination of Deduction for Personal Exemptions

Present Law

In general

In determining taxable income, an individual reduces adjusted gross income by any personal exemption deductions and either the applicable standard deduction or their itemized deductions. Personal exemptions generally are allowed for the taxpayer (both taxpayers in the case of a joint return) and any dependents of the taxpayer.[17] Public Law 115-97 temporarily reduced the amount of the personal exemption to $0 for taxable years 2018 through 2025.[18]

For 2026, the amount deductible for each personal exemption is projected to be $5,300.[19] The personal exemption amount is phased out in the case of an individual with AGI in excess of $407,850 for married taxpayers filing jointly, $373,850 for heads of household, $203,925 for married taxpayers filing separately, and $339,850 for all other filers.[20] The amounts of the personal exemption and phaseout thresholds are indexed annually for inflation. In addition, no deduction for a personal exemption is allowed to a dependent if a personal exemption deduction for the dependent is allowable to another taxpayer or if an individual's taxpayer identification number is not included on the return claiming the exemption.

Trusts and estates

In lieu of the deduction for personal exemptions, an estate is allowed a deduction of $600.[21] A trust is allowed a deduction of $100; $300 if required to distribute all its income currently; and an amount equal to the personal exemption of an individual, or for years in which the personal exemption is zero, an indexed value ($5,100 for 2025), in the case of a qualified disability trust.[22]

Description of Proposal

The proposal permanently reduces the amount of the personal exemption to $0.

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[17] In addition, a married taxpayer filing a separate return may claim a personal exemption deduction for a spouse if the spouse has no gross income and is not a dependent of another taxpayer.

[18] Sec. 63(d)(5).

[19] JCT staff estimate.

[20] Sec. 63(d)(3).

[21] Sec. 642(b)(1).

[22] Sec. 642(b)(2).

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

D. Extension of Increased Child Tax Credit and Temporary Enhancement

Present Law

In general

Taxpayers are allowed a child tax credit of $2,000 for each qualifying child.[23] The aggregate amount of otherwise allowable child tax credit is phased out for taxpayers with income over a threshold amount of $400,000 for taxpayers filing jointly and $200,000 for all other taxpayers.[24] The otherwise allowable child tax credit amount is reduced by $50 for each $1,000 (or fraction thereof) of modified adjusted gross income ("modified AGI") over the applicable threshold amount. For purposes of this limitation, modified AGI means AGI increased by any amount excluded from gross income under section 911 (foreign earned income exclusion), 931 (exclusion of income for a bona fide resident of American Samoa), or 933 (exclusion of income for a bona fide resident of Puerto Rico).[25]

Generally, for purposes of the child tax credit, a qualifying child is a qualifying child as defined in section 152(c) who is under the age of 17.[26] Only a child who is a U.S. citizen, national, or resident may be a qualifying child; citizens of contiguous countries are ineligible under the child tax credit definition of qualifying child.[27]

The name and social security number ("SSN") of the qualifying child must appear on the return, and the SSN must be issued before the due date for filing the return.[28] The SSN also must be issued to a citizen or national of the United States or pursuant to a provision of the Social Security Act relating to the lawful admission for employment in the United States.[29] The TIN of the taxpayer must be issued on or before the due date for filing the return.[30]

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[23] Sec. 24(a), (h)(2). For taxable years beginning after December 31, 2025, the amount of the credit is $1,000 for each qualifying child. See below for descriptions of other changes to the child tax credit for taxable years beginning after December 31, 2025.

[24] Sec. 24(b), (h)(3). For taxable years beginning after December 31, 2025, the modified AGI threshold amounts at which the credit begins to phase out are $75,000 for individuals who are not married, $110,000 for married individuals filing joint returns, and $55,000 for married individuals filing separate returns.

[25] Sec. 24(b)(1).

[26] Sec. 24(c)(1).

[27] Sec. 24(c)(2).

[28] Sec. 24(h)(7). For taxable years beginning after December 31, 2025, the child tax credit may be claimed if the taxpayer identification number ("TIN") of the qualifying child, rather than the SSN of the child, appears on the return. Sec. 24(e)(1).

[29] See sec. 205(c)(2)(B)(i)(I) (or that portion of subclause (III) that relates to subclause (I)) of the Social Security Act.

[30] Sec. 24(e)(2).

Partial refundability and calculation of additional child tax credit

The child tax credit is generally a nonrefundable tax credit taken against income tax liability. The credit is allowable against both the regular tax and the alternative minimum tax.[31]

In some circumstances, all or a portion of the otherwise allowable credit is treated as a refundable credit (the "additional child tax credit").[32] The credit is treated as refundable in an amount equal to 15 percent of earned income in excess of $2,500 (the "earned income formula").[33] Earned income generally has the same definition as for purposes of the earned income tax credit and is defined as the sum of wages, salaries, tips, and other taxable employee compensation plus net self-employment earnings.[34] For purposes of the additional child tax credit, only items taken into account in computing taxable income are treated as earned income.[35] However, combat pay that is excluded from gross income under section 112 is also taken into account.

A taxpayer with three or more qualifying children may determine the additional child tax credit using the "alternative formula," if this formula results in a larger additional child tax credit than determined under the earned income formula. Under the alternative formula, the additional child tax credit equals the amount by which the taxpayer's Social Security taxes exceed the taxpayer's earned income tax credit.[36]

The maximum amount of the additional child tax credit per qualifying child ($1,700 for 2025)[37] is indexed for inflation, although the amount may not exceed the $2,000 amount of the nonrefundable child tax credit.[38] The inflation adjustment is the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for the preceding calendar year exceeds the chained CPI for 2017.

[31] Sec. 26(a).

[32] Sec. 24(d).

[33] Sec. 24(d)(1)(B)(i), (h)(6). For taxable years beginning after December 31, 2025, the earned income threshold for the refundable child tax credit is $3,000.

[34] Sec. 32(c)(2).

[35] Sec. 24(d)(1)(B)(i). For example, some ministers' parsonage allowances are considered self-employment income, see section 1402(a)(8), and thus are considered earned income for purposes of computing the EITC, but they are excluded from gross income for income tax purposes and thus are not considered earned income for purposes of the additional child tax credit.

[36] Sec. 24(d)(1)(B)(ii).

[37] Rev. Proc. 2024-40, 2024-45 I.R.B. 1100, November 4, 2024.

[38] Sec. 24(h)(5). The nonrefundable portion of the child tax credit is not adjusted for inflation. For taxable years beginning after December 31, 2025, there is no separately stated maximum amount of the additional child tax credit; however, the refundable credit may not exceed the total amount of the credit of $1,000 for taxable years beginning after December 31, 2025.

Withholding

Chapter 24 of the Code provides rules for employers to deduct and withhold amounts from employee wages for the payment of income tax. Under rules determined by the Secretary, an employee may be permitted one or more withholding allowances that reduces the amount of income tax withholding. A taxpayer's withholding allowances may take into account the number of children in respect of whom it is reasonably expected that the taxpayer is eligible for a child tax credit.[39]

Credit for other dependents

An individual is allowed a $500 nonrefundable credit for each dependent of the taxpayer as defined in section 152, other than a qualifying child as defined for purposes of the child tax credit.[40]

Application of the child tax credit in the territories of the United States

The three mirror Code territories (Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands) have, under their mirror Codes, a child tax credit identical to that in the Internal Revenue Code. A resident of one of these territories claims the child tax credit on the income tax return filed with the territory's revenue authority.

Mirror Code territories

The Secretary is directed to make payments to each of Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands in an amount equal to the loss in revenue by reason of the application of the child tax credit to the territory's mirror Code for the taxable year.[41] This amount is determined by the Secretary based on information provided by the government of the territory.

No child tax credit under the Internal Revenue Code is permitted for any resident of a mirror Code territory with respect to whom a child tax credit is allowed against income taxes of the territory.[42]

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[39] Sec. 3402(f)(1)(C).

[40] An individual who is a qualifying child for purposes of the dependent rules under section 152, but not a qualifying child for purposes of the child tax credit (*e.g.*, a child who is age 17 or 18, a full-time student under age 24, or a child without a valid SSN) is eligible to be a qualifying dependent for purposes of the $500 nonrefundable credit for other dependents. For taxable years beginning after December 31, 2025, there is no tax credit for other dependents.

[41] Sec. 24(k)(1).

[42] Sec. 24(k)(2).

Puerto Rico

Bona fide residents of Puerto Rico may claim an additional child tax credit up to the maximum amount[43] from the U.S. Treasury under the alternative formula, but determined without regard to the three-child limitation, by filing a return with the Internal Revenue Service ("IRS").[44]

Residents of Puerto Rico claim the additional child tax credit under the alternative formula by filing a Form 1040-SS or Form 1040-PR with the IRS.

American Samoa

The Secretary is directed to make payments to American Samoa in an amount estimated by the Secretary as being equal to the aggregate benefits that would have been provided to residents of American Samoa if the U.S. child tax credit had been in effect in American Samoa (and had been applied as if American Samoa were the United States) in that taxable year.[45]

The provision prohibits the Secretary from making these payments unless American Samoa has a plan approved by the Secretary to promptly distribute the payments to its residents. For years with respect to which American Samoa has an approved plan, no child tax credit under the Internal Revenue Code is permitted for any person who is eligible for a payment under the plan. If American Samoa does not have a plan in place for a taxable year, a bona fide resident of American Samoa may claim a child tax credit by filing a return with the IRS under rules similar to those for Puerto Rico, described above.

Description of Proposal

The proposal temporarily increases the maximum child tax credit to $2,500 for taxable years beginning after December 31, 2024, and before December 31, 2028.

For taxable years beginning after December 31, 2028, the maximum child tax credit will revert to a permanent amount of $2,000. This amount is indexed for inflation in taxable years beginning after 2028. The inflation adjustment is the percentage by which chained CPI for the preceding calendar year exceeds the chained CPI for 2024.

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[43] This amount is $1,700 for taxable years beginning in 2025. Rev. Proc. 2024-40, 2024-45 I.R.B. 1100, November 4, 2024.

[44] Sec. 24(k)(2)(B).

[45] Sec. 24(k)(3).

The proposal makes permanent the maximum amount of the additional child tax credit per qualifying child of $1,400 adjusted for inflation ($1,700 in 2025).[46] The proposal also makes permanent the earned income threshold of $2,500 for the purposes of the earned income formula.

The proposal makes permanent the income phaseout threshold amounts of $400,000 for taxpayers filing jointly and $200,000 for all other taxpayers.

Under the proposal, the $500 nonrefundable credit for each dependent of the taxpayer other than a qualifying child is permanent. This credit is not adjusted for inflation.

Under the proposal, the SSN of the taxpayer, the taxpayer's spouse (if married filing jointly), and the qualifying child must appear on the return. The SSN for each individual must be issued before the due date of the return. Each SSN also must be issued to a citizen or national of the United States or pursuant to a provision of the Social Security Act relating to the lawful admission for employment in the United States.[47]

The proposal applies rules similar to the rules of section 32(d), meaning married individuals must file a joint return in order to receive the child tax credit. Marital status is determined under section 7703(a).[48] Under the proposal, an individual is not treated as married if the individual (1) is married and does not file a joint return for the taxable year, (2) resides with a qualifying child for more than one-half of the taxable year, and (3) either does not have the same principal place of abode as their spouse during the last six months of the taxable year or has a decree, instrument, or agreement (other than a decree of divorce) described in section 121(d)(3)(C) with respect to their spouse and is not a member of the same household of their spouse by the end of the taxable year.[49]

Effective Date

The proposal is effective for taxable years beginning after December 31, 2024.

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[46] The inflation adjustment is the percentage by which the Chained CPI for the preceding calendar year exceeds the chained CPI for 2017.

[47] See sec. 205(c)(2)(B)(i)(I) (or that portion of subclause (III) that relates to subclause (I)) of the Social Security Act.

[48] Sec. 32(d)(2)(A).

[49] Sec. 32(d)(2)(B).

E. Extension of Deduction for Qualified Business Income and Permanent Enhancement

Present Law

In general

For taxable years beginning after December 31, 2017, and before January 1, 2026, certain individuals, trusts, and estates may deduct 20 percent of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20 percent of aggregate qualified real estate investment trust ("REIT") dividends and qualified publicly traded partnership income.[50] Special rules apply to determine the deduction attributable to domestic production activities of specified agricultural or horticultural cooperatives.[51]

The qualified business income deduction is subject to several limitations. The deduction may not exceed 20 percent of taxable income (reduced by net capital gain).[52] Limitations based on W-2 wages and capital investment phase in over a range of income above threshold amount of taxable income.[53] A disallowance of the deduction for income of specified service trades or businesses[54] also phases in over a range of income above the threshold amount of taxable income. Both the W-2 and capital investment and specified service trade or business limits are subject to the threshold amounts and phase-in ranges below for 2025.[55]

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[50] Sec. 199A(b)(2) and (b)(1)(B). See also Treas. Reg. secs. 1.199A-1 through 1.199A-7.

[51] For taxable years beginning after December 31, 2017, and before January 1, 2026, a specified agricultural or horticultural cooperative generally may deduct nine percent of the lesser of the cooperative's qualified production activities income or taxable income (determined without regard to the cooperative's section 199A(g) deduction and reduced by certain payments or allocations to patrons) for the taxable year. The deduction is limited to 50 percent of W-2 wages that are paid by the cooperative during the calendar year that ends in such taxable year and are properly allocable to domestic production gross receipts. Sec. 199A(g). See also Treas. Reg. secs. 1.199A-8 through 1.199A-12.

[52] Sec. 199A(a)(2). For this purpose, taxable income is computed without regard to the deduction allowable under the provision. Sec. 199A(e)(1).

[53] For a taxpayer with taxable income above the threshold, the taxpayer is allowed a deductible amount for each qualified trade or business equal to the lesser of (1) 20 percent of the qualified business income with respect to such trade or business, or (2) the greater of (a) 50 percent of the W-2 wages paid with respect to the qualified trade or business, or (b) the sum of 25 percent of the W-2 wages paid with respect to the qualified trade or business plus 2.5 percent of the unadjusted basis immediately after acquisition of all qualified property of the qualified trade or business. Sec. 199A(b)(2).

[54] A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. Sec. 199A(d)(2).

[55] Sec. 199A(b)(3) and (d)(3).

Filing Status	2025 Threshold Amount[56]	2025 Phase-in Range Amount
Married filing jointly	$394,600	$494,600
Married filing separately	$197,300	$247,300
Other returns	$197,300	$247,300

The taxpayer's deduction for qualified business income is not allowed in computing adjusted gross income; instead, the deduction is allowed in computing taxable income.[57] The deduction is available to individuals regardless of whether they itemize their deductions.[58]

Qualified business income

In general

Qualified business income is determined for each qualified trade or business of the taxpayer. For any taxable year, qualified business income is the net amount of qualified items of income, gain, deduction, and loss attributable to the qualified trade or business of the taxpayer.[59] A taxpayer includes qualified items of income, gain, deduction, and loss only to the extent those items are included or allowed to determine taxable income for the taxable year.[60] Items are treated as qualified items of income, gain, deduction, and loss only to the extent they are effectively connected with the conduct of a trade or business within the United States.[61]

[56] Sec. 2.27 of Rev. Proc. 2024-40, 2024-45 I.R.B., November 4, 2024. The threshold amount is adjusted for inflation in taxable years beginning after 2018. Sec. 199A(e)(2).

[57] Sec. 62(a).

[58] Sec. 63(b) and (d).

[59] Qualified business income excludes qualified REIT dividends and qualified publicly traded partnership income. Sec. 199A(c)(1).

[60] Sec. 199A(c)(3)(A)(ii).

[61] For this purpose, section 864(c) is applied by substituting "qualified trade or business (within the meaning of section 199A)" for "nonresident alien individual or a foreign corporation" or for "a foreign corporation," each place they appear. Sec. 199A(c)(3)(A). In the case of an individual with qualified business income from sources within the Commonwealth of Puerto Rico, if all such income for the taxable year is taxable under section 1 (income tax rates for individuals), then the term "United States" is considered to include Puerto Rico for purposes of determining the individual's qualified business income. Sec. 199A(f)(1)(C).

Qualified items of income, gain, deduction, and loss exclude:

1. any item taken into account in determining net capital gain or net capital loss,
2. dividends, income equivalent to a dividend, or payments in lieu of dividends,
3. interest income other than that which is properly allocable to a trade or business,
4. the excess of gain over loss from certain commodities transactions,[62]
5. the excess of foreign currency gains over foreign currency losses from section 988 transactions other than transactions directly related to the business needs of the business activity,
6. net income from notional principal contracts other than clearly identified hedging transactions that are treated as ordinary (i.e., not treated as capital assets),
7. any amount received from an annuity that is not received in connection with the trade or business, and
8. any item of deduction or loss properly allocable to any of the preceding items.[63]

Qualified business income also does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer.[64] Similarly, qualified business income does not include any guaranteed payment for services rendered with respect to the trade or business,[65] and, to the extent provided in regulations, does not include any amount paid or incurred by a partnership to a partner, acting other than in his or her capacity as a partner, for services.[66]

If the net amount of qualified business income from all qualified trades or businesses during the taxable year is a loss, then such loss is carried forward and in the next taxable year is treated as a loss from a qualified trade or business.[67] Any deduction that would otherwise be

[62] The exclusion does not apply to commodities transactions entered into in the normal course of the trade or business or with respect to stock in trade or property held primarily for sale to customers in the ordinary course of the trade or business, property used in the trade or business, or supplies regularly used or consumed in the trade or business.

[63] Sec. 199A(c)(3)(B).

[64] Sec. 199A(c)(4).

[65] Described in sec. 707(c).

[66] Described in sec. 707(a).

[67] Sec. 199A(c)(2).

allowed in a subsequent taxable year with respect to the taxpayer's qualified trades or businesses is reduced by 20 percent of any carryover qualified business loss.

Qualified trade or business

A qualified trade or business means any trade or business other than a specified service trade or business and other than the trade or business of performing services as an employee.[68]

Partnerships and S corporations

In the case of a partnership or S corporation, the section 199A deduction is determined at the partner or shareholder level.[69] Each partner in a partnership takes into account the partner's allocable share of each qualified item of income, gain, deduction, and loss, and for purposes of the limitation described above, is treated as having W-2 wages and unadjusted basis of qualified property for the taxable year equal to the partner's allocable share of W-2 wages and unadjusted basis of qualified property of the partnership. The partner's allocable share of W-2 wages and unadjusted basis of qualified property are determined in the same manner as the partner's allocable share of wage expenses and depreciation, respectively. Similarly, each shareholder of an S corporation takes into account the shareholder's pro rata share of each qualified item of income, gain, deduction, and loss of the S corporation, and is treated as having W-2 wages and unadjusted basis of qualified property for the taxable year equal to the shareholder's pro rata share of W-2 wages and unadjusted basis of qualified property of the S corporation.

Description of Proposal

The proposal makes five modifications to the deduction for qualified business income.

The first modification makes permanent the deduction for qualified business income (including the deduction for REIT dividends and qualified publicly traded partnership income) and the deduction for income attributable to the domestic production activities of specified agricultural or horticultural cooperatives.

The second modification increases three percentages used to calculate the deduction for qualified business income from 20 percent to 22 percent. The proposal increases the percentage of the excess of taxable income over net capital gain used in determining the maximum allowable deduction for qualified business income from 20 percent to 22 percent. The proposal increases the percentage of the aggregate amount of the taxpayer's qualified REIT dividends and qualified publicly traded partnership income for the taxable year used to calculate the combined qualified business income amount from 20 percent to 22 percent. Finally, the proposal increases the deductible amount for each qualified trade or business from 20 percent to 22 percent of the taxpayer's qualified business income with respect to that trade or business, before applying any applicable modifications.

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[68] Sec. 199A(d)(1).

[69] Sec. 199A(f)(1).

The third modification adjusts the phase-in of limitations by replacing the existing phase-in of W-2 wages and capital investment and specified service trade or businesses with a two-step process. Step one requires a taxpayer whose taxable income exceeds the threshold amount to apply the greater of the W-2 wages or W-2 wages and capital investment test to calculate the deductible amount for each qualified trade or business. Unlike current law, there is no phase in of W-2 wages or W-2 wages and capital investment (*i.e.*, the limitations apply in full to each qualified trade or business of a taxpayer whose taxable income exceeds the threshold amount). Under step two, the taxpayer reduces the sum of the deductible amounts (but not below zero) from all trades or businesses (including specified service trades or businesses), by a limitation phase-in amount, equal to 75 percent of the excess of taxable income over the threshold amount. The taxpayer calculates the deductible amounts under step two without regard to the W-2 wages or W-2 wages and capital investment limitations. The taxpayer then compares the aggregate deductible amounts under steps one and two, and applies the greater of the two amounts.[70]

The fourth modification allows a taxpayer to include qualified BDC interest dividends in the aggregated qualified REIT dividends and qualified publicly-traded partnership income used to calculate the combined qualified business amount. The proposal defines a qualified BDC interest dividend as any dividend received from a business development company[71] that has elected to be treated as a regulated investment company, [72] to the extent that the dividend is attributable to that company's net interest income derived from a qualifying trade or business. The proposal also excludes qualified BDC interest dividends from the calculation of qualified business income for a qualified trade or business.

The fifth modification indexes the threshold amounts for inflation for taxable years beginning after 2025.

Effective Date

The five modifications in this proposal apply to taxable years beginning after December 31, 2025.

[70] For example, assume that a taxpayer's (1) taxable income is $483,900, (2) threshold amount is $383,900, (3) and qualified business income from one specified service trade or business is $700,000. Under step one, the taxpayer's aggregate deduction is $0 because the taxpayer does not receive any qualified business income from a qualified trade or business. Under step two, the taxpayer's aggregate deduction is $79,000 [($700,000 qualified business income * 22 percent) – (75 percent * ($483,900 taxable income - $383,900 threshold amount))]. The taxpayer compares the aggregate deductible amounts under step one ($0) to step two ($79,000) and applies the larger of the two amounts (in this case $79,000).

[71] As defined in section 2(a) of the Investment Company Act of 1940.

[72] Sec. 851(a).

F. Extension of Increased Estate and Gift Tax Exemption Amounts and Permanent Enhancement

Present Law

Gift, estate, and generation-skipping transfer taxes

A gift tax generally is imposed on any transfer of property by gift by a U.S. citizen or resident,[73] and an estate tax generally is imposed on the taxable estate of any person who is a U.S. citizen or resident at the time of death.[74]

The estate and gift taxes are unified with a top tax rate of 40 percent and, under a temporary provision enacted as part of Public Law 115-97, a $10 million inflation-indexed lifetime exemption for decedents dying and gifts made after December 31, 2017, and before January 1, 2026.[75] Accordingly, the first $10 million (plus inflation) of the aggregate of taxable gifts and the gross estate is not subject to gift or estate tax. The inflation adjustment is determined using a base year of 2010. For 2025, the exemption amount is $13.99 million.

For decedents dying and gifts made after 2025, the estate and gift tax exemption is an inflation-indexed $5 million (again with a base year of 2010).[76] For 2026, the projected exemption amount is $7.14 million.

Exemption amounts used during life to offset gift tax reduce the amount of exemption that remains at death to offset the decedent's estate tax. Surviving spouses generally are permitted to use the unused portion of a predeceased spouse's estate and gift tax exemption (sometimes referred to as exemption portability).[77]

A separate transfer tax is imposed on generation-skipping transfers in addition to any estate or gift tax imposed on such transfers.[78] This tax generally is imposed on transfers, whether made directly or by trust or similar arrangement, to a beneficiary more than one generation below that of the transferor. The generation-skipping transfer tax is computed using a flat rate equal to the top tax rate applied to estates[79] and an exemption equal to the estate and gift

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[73] Sec. 2501.

[74] Sec. 2001.

[75] The exemption is granted by means of a credit equivalent to a $10 million exemption. See sec. 2010(c)(1).

[76] If the exemption amount in effect at a decedent's death is less than the exemption amount in effect during one or more years of the decedent's life, generally there is no "clawback" of the higher exemption amount used during life to offset gift tax. See Treas. Reg. sec. 20.2010-1(c).

[77] Sec. 2010(c)(2)(B).

[78] Sec. 2601.

[79] Sec. 2641.

tax exemption in effect for the taxable year, reduced by amounts of exemption allocated by the transferor to generation-skipping transfers in prior taxable years.[80] There is no spousal exemption portability for the generation-skipping transfer tax exemption.

Description of Proposal

The proposal permanently increases the unified estate and gift tax exemption to an inflation-indexed $15 million for taxable years beginning after December 31, 2025. Accordingly, the generation-skipping transfer tax exemption is also permanently increased to an inflation-indexed $15 million. The $15 million exemption amount is indexed for inflation with a base year of 2025. Accordingly, the exemption amount is $15 million for decedents dying and gifts made in calendar year 2026 and increases with inflation thereafter.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

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[80] Sec. 2631 and Treas. Reg. sec. 26.2632-1.

G. Extension of Increased Alternative Minimum Tax Exemption and Phase-out Thresholds

Present Law

Individual alternative minimum tax

In general

An alternative minimum tax ("AMT") is imposed on an individual, an estate, or a trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year. For taxable years beginning in 2025, the tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not exceed $239,100 ($119,550 in the case of a married individual filing a separate return), and (2) 28 percent of the remaining taxable excess. The breakpoints are indexed for inflation. The taxable excess is so much of the alternative minimum taxable income ("AMTI") as exceeds the exemption amount. The maximum tax rates on net capital gain and dividends used in computing the regular tax are used in computing the tentative minimum tax. AMTI is taxable income adjusted to take account of specified tax preferences and adjustments.

The exemption amounts for taxable years beginning in 2025 are: (1) $137,000 in the case of married individuals filing a joint return and surviving spouses; (2) $88,100 in the case of unmarried individuals (other than surviving spouses); (3) $68,500 in the case of married individuals filing separate returns; and (4) $30,700 in the case of an estate or a trust. For taxable years beginning in 2025, the exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) $1,252,700 in the case of married individuals filing a joint return and surviving spouses, (2) $626,350 in the case of married individuals filing separate returns and unmarried individuals (other than surviving spouses), and (3) $102,500 in the case of an estate or a trust. The amounts are indexed for inflation.

AMTI is the taxpayer's taxable income increased by certain preference items and adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

Exemption amounts and exemption phase-out thresholds after 2025

The AMT exemption amounts and phase-out thresholds for individuals, which were increased starting in 2018 by Public Law 115-97, decrease for taxable years beginning after December 31, 2025. In 2026 exemption amounts for individuals are projected to be (1) $109,800 in the case of married individuals filing a joint return and surviving spouses; (2) $70,600 in the case of unmarried individuals (other than surviving spouses); and (3) $54,900 in the case of married individuals filing separate returns. For 2026 the exemption amount phase-out thresholds for individuals are projected to be (1) $209,200 in the case of married individuals filing a joint return and surviving spouses, (2) $156,900 in the case of unmarried individuals (other than surviving spouses), and (3) $104,600 in the case of married individuals filing a separate return.

Preference items in computing AMTI

The minimum tax preference items are:

1. The excess of the deduction for percentage depletion over the adjusted basis of each mineral property (other than oil and gas properties) at the end of the taxable year.

2. The amount by which excess intangible drilling costs (that is, expenses in excess the amount that would have been allowable if amortized over a 10-year period) exceed 65 percent of the net income from oil, gas, and geothermal properties. This preference applies to independent producers only to the extent it reduces the producer's AMTI (determined without regard to this preference and the net operating loss deduction) by more than 40 percent.

3. Tax-exempt interest income on private activity bonds (other than qualified 501(c)(3) bonds, certain housing bonds, and bonds issued in 2009 and 2010) issued after August 7, 1986.

4. Accelerated depreciation or amortization on certain property placed in service before January 1, 1987.

5. Seven percent of the amount excluded from income under section 1202 (relating to gains on the sale of certain small business stock).

In addition, losses from any tax shelter farm activity or passive activities are not taken into account in computing AMTI.

Adjustments in computing AMTI

The adjustments that individuals must make to compute AMTI are:

1. Depreciation on property placed in service after 1986 and before January 1, 1999, is computed by using the generally longer class lives prescribed by the alternative depreciation system of section 168(g) and either (a) the straight-line method in the case of property subject to the straight-line method under the regular tax or (b) the 150-percent declining balance method in the case of other property. Depreciation on property placed in service after December 31, 1998, is computed by using the regular tax recovery periods and the AMT methods described in the previous sentence. Depreciation on property acquired after September 10, 2001, which is allowed an additional allowance under section 168(k) for the regular tax is computed without regard to any AMT adjustments.

2. Mining exploration and development costs are capitalized and amortized over a 10-year period.

3. Taxable income from a long-term contract (other than a home construction contract) is computed using the percentage of completion method of accounting.

4. The amortization deduction allowed for pollution control facilities placed in service before January 1, 1999 (generally determined using 60-month amortization for a portion of the cost of the facility under the regular tax), is calculated under the alternative depreciation system (generally, using longer class lives and the straight-line method). The amortization deduction allowed for pollution control facilities placed in service after December 31, 1998, is calculated using the regular tax recovery periods and the straight-line method.

5. Miscellaneous itemized deductions (which are suspended through 2025) are not allowed.

6. Itemized deductions for State, local, and foreign real property taxes; State and local personal property taxes; State, local, and foreign income, war profits, and excess profits taxes; and State and local sales taxes are not allowed.

7. Deductions for interest on home equity loans are not allowed.

8. The standard deduction and the deduction for personal exemptions (which deduction is suspended through 2025) are not allowed.

9. The amount allowable as a deduction for circulation expenditures is capitalized and amortized over a three-year period.

10. The amount allowable as a deduction for research and experimentation expenditures from passive activities is capitalized and amortized over a 10-year period.

11. The regular tax rules relating to incentive stock options do not apply.

Other rules

The taxpayer's net operating loss deduction generally cannot reduce the taxpayer's AMTI by more than 90 percent of the AMTI (determined without the net operating loss deduction).

The alternative minimum tax foreign tax credit reduces the tentative minimum tax.

The various nonrefundable business credits allowed under the regular tax generally are not allowed against the AMT. Certain exceptions apply.

If an individual is subject to AMT in any year, the amount of tax exceeding the taxpayer's regular tax liability is allowed as a credit (the "AMT credit") in any subsequent taxable year to the extent the taxpayer's regular tax liability exceeds his or her tentative minimum tax liability in such subsequent year. The AMT credit is allowed only to the extent that the taxpayer's AMT liability is the result of adjustments that are timing in nature. The individual AMT adjustments relating to itemized deductions and personal exemptions are not timing in nature, and no minimum tax credit is allowed with respect to these items.

An individual may elect to write off certain expenditures paid or incurred with respect of circulation expenses, research and experimental expenses, intangible drilling and development expenditures, development expenditures, and mining exploration expenditures over a specified period (three years in the case of circulation expenses, 60 months in the case of intangible drilling and development expenditures, and 10 years in case of other expenditures). The election applies for purposes of both the regular tax and the alternative minimum tax.

Description of Proposal

The proposal repeals the expiration of the Public Law 115-97 increase in the AMT exemption amounts and phase-out thresholds.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

H. Extension of Limitation on Deduction for Qualified Residence Interest

Present Law

Deductibility of home mortgage interest

As a general matter, personal interest is not deductible.[81] Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations.[82] For taxable years beginning after December 31, 2017, and before January 1, 2026, qualified residence interest means interest paid or accrued during the taxable year on acquisition indebtedness with respect to a qualified residence. For taxable years beginning after December 31, 2025, qualified residence interest means interest paid or accrued during the taxable year on acquisition indebtedness or home equity indebtedness with respect to a qualified residence. A qualified residence is the taxpayer's principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence may be a house, apartment, condominium, mobile home, boat, or similar property.

Acquisition indebtedness

Acquisition indebtedness is indebtedness which is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and which secures the residence. In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026, a taxpayer may treat no more than $750,000 of indebtedness as acquisition indebtedness ($375,000 in the case of a married individual filing separately). In the case of indebtedness incurred on or before December 15, 2017, this limitation is $1,000,000 ($500,000 in the case of a married individual filing separately).[83] For taxable years beginning after December 31, 2025, a taxpayer may treat up to $1,000,000 ($500,000 in the case of a married individual filing separately) of indebtedness as acquisition indebtedness, regardless of when the indebtedness was incurred.

Acquisition indebtedness also includes indebtedness from the refinancing of other acquisition indebtedness, but only to the extent of the balance of the refinanced indebtedness. For example, if the taxpayer incurs $200,000 of acquisition indebtedness to acquire a principal residence and pays down the debt to $150,000, a refinancing cannot increase the taxpayer's acquisition indebtedness with respect to the residence above $150,000

[81] Sec. 163(h)(1).

[82] Sec. 163(h)(2)(D) and (h)(3).

[83] Special rules apply in the case of indebtedness from refinancing existing acquisition indebtedness. Specifically, the $1,000,000 ($500,000 in the case of a married taxpayer filing separately) limitation continues to apply to any indebtedness incurred on or after December 15, 2017, to refinance qualified residence indebtedness incurred before that date to the extent the amount of the indebtedness resulting from the refinancing does not exceed the amount of the refinanced indebtedness.

Interest on acquisition indebtedness is deductible in computing alternative minimum taxable income.[84] However, in the case of a second residence, the acquisition indebtedness may only be incurred with respect to a house, an apartment, a condominium, or a mobile home that is not used on a transient basis.

Home equity indebtedness

Home equity indebtedness is indebtedness (other than acquisition indebtedness) secured by a qualified residence. For taxable years beginning after December 31, 2025, a taxpayer may treat up to $100,000 ($50,000 in the case of a married individual filing separately) of indebtedness as home equity indebtedness. However, the amount of home equity indebtedness with respect to a qualified residence may not exceed the fair market value of the residence reduced by the acquisition indebtedness with respect to it.

Interest on home equity indebtedness is not deductible in computing alternative minimum taxable income.

For taxable years beginning after December 31, 2025, interest on qualifying home equity indebtedness is deductible (up to the specified limit) regardless of how the proceeds of the indebtedness are used. For example, the proceeds may be applied towards health costs and education expenses for the taxpayer's family members or any other personal expenses such as vacations, furniture, or automobiles. A taxpayer and a mortgage company may contract for the home equity indebtedness loan proceeds to be transferred to the taxpayer in a lump sum payment (*e.g.*, a traditional mortgage) or a series of payments (*e.g.*, a reverse mortgage); or, the lender may extend the borrower a line of credit up to a fixed limit over the term of the loan (*e.g.*, a home equity line of credit).

Thus, for taxable years beginning after December 31, 2025, the aggregate limitation on a taxpayer's acquisition indebtedness and home equity indebtedness with respect to a principal residence and a second residence that may give rise to deductible interest is $1,100,000 ($550,000 for a married individual filing separately).

Description of Proposal

Under the proposal, the $750,000 ($375,000 in the case of a married individual filing separately) limitation on acquisition indebtedness is made permanent, and the exclusion of interest on home equity indebtedness from the definition of qualified residence interest is made permanent.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

[84] Sec. 56(b)(1)(B)(i), (e).

I. Extension of Limitation on Casualty Loss Deduction

Present Law

An individual taxpayer may claim an itemized deduction for a personal casualty loss.[85] 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 (the "Stafford Act"),[86] then the loss is 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.[87] In any taxable year beginning after December 31, 2017, and before January 1, 2026, all other personal casualty losses are deductible only to the extent that the losses do not exceed the individual's personal casualty gains.

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.[88] Personal casualty gains are recognized gains from any involuntary conversion of property not connected with a trade or business or a transaction entered into for profit, if such gains arise from fire, storm, shipwreck, or other casualty, or from theft.[89] Personal casualty losses are deductible to the extent they exceed $100 per casualty.[90]

Description of Proposal

Under the proposal, the temporary limitation on personal casualty losses in section 165(h)(5) is made permanent.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

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[85] Sec. 165(h).

[86] Sec. 165(h)(5).

[87] Sec. 165(h)(2). Personal casualty gains are reduced for this purpose by any gain used to offset any personal casualty loss which is not attributable to a disaster.

[88] Sec. 165(c)(3)(B).

[89] Sec. 165(c)(3)(A).

[90] Sec. 165(h)(1).

J. Termination of Miscellaneous Itemized Deductions

Present Law

An individual's taxable income is determined by adding together income from different sources such as personal services and investment and by subtracting permitted amounts.

All individuals are permitted to deduct from gross income (which is defined as all income from whatever source derived) amounts (colloquially referred to as "above-the-line" deductions) that are allowable in determining adjusted gross income.[91] These amounts include, for example, ordinary and necessary expenses of a trade or business and certain reimbursed expenses paid in connection with the performance of services as an employee.[92]

In determining taxable income, individuals are also allowed to deduct other amounts that are sometimes referred to as "below-the line" deductions. An individual who does not elect to itemize deductions is allowed a standard deduction and deductions for certain other amounts listed in section 63(b) (sometimes referred to as "non-itemizer deductions," for example, the deduction for qualified business income).[93] Instead of taking a standard deduction, an individual may elect to subtract itemized deductions in computing taxable income.[94] Itemized deductions are all deductions allowable under chapter 1 of subtitle A of the Code other than above-the-line deductions, the standard deduction, and non-itemizer deductions.[95]

All itemized deductions other than those listed in section 67(b) are "miscellaneous itemized deductions." Deductions listed in section 67(b) (meaning deductions that are not miscellaneous itemized deductions) include the deduction for interest, the deduction for state, local, and foreign taxes, the charitable contribution deduction, and the deduction for medical expenses that exceed 7.5 percent of adjusted gross income. Miscellaneous itemized deductions include, among many other expenses, investment expenses, legal fees, and unreimbursed employee business expenses.[96]

Before 2018, miscellaneous itemized deductions were allowed, but only to the extent they exceeded two percent of a taxpayer's adjusted gross income.[97] Following the 2017 enactment of

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[91] Secs. 61, 62.

[92] Secs. 62(a)(1), (a)(2)(A), 162(a).

[93] Sec. 63(b).

[94] Sec. 63(a), (e).

[95] Sec. 63(d).

[96] For a detailed description of all miscellaneous itemized deductions see IRS Publication 529, *Miscellaneous Deductions* (2020).

[97] Sec. 67(a).

Public Law 115-97 miscellaneous itemized deductions are not allowed for taxable years beginning after December 31, 2017 and before January 1, 2026.

Description of Proposal

The proposal makes permanent the Public Law 115-97 temporary repeal of miscellaneous itemized deductions.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

K. Termination of Overall Limitation on Itemized Deductions

Present Law

For any taxable year beginning after 2017 and before 2026, there is no overall limitation on the benefit of itemized deductions.

Before 2018, the total amount of itemized deductions, other than the deductions for medical expenses, investment interest, and casualty, theft or gambling losses, was limited for individual taxpayers whose adjusted gross income exceeded statutorily prescribed "applicable amounts."[98] The otherwise allowable amount of an individual taxpayer's itemized deductions for a taxable year was reduced by the lesser of three percent of the amount by which the taxpayer's adjusted gross income exceeded the applicable amount or 80 percent of the amount of the taxpayer's itemized deductions otherwise allowable for that year. This itemized deduction limitation was colloquially referred to as the "Pease limitation."

For 2017, the applicable amounts were $261,500 for an unmarried individual other than a head of household or a surviving spouse , $287,650 for a head of household, $313,800 for married individuals filing a joint return or for a surviving spouse, and $156,900 for married individuals filing a separate return. These amounts were indexed for inflation.

The Pease limitation becomes effective again for taxable years beginning after 2025.

Description of Proposal

The proposal permanently repeals the Pease limitation.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

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[98] Sec. 68.

L. Termination of Qualified Bicycle Commuting Reimbursement Exclusion

Present Law

For taxable years beginning before December 31, 2017, qualified bicycle commuting reimbursements of up to $20 per qualifying bicycle commuting month in a calendar year are excludible from an employee's gross income.[99] A qualifying bicycle commuting month is any month during which the employee regularly uses the bicycle for a substantial portion of the travel between the employee's residence and place of employment and during which the employee does not receive any qualified transportation fringe benefit for transportation in a commuter highway vehicle (in connection with travel between the employee's residence and place of employment), a transit pass, or qualified parking.[100]

A qualified bicycle commuting reimbursement for a calendar year is an employer reimbursement during the 15-month period beginning with the first day of the calendar year for reasonable expenses incurred by the employee during such calendar year for the purchase of a bicycle and bicycle improvements, repair, and storage, if the bicycle is regularly used for travel between the employee's residence and place of employment.[101]

Qualified bicycle commuting reimbursements that are excludible from gross income for income tax purposes are also excluded from wages for employment tax purposes.

For taxable years beginning after December 31, 2017, and before January 1, 2026, the exclusion from gross income and wages for qualified bicycle commuting reimbursements was temporarily repealed.[102]

Description of Proposal

The proposal terminates the exclusion for qualified bicycle commuting reimbursement for taxable years beginning after December 31, 2025.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

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[99] Secs. 132(a)(5), 132(f)(1)(D), and 132((f)(5)(F)(ii).

[100] Sec. 132(f)(5)(F)(iii).

[101] Sec. 132(f)(5)(F)(i).

[102] Pub. L. No. 115-97. sec. 11047, Dec. 22, 2017.

M. Extension of Limitation on Exclusion and Deduction for Moving Expenses

Present Law

Deduction for Moving Expenses

Individuals are permitted an above-the-line deduction for moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee or as a self-employed individual at a new principal place of work.[103] Moving expenses means only the reasonable expenses of moving household goods and personal effects from the former residence to the new residence and of traveling (including lodging) from the former residence to the new place of residence.[104] Moving expenses are deductible only if the move meets certain conditions related to distance from the taxpayer's former residence and the taxpayer's status as a full-time employee or as a self-employed individual performing services on a full-time basis in the new location.[105]

Special rules apply under section 217(g) in the case of a member of the Armed Forces of the United States. In the case of a member of the Armed Forces on active duty who moves pursuant to a military order and incident to a permanent change of station, the limitations related to distance from the taxpayer's previous residence and status as a full-time employee (or self-employed individual performing services on a full-time basis) in the new location do not apply.[106] Additionally, any moving and storage expenses that are furnished in kind (or for which reimbursement or an allowance is provided) to the member of the Armed Forces, their spouse, or dependents are excluded from gross income.[107] Rules also apply to exclude amounts furnished to the spouse and dependents of a member of the Armed Forces in the event that such individuals move to a location other than to where the member of the Armed Forces is moving.[108]

Section 217(k) eliminates the deduction for moving expenses for taxable years 2018 through 2025. However, during that period, the subsection retains the deduction for moving expenses and the rules providing for exclusions of amounts attributable to in-kind moving and storage expenses (and reimbursements or allowances for these expenses) for members of the Armed Forces (or their spouses or dependents) on active duty who move pursuant to a military order and incident to a permanent change of station.

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[103] Secs. 62(a)(15) and 217(a).

[104] Sec. 217(b)(1).

[105] Sec. 217(c).

[106] Sec. 217(g)(1).

[107] Sec. 217(g)(2).

[108] Sec. 217(g)(3).

Exclusion for Qualified Moving Expense Reimbursement

Qualified moving expense reimbursements are excluded from an employee's gross income,[109] and are defined as any amount received (directly or indirectly) by an individual from an employer as a payment for (or reimbursement of) expenses which would be deductible as moving expenses under section 217 if directly paid or incurred by the individual.[110] However, any amount actually deducted by the individual is not eligible for this exclusion. Qualified moving expense reimbursements that are excludible from gross income for income tax purposes are also excluded from wages for employment tax purposes.

For taxable years beginning after December 31, 2017, and before January 1, 2026, section 132(g)(2) repeals the exclusion from gross income and wages for qualified moving expense reimbursements except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order and incident to a permanent change of station.

Description of Proposal

The proposal would permanently repeal the deduction for moving expenses, except in the case of a member of the Armed Forces (or their spouse or child) to whom section 217(g) applies.

The proposal would permanently repeal the qualified moving expense reimbursement exclusion except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order and incident to a permanent change of station.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

[109] Secs. 132(a)(6) and 132(g).

[110] Sec. 132(g)(1).

N. Extension of Limitation on Wagering Losses

Present Law

Losses sustained during the taxable year on wagering transactions are allowed as a deduction only to the extent of the gains during the taxable year from such transactions.[111] For taxable years beginning after December 31, 2017, and before January 1, 2026, the term "losses from wagering transactions" as used in section 165(d) includes any deduction otherwise allowable under chapter 1 of the Code incurred in carrying on any wagering transaction. Thus, for such taxable years the limitation on losses from wagering transactions applies not only to the actual costs of wagers but also to other expenses incurred in connection with gambling activity (for instance, the otherwise deductible costs of travel to and from a casino).

Description of Proposal

Under the proposal, the clarification of the term "losses from wagering transactions" as used in section 165(d) is made permanent. Therefore, in the case of any taxable year beginning after December 31, 2017, such term includes any deduction otherwise allowable under chapter 1 of the Code incurred in carrying on any wagering transaction.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

[111] Sec. 165(d).

O. Extension of Increased Limitation on Contributions to ABLE Accounts and Permanent Enhancement

Present Law

Qualified ABLE programs

The Code provides for tax-favored savings programs intended to benefit disabled individuals, known as qualified ABLE programs.[112] A qualified ABLE program is a program established and maintained by a State or agency or instrumentality thereof. A qualified ABLE program must meet the following conditions: (1) Under the provisions of the program, contributions may be made to an account (an "ABLE account") established for the purpose of meeting the qualified disability expenses of the designated beneficiary of the account; (2) the program must limit a designated beneficiary to one ABLE account; and (3) the program must meet certain other requirements discussed below.

Designated beneficiaries and eligible individuals

A designated beneficiary of an ABLE account is the owner of the ABLE account. A designated beneficiary generally must be an eligible individual (discussed below) at the time the ABLE account is established. An ABLE account may be transferred to a successor designated beneficiary who is a member of the same family as the original designated beneficiary. For this purpose, a member of the family includes the original designated beneficiary's brother, sister, stepbrother, or stepsister. In the case of such a transfer, the successor designated beneficiary must be an eligible individual at the time of transfer.

An eligible individual is an individual either (1) for whom a disability certification has been filed with the Secretary for the taxable year, or (2) who is entitled to Social Security Disability Insurance (SSDI) benefits or Supplemental Security Income (SSI) benefits[113] based on blindness or disability, and such blindness or disability occurred before the individual attained age 26 (or, for taxable years beginning after December 31, 2025, age 46). A disability certification means a certification to the satisfaction of the Secretary, made by the eligible individual or the parent or guardian of the eligible individual, that the individual either (1) has a medically determinable physical or mental impairment, which results in marked and severe functional limitations and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months, or (2) is blind (within the meaning of section 1614(a)(2) of the Social Security Act). Such blindness or disability must have occurred before the date the individual attained age 26 (or, for taxable years beginning after

[112] Sec. 529A.

[113] These are benefits under Title II and Title XVI, respectively, of the Social Security Act.

December 31, 2025, age 46). The certification must include a copy of the diagnosis of the individual's impairment and be signed by a licensed physician.[114]

Tax treatment and additional requirements

A qualified ABLE program is generally exempt from income tax but is subject to the taxes imposed on the unrelated business income of tax-exempt organizations.[115]

Contributions to an ABLE account must be made in cash and are not deductible for Federal income tax purposes. Except in the case of a rollover contribution from another ABLE account, an ABLE account must not receive aggregate contributions during a taxable year in excess of the $10,000 amount under section 2503(b) of the Code (the annual gift tax exclusion), which is indexed for inflation using a cost-of-living adjustment with a base year of 1997. For 2025, the annual gift tax exclusion is $19,000.[116]

Until January 1, 2026, if the designated beneficiary is an employee for whom no contribution during the taxable year is made to a tax-advantaged defined contribution plan, a section 403(b) plan, or a governmental section 457 plan, the beneficiary may contribute to his or her ABLE account the lesser of the beneficiary's compensation included in gross income or an amount equal to the poverty line for a one-person household for the preceding calendar year. The beneficiary may make such a contribution regardless of whether it increases the total amount contributed (by the beneficiary or others) for the taxable year above the amount determined under section 2503(b).

In addition to the foregoing contribution limitations, a qualified ABLE program must provide adequate safeguards to ensure that ABLE account contributions do not exceed the limit imposed on accounts under the qualified tuition program of the State maintaining the qualified ABLE program.[117]

A qualified ABLE program may permit a designated beneficiary to direct (directly or indirectly) the investment of any contributions (or earnings thereon) no more than two times in any calendar year and must provide separate accounting for each designated beneficiary. A qualified ABLE program may not allow any interest in the program (or any portion thereof) to be used as security for a loan.

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[114] No inference may be drawn from a disability certification under section 529A for purposes of eligibility for SSDI, SSI, or Medicaid benefits.

[115] See sec. 511.

[116] If contributions to an ABLE account exceed the annual limit, an excise tax in the amount of six percent of the excess contribution to such account is imposed on the designated beneficiary. Sec. 4973. Such tax does not apply in the event that the trustee of the account makes a corrective distribution of the excess amount by the due date (including extensions) of the designated beneficiary's tax return for the taxable year of the excess contribution.

[117] See sec. 529(b)(6).

A distribution from an ABLE account is generally includible in the distributee's income to the extent it consists of earnings on the account.[118] However, distributions from an ABLE account in a taxable year are excludable from income to the extent they do not exceed the qualified disability expenses (discussed below) of the designated beneficiary for the taxable year. If distributions from an ABLE account exceed such qualified disability expenses, a pro rata portion of the distributions is excludable from income. The portion of any distribution that is includible in income is subject to an additional 10-percent tax unless the distribution is made after the death of the beneficiary.

Amounts in an ABLE account may be rolled over without income tax liability to another ABLE account for the same beneficiary[119] or another ABLE account for the designated beneficiary's brother, sister, stepbrother, or stepsister who is also an eligible individual. Once an ABLE account has been established by a designated beneficiary, no account subsequently established by such beneficiary shall be treated as an ABLE account, except in the case of a rollover (in which case the contributor ABLE account must be closed within 60 days of the rollover).

A contribution to an ABLE account is treated as a completed gift of a present interest to the designated beneficiary. Such contributions qualify for the per-donee annual gift tax exclusion ($19,000 for 2025) and, to the extent of such exclusion, are also exempt from the generation-skipping transfer ("GST") tax. A distribution from an ABLE account to the designated beneficiary is not subject to gift tax or GST tax.

<u>Rollover from qualified tuition programs</u>

Amounts rolled over within 60 days of distribution from a qualified tuition program (also known as a 529 account) to an ABLE account before January 1, 2026, generally are not included in the gross income of the 529 account beneficiary, provided that the ABLE account beneficiary is either the 529 account beneficiary or a member of the 529 account beneficiary's family.[120] Such rolled-over amounts count towards the overall limitation on amounts that may be contributed to an ABLE account within a taxable year.[121] However, to the extent that a 529 rollover amount, when added to all other amounts contributed to the ABLE account in the taxable year, exceeds the inflation-indexed $10,000 amount under section 2503(b), the 529

[118] The rules of section 72 apply in determining the portion of a distribution that consists of earnings.

[119] For instance, if a designated beneficiary were to relocate to a different State.

[120] Sec. 529(c)(3)(C)(i). For these purposes, a member of the family means, with respect to any 529 account beneficiary, the beneficiary's: (1) spouse, (2) child or descendant of a child, (3) brother, sister, stepbrother, or stepsister, (4) father, mother, or ancestor of either, (5) stepfather or stepmother, (6) niece or nephew, (7) aunt or uncle, or (8) in-law. Also included are (9) the spouse of any individual described in (2)–(8), and (10) any first cousin of the beneficiary. Sec. 529(e)(2).

[121] Sec. 529A(b)(2)(B).

rollover is includible in the gross income of the 529 beneficiary in the manner provided by section 72.[122]

Qualified disability expenses

As described above, distributed earnings from an ABLE account are excluded from income only to the extent total distributions do not exceed the qualified disability expenses of the designated beneficiary. For this purpose, qualified disability expenses are any expenses related to the designated beneficiary's blindness or disability which are made for the benefit of the designated beneficiary. Such expenses include expenses for the following: education, housing, transportation, employment training and support, assistive technology and personal support services, health, prevention and wellness, financial management and administrative services, legal fees, expenses for oversight and monitoring, funeral and burial expenses, and other expenses, which are approved by the Secretary under regulations and consistent with the purposes of section 529A.

Transfer to State

Upon death of the designated beneficiary, subject to any outstanding payments due for qualified disability expenses incurred by the designated beneficiary, a State may file a claim for payment of amounts remaining in the designated beneficiary's account. Such claim may not exceed the total medical assistance paid for the designated beneficiary after the establishment of the ABLE account under the State's Medicaid plan established under title XIX of the Social Security Act, net of any premiums paid from the ABLE account or by or on behalf of the beneficiary to such State's Medicaid Buy-In program.[123]

Treatment of ABLE accounts under Federal programs

Any amounts in an ABLE account, any contributions to such account, and any distributions for qualified disability expenses shall be disregarded for purposes of determining the designated beneficiary's eligibility to receive, or the amount of, any assistance or benefit authorized by any Federal means-tested program.[124] However, in the case of the SSI program, a distribution from an ABLE account for housing expenses is not disregarded, nor are amounts in an ABLE account in excess of $100,000. If an individual's ABLE account balance exceeds $100,000, such individual's SSI benefits shall not be terminated but instead shall be suspended until such time as the individual's resources fall below $100,000. However, such suspension shall not be taken into account for purposes of Medicaid eligibility.

[122] Sec. 529(c)(3)(A).

[123] Sec. 529A(f).

[124] Pub. L. No. 113-295, div. B, sec. 103, December 19, 2014.

Description of Proposal

The proposal makes permanent the ability of a designated beneficiary who is an employee (and for whom no contribution during the taxable year is made to a tax-advantaged defined contribution plan, a section 403(b) plan, or a governmental section 457 plan) to contribute to his or her ABLE account the lesser of his or her compensation included in gross income or an amount equal to the poverty line for a one-person household for the preceding calendar year. The beneficiary may make such a contribution regardless of whether it increases the total amount contributed (by the beneficiary or others) for the taxable year above the amount determined under section 2503(b).

Under the proposal, the maximum annual contribution limit for an ABLE account (not including the employment-related contributions made by the designated beneficiary) is equal to the annual gift tax exclusion specified in section 2503(b) with a modified inflation adjustment. Whereas section 2503(b) adjusts the $10,000 base amount for inflation with a base year of 1997,[125] under the proposal the $10,000 base amount is adjusted for inflation with a base year of 1996. The extra year of inflation increases the annual contribution limit above what it would be under present law.

Effective Date

The proposal is generally effective for contributions made after December 31, 2025. The modified inflation adjustment is effective for taxable years beginning after December 31, 2025.

[125] Sec. 2503(b)(2)(B).

P. Extension of Savers Credit Allowed for ABLE Contributions

Present Law

Qualified ABLE programs

For present law regarding qualified ABLE programs, see the present law description for the provision "Increased Limitation on Contributions to ABLE Accounts Modified and Made Permanent," above.

Saver's Credit

Eligible individuals may claim a nonrefundable tax credit (the "saver's credit") for qualified retirement savings contributions to certain retirement accounts.[126] The maximum annual contribution eligible for the credit is $2,000 per individual. The credit rate depends on the adjusted gross income ("AGI") of the taxpayer. For this purpose, AGI is determined without regard to certain exclusions for foreign-source earned income and certain U.S. possession-source income. As the taxpayer's AGI increases, the saver's credit rate available to the taxpayer is reduced, until, at certain AGI levels, the credit is unavailable. For taxable years beginning in 2025, the following taxpayers may be eligible for at least some amount of credit: married taxpayers filing joint returns with AGI of $79,000 or less, taxpayers filing head of household returns with AGI of $59,250 or less, and all other taxpayers filing returns with AGI of $39,500 or less. The credit rates based on AGI for taxable years beginning in 2025 are provided in the table below. The AGI levels used for the determination of the available credit rate are indexed for inflation.

Table 1.–Credit Rates for Saver's Credit (2025)

Joint Filers	Heads of Households	All Other Filers	Credit Rate
$0–$47,500	$0–$35,625	$0–$23,750	50 percent
$47,501–$51,000	$35,626–$38,250	$23,751–$25,500	20 percent
$51,001–$79,000	$38,251–$59,250	$25,501–$39,500	10 percent
Over $79,000	Over $59,250	Over $39,500	0 percent

[126] Sec. 25B.

The saver's credit is in addition to any deduction or exclusion that would otherwise apply with respect to the qualified retirement savings contributions. The credit offsets alternative minimum tax liability as well as regular tax liability. The credit is available to individuals who are 18 years old or older, other than individuals who are full-time students or claimed as a dependent on another taxpayer's return.

Eligible contributions for purposes of the credit include: (1) contributions to traditional and Roth individual retirement accounts ("IRAs"), (2) elective deferrals to a section 401(k) plan, a section 403(b) plan, a governmental section 457(b) plan, a savings incentive match plan for employees ("SIMPLE IRA"), or a simplified employee pension ("SEP") plan, (3) voluntary after-tax employee contributions to a qualified retirement plan or annuity or a section 403(b) plan, and (4) contributions to a section 501(c)(18) plan.[127] Under changes enacted by Public Law 115–97, eligible contributions for purposes of the credit also include contributions made by the individual to the ABLE account of which the individual is the designated beneficiary.[128] A credit for such ABLE contributions is available for contributions made in calendar years 2018 through 2025.

Under changes enacted by Public Law 117-328, for taxable years beginning after December 31, 2026, eligible contributions for purposes of the credit for any individual are limited to such individual's ABLE contributions, if any, made before January 1, 2026.[129] In effect, the credit is unavailable to any taxpayer in a taxable year beginning after December 31, 2026. Instead, taxpayers may be eligible for the "saver's match" credit enacted by Public Law 117-328, starting in taxable years beginning after December 31, 2026.[130]

The amount of contributions eligible for the saver's credit is reduced by distributions received by the taxpayer (or by the taxpayer's spouse if the taxpayer files a joint return) from any retirement plan or IRA to which eligible contributions may be made during the taxable year for which the credit is claimed, during the two taxable years prior to the year the credit is claimed, and during the period after the end of the taxable year for which the credit is claimed and prior to the due date for filing the taxpayer's return for the year.[131] Distributions that are rolled over to another retirement plan or IRA do not affect the credit.

Description of Proposal

The proposal makes permanent the temporary provision including ABLE account contributions made by the account's designated beneficiary as eligible contributions for purposes of the saver's credit. Therefore, for taxable years beginning after December 31, 2026, eligible

[127] Sec. 25B(d)(1).

[128] Sec. 25B(d)(1)(D).

[129] Pub. L. No. 117-328, sec. 103(e) and (f), Dec. 29, 2022.

[130] Sec. 6433.

[131] Sec. 25B(d)(2).

contributions for purposes of the credit include (and are limited to) ABLE account contributions made during the taxable year by the account's beneficiary.

Effective Date

The proposal is effective for taxable years ending after December 31, 2025.

Q. Extension of Rollovers From Qualified Tuition Programs to ABLE Accounts Permitted

Present Law

Qualified ABLE programs

For present law regarding qualified ABLE programs, see the present law description for the provision "Increased Limitation on Contributions to ABLE Accounts Modified and Made Permanent," above.

Description of Proposal

The proposal makes permanent the temporary provision that allows nontaxable rollovers from qualified tuition programs (529 accounts) to ABLE accounts, provided that (i) the rollover is completed within 60 days, (ii) the ABLE account beneficiary is either the 529 account beneficiary or a member of the 529 account beneficiary's family,[132] and (iii) the rollover amount does not, when added to all other contributions to the ABLE account in the taxable year, exceed the inflation-indexed $10,000 amount under section 2503(b) (with an additional year of inflation adjustment as provided by section 110015 of the bill).

Effective Date

The proposal is effective for taxable years beginning after December 31, 2025.

[132] Sec. 529(c)(3)(C)(i). For these purposes, a member of the family means, with respect to any 529 account beneficiary, the beneficiary's: (1) spouse, (2) child or descendant of a child, (3) brother, sister, stepbrother, or stepsister, (4) father, mother, or ancestor of either, (5) stepfather or stepmother, (6) niece or nephew, (7) aunt or uncle, or (8) in-law. Also included are (9) the spouse of any individual described in (2)–(8), and (10) any first cousin of the beneficiary. Sec. 529(e)(2).

R. Extension of Treatment of Certain Individuals Performing Services in the Sinai Peninsula and Enhancement to Include Additional Areas

Present Law

Members of the Armed Forces serving in a combat zone are afforded a number of tax benefits. These include:

1. An exclusion from gross income of certain military pay received for any month during which the member served in a combat zone or was hospitalized as a result of serving in a combat zone;[133]
2. An exemption from taxes on death while serving in a combat zone or dying as a result of wounds, disease, or injury incurred while so serving;[134]
3. Special estate tax rules where death occurs in a combat zone;[135]
4. Special benefits to surviving spouses in the event of a service member's death or missing status;[136]
5. An extension of time limits governing the filing of returns and other rules regarding timely compliance with Federal income tax rules;[137] and
6. An exclusion from telephone excise taxes.[138]

Section 11026 of Public Law 115-97 provides that a qualified hazardous duty area is temporarily treated in the same manner as a combat zone for purposes of determining eligibility for the tax benefits available to members of the Armed Forces listed above.

The Sinai Peninsula of Egypt is identified as a "qualified hazardous duty area" for this purpose. This qualified hazardous duty area designation applies only during periods in which a member of the Armed Forces is entitled to special pay under 37 U.S.C. sec. 310 for duty subject to hostile fire or imminent danger for services performed in the Sinai Peninsula of Egypt. The identification of the Sinai Peninsula of Egypt as a qualified hazardous duty area for this purpose begins June 9, 2015, and includes the portion of the first taxable year ending after that date, as well as all subsequent taxable years beginning before January 1, 2026.

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[133] Sec. 112; see also, sec. 3401(a)(1), exempting such income from wage withholding.

[134] Sec. 692.

[135] Sec. 2201.

[136] Secs. 2(a)(3) and 6013(f)(1).

[137] Sec. 7508.

[138] Sec. 4253(d).

Description of Proposal

The proposal amends Public Law 115-97 to permanently treat a qualified hazardous duty area in the same manner as a combat zone for purposes of determining eligibility for the certain tax benefits available to members of the Armed Forces.

The proposal also modifies the definition of qualified hazardous duty area to include (1) the Sinai Peninsula of Egypt if as of December 22, 2017, any member of the Armed Forces of the United States is entitled do special pay under 37 U.S.C. section 310 for duty subject to hostile fire or imminent danger for services performed in such location and (2) Kenya, Mali, Burkina Faso, and Chad if as of date of enactment, any member of the Armed Forces of the United States is entitled to special pay under 37 U.S.C. section 310 for duty subject to hostile fire or imminent danger for services performed in such location.

Effective Date

The proposal is effective on January 1, 2026.

S. Extension of Exclusion from Gross Income of Student Loans Discharged on Account of Death or Disability

Present Law

Gross income generally includes the amount of a taxpayer's indebtedness that is discharged.

An amount that otherwise would be includible in gross income as a result of the discharge of a taxpayer's indebtedness may be excluded from gross income under one of several exceptions. Under one exception, an individual's gross income does not include any amount from the forgiveness (in whole or in part) of the individual's student loan (under the definition described below) if the forgiveness is made under a provision of the loan according to which all or a part of the individual's indebtedness will be discharged if the individual works for a certain period of time in certain professions for any of a broad class of employers.[139]

A loan is a student loan in respect of which the exclusion is allowed if it satisfies the following requirements.[140] A loan must be made to an individual to assist the individual in attending an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where its educational activities are regularly carried on. A loan may qualify if the proceeds are used for tuition and required fees or for room and board expenses. The loan must be made by (1) the United States (or an instrumentality or agency thereof), (2) a State, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof, (3) a tax-exempt public benefit corporation that controls a State, county, or municipal hospital and whose employees have been deemed to be public employees under State law, or (4) an educational organization that originally received the funds from which the loan was made from the United States, a State, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof, or a tax-exempt public benefit corporation. The exclusion from gross income for the discharge of a loan made by an educational organization described in the last prong applies only if the discharge is not on account of services performed for the organization.[141]

An individual's gross income also does not include an amount from the forgiveness of a loan made by an educational organization (or, in the case of a refinancing loan, an organization exempt from tax under section 501(a)) out of private, nongovernmental funds if the proceeds of such loans are used to pay costs of attendance at an educational institution or to refinance any outstanding student loans (not just loans made by educational organizations) and the student is not employed by the lender organization. In the case of such loans made or refinanced by educational organizations (or refinancing loans made by certain tax-exempt organizations), cancellation of the student loan must be contingent on the student working in an occupation or

[139] Sec. 108(f)(1).

[140] Sec. 108(f)(2).

[141] Sec. 108(f)(3).

area with unmet needs and such work must be performed for, or under the direction of, a tax-exempt charitable organization or a governmental entity.

An amount paid by a person other than the taxpayer in repayment of the taxpayer's indebtedness generally is included in the taxpayer's gross income. An individual's gross income does not, however, include any loan repayment amount received under the National Health Service Corps Loan Repayment Program (the "NHSC Loan Repayment Program"), a qualifying State loan repayment program, or a qualifying State loan repayment or loan forgiveness program that is intended to provide for the increased availability of health care services in underserved or health professional shortage areas (as determined by the State).[142]

A temporary provision enacted in Public Law 115-97 excluded from an individual's gross income an otherwise includible amount from the discharge of a qualifying loan on account of a student's death or total and permanent disability.[143] An amount from the discharge of a loan qualified for this exclusion if the loan was a (1) a student loan (under the requirements for student loans described previously) or (2) a private education loan.[144] This temporary exclusion applied to a discharge after December 31, 2017 and before January 1, 2026.

A more recently enacted temporary provision (included in the American Rescue Plan Act) expands this earlier temporary exclusion from gross income for amounts from the discharge of student loan or private education loan indebtedness.[145] This more recent expansion applies to discharges of loans (in whole or in part) after December 31, 2020 and before January 1, 2026.

Under the expanded exclusion, an amount from the discharge of indebtedness is excluded from gross income irrespective of whether the discharge is on account of a student's death or total and permanent disability.

The temporary expanded exclusion not only is allowed irrespective of whether a discharge is on account of a student's death or disability; it also is available for discharges of a broader category of loans than was the earlier temporary rule for discharges on account of death or disability. This broader category includes any loan provided expressly for postsecondary educational expenses, regardless of whether provided through the educational institution or directly to the borrower, if the loan was made, insured, or guaranteed by one of the categories of

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[142] Sec. 108(f)(4). The NHSC Loan Repayment Program offers loan repayment to certain health care professionals who provide medical services for a certain number of years at an approved service site in an area identified as having a shortage of health care professionals.

[143] Pub. L. No. 115-97, sec. 11031(a), December 22, 2017; prior law sec. 108(f)(5). The provision makes specific reference to those provisions of the Higher Education Act of 1965 that discharge William D. Ford Federal Direct Loan Program loans, Federal Family Education Loan Program loans, and Federal Perkins Loan Program loans in the case of death and total and permanent disability. See sec. 108(f)(5)(A)(i) and (ii). The provision also includes a general exclusion for a discharge on account of the death or total and permanent disability of the student. See sec. 108(f)(5)(A)(iii).

[144] Sec. 108(f)(5)(B). For this purpose, a private education loan is defined in section 140(a) of the Consumer Credit Protection Act (15 U.S.C. sec. 1650(a)).

[145] Pub. L. No. 117-2, sec. 9675(a), March 11, 2021; present law sec. 108(f)(5).

lenders in respect of which the permanent exclusion is allowed (described previously and including, for example, the United States or a State) or by an eligible educational institution as defined in section 25A, a category of educational institution that includes nearly all public, nonprofit, and for-profit postsecondary institutions.

Description of Proposal

The proposal restores the Public Law 115-97 exclusion from an individual's gross income for an otherwise includible amount from the discharge of a qualifying loan on account of a student's death or total and permanent disability.

As under Public Law 115-97, an amount from the discharge of a loan qualifies for the proposal's exclusion if the loan was a (1) a student loan (under the section 108(f)(2) requirements for student loans described previously) or (2) a private education loan.[146]

The proposal's exclusion from gross income is allowed in respect of a discharge during a taxable year only if the taxpayer includes on the tax return for the year the taxpayer's social security number and, if the taxpayer is married, the social security number of the taxpayer's spouse. For this purpose, the term "social security number" has the same meaning as under section 24(h)(7).[147]

For purposes of the social security number requirement for an individual and an individual's spouse, rules similar to the marital rules of section 32(d) apply.

The proposal treats the omission of a correct, required social security number as a mathematical or clerical error for purposes of section 6213.

Effective Date

The proposal is effective for discharges after December 31, 2025.

[146] For this purpose, a private education loan is defined in section 140(a) of the Consumer Credit Protection Act (15 U.S.C. sec. 1650(a)).

[147] Section 24(h)(7) defines "social security number" as a social security number issued to an individual by the Social Security Administration, but only if the number is issued before the due date for the individual's tax return and is issued to a citizen of the United States or pursuant to subclause (I) (or that portion of subclause (III) that relates to subclause (I)) of section 205(c)(2)(B)(i) of the Social Security Act.

SUBTITLE B—MAKE RURAL AMERICA AND MAIN STREET GROW AGAIN

A. Extension of Deduction for Foreign-Derived Intangible Income and Global Intangible Low-Taxed Income

Present Law

Global intangible low-taxed income ("GILTI")

A U.S. shareholder of a controlled foreign corporation ("CFC")[148] must include in gross income its GILTI. GILTI is the excess of the shareholder's net CFC tested income over the shareholder's net deemed tangible income return. The shareholder's net deemed tangible income return equals the excess of 10 percent of the aggregate of its pro rata share of the qualified business asset investment ("QBAI") of each CFC over certain interest expense.

The formula for GILTI is:

GILTI = Net CFC Tested Income - [(10% × QBAI) - Interest Expense]

Net CFC tested income

Net CFC tested income means the excess of the aggregate of a U.S. shareholder's pro rata share of the tested income of each CFC over the aggregate of its pro rata share of the tested loss of each CFC.[149] In other words, GILTI is calculated on a worldwide basis.

The tested income of a CFC is the excess of the gross income of the CFC determined without regard to certain amounts that are exceptions to tested income (referred to in this document as "gross tested income") over deductions (including taxes) properly allocable to such gross tested income. The exceptions to tested income are: (1) any effectively connected income described in section 952(b); (2) any gross income taken into account in determining the CFC's subpart F income;[150] (3) any gross income excluded from foreign base company income or insurance income by reason of the high-tax exception under section 954(b)(4);[151] (4) any

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[148] U.S. shareholders are U.S. persons that own at least 10 percent (measured by vote or value) of the stock of a foreign corporation. A CFC generally is any foreign corporation in which U.S. shareholders own (directly, indirectly, or constructively) more than 50 percent of the corporation's stock (measured by vote or value). See secs. 951(b), 957, 958.

[149] Sec. 951A(c)(1). Pro rata shares are determined under subpart F principles (*i.e.*, the rules of section 951(a)(2) and the regulations thereunder).

[150] Earnings of a CFC may constitute income to U.S. shareholders under the traditional anti-deferral regime of subpart F of the Code, which applies to certain passive income and certain other related-party income that is readily movable from one jurisdiction to another. Subpart F income is taxed at full rates with related foreign income taxes generally eligible for the foreign tax credit.

[151] In general, if a taxpayer so elects, subpart F income and tested income for purposes of determining GILTI inclusions exclude any item of income if the taxpayer establishes that the income was subject to an effective foreign income tax rate greater than 90 percent of the maximum U.S. corporate income tax rate (*i.e.*, currently

dividend received from a related person (as defined in section 954(d)(3)); and (5) any foreign oil and gas extraction income (as defined in section 907(c)(1)).

The tested loss of a CFC means the excess of deductions (including taxes) properly allocable to the CFC's gross tested income over the amount of such gross tested income.

Qualified business asset investment

QBAI means, with respect to any CFC for a taxable year, the average of the aggregate of the CFC's adjusted basis in specified tangible property that is both used in its trade or business and of a type with respect to which a deduction is generally allowable under section 167.[152]

Specified tangible property means any property used in the production of tested income.[153]

Preferential rate on GILTI

A preferential rate on GILTI is achieved by allowing corporations a deduction equal to 50 percent[154] of their GILTI (including the corresponding section 78 gross-up amount).[155] For taxable years beginning after December 31, 2025, the deduction for GILTI is reduced to 37.5 percent.[156]

Basis adjustments

A U.S. shareholder's basis in the stock of a CFC (and basis in property by reason of which the U.S. shareholder is treated as owning stock of the CFC) is increased by the amount of the shareholder's subpart F and GILTI inclusions in respect of the CFC stock (but not any section 78 gross-up amounts). The basis in the stock is decreased by the amount of any distributions received from the CFC that are excluded from the shareholder's income as previously taxed income and, for purposes of determining the amount of loss on a disposition of

greater than 90 percent of 21 percent, or 18.9 percent). See sec. 954(b)(4) and Treas. Reg. secs. 1.954-1(d) and 1.951A-2(c)(7).

[152] Sec. 951A(d)(1).

[153] Sec. 951A(d)(2). Specified tangible property does not include property used in the production of tested loss; thus, a CFC with a tested loss in a taxable year does not have QBAI for such taxable year.

[154] In other words, for taxable years beginning before January 1, 2026, the effective U.S. tax rate (*i.e.*, taking into account the effect of the deduction) on GILTI is 10.5 percent.

[155] Sec. 250(a)(1)(B). Under section 78, a taxpayer claiming the foreign tax credit with respect to foreign-source income generally must include in income the amount of the related foreign taxes paid.

[156] Sec. 250(a)(3)(B). For taxable years beginning after December 31, 2025, the effective U.S. tax rate on GILTI rises to 13.125 percent.

the stock of the CFC, the amount of any dividends-received deductions ("DRDs") under section 245A (unless the basis was already reduced for any such DRD under section 1059).[157]

Foreign tax credit

Subject to certain limitations, U.S. citizens or resident individuals, as well as domestic corporations, are allowed a credit for foreign income taxes paid. In addition, a domestic corporation is allowed a credit for foreign income taxes paid by a CFC with respect to income included by the corporation as subpart F income and GILTI; such taxes are deemed to have been paid by the domestic corporation for purposes of calculating the foreign tax credit.[158]

The foreign tax credit generally is limited to a taxpayer's U.S. tax liability on its foreign-source taxable income. The limit is intended to ensure that the credit mitigates double taxation of foreign-source income without offsetting U.S. tax on U.S.-source income.[159] Generally, the limit is computed by multiplying a taxpayer's total pre-credit U.S. tax liability for the year by the ratio of the taxpayer's foreign-source taxable income for the year to the taxpayer's total taxable income for the year.[160] This limitation is applied separately to different categories of foreign-source income (as discussed below). If the total amount of foreign income taxes paid and deemed paid for the year exceeds the taxpayer's foreign tax credit limitation for the year, the taxpayer may (in certain cases) carry back the excess foreign taxes to the previous year or carry forward to any of the succeeding 10 years.[161] No carryback or carryover of excess foreign tax credits are allowed in the GILTI foreign tax credit limitation category (as discussed below).

Deemed-paid taxes

For any subpart F income included in the gross income of a domestic corporation, the corporation is deemed to have paid foreign taxes equal to the aggregate foreign income taxes paid or accrued with respect to such income by the CFC.[162]

For any GILTI included in the gross income of a domestic corporation, the corporation is deemed to have paid foreign taxes equal to 80 percent of the corporation's inclusion percentage multiplied by the aggregate foreign income taxes paid or accrued with respect to tested income

[157] Secs. 951A(f)(1)(A), 961(a), (b), and (d). Similar rules apply to dividends and deemed dividends from lower-tier CFCs. See secs. 961(c) and 964(e)(4).

[158] Secs. 901 and 960.

[159] Secs. 901 and 904.

[160] Sec. 904(a).

[161] Sec. 904(c).

[162] Sec. 960(a).

(but not tested loss) by each CFC with respect to which the domestic corporation is a U.S. shareholder.[163]

Allocation and apportionment of expenses

To determine its foreign tax credit 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 factually relate.[164] However, subject to certain exceptions, deductions for interest expense, stewardship expenses, and research and experimental expenses, as well as certain other deductions, are apportioned based on certain ratios.[165] For example, interest expense is apportioned based on the ratio of the corporation's foreign or domestic (as applicable) assets to its worldwide assets.[166]

Limitation categories ("baskets")

The foreign tax credit limitation is applied separately to GILTI, foreign branch income,[167] passive category income, and general category income.[168] For this purpose, GILTI and foreign branch income include only income that is not passive category income. Passive category income includes passive income, such as portfolio interest and dividend income, and certain other specified types of income.[169] Dividends (and subpart F inclusions), interest, rents, and royalties received by a U.S. shareholder from a CFC are assigned to the passive category to the extent the payments or inclusions are allocable to passive category income of the CFC.[170] Dividends received by a 10-percent corporate shareholder of a foreign corporation that is not a CFC are also categorized on a look-through basis.[171] All other income (*i.e.*, income other than GILTI, foreign branch, and passive income) is in the general category. Passive income is treated as general category income if earned by a qualifying financial services entity or if highly taxed

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163 Sec. 960(d)(1). The inclusion percentage means, with respect to any domestic corporation, the ratio of such 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.

164 Treas. Reg. sec. 1.861-8(b) and (c) and Temp. Treas. Reg. sec. 1.861-8T(c).

165 Treas. Reg. sec. 1.861-8 through Temp. Treas. Reg. sec. 1.861-14T and Treas. Reg. sec. 1.861-17 set forth detailed rules relating to the allocation and apportionment of expenses.

166 Sec. 864(e)(2).

167 Foreign branch income is defined for this purpose as "the business profits of [the U.S. taxpayer] which are attributable to 1 or more qualified business units (as defined in section 989(a)) in 1 or more foreign countries." Sec. 904(d)(2)(J).

168 Sec. 904(d); Treas. Reg. sec. 1.904-4(a). The foreign tax credit limitation is also applied separately to certain additional separate categories. See Treas. Reg. sec. 1.904-4(m).

169 Sec. 904(d)(2)(A)(i) and (B).

170 Sec. 904(d)(3).

171 Sec. 904(d)(4).

(*i.e.*, if the foreign tax rate is determined to exceed the highest tax rate specified in section 1 or 11, as applicable).[172]

Special rules apply to the allocation of income and losses from foreign and U.S. sources within each category of income.[173] Foreign losses from one category first offset foreign-source income from other categories. Any remaining overall foreign loss offsets U.S.-source income. The same principle applies to losses from U.S. sources. In subsequent years, any losses deducted against another category or source of income are recaptured. That is, an equal amount of income from the same category or source that generated a loss in a prior year is recharacterized as income from the other category or source against which the loss was deducted. Foreign-source income in a particular category may be fully recharacterized as income in another category, whereas only up to 50 percent of income from one source in any subsequent year may be recharacterized as income from the other source.

A taxpayer's ability to claim a foreign tax credit may be further limited by a matching rule that prevents the separation of creditable foreign taxes from the associated foreign income. Under this rule, a foreign tax generally is not taken into account for U.S. tax purposes, and thus no foreign tax credit is available with respect to that foreign tax, until the taxable year in which the related income is taken into account for U.S. tax purposes.[174]

Foreign-Derived Intangible Income ("FDII")

Domestic corporations generally are taxed at preferential rates on their foreign-derived intangible income ("FDII").[175] The preferential rate is achieved by allowing corporations a deduction equal to 37.5 percent of their FDII.[176] For taxable years beginning after December 31, 2025, the deduction for FDII is reduced to 21.875 percent.[177]

FDII is calculated by multiplying a corporation's "deemed intangible income" by the percentage of its "deduction eligible income" that is derived from serving foreign markets (*i.e.*, "foreign-derived deduction eligible income").[178] A corporation's deemed intangible income

[172] Sec. 904(d)(2)(B).

[173] Sec. 904(f) and (g).

[174] Sec. 909.

[175] Sec. 250(a)(1)(A).

[176] Sec. 250(a)(1)(A). For taxable years beginning before January 1, 2026, the effective U.S. tax rate (*i.e.*, taking into account the effect of the deduction) on FDII is 13.125 percent.

[177] Sec. 250(a)(3)(A). For taxable years beginning after December 31, 2025, the effective U.S. tax rate on FDII is 16.406 percent.

[178] Sec. 250(b)(1).

equals the excess, if any, of its deduction eligible income over a 10-percent return on its qualified business asset investment ("QBAI").[179] The formula for FDII can be expressed as the following:

$$FDII = [Deduction\ Eligible\ Income - (10\% \times QBAI)] \times \frac{Foreign\ Derived\ Deduction\ Eligible\ Income}{Deduction\ Eligible\ Income}$$

For purposes of computing FDII, a domestic corporation's QBAI is the average of the aggregate of its adjusted basis, determined as of the close of each quarter of the taxable year, in specified tangible property[180] used in its trade or business and of a type with respect to which a deduction is allowable under section 167.[181] The adjusted basis in any property generally must be determined using the alternative depreciation system under section 168(g) as in effect on December 22, 2017.

Deduction eligible income and foreign-derived deduction eligible income

Deduction eligible income means, with respect to any domestic corporation, the excess (if any) of the gross income of the corporation determined without regard to certain amounts that are excluded from deduction eligible income over deductions (including taxes) properly allocable to such gross income.[182]

Foreign-derived deduction eligible income means, with respect to a taxpayer for its taxable year, any deduction eligible income of the taxpayer that is derived in connection with (1) property that is sold[183] by the taxpayer to any person who is not a U.S. person and that the taxpayer establishes to the satisfaction of the Secretary is for a foreign use[184] or (2) services

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[179] Sec. 250(b)(2). If the quantity in this formula is negative, deemed intangible income is zero.

[180] Specified tangible property means any tangible property used in the production of deduction eligible income. For this reason, the adjusted basis of tangible depreciable property held by a foreign branch generally is excluded from QBAI because foreign branch income is excluded from gross deduction eligible income.

[181] The definition of QBAI for purposes of computing FDII relies on the definition of QBAI for purposes of computing GILTI under section 951A(d), determined by substituting "deduction eligible income" for "tested income" in section 951A(d)(2) and without regard to whether the corporation is a controlled foreign corporation. Sec. 250(b)(2)(B).

[182] Sec. 250(b)(3)(A). The amounts excluded from deduction eligible income are: (1) subpart F income; (2) GILTI; (3) financial services income; (4) any dividend received from a CFC with respect to which the corporation is a U.S. shareholder; (5) any domestic oil and gas extraction income of the corporation; and (6) any foreign branch income.

[183] For purposes of determining FDII, the terms "sold," "sells," and "sale" include any lease, license, exchange, or other disposition. Sec. 250(b)(5)(E).

[184] If property is sold by a taxpayer to a person who is not a U.S. person and after such sale the property is subject to manufacture, assembly, or other processing (including the incorporation of such property, as a component, into a second product by means of production, manufacture, or assembly) outside the United States by such person, then the property is for a foreign use.

provided by the taxpayer that the taxpayer establishes to the satisfaction of the Secretary are provided to any person, or with respect to property, not located within the United States.[185]

Foreign use means any use, consumption, or disposition that is not within the United States.[186] Special rules for determining foreign use apply to transactions that involve property or services provided to domestic intermediaries or to certain related parties.[187]

Special rules apply with respect to property or services provided to domestic intermediaries[188] and with respect to certain related party transactions.[189]

Taxable income limitation on deduction for GILTI and FDII

If the sum of a domestic corporation's FDII and GILTI (including GILTI-attributable section 78 gross-up amounts) exceeds its taxable income determined without regard to this provision, then the amount of FDII and GILTI (including GILTI-attributable section 78 gross-up) for which a deduction is allowed is reduced (but not below zero) by an amount determined by such excess.[190]

Description of Proposal

The proposal lowers the preferential rates on GILTI and FDII by increasing the deduction for corporations for taxable years beginning after December 31, 2025, from 37.5 percent to 50 percent of their GILTI (including the corresponding section 78 gross-up amount) and from 21.875 percent to 37.5 percent of their FDII.

Effective Date

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

[185] Sec. 250(b)(4).

[186] Sec. 250(b)(5)(A).

[187] Sec. 250(b)(5)(B) and (C).

[188] Sec. 250(b)(5)(B).

[189] Sec. 250(b)(5)(C).

[190] Sec. 250(a)(2).

B. Extension of Base Erosion Minimum Tax Amount

Present Law

The base erosion and anti-abuse tax (the "BEAT") is an additional tax imposed on certain corporations that are members of a multinational group with respect to payments to foreign affiliates.[191]

The BEAT applies only to corporate taxpayers that are members of an aggregate group with average gross receipts in excess of $500 million and is determined, in part, by the extent to which a taxpayer has made payments to foreign related parties.[192] The BEAT generally does not apply to taxpayers that are members of an aggregate group for which reductions to taxable income ("base erosion tax benefits") arising from payments to foreign related parties ("base erosion payments") are less than three percent of total deductions (*i.e.*, a "base erosion percentage" of less than three percent).

For a taxpayer subject to the BEAT (an "applicable taxpayer"), the additional tax (the "base erosion minimum tax amount" or "BEAT liability") for the year generally equals the excess, if any, of 10 percent of its modified taxable income over an amount equal to its regular tax liability reduced (but not below zero) by the sum of a certain tax credits.[193]

Base erosion payments and base erosion tax benefits

A base erosion tax benefit generally reflects the reduction in taxable income arising from the associated base erosion payment.

A base erosion payment generally is any amount paid or accrued by a taxpayer to a foreign person that is a related party of the taxpayer and with respect to which a deduction is allowable.[194] A base erosion payment includes any amount paid or accrued by the taxpayer to a foreign related party in connection with the acquisition by the taxpayer from the related party of property of a character subject to the allowance for depreciation (or amortization in lieu of depreciation).[195]

Base erosion payments generally do not include any amount that constitutes a reduction in gross receipts, including payments for cost of goods sold. Certain other payments are

[191] Sec. 59A.

[192] For this purpose, a related party is, with respect to the taxpayer, any 25-percent owner of the taxpayer; any person who is related (within the meaning of sections 267(b) or 707(b)(1)) to the taxpayer or any 25-percent owner of the taxpayer; and any other person who is related (within the meaning of section 482) to the taxpayer. Sec. 59A(g). The 25-percent ownership threshold is determined by vote or value.

[193] Sec. 59A(b).

[194] Sec. 59A(d)(1).

[195] Sec. 59A(d)(2).

excluded from the definition of base erosion payments, including certain payments for services[196] and qualified derivative payments.[197] A payment for a service by a U.S. corporation to a foreign related party is a base erosion payment, except to the extent that the services in question meet most requirements for the "services cost method"[198] of transfer pricing and the payment does not include a markup component. In final regulations, the Secretary provided that a portion of a payment meeting these standards is not treated as a base erosion payment. Instead, only the portion of the outbound payment that exceeds actual costs incurred by the recipient of the payment (*i.e.*, the markup component of the price charged) is a base erosion payment.[199]

The BEAT treats as a base erosion payment any reinsurance premium payment paid by a U.S. life insurance company or by a U.S. property and casualty insurance company to a related foreign reinsurer (*e.g.*, a U.S. insurer pays a reinsurance premium to a related foreign reinsurer to cover risk of storm damage in the United States).[200] It also may apply to payment by a U.S. reinsurer to a related foreign insurer on the occurrence of a covered event (*e.g.*, a U.S. reinsurer pays a related foreign insurer when a claim is made for earthquake damage in a foreign country). Such base erosion payments are not reduced for the receipt by the U.S. insurer of reinsurance recovered (*e.g.*, the related foreign reinsurer pays the U.S. insurer when a claim is made for storm damage in the United States), nor for the reinsurance premium paid by a foreign insurer to a related U.S. reinsurer (*e.g.*, the related foreign insurer pays the reinsurance premium to the U.S. reinsurer to cover earthquake risk in a foreign country).

Taxpayers are permitted to waive deductions and thus avoid the "base erosion tax benefits" of such deduction to reduce exposure to the BEAT. The Secretary adopted a rule permitting taxpayers to waive the right to deductions for payments otherwise within the scope of base erosion payments.[201] The waiver extends to insurance-related payments that were reductions from gross premiums and other consideration.

Calculation of BEAT liability

BEAT liability generally equals the excess, if any, of 10 percent of the taxpayer's modified taxable income over the amount of regular tax liability[202] reduced (but not below zero) by the sum of certain tax credits. The amount of regular tax liability is reduced (and the base erosion minimum tax amount increased) by all income tax credits except for the research

[196] Sec. 59A(d)(5).

[197] Sec. 59A(h).

[198] Treas. Reg. sec. 1.482-9.

[199] Treas. Reg. sec. 1.59A-3(b)(3)(i).

[200] Secs. 59A(d)(3), 803(a)(1)(B), and 832(b)(4)(A).

[201] Treas. Reg. sec. 1.59A-3(c)(6).

[202] As defined in section 26(b).

credit[203] and a certain portion of applicable section 38 credits.[204] Modified taxable income is the taxpayer's regular taxable income increased by any base erosion tax benefit with respect to any base erosion payment and a portion of the taxpayer's NOL deduction, if any.[205]

Special rules for taxable years beginning after December 31, 2025

For taxable years beginning after December 31, 2025, the 10-percent rate on modified taxable income is increased to 12.5 percent and regular tax liability is reduced (and the base erosion minimum tax amount is therefore increased) by the sum of all the taxpayer's income tax credits for the taxable year.[206]

Special rules for banks and securities dealers

An applicable taxpayer that is a member of an affiliated group that includes a bank (as defined in section 581) or securities dealer registered under section 15(a) of the Securities Exchange Act of 1934 is subject to a tax rate on its modified taxable income that is one percentage point higher than the generally applicable tax rate.[207] In addition, for purposes of determining whether they are subject to the BEAT, banks and securities dealers are subject to a base erosion percentage threshold of two percent (rather than three percent).[208]

Description of Proposal

Under the proposal, the special rules of subsection 59A(b)(2), which would have increased the rate to 12.5 percent and reduced regular tax liability by all credits, are repealed. Other conforming amendments to reflect renumbering of certain paragraphs are also made.

Effective Date

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

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[203] Sec. 41(a).

[204] Sec. 59A(b)(4). Applicable section 38 credits are credits allowed under section 38 for the taxable year that are properly allocable to the low-income housing credit (sec. 42(a)), the renewable energy production credit (sec. 45(a)), and the energy investment credit (sec. 48). In general, no more than 80 percent of the amount of applicable section 38 credits for a taxable year can be used to reduce an applicable taxpayer's base erosion minimum tax liability and in no case can applicable section 38 credits reduce the taxpayer's base erosion minimum tax liability by more than 80 percent. Sec. 59A(b)(1)(B)(ii)(II).

[205] Specifically, modified taxable income is increased by the base erosion percentage of any NOL deduction allowed under section 172 for such taxable year. Sec. 59A(c)(1).

[206] Sec. 59A(b)(2).

[207] Sec. 59A(b)(3).

[208] Sec. 59A(e)(1)(C).