Tax Provisions of The One, Big, Beautiful Bill, Title IX - Ways & Means Committee Tax Provisions

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This document has been prepared with the assistance of NotebookLM.

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Information About This Document

This document was prepared using Google's NotebookLM to analyze the bill passed out of the *House Ways and Means Committee* which does not contain revisions added by the Rules Committee. The bill that came out of the Rules Committee had not yet been released in full by May 24, 2025 when this document was converted to a PDF.

The document should be used as a general reference only for basic concepts under consideration. I've released it mainly because we know that are likely to be significant changes made regardless of what is in this bill and I've found it to be useful to allow me to quickly maneuver through the bill text and JCT report when dealing with specific client questions on this bill where I double check the information here. I've not run into issues where I've found significant issues (of course I would have changed those if i had) but it is important to understand the context.

I suggest you consider it for similar uses.

Sources used:

House Ways & Means Committee Title XI, One Big Beautiful Bill Text, May 12, 2025

Entire bill from Rules Committee (the PL 86-272 update was not added by the Ways & Means Committee) This page should also point to the revised version of the bill when that it is eventually compiled.

Description Of The Tax Provisions Of The Chairman's Amendment In The Nature Of A Substitute To The Budget Reconciliation Legislative Recommendations Related To Tax, JCX-21-25, May 12, 2025

NotebookLM - Google tool to analyze multiple types of documents.

Subtitle A, Part I - Permanently Preventing Tax Hikes on American Families and Workers

The following summaries, composed with assistance from NotebookLM, looks at Part I – Permanently Preventing Tax Hikes on American Families and Workers of Subtitle A – Make American Families and Workers Thrive Again of the portion of The One, Big, Beautiful Bill that was approved by the House Ways & Means Committee on May 16, 2025.

Section 110001 Extension of Modification of Rates

The Committee Print of the Budget Reconciliation Legislative Recommendations Related to Tax, styled as the "One, Big, Beautiful Bill" (hereinafter, the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee"), includes significant proposed changes to the Internal Revenue Code of 1986. Section 110000 clarifies that, unless expressly provided otherwise, amendments and repeals within this title refer to the Internal Revenue Code of 1986. Notably, Section 15 of the Code, which provides rules for prorating tax rates when they change during a taxable year, will **not apply to any change in rate of tax by reason of any provision of, or amendment made by, this title**.

This section focuses specifically on Section 110001, which falls under Subtitle A, Part I: "PERMANENTLY PREVENTING TAX HIKES ON AMERICAN FAMILIES AND WORKERS". The Joint Committee on Taxation's Explanation of the Provisions (hereinafter, the "JCT's Explanation") lists Section 110001 as pertaining to the "Extension of Modification of Rates". Within this section, the JCT's Explanation specifically details proposed changes regarding the extension of individual income tax rates (Section 110001.A) and the alternative minimum tax (AMT) exemption amounts and phase-out thresholds (Section 110001.G).

Present Law Context (Absent Enactment of This Provision)

Under present law, as described by the Joint Committee on Taxation (JCT), individual, estate, and trust taxpayers calculate their regular tax liability using tax rate schedules based on income brackets. The marginal tax rate generally increases as income rises. The tax rates currently in effect, which were established by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97), are temporary and are scheduled to expire at the end of 2025.

If Section 110001 is *not* enacted, the individual income tax rates are scheduled to revert to the rates and brackets that were in effect prior to Public Law 115-97, indexed for inflation. For taxable years beginning after December 31, 2025, the JCT's Explanation provides the following example rates that would apply under current law (assuming inflation indexing):

- **Single Filers (Excerpts):**
  - 10% on income up to $14,000

    - 15% on income over $14,000 up to $57,000
    - 25% on income over $57,000 up to $114,150
    - 28% on income over $114,150 up to $174,150
    - 33% on income over $174,150 up to $310,050
    - 35% on income over $310,050 up to $383,575
    - 39.6% on income over $383,575
- **Married Individuals Filing Joint Returns (Excerpts):**
    - 10% on income up to $28,000
    - 15% on income over $28,000 up to $114,000
    - 25% on income over $114,000 up to $229,350
    - 28% on income over $229,350 up to $348,300
    - 33% on income over $348,300 up to $414,800
    - 35% on income over $414,800 up to $458,350
    - 39.6% on income over $458,350
- **Alternative Minimum Tax (AMT):**
    - The AMT is imposed when tentative minimum tax exceeds regular income tax.
    - For taxable years beginning in 2025, the tentative minimum tax is calculated using rates of 26% and 28% on alternative minimum taxable income (AMTI) exceeding certain exemption amounts.
    - The exemption amounts and phase-out thresholds were increased by Public Law 115-97 but are scheduled to expire after December 31, 2025. If the law is not changed, these amounts would revert to their pre-Public Law 115-97 levels (indexed for inflation).

Proposed Modifications Under Section 110001

Section 110001, as described by the JCT's Explanation, directly addresses these scheduled expirations. The proposed modifications under this section are aimed at making key aspects of the Public Law 115-97 rate structure permanent.

- **Extension of Modified Rates (Section 110001.A):** The proposal **repeals the expiration of the Public Law 115-97 increase in rates**. This means the individual income tax rates currently in effect under Public Law 115-97 (TCJA rates) would be made permanent, rather than reverting to the pre-TCJA rates after 2025.
- **Extension of Increased AMT Exemption and Phase-out Thresholds (Section 110001.G):** The proposal also **repeals the expiration of the Public Law 115-97 increase in the AMT exemption amounts and phase-out thresholds**. This would make the higher AMT exemption amounts and their corresponding phase-out thresholds, which were temporarily increased by TCJA, a permanent feature of the tax code.

In essence, the enactment of Section 110001 would prevent the scheduled "tax hikes" associated with the expiration of the TCJA's individual rate provisions and AMT relief by making those temporary changes permanent law. The specific tax rates and AMT parameters that would be in effect are those established under Public Law 115-97, subject to annual inflation adjustments as provided under existing law.

Affected IRC Provisions

The JCT's Explanation points to the areas of the Code being impacted. The "Extension of Modification of Rates" inherently affects the statutory provisions governing **individual income tax rates**, primarily **Section 1** of the Internal Revenue Code. The "Extension of Increased Alternative Minimum Tax Exemption and Phase-out Thresholds" impacts the sections of the Code related to the **Alternative Minimum Tax for individuals, estates, and trusts**, principally **Section 55** and likely **Section 59** (dealing with adjustments in computing AMTI and AMT credits).

Effective Date

The proposed changes under Section 110001 have a specified effective date. According to the JCT's Explanation, the amendments made by Section 110001 are effective for **taxable years beginning after December 31, 2025**. This aligns with the scheduled expiration of the relevant Public Law 115-97 provisions.

Expiration Date

A key characteristic of Section 110001, as indicated by its placement within Part I titled "PERMANENTLY PREVENTING TAX HIKES" and the JCT's description that it "repeals the expiration" of the temporary changes, is its intended permanence. The proposal does not introduce a new sunset date for these provisions. Therefore, if enacted, the modifications to individual income tax rates and the AMT exemption/phase-out thresholds would become **permanent features of the Internal Revenue Code**, with no specified expiration date in the proposed legislation.

Section 110002 Extension of Increased Standard Deduction and Temporary Enhancement

This section focuses specifically on Section 110002, titled "EXTENSION OF INCREASED STANDARD DEDUCTION AND TEMPORARY ENHANCEMENT". The Joint Committee on Taxation's Explanation of the Provisions (hereinafter, the "JCT's Explanation") also lists this under Subtitle A, Part I, "PERMANENTLY PREVENTING TAX HIKES ON AMERICAN FAMILIES AND WORKERS".

Present Law Context (Absent Enactment of This Provision)

Under present law, individuals who do not itemize deductions reduce their adjusted gross income ("AGI") by the applicable standard deduction amount to arrive at taxable income. The standard deduction consists of a basic standard deduction and, if applicable, an additional standard deduction. The amount of the basic standard deduction varies by filing status.

A key aspect of present law is that the increased standard deduction amounts established by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) are temporary. According to the JCT's Explanation, these temporarily increased amounts are scheduled to revert to their pre-Public Law 115-97 levels, indexed for inflation, for taxable years beginning after December 31, 2025.

For taxable years beginning in 2025, the JCT reports the basic standard deduction amounts as **$15,000 for an unmarried individual** (other than a head of household or a surviving spouse) and a married individual filing a separate return, **$22,500 for a head of household**, and **$30,000 for married individuals filing a joint return** and a surviving spouse.

If the law is *not* changed, for taxable years beginning in 2026, the basic standard deduction amounts are projected by the JCT staff to revert to lower levels (indexed for inflation):

- **Unmarried individuals** (other than head of household or surviving spouse) and **married individuals filing separately**: **$8,300**
- **Head of household**: **$12,150**
- **Married individuals filing jointly** and **surviving spouses**: **$16,600**

The additional standard deduction (for age 65 or blindness) was not modified by Public Law 115-97 and would continue to apply as under present law regardless of whether this proposed legislation is enacted.

Proposed Modifications Under Section 110002

Section 110002 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation describe a two-part proposal affecting the standard deduction:

1. **Permanent Extension of the Public Law 115-97 Increase:** The proposal **strikes the expiration date of the temporary increases to the standard deduction enacted by Public Law 115-97**. Specifically, it amends IRC Section 63(c)(7) by striking ", and before January 1, 2026" and by striking the heading "2018 THROUGH 2025" and inserting "BEGINNING AFTER 2017". This action aims to make the higher basic standard deduction amounts introduced by TCJA a permanent feature of the tax code.
2. **Temporary Additional Increase:** The proposal adds a new subparagraph (C) to IRC Section 63(c)(7). This provision creates a **temporary additional increase in the standard**

deduction amount for certain taxable years. The temporary additional increase is **$1,500** for the amount otherwise in effect under paragraph (2)(B) (head of household) and **$1,000** for the amount otherwise in effect under paragraph (2)(C) (all others, including single and married filing separately). The JCT's Explanation clarifies that for married individuals filing a joint return and a surviving spouse, this temporary increase is **$2,000**. **These temporary amounts are not indexed for inflation**.

If enacted, the standard deduction amounts would be notably different from the scheduled reversion under present law.

For taxable years beginning in **2025**, the basic standard deduction (including the temporary additional increase) is projected by the JCT to be:

- **Unmarried individuals** (other than head of household or surviving spouse) and **married individuals filing separately**: **$16,000** ($15,000 + $1,000 temporary increase)
- **Head of household**: **$24,000** ($22,500 + $1,500 temporary increase)
- **Married individuals filing jointly** and **surviving spouses**: **$32,000** ($30,000 + $2,000 temporary increase)

For taxable years beginning in **2026**, the basic standard deduction (including the permanent extension of the TCJA rates and the temporary additional increase) is projected by the JCT to be:

- **Unmarried individuals** (other than head of household or surviving spouse) and **married individuals filing separately**: **$16,550** ($15,550 base + $1,000 temporary increase - projected figures include indexation of the $15,000 base amount)
- **Head of household**: **$24,850** ($23,350 base + $1,500 temporary increase - projected figures include indexation of the $22,500 base amount)
- **Married individuals filing jointly** and **surviving spouses**: **$33,100** ($31,100 base + $2,000 temporary increase - projected figures include indexation of the $30,000 base amount)

Note that these projections for 2026 reflect the indexation of the permanently extended base amounts ($15,000, $22,500, $30,000) plus the static temporary additional increase.

Affected IRC Provisions

The core changes are made to **Section 63(c)(7)** of the Internal Revenue Code. This section currently contains the temporary rules for the increased standard deduction amounts applicable for taxable years 2018 through 2025.

Effective Dates

Section 110002 contains two distinct effective dates based on its subsections:

- Subsection (a), which makes the Public Law 115-97 increase permanent by removing the expiration date, is effective for **taxable years beginning after December 31, 2025**.
- Subsection (b), which adds the temporary additional increase, is effective for **taxable years beginning after December 31, 2024**.

The JCT's Explanation summarizes the overall effective date of the proposal as effective for taxable years beginning after December 31, 2024. Given the structure of the legislative text, this likely refers to the earliest effective date of the two components of Section 110002, specifically the temporary enhancement which begins one year earlier.

Expiration Date

The proposal has components with different expiration characteristics:

- The **permanent extension of the Public Law 115-97 increase** (removing the January 1, 2026 sunset) makes those higher base amounts a **permanent feature of the tax code**. The legislative text amends the heading of IRC Section 63(c)(7) to "BEGINNING AFTER 2017", indicating no specified future expiration date for this base increase.
- The **temporary additional increase** has its own explicit expiration date. This additional amount applies for taxable years beginning after December 31, 2024, and **before January 1, 2029**. Thus, this temporary enhancement is scheduled to expire at the end of 2028.

These proposed changes require careful attention in tax planning for 2025 and beyond. The significant increase in the standard deduction amounts relative to the currently scheduled reversion is a major factor in determining filing status, whether to itemize, and overall tax liability calculations for individual clients. The temporary nature of the additional enhancement (expiring at the end of 2028) also introduces a potential change point in tax planning several years down the line.

Section 110003 Termination of Deduction for Personal Exemptions

The Committee Print of the Budget Reconciliation Legislative Recommendations Related to Tax, formally titled the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", includes several significant proposed changes to the individual income tax landscape. Section 110000 of the Bill specifies that, unless stated otherwise, amendments and repeals are made to the Internal Revenue Code of 1986.

This analysis focuses on Section 110003, titled "TERMINATION OF DEDUCTION FOR PERSONAL EXEMPTIONS", which is also addressed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") under Subtitle A, Part I,

"PERMANENTLY PREVENTING TAX HIKES ON AMERICAN FAMILIES AND WORKERS".

Present Law Context (Absent Enactment of This Provision)

Under present law, taxpayers are generally allowed a deduction for personal exemptions for themselves, their spouse, and their dependents under Internal Revenue Code Section 151. Historically, this deduction amount was indexed for inflation.

However, the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) made a significant temporary change. For taxable years beginning after December 31, 2017, and before January 1, 2026, the personal exemption amount is effectively reduced to **$0**. This temporary reduction to zero is achieved through the mechanism described in IRC Section 151(d)(5).

According to the JCT's Explanation, for taxable years beginning in **2025**, the amount of the personal exemption is **$0** for individuals. For certain trusts, specifically qualified disability trusts, a deduction is allowed based on an indexed value, which is $5,100 for 2025.

If the law is *not* changed by this proposed legislation, the temporary reduction of the personal exemption to $0 under Public Law 115-97 is scheduled to expire for taxable years beginning after December 31, 2025.

Proposed Modifications Under Section 110003

Section 110003 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation address the scheduled expiration of the temporary $0 personal exemption amount. The proposal makes the **permanent reduction of the amount of the personal exemption to $0**.

This is accomplished by amending IRC Section 151(d)(5). The amendment strikes ", and before January 1, 2026" from the text and strikes the heading "2018 THROUGH 2025" and inserts "BEGINNING AFTER 2017". By removing the sunset date and changing the heading, the provision that effectively sets the personal exemption amount to zero is made applicable indefinitely for taxable years beginning after 2017.

Therefore, if the law is enacted, the personal exemption amount will be **$0** for individuals for taxable years beginning in 2025 and thereafter. The JCT's Explanation confirms that the proposal "permanently reduces the amount of the personal exemption to $0".

Affected IRC Provisions

The primary section amended is **Section 151(d)(5)** of the Internal Revenue Code. Section 642(b), relating to the deduction for estates and trusts, is also referenced in the JCT's Explanation in the context of the present law treatment of qualified disability trusts, which receive an exemption amount based on the individual personal exemption. The permanent reduction of the individual personal exemption to $0 would impact the amount deductible by these trusts as well.

Effective Date

Subsection (b) of Section 110003 states that the amendments made by this section shall apply to **taxable years beginning after December 31, 2025**. The JCT's Explanation confirms this effective date.

Expiration Date

The proposal is designed to make the $0 personal exemption amount **permanent**. By striking the expiration date in IRC Section 151(d)(5), there is no scheduled expiration for this provision under the proposed legislation.

In summary, Section 110003 codifies the effective zeroing out of the personal exemption introduced by the Tax Cuts and Jobs Act of 2017, making it a permanent feature of the tax code for taxable years beginning after December 31, 2025. While the personal exemption amount under present law was already effectively $0 for 2025 and beyond due to the temporary nature of the TCJA provision, this proposal formally removes the sunset, ensuring the $0 amount continues indefinitely.

Section 110004 Extension of Increased Child Tax Credit and Temporary Enhancement

Section 110004 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces significant modifications and extensions to the current Child Tax Credit (CTC) framework. This provision is also discussed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") under Subtitle A, Part I, "PERMANENTLY PREVENTING TAX HIKES ON AMERICAN FAMILIES AND WORKERS".

Present Law Context (Absent Enactment of This Provision)

Under present law, Section 24 of the Internal Revenue Code governs the Child Tax Credit. The Tax Cuts and Jobs Act of 2017 (Public Law 115-97) temporarily increased the amount of the credit and modified certain rules.

For taxable years beginning in **2025**, the maximum amount of the Child Tax Credit is generally **$2,000** per qualifying child. Up to **$1,400** of this credit amount is potentially refundable as the additional child tax credit. The $1,400 amount is adjusted for inflation. The JCT's Explanation notes this amount is projected to be **$1,700 in 2025**. The credit begins to phase out at modified Adjusted Gross Income (AGI) thresholds of **$400,000 for taxpayers filing jointly** and **$200,000 for all other**

taxpayers. This credit is also subject to an earned income threshold formula for purposes of the refundable portion, which requires earned income in excess of $2,500.

Crucially, many of the enhancements made by Public Law 115-97, including the increased credit amount and higher phase-out thresholds, are temporary and are scheduled to expire for taxable years beginning after December 31, 2025.

If the law is *not* changed by this proposed legislation, for taxable years beginning **after December 31, 2025**, the maximum amount of the credit would revert to its prior law amount of **$1,000 for each qualifying child**. The income phaseout thresholds would also revert to significantly lower amounts: **$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**.

Proposed Modifications Under Section 110004

Section 110004 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes several key changes to the Child Tax Credit by amending Section 24(h) of the Internal Revenue Code.

The proposal extends and modifies the credit as follows:

- **Temporary Increase in Maximum Credit:** The proposal temporarily increases the maximum child tax credit to **$2,500** per qualifying child for taxable years beginning after December 31, 2024, and before December 31, 2028.
- **Permanent Maximum Credit:** For taxable years beginning **after December 31, 2028**, the maximum child tax credit will revert to a permanent amount of **$2,000**. This $2,000 amount is indexed for inflation for taxable years beginning after 2028, using the chained CPI for the preceding calendar year compared to the chained CPI for 2024.
- **Permanent Refundable Amount:** The proposal makes permanent the maximum amount of the additional child tax credit per qualifying child of **$1,400**, adjusted for inflation. The JCT's Explanation notes this amount is projected to be $1,700 in 2025. The inflation adjustment for the refundable amount uses chained CPI for the preceding calendar year compared to the chained CPI for 2017.
- **Permanent Earned Income Threshold:** The earned income threshold of **$2,500** for purposes of the earned income formula for the refundable credit is made permanent.
- **Permanent Income Phaseout Thresholds:** The proposal makes permanent the higher income phaseout threshold amounts of **$400,000 for taxpayers filing jointly** and **$200,000 for all other taxpayers**.
- **Treatment of Certain Income:** The proposal treats any amount received as a dividend under Section 501(d) as earned income for purposes of computing taxable income. Section 501(d) relates to religious and apostolic associations. Section 24(d)(1) is amended for this purpose.

- **Joint Filing Requirement:** The proposal applies rules similar to Section 32(d), generally requiring married individuals to file a joint return to receive the credit. Marital status is determined under Section 7703(a). An exception exists for certain individuals who are married but do not file jointly and reside with a qualifying child for more than half the year.

In essence, the proposed law would maintain the higher maximum credit amount ($2,000, indexed) permanently, temporarily increase it to $2,500, and permanently keep the higher phase-out thresholds and the inflation-indexed refundable portion (starting from the current $1,400 amount).

Affected IRC Provisions

The core of the changes resides in amendments to **Internal Revenue Code Section 24**, primarily Section 24(h). Section 24(h)(1) and the heading of Section 24(h) are amended to remove the temporary nature of the TCJA changes. Section 24(h)(2) is amended to specify the credit amounts for different periods. Section 24(d)(1) is amended to include certain dividends as earned income. References to Section 32(d) and Section 7703(a) are also included regarding the joint filing requirement.

Effective Date

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation state that the amendments made by Section 110004 shall apply to **taxable years beginning after December 31, 2024**. However, the specific credit amounts vary depending on the taxable year, as noted above, with the temporary $2,500 amount applying for taxable years beginning after December 31, 2024, and before December 31, 2028, and the permanent $2,000 amount applying thereafter. The change treating certain Section 501(d) dividends as earned income also applies to taxable years beginning after December 31, 2024.

Expiration Date

The proposal specifically aims to make several aspects of the Child Tax Credit permanent.

- The removal of the sunset language from Section 24(h)(1) and the heading indicates the intent to make the post-TCJA framework, including the higher phase-out thresholds, permanent for taxable years beginning after 2017.
- The **$2,000** maximum credit amount (indexed for inflation after 2028) is described as permanent for taxable years beginning after December 31, 2028.
- The **$1,400** refundable amount (indexed for inflation) is made permanent.
- The **$2,500** earned income threshold for the refundable portion is made permanent.
- The **$400,000/$200,000** income phaseout thresholds are made permanent.

There is, however, a temporary enhancement: the increase of the maximum credit amount to **$2,500** is specifically stated to apply only for taxable years beginning after December 31, 2024, and **before**

December 31, 2028. This particular enhancement has a scheduled expiration date of December 31, 2028.

Section 110005 Extension of the Deduction for Qualified Business Income and Permanent Enhancement

Tax practitioners are keenly interested in proposed changes that impact pass-through entity taxation and individual deductions. Section 110005 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes substantial modifications and extensions to the Section 199A deduction for qualified business income (QBI). These provisions are described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") under Subtitle A, Part I, specifically "Extension of Deduction for Qualified Business Income and Permanent Enhancement".

Current Law (Absent Enactment of This Provision)

Under present law, found in Internal Revenue Code Section 199A, certain individuals, trusts, and estates are permitted to deduct 20 percent of qualified business income from a partnership, S corporation, or sole proprietorship. The deduction is also available for 20 percent of aggregate qualified real estate investment trust ("REIT") dividends and qualified publicly traded partnership income.

This deduction is subject to various limitations, including a limitation based on the taxpayer's taxable income before the deduction, and for taxpayers with taxable income exceeding certain thresholds, limitations based on the amount of W-2 wages paid by the business and the unadjusted basis immediately after acquisition of qualified property. The QBI deduction, as enacted by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97), is temporary and applies only for **taxable years beginning after December 31, 2017, and before January 1, 2026**.

If the proposed law is *not* enacted, the deduction for qualified business income (including the deduction for REIT dividends and qualified publicly traded partnership income) **will expire for taxable years beginning after December 31, 2025**. This means that for the 2026 tax year and beyond, the 20% QBI deduction would generally no longer be available under current law.

Proposed Modifications Under Section 110005

Section 110005 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to significantly alter and extend the QBI deduction. The JCT's Explanation outlines five key modifications:

1. **Permanence of the Deduction:** The most significant change is making the deduction for qualified business income permanent. This includes the deduction for REIT dividends,

qualified publicly traded partnership income, and income attributable to domestic production activities of specified agricultural or horticultural cooperatives.

2. **Increased Deduction Rate:** The proposal **increases the general deduction percentage from 20 percent to 23 percent**. This 23 percent applies to three key aspects of the deduction calculation:
    - The percentage of the excess of taxable income over net capital gain used in determining the maximum allowable deduction.
    - The percentage of the aggregate amount of qualified REIT dividends and qualified publicly traded partnership income used to calculate the combined QBI amount.
    - The deductible amount for each qualified trade or business *before* applying certain limitations.
3. **New Two-Step Phase-In Process:** For taxpayers whose taxable income exceeds the threshold amount, the existing phase-in rules for W-2 wages, capital investment, and specified service trades or businesses are replaced with a new two-step process.
    - **Step One:** Limits the deductible amount for each qualified trade or business (calculated using a 22 percent rate of qualified business income in this step) to the greater of 50% of W-2 wages or 25% of W-2 wages and 2.5% of unadjusted basis immediately after acquisition (UBIA) for each trade or business. Note that **a specified service trade or business (SSTB) is not a qualified trade or business**, so SSTBs will have step one produce a result of $0.
    - **Step Two:** Calculates an alternative amount by taking 22 percent of qualified business income from all trades or businesses (including specified service trades or businesses) *without regard* to the W-2 wages and capital limitation, and reducing that amount by a limitation phase-in amount equal to 75 percent of the excess of taxable income over the threshold amount.
    - The taxpayer's deductible amount for combined qualified business income is the **greater** of the aggregate deductible amounts from Step One and the amount calculated in Step Two.
    - Notably, this new phase-in process **repeals the existing limitation related to specified service trades or businesses** from the calculation in Step Two. Section 199A(d)(3) is specifically struck.
4. **Inclusion of Qualified BDC Interest Dividends:** The proposal includes "qualified BDC interest dividends" as income eligible for the QBI deduction.
5. **Treatment of Section 501(d) Dividends:** Any amount received as a dividend under Section 501(d) (relating to religious and apostolic associations) is treated as a qualified REIT dividend for purposes of the QBI deduction.

Therefore, if the law is enacted, the general QBI deduction rate will be **23 percent** permanently, subject to the revised limitation calculations.

Affected IRC Provisions

The primary Internal Revenue Code section amended by Section 110005 is **Section 199A**. Specific amendments mentioned include changes to Section 199A(a), Section 199A(b)(1)(B), Section 199A(c)(1), and the striking of Section 199A(d)(3). The proposal also adds "qualified BDC interest dividends" to Sections 199A(b)(1)(B) and 199A(c)(1). The treatment of Section 501(d) dividends as qualified REIT dividends also affects the application of Section 199A.

Effective Date

Section 110005 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by this section shall apply to **taxable years beginning after December 31, 2025**. The JCT's Explanation confirms this effective date.

Expiration Date

One of the explicit aims of Section 110005 is to make the deduction for qualified business income permanent. The proposal **repeals the expiration date** of the QBI deduction. While the proposal introduces a specific 23% rate and a new phase-in mechanism involving a 22% rate in the calculation steps, these are described as the new rules for the permanent deduction. There is **no scheduled expiration date** for the QBI deduction or the 23% rate under this proposed legislation as presented in the sources.

In summary, the proposed changes aim to solidify the QBI deduction as a permanent feature of the tax landscape, while also enhancing its benefits by increasing the deduction percentage and modifying the phase-in limitations for higher-income taxpayers.

Section 110006 Extension of Increased Estate and Gift Tax Exemption Amounts and Permanent Enhancement

For tax professionals advising clients on wealth transfer planning, the proposed changes to the unified estate and gift tax exemption are of paramount importance. Section 110006 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" specifically addresses the "Extension of Increased Estate and Gift Tax Exemption Amounts and Permanent Enhancement". The details of this provision are further described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation").

Current Law (Prior to Enactment)

Under present law, a gift tax is generally imposed on transfers of property by gift, and an estate tax is imposed on the taxable estate of a decedent. These taxes are unified, with a top tax rate of **40 percent**. A key feature of the current system is the lifetime exemption amount. As modified by the

Tax Cuts and Jobs Act of 2017 (Public Law 115-97), this exemption amount was temporarily increased to a base of $10 million, indexed for inflation using a 2010 base year.

This increased exemption is temporary, applying only for decedents dying and gifts made after December 31, 2017, and **before January 1, 2026**. Absent legislative change, the base exemption amount is scheduled to revert to its pre-2018 level of $5 million, indexed for inflation.

For calendar year 2025, the inflation-indexed exemption amount is **$13.99 million**. If the proposed legislation is not enacted, this amount is scheduled to decrease significantly for transfers occurring on or after January 1, 2026.

Proposed Changes Under Section 110006

Section 110006 proposes a significant alteration to the estate and gift tax landscape by making the enhanced exemption amount **permanent**.

Key details of the proposal:

- **Permanent Increase:** The proposal **permanently increases the unified estate and gift tax exemption**.
- **New Base Exemption Amount:** The base amount for the exemption is increased from the prior $10 million base to **$15 million**.
- **New Inflation Indexing Base Year:** The **$15 million exemption amount is indexed for inflation**. The base year for this inflation adjustment will be **calendar year 2025**.
- **Generation-Skipping Transfer (GST) Tax Exemption:** The generation-skipping transfer tax exemption, which is linked to the estate tax exemption amount, is also **permanently increased to an inflation-indexed $15 million**.
- **Tax Rates:** The proposed legislation focuses on the exemption amount and does not appear to alter the top **40 percent tax rate** applicable to amounts exceeding the exemption.

Therefore, under the enacted law, the base exemption amount will be $15 million, indexed for inflation starting from the 2025 calendar year. For calendar year 2026, the exemption amount is stated to be **$15 million**, with increases based on inflation thereafter.

Affected IRC Provisions

The primary Internal Revenue Code section directly amended by Section 110006 is **Section 2010(c)(3)**, which deals with the applicable exclusion amount. The proposal specifically strikes out the temporary nature of the current exemption by removing the relevant subparagraph (C) in Section 2010(c)(3) and adjusting the indexing base year references. The linked nature of the GST tax exemption means Section 2631 is also affected.

Effective Date

The amendments made by Section 110006 are specified to apply to **taxable years beginning after December 31, 2025**.

Expiration Date

One of the explicit purposes of this section is "Permanent Enhancement". The legislative text achieves this by repealing the expiration provision within the current law (Section 2010(c)(3)(C)). As described in the JCT's Explanation, the proposal **makes permanent the increased exemption amount**. Therefore, there is **no scheduled expiration date** for this increased and re-indexed exemption under the proposed legislation as detailed in the sources.

In summary, this provision represents a significant shift from the temporary, expiring higher exemption to a permanent, even larger base exemption amount, indexed forward from 2025.

Section 110007 Extension of Increased Alternative Minimum Tax Exemption and Phase-Out Thresholds

For tax professionals navigating the complexities of the Alternative Minimum Tax (AMT), proposed legislation contained within the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" (specifically Section 110007) and further described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") introduces significant, permanent changes to the individual AMT exemption amounts and their phase-out thresholds.

Current Law (Prior to Enactment)

Under present law, an individual, estate, or trust may be subject to the Alternative Minimum Tax. The AMT is calculated by applying a two-tier tax rate structure to "taxable excess" (Alternative Minimum Taxable Income, or AMTI, exceeding an exemption amount). The current AMT rates are **26 percent** on the initial amount of taxable excess and **28 percent** on amounts above a certain breakpoint, which is indexed annually for inflation. For taxable years beginning in 2025, this breakpoint is $239,100 ($119,550 for married individuals filing separately).

Crucially, the exemption amounts and the thresholds at which these exemptions begin to phase out were significantly increased by Public Law 115-97, the Tax Cuts and Jobs Act of 2017. **However, these increased amounts are temporary**, scheduled to apply only through taxable years beginning before January 1, 2026. Absent legislative action, for taxable years beginning on or after January 1, 2026, the AMT exemption amounts and phase-out thresholds are scheduled to revert to their pre-2018 levels, adjusted for inflation using a different indexation method. While the sources do not list the exact dollar amounts of the pre-2018 exemption for 2026, it is understood that this reversion would substantially reduce the AMT exemption available to taxpayers compared to the 2025 levels.

Proposed Changes Under Section 110007

Section 110007 directly addresses this scheduled expiration by proposing to make the currently increased AMT exemption amounts and phase-out thresholds **permanent**.

Key details of the proposal:

- **Permanent Extension:** The core change is the **permanent extension of the increased AMT exemption amounts and phase-out thresholds** that were temporarily enacted by Public Law 115-97.
- **Exemption Amounts and Phase-out Thresholds:** The proposal repeals the expiration provision that would have reverted these amounts to lower levels in 2026. This means the higher exemption amounts and phase-out thresholds that apply through 2025 will continue indefinitely, subject to annual inflation adjustments. The sources indicate that these amounts will be based on the levels established under Public Law 115-97.
- **Tax Rates:** The proposal **does not change the AMT tax rates themselves**. The rates will remain **26 percent** and **28 percent**.

Therefore, if enacted, the law would retain the current (2018-2025) structure of the individual AMT, including the higher exemption amounts and phase-out thresholds, beyond 2025.

Affected IRC Provisions

The primary Internal Revenue Code section amended by this provision is **Section 55(d)(4)**, which defines the AMT exemption amounts and their phase-out. Section 110007(a) specifically amends this subsection by removing the language that imposed the January 1, 2026, expiration date.

Effective Date

According to both sources, the amendments made by Section 110007 are specified to apply to **taxable years beginning after December 31, 2025**. This timing ensures that the increased exemption amounts and thresholds continue seamlessly after the scheduled expiration of the prior temporary rule.

Expiration Date

One of the main stated effects of this provision is the "Permanent Enhancement" of the exemption amounts. The legislative text achieves this by striking the subparagraph (C) from Section 55(d)(4), which contained the expiration date. The JCT's Explanation explicitly states that the proposal **"repeals the expiration"** of the increased amounts. Thus, under the proposed legislation, there is **no scheduled expiration date** for the increased AMT exemption amounts and phase-out thresholds.

Section 110008 Permanent Limitation on Qualified Residence Interest Deduction

For tax professionals advising clients on mortgage interest deductions, proposed legislation contained within the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" (specifically Section 110008) and further described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") addresses the upcoming scheduled changes to the limitation on the qualified residence interest deduction.

Current Law (Prior to Enactment)

Under present law, qualified residence interest is deductible as an itemized deduction. This deduction is generally for interest paid or accrued on acquisition indebtedness with respect to a qualified residence.

Crucially, for taxable years beginning after December 31, 2017, and before January 1, 2026, the deduction for qualified residence interest is limited to interest on acquisition indebtedness of up to **$750,000** ($375,000 in the case of a married individual filing separately). During this temporary period, interest on home equity indebtedness is generally *not* treated as qualified residence interest.

Absent legislative change, for taxable years beginning on or after **January 1, 2026**, the rules are scheduled to revert. The aggregate limitation on acquisition indebtedness and home equity indebtedness with respect to a principal residence and a second residence would increase to **$1,100,000** ($550,000 for a married individual filing separately). Interest on home equity indebtedness would again be deductible, subject to this higher overall limit.

It is important to note that the underlying income tax rates to which the deduction reduces taxable income are not directly addressed by this specific provision. The benefit of the deduction depends on the taxpayer's marginal income tax rate, which is determined under other provisions of the Code.

Proposed Changes Under Section 110008

Section 110008 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make the current, more restrictive rules permanent.

Key details of the proposal:

- **Permanent Limitation on Acquisition Indebtedness:** The proposal makes permanent the **$750,000 limitation** ($375,000 for married individuals filing separately) on acquisition indebtedness.
- **Permanent Exclusion of Home Equity Interest:** The proposal also makes permanent the **exclusion of interest on home equity indebtedness** from the definition of qualified residence interest.

Therefore, if enacted, the rules that have applied since 2018 regarding the limitation on the qualified residence interest deduction would continue indefinitely, preventing the scheduled reversion to the $1,100,000 limit that included home equity interest. The underlying income tax rates applicable to a taxpayer's income after deductions remain unchanged by this specific provision.

Affected IRC Provisions

The primary Internal Revenue Code section directly amended by Section 110008 is **Section 163(h)(3)(F)**. This subsection contains the temporary rules regarding the limitation on acquisition indebtedness and the treatment of home equity indebtedness. The proposal specifically strikes out the language that would cause the temporary rules to expire.

Effective Date

According to both sources, the amendments made by Section 110008 are specified to apply to **taxable years beginning after December 31, 2025**. This ensures a seamless transition from the temporary rules to the permanent rules without a period under the scheduled reversion.

Expiration Date

The purpose of this proposal, as indicated by its title and description in the sources, is to provide a "Permanent Enhancement" or make the current rules "permanent". The legislative text achieves this by removing the expiration language within Section 163(h)(3)(F). The JCT's Explanation confirms that the proposal makes the changes permanent. Thus, under the proposed legislation, there is **no scheduled expiration date** for the $750,000 acquisition indebtedness limit and the exclusion of home equity interest deduction.

In essence, this proposal eliminates the anticipated return of the higher mortgage interest deduction limit and the deductibility of home equity interest, cementing the current, more restrictive rules into permanent law.

Section 110009 Permanent Extension of Limitation on Casualty Loss Deduction

Experienced tax CPAs understand that casualty losses can provide significant tax relief to clients facing unexpected events. Proposed legislation, Section 110009 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," aims to permanently alter the rules governing the deduction for personal casualty losses, impacting how these deductions are calculated in future years. The "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") provides further detail on this change.

Current Law (Prior to Enactment)

Under present law, individuals may claim an itemized deduction for personal casualty losses. The rules for this deduction were significantly modified, but temporarily, by Public Law 115-97, the Tax Cuts and Jobs Act of 2017.

For taxable years beginning after December 31, 2017, and before **January 1, 2026**, a personal casualty loss is deductible only if it arises from a disaster declared by the President under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. If the loss is attributable to a declared disaster, it 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 (AGI). All *other* personal casualty losses (those not attributable to a declared disaster) are deductible only to the extent they do not exceed the individual's personal casualty gains.

Absent legislative action, for taxable years beginning on or after **January 1, 2026**, these temporary rules are scheduled to expire. The JCT's Explanation implies that the prior law rules would revert. Under the rules in effect immediately before the temporary period (and thus scheduled to return), a personal casualty loss would generally be deductible only to the extent the loss from each casualty exceeds $100, and the total of such losses for the year exceeds 10 percent of the taxpayer's AGI. This pre-2018 rule did not distinguish between disaster and non-disaster losses.

It is important to note that this provision concerns the rules for determining the deductible amount of a casualty loss, not the tax rates applied to a taxpayer's income. The benefit of the deduction depends on the taxpayer's marginal income tax rate, which is determined under other sections of the Code.

Proposed Changes Under Section 110009

Section 110009 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make the current, temporary limitation rules permanent.

Key details of the proposal:

- **Permanent Limitation:** The proposal makes permanent the rules under **Section 165(h)(5)** of the Internal Revenue Code.
- **Rules Under Enacted Law:** If enacted, the rules that apply to casualty losses during the 2018-2025 period will continue indefinitely. This means that for taxable years beginning on or after January 1, 2026, personal casualty losses will **only be deductible if attributable to a Presidentially declared disaster**. For declared disaster losses, the limitation based on personal casualty gains and the 10 percent of AGI floor will continue to apply. Personal casualty losses not from declared disasters will continue to be deductible only to the extent of personal casualty gains.

- **Tax Rates:** This proposal **does not change the underlying income tax rates**. It solidifies the rules for calculating the casualty loss deduction amount, which then affects taxable income subject to the standard tax rates.

Therefore, the scheduled reversion to allowing non-disaster casualty losses (subject to the $100 and 10% AGI floors) would be prevented.

Affected IRC Provisions

The key Internal Revenue Code section amended by this proposal is **Section 165(h)(5)**. Section 110009(a) specifically amends this subsection by striking the language that would have caused its expiration on January 1, 2026, and updates the heading to reflect that it applies to taxable years beginning after 2017.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendments made by Section 110009 shall apply to **taxable years beginning after December 31, 2025**. This ensures that the permanent rules take effect immediately following the expiration of the temporary period.

Expiration Date

A central purpose of Section 110009 is the "Extension of Limitation on Casualty Loss Deduction," and the JCT's Explanation states that the temporary limitation is **made permanent**. The legislative text achieves this permanency by removing the expiration clause within Section 165(h)(5). As a result, under the proposed legislation, there is **no scheduled expiration date** for the limitation on the deduction for personal casualty losses. The rules enacted by Public Law 115-97 are intended to apply indefinitely.

Section 110010 Permanent Termination of Miscellaneous Itemized Deductions

For experienced tax CPAs guiding clients through the complexities of itemized deductions, understanding pending legislative changes is paramount. Section 110010 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") detail a proposal to permanently terminate the deduction for miscellaneous itemized deductions subject to the 2-percent adjusted gross income (AGI) floor.

Current Law (Prior to Enactment)

Under current temporary law, which applies to taxable years beginning after December 31, 2017, and before January 1, 2026, miscellaneous itemized deductions that were previously subject to the

2-percent AGI floor are **not allowed**. This temporary disallowance was enacted by Public Law 115-97.

Absent the enactment of the proposed legislation, for taxable years beginning on or after **January 1, 2026**, the rules regarding miscellaneous itemized deductions would be scheduled to revert. Based on general tax knowledge and the implication from the sources describing the temporary "repeal," these deductions would likely become deductible again, subject to the 2-percent of AGI limitation that applied before the temporary period. The specific items included in this category (such as unreimbursed employee business expenses, tax preparation fees, and investment expenses) are not explicitly detailed in the provided sources, but their prior deductibility subject to the floor is the context for the temporary repeal and proposed permanent termination.

This provision addresses the deductibility of certain expenses, which impacts taxable income.

Proposed Changes Under Section 110010

Section 110010 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make the current temporary repeal of miscellaneous itemized deductions permanent.

Key details of the proposal:

- **Permanent Termination:** The proposal makes permanent the rule under Public Law 115-97 that **miscellaneous itemized deductions subject to the 2-percent floor are not allowed**.
- **Rules Under Enacted Law:** If enacted, the rules that have been in place since 2018, disallowing these deductions, will continue indefinitely. There will be **no allowance** for miscellaneous itemized deductions subject to the 2-percent AGI floor for taxable years beginning on or after January 1, 2026.

This proposed change would prevent the scheduled reversion that would have allowed these deductions again, albeit subject to the 2-percent AGI limitation.

Affected IRC Provisions

The primary Internal Revenue Code section amended by Section 110010 is **Section 67(g)**. This subsection currently contains the temporary rule disallowing these deductions. The proposal amends Section 67(g) by striking the language that limits its application to taxable years beginning before January 1, 2026. It also updates the heading of the subsection to reflect that the rule applies to taxable years "BEGINNING AFTER 2017," removing the "THROUGH 2025" language.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendments made by Section 110010 shall apply to **taxable years beginning after December 31, 2025**. This effective date ensures that the permanent termination takes effect immediately following the scheduled expiration of the current temporary rule.

Expiration Date

The stated purpose of Section 110010 is the "TERMINATION" of the deduction, and the JCT's Explanation clarifies that the proposal makes the temporary repeal "permanent". The legislative text achieves this by removing the expiration language from Section 67(g). Therefore, under the proposed legislation, there is **no scheduled expiration date** for the disallowance of miscellaneous itemized deductions subject to the 2-percent AGI floor. The rule would apply indefinitely.

Section 110011 New Limitation on the Tax Benefit of Itemized Deductions

Experienced tax CPAs are well aware that changes to itemized deduction rules significantly impact tax planning for many individual clients. Section 110011 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a new "Limitation on Tax Benefit of Itemized Deductions," detailed further in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation"). This proposal would replace the scheduled return of the prior "Pease limitation" with a new mechanism for limiting the tax benefit derived from itemized deductions.

Current Law (Prior to Enactment)

Under present law, for taxable years beginning after December 31, 2017, and before January 1, 2026, there is **no overall limitation** on the benefit of itemized deductions. This temporary absence of an overall limitation was enacted by Public Law 115-97.

Absent legislative action, for taxable years beginning on or after **January 1, 2026**, the prior law rules regarding the overall limitation on itemized deductions are scheduled to become effective again. Before 2018, this limitation, commonly known as the "Pease limitation," applied to individual taxpayers whose adjusted gross income (AGI) exceeded certain statutory "applicable amounts". The total amount of most itemized deductions (excluding medical expenses, investment interest, and casualty, theft, or gambling losses) was reduced by the **lesser of** three percent of the amount by which the taxpayer's AGI exceeded the applicable amount **or** 80 percent of the amount of the taxpayer's itemized deductions otherwise allowable. For 2017, the applicable amounts ranged from $156,900 to $313,800, depending on filing status, and were indexed for inflation.

This provision concerns the limitation applied *after* other itemized deduction limitations are calculated, impacting the amount of deductions allowable, and thus the taxable income.

Proposed Changes Under Section 110011

Section 110011 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to replace the scheduled return of the Pease limitation with a new limitation on the tax benefit of itemized deductions.

Key details of the proposal:

- **New Limitation Calculation:** If enacted, for taxable years beginning on or after January 1, 2026, the amount of an individual's itemized deductions otherwise allowable for a taxable year is to be **reduced by 2/37 of the lesser of:**
    1. The amount of itemized deductions otherwise allowable for the year, or
    2. So much of the taxpayer's taxable income for the year (determined without regard to this new limitation and increased by the amount of otherwise allowable itemized deductions) as exceeds the dollar amount at which the **37 percent tax rate bracket** begins for the taxpayer under Section 1 of the Code.
- **Application:** This new limitation on the tax benefit of itemized deductions applies **after** the application of any other limitation on the allowance of any itemized deduction (such as the AGI-based limitation on the charitable contribution deduction).
- **Tax Rates:** This proposal **does not change the underlying income tax rates**. It introduces a specific calculation that limits the dollar amount of tax savings received from itemized deductions once a taxpayer's income reaches the highest tax bracket threshold, based on a 2/37 factor applied to a portion of their itemized deductions or taxable income. The JCT's Explanation highlights that the Bill provides that section 15, which deals with the effect of changes in tax rates during a taxable year, does not apply to any tax rate change resulting from any provision of the Bill. While this suggests other rate changes exist elsewhere in the Bill, this specific provision (Section 110011) impacts the *benefit* at certain income levels using the top rate threshold, but doesn't redefine the brackets or rates themselves.

Therefore, the scheduled return of the AGI-based Pease limitation (3% of excess AGI / 80% of deductions) would be prevented, replaced by this new calculation tied to the top tax bracket threshold.

Affected IRC Provisions

The primary Internal Revenue Code section amended by this proposal is **Section 68**. Section 110011(a) states that Section 68 is amended to read in its entirety with the new limitation language.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendments made by Section 110011 shall apply to **taxable years beginning after December 31, 2025**. This effective date coincides with the scheduled expiration of the temporary absence of the overall limitation and the scheduled return of the Pease limitation.

Expiration Date

The proposal amends Section 68 to provide a new, permanent rule for the limitation on the tax benefit of itemized deductions. The JCT's Explanation states that the proposal provides this new limitation "In place of the Pease limitation". By amending Section 68 to prescribe this new calculation without a sunset date, the proposed legislation establishes this as the **permanent** rule for taxable years beginning after 2025. Therefore, under the proposed legislation, there is **no scheduled expiration date** for this specific "Limitation on Tax Benefit of Itemized Deductions."

Section 110012 Permanent Termination of Qualified Bicycle Commuting Reimbursement Exclusion

For tax CPAs advising employers and employees on fringe benefits and compensation, the proposed changes regarding qualified bicycle commuting reimbursements warrant close attention. Section 110012 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the "JCT's Explanation") outline a proposal to permanently disallow the exclusion from gross income for these reimbursements.

Current Law (Prior to Enactment)

Under present law, 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**. Prior to this temporary repeal, for taxable years beginning before December 31, 2017, qualified bicycle commuting reimbursements were excludible from an employee's gross income up to $20 per qualifying bicycle commuting month. A qualifying bicycle commuting month involved regular bicycle use for a substantial portion of the commute and no receipt of other qualified transportation fringe benefits for the same commute.

Absent the enactment of the proposed legislation, for taxable years beginning on or after **January 1, 2026**, the temporary repeal would expire. Based on the description of present law in the sources, this would mean the **exclusion for qualified bicycle commuting reimbursements would be scheduled to return**, allowing the exclusion of up to $20 per qualifying bicycle commuting month.

This provision relates to the exclusion of specific fringe benefits from gross income and wages, impacting taxable income and the wage base.

Proposed Changes Under Section 110012

Section 110012 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make the current temporary repeal of the exclusion for qualified bicycle commuting reimbursements permanent.

Key details of the proposal:

- **Permanent Disallowance:** If enacted, the proposal **terminates the exclusion for qualified bicycle commuting reimbursement for taxable years beginning after December 31, 2025**.
- **Rules Under Enacted Law:** For taxable years beginning on or after January 1, 2026, there would be **no exclusion allowed** for qualified bicycle commuting reimbursements.

This proposed change would prevent the scheduled return of the exclusion that would have occurred under prior law.

As noted regarding current law, this proposal concerns the exclusion of specific amounts from income and wages, affecting taxable income and payroll taxes. It does **not directly change the underlying income tax rates** themselves. The JCT's Explanation also notes that Section 15 of the Code, which addresses the effect of changes in tax rates during a taxable year, does not apply to any tax rate change resulting from any provision of the Bill. This further supports that *this specific provision* is not a direct change to income tax rates.

Affected IRC Provisions

The primary Internal Revenue Code section amended by Section 110012 is **Section 132(f)(8)**. This subsection currently contains the language limiting the temporary repeal of the exclusion to taxable years beginning before January 1, 2026. The proposal amends Section 132(f)(8) by striking ", and before January 1, 2026".

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendment made by Section 110012 shall apply to **taxable years beginning after December 31, 2025**. This effective date aligns with the scheduled expiration of the current temporary repeal.

Expiration Date

The stated purpose of Section 110012 is the "TERMINATION" of the qualified bicycle commuting reimbursement exclusion. The legislative text achieves this permanence by removing the expiration language from Section 132(f)(8). Therefore, under the proposed legislation, there is **no scheduled expiration date** for the disallowance of the qualified bicycle commuting reimbursement exclusion. The rule would apply indefinitely from its effective date.

Section 110013 Permanent Limitation on Moving Expense Deduction and Exclusion

As experienced tax CPAs, staying abreast of proposed changes to individual deductions and exclusions is crucial for accurate tax planning and compliance. Section 110013 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a proposal that would make the current temporary restrictions on moving expense deductions and exclusions permanent, affecting many non-military clients who might otherwise see these benefits return.

Current Law (Prior to Enactment)

Under present law, the ability for individuals to deduct or exclude moving expenses is significantly limited. Specifically, for taxable years beginning after December 31, 2017, and before January 1, 2026, the deduction for moving expenses under IRC Section 217 is **only allowed for members of the Armed Forces of the United States** on active duty who move pursuant to a military order and incident to a permanent change of station. Similarly, the exclusion from gross income for qualified moving expense reimbursements under IRC Section 132(a)(6) is also **only allowed for members of the Armed Forces** during this same temporary period.

Absent legislative action, for taxable years beginning on or after **January 1, 2026**, the temporary repeal of the broader moving expense deduction and exclusion is scheduled to expire. This would mean that the rules in effect *before* the temporary repeal (i.e., potentially allowing the deduction and exclusion for a wider range of taxpayers meeting specific distance and time tests) would be scheduled to return.

It is important to note that this provision concerns the deductibility and excludability of specific expenses, which impacts taxable income and potentially wage bases.

Proposed Changes Under Section 110013

Section 110013 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make the current temporary limitations permanent.

Key details of the proposal if enacted:

- **Permanent Repeal:** The proposal would **permanently repeal the deduction** for moving expenses for most taxpayers.
- **Permanent Disallowance of Exclusion:** The proposal would also **permanently repeal the exclusion** for qualified moving expense reimbursements for most taxpayers.
- **Military Exception Remains:** The only exception to this permanent repeal would be for the moving expenses and reimbursements of **members of the Armed Forces of the United States on active duty** who move pursuant to a military order and incident to a permanent change of station.

In essence, the scheduled return of the broader moving expense deduction and exclusion in 2026 would be prevented. The rules currently in place for the 2018-2025 period would become the permanent rules.

Again, this proposal affects the calculation of taxable income by limiting deductions and exclusions but **does not alter the actual income tax rates** applied to that income.

Affected IRC Provisions

The core Internal Revenue Code sections amended by this proposal are:

- **Section 217(k):** This subsection, which contains the temporary limitation on the moving expense deduction, would be amended by striking the language that causes its expiration on January 1, 2026.
- **Section 132(f)(8):** This subsection, which contains the temporary limitation on the exclusion for qualified bicycle commuting reimbursements (referenced in the JCT Explanation alongside moving expenses exclusions but primarily dealing with bicycle commuting), is also amended by striking the expiration language. Note that Section 132(a)(6) and 132(g) relate to the exclusion generally, as mentioned in the JCT's Explanation. Section 110013(b) specifically targets Section 132(f)(8), which, according to the JCT's Explanation, currently contains the effective date language for the temporary repeal of the bicycle commuting exclusion. However, the JCT's Description of the *proposal* for moving expenses states it would "permanently repeal the qualified moving expense reimbursement exclusion" with the military exception, implying that the amendment to 132(f)(8) effectively codifies this permanent repeal for moving expense exclusions as well, likely because the temporary nature of the moving expense exclusion limitation was cross-referenced or linked to the duration stated in 132(f)(8) in the underlying Public Law 115-97. The specific amendment in the Bill strikes the date from **both** Section 217(k) and Section 132(f)(8).

Effective Date

According to Section 110013(c) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions", the amendments made by this section shall apply to **taxable years beginning after December 31, 2025**. This date aligns with the scheduled expiration of the current temporary limitations.

Expiration Date

The proposal intends to make the current limitations permanent. By striking the "and before January 1, 2026" language from IRC Sections 217(k) and 132(f)(8), the proposed legislation removes the scheduled sunset date for these specific provisions. Therefore, under the proposed legislation, there is **no scheduled expiration date** for the limitation on the moving expense deduction and exclusion. The rule allowing these benefits only for qualifying military personnel would apply indefinitely from its effective date.

Section 110014 Extension of Increased Limitation on Contributions to ABLE Accounts and Permanent Enhancement

As experienced tax CPAs, understanding potential legislative changes impacting tax-advantaged savings vehicles like ABLE accounts is essential. Section 110015 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces significant proposed changes to the contribution limitations for qualified ABLE programs, making certain temporary enhancements permanent and modifying how inflation adjustments are calculated for contribution limits.

Current Law (Prior to Enactment)

Under present law, contributions to a qualified ABLE program (governed by IRC Section 529A) are generally limited to the annual gift tax exclusion amount under IRC Section 2503(b). This limit is indexed for inflation. For taxable years beginning after December 31, 2017, and before January 1, 2026, an exception allows a designated beneficiary who is an employee to contribute an additional amount to their ABLE account. This additional contribution is limited to the lesser of the beneficiary's compensation included in gross income or the poverty line for a one-person household for the preceding calendar year. This exception applies only if no contribution was made during the taxable year to certain tax-advantaged retirement plans on behalf of the employee. Absent legislative action, this temporary exception for employee contributions is scheduled to expire for taxable years beginning on or after January 1, 2026.

Under present law regarding the general annual contribution limit, the annual gift tax exclusion amount specified in section 2503(b) uses a base year of 1997 for its inflation adjustment.

Proposed Changes Under Section 110015

Section 110015 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make key aspects of the current ABLE account contribution rules permanent and modify the inflation adjustment for the general contribution limit.

If enacted, the proposal would:

- **Permanently allow the ability for an employed designated beneficiary to make contributions** up to the lesser of their compensation or the poverty line for a one-person household. This contribution is permitted regardless of whether it exceeds the amount determined under section 2503(b), provided no contributions were made to certain retirement plans.
- **Modify the inflation adjustment for the maximum annual contribution limit** for ABLE accounts (excluding the employment-related contributions mentioned above). The proposal maintains the annual contribution limit at the amount of the annual gift tax exclusion specified in section 2503(b) but changes the base year for the inflation adjustment from 1997 to **1996**. The "Joint Committee on Taxation's Explanation of the Provisions" (JCT) notes that this change in the base year for inflation adjustment **increases the annual contribution limit above what it would be under present law**.

Therefore, under the proposed law, the two avenues for contributing to an ABLE account would be:

1. **General contributions** by anyone (including the beneficiary) up to the annual gift tax exclusion amount, permanently calculated with a 1996 inflation adjustment base year.
2. **Additional contributions by an employed beneficiary** up to the lesser of their compensation or the poverty line, provided no retirement contributions are made, made permanent.

These proposed changes impact the maximum dollar amount that can be contributed annually to an ABLE account, thereby affecting the amount of income that can be shielded from tax within the account structure.

Affected IRC Provisions

The primary Internal Revenue Code section amended by this proposal is **Section 529A(b)(2)(B)**, which relates to the limitation on contributions to ABLE accounts.

Effective Date

According to Section 110015(c) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the proposal has a split effective date:

- The amendments related to **contributions made by the designated beneficiary** (the permanency of the employment-related contribution exception) are generally effective for **contributions made after December 31, 2025**.
- The amendment related to the **modified inflation adjustment** (changing the base year to 1996) is effective for **taxable years beginning after December 31, 2025**.

Expiration Date

The stated intent of Section 110015 is an "Extension of Increased Limitation on Contributions to ABLE Accounts and **Permanent Enhancement**". The proposal achieves this permanency by removing the scheduled expiration dates associated with the temporary provisions. Therefore, under the proposed legislation, there is **no scheduled expiration date** for these specific changes to the ABLE account contribution limitations. The rules allowing the employment-related contributions and applying the modified inflation adjustment to the general limit would apply indefinitely from their respective effective dates.

Section 110015 Extension of Increased Limitation on Contributions to ABLE Accounts and Permanent Enhancement

As experienced tax CPAs, understanding potential legislative changes impacting tax-advantaged savings vehicles like ABLE accounts is essential. Section 110015 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces significant proposed changes to the contribution limitations for qualified ABLE programs, making certain temporary enhancements permanent and modifying how inflation adjustments are calculated for contribution limits.

Current Law (Prior to Enactment)

Under present law, contributions to a qualified ABLE program (governed by IRC Section 529A) are generally limited to the annual gift tax exclusion amount under IRC Section 2503(b). This limit is indexed for inflation. For taxable years beginning after December 31, 2017, and before January 1, 2026, an exception allows a designated beneficiary who is an employee to contribute an additional amount to their ABLE account. This additional contribution is limited to the lesser of the beneficiary's compensation included in gross income or the poverty line for a one-person household for the preceding calendar year. This exception applies only if no contribution was made during the taxable year to certain tax-advantaged retirement plans on behalf of the employee. Absent legislative action, this temporary exception for employee contributions is scheduled to expire for taxable years beginning on or after January 1, 2026.

Under present law regarding the general annual contribution limit, the annual gift tax exclusion amount specified in section 2503(b) uses a base year of 1997 for its inflation adjustment.

Proposed Changes Under Section 110015

Section 110015 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make key aspects of the current ABLE account contribution rules permanent and modify the inflation adjustment for the general contribution limit.

If enacted, the proposal would:

- **Permanently allow the ability for an employed designated beneficiary to make contributions** up to the lesser of their compensation or the poverty line for a one-person household. This contribution is permitted regardless of whether it exceeds the amount determined under section 2503(b), provided no contributions were made to certain retirement plans.
- **Modify the inflation adjustment for the maximum annual contribution limit** for ABLE accounts (excluding the employment-related contributions mentioned above). The proposal maintains the annual contribution limit at the amount of the annual gift tax exclusion specified in section 2503(b) but changes the base year for the inflation adjustment from 1997 to **1996**. The "Joint Committee on Taxation's Explanation of the Provisions" (JCT) notes that this change in the base year for inflation adjustment **increases the annual contribution limit above what it would be under present law**.

Therefore, under the proposed law, the two avenues for contributing to an ABLE account would be:

1. **General contributions** by anyone (including the beneficiary) up to the annual gift tax exclusion amount, permanently calculated with a 1996 inflation adjustment base year.
2. **Additional contributions by an employed beneficiary** up to the lesser of their compensation or the poverty line, provided no retirement contributions are made, made permanent.

These proposed changes impact the maximum dollar amount that can be contributed annually to an ABLE account, thereby affecting the amount of income that can be shielded from tax within the account structure.

Affected IRC Provisions

The primary Internal Revenue Code section amended by this proposal is **Section 529A(b)(2)(B)**, which relates to the limitation on contributions to ABLE accounts.

Effective Date

According to Section 110015(c) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the proposal has a split effective date:

- The amendments related to **contributions made by the designated beneficiary** (the permanency of the employment-related contribution exception) are generally effective for **contributions made after December 31, 2025**.
- The amendment related to the **modified inflation adjustment** (changing the base year to 1996) is effective for **taxable years beginning after December 31, 2025**.

Expiration Date

The stated intent of Section 110015 is an "Extension of Increased Limitation on Contributions to ABLE Accounts and **Permanent Enhancement**". The proposal achieves this permanency by removing the scheduled expiration dates associated with the temporary provisions. Therefore, under the proposed legislation, there is **no scheduled expiration date** for these specific changes to the ABLE account contribution limitations. The rules allowing the employment-related contributions and applying the modified inflation adjustment to the general limit would apply indefinitely from their respective effective dates.

Section 110016 Extension of Savers Credit Allowed for ABLE Contributions and Permanent Enhancement

For experienced tax CPAs navigating the complexities of tax-advantaged savings, understanding proposed changes to programs like ABLE accounts and associated credits is crucial. Section 110016 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" addresses the treatment of ABLE account contributions for purposes of the retirement savings contributions credit, commonly known as the Savers Credit.

As outlined in the "Joint Committee on Taxation's Explanation of the Provisions" (JCT), this proposal makes a temporary provision permanent, ensuring that contributions to ABLE accounts can continue to qualify for this valuable credit for eligible taxpayers.

Current Law (Prior to Enactment)

Under present law (IRC Section 25B), an eligible individual may claim a nonrefundable credit for qualified retirement savings contributions. The amount of this credit is generally 50, 20, or 10 percent of the individual's qualified retirement savings contributions, depending on their adjusted gross income (AGI). The maximum contribution amount eligible for the credit is $2,000 ($4,000 in the case of a joint return). Qualified retirement savings contributions include contributions to traditional or Roth IRAs, elective deferrals to various retirement plans, and, importantly for this discussion, contributions to a qualified ABLE program (Section 529A).

However, under changes enacted by Public Law 117-328, the ability to include ABLE account contributions as eligible contributions for the Savers Credit is *temporary*. This temporary provision applies for taxable years beginning after December 31, 2026, but only with respect to eligible contributions made *before* January 1, 2026. In effect, this provision was set to expire, making the Savers Credit unavailable based on ABLE contributions for taxable years beginning after December 31, 2026. Absent legislative change, an individual making contributions to an ABLE account in a taxable year beginning on or after January 1, 2027, would *not* be able to count those contributions towards the Savers Credit.

Proposed Changes Under Section 110016

Section 110016 directly addresses this scheduled expiration. According to the JCT's Explanation, the proposal **makes permanent the temporary provision** that includes ABLE account contributions made by the designated beneficiary as eligible contributions for purposes of the Savers Credit.

If enacted, this means that the rule allowing ABLE account contributions to count towards the Savers Credit under IRC Section 25B(d)(1)(D) would **continue indefinitely**. Specifically, for taxable years beginning after December 31, 2026 (when the current temporary rule expires), eligible contributions for the Savers Credit would **continue to include (and be limited to) ABLE account contributions** made during the taxable year by the account's beneficiary.

The key result of this change is that eligible individuals who make contributions to ABLE accounts will continue to be able to claim the Savers Credit based on those contributions in taxable years beginning after 2026, provided they meet the AGI and other eligibility requirements for the credit. If the law were not changed, these contributions would cease to be eligible for the credit starting in taxable years beginning in 2027. This impacts the types of contributions eligible for the credit, not the credit *rates* themselves (which remain based on AGI).

Affected IRC Provisions

The primary Internal Revenue Code section impacted by this proposal is **Section 25B**, specifically regarding the definition of eligible contributions under **Section 25B(d)(1)(D)**. The proposal effectively removes the sunset provision associated with including ABLE contributions in this definition.

Effective Date

The JCT states that the proposed changes related to the Savers Credit for ABLE contributions are effective for **taxable years ending after December 31, 2025**.

Expiration Date

As the title and description indicate, the proposal is an "Extension... and **Permanent Enhancement**". The proposal achieves this permanence by removing the scheduled expiration date. Therefore, if Section 110016 is enacted as proposed, there will be **no scheduled expiration date** for the inclusion of eligible ABLE account contributions in the calculation of the Savers Credit for qualified individuals. This change would apply indefinitely for taxable years ending after December 31, 2025.

Section 110017 Extension of Rollovers from Qualified Tuition Programs to ABLE Accounts Permitted and Permanent Enhancement

As experienced tax CPAs, staying abreast of potential legislative changes affecting tax-advantaged savings vehicles is critical. Section 110017 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a significant proposed change concerning the ability to roll over funds from qualified tuition programs (often referred to as 529 accounts) to qualified ABLE programs. This proposal, as detailed by the Joint Committee on Taxation's Explanation of the Provisions (JCT), aims to make a currently temporary provision permanent.

Current Law (Prior to Enactment)

Under present law, rollovers are permitted from a qualified tuition program (governed by IRC Section 529) to a qualified ABLE program (governed by IRC Section 529A). These rollovers are treated as non-taxable distributions from the 529 account, provided certain conditions are met. Specifically, the rollover must be completed within 60 days, and the beneficiary of the ABLE account must be either the beneficiary of the 529 account or a member of the 529 account beneficiary's family.

However, this ability to roll over funds from a 529 account to an ABLE account is a **temporary provision**. Absent legislative action, this provision permitting such rollovers is scheduled to expire. The ability to make these rollovers is permitted only with respect to rollovers made **before January 1, 2026**.

Results If the Law is Not Changed

If the proposed legislation is *not* enacted, the temporary provision allowing rollovers from 529 accounts to ABLE accounts would expire. For taxable years beginning on or after January 1, 2026, it would **no longer be permitted to roll over funds from a 529 account to an ABLE account** without potential tax consequences. Such a transfer might be treated as a non-qualified distribution from the 529 account, potentially subject to ordinary income tax and a 10% additional tax on the earnings portion.

Proposed Changes Under Section 110017

Section 110017 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to make this temporary provision **permanent**. The JCT's Explanation confirms that the proposal makes permanent the rule that allows non-taxable rollovers from qualified tuition programs to ABLE accounts.

If enacted, the key results would be:

- The ability to roll over funds from a 529 account to an ABLE account would **continue indefinitely**.
- The conditions for the rollover would remain the same: the rollover must be completed within 60 days, and the ABLE account beneficiary must be the 529 account beneficiary or a member of their family.
- The rollover amount, when added to all other contributions to the ABLE account for the taxable year, still cannot exceed the annual contribution limit determined under IRC Section 2503(b). It is noted that this limit would incorporate the additional year of inflation adjustment as provided by Section 110015 of the bill, as previously discussed.

Affected IRC Provisions

The proposed legislation directly amends Internal Revenue Code Section **529(c)(3)(C)(i)(III)**. This is the subsection that contains the expiration date for the rollover provision.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendment made by this section shall apply to **taxable years beginning after December 31, 2025**. This aligns with the date the current temporary provision is set to expire.

Expiration Date

The stated purpose of Section 110017 is an "Extension... and **Permanent Enhancement**". By striking the original expiration date in the Code, the proposal intends for the ability to roll over funds from 529 accounts to ABLE accounts to **continue permanently**, without a scheduled end date. Thus, if enacted, there would be **no expiration date** for this change.

Section 110018 Extension and Enhancement of Tax Treatment for Service in Designated Hazardous Duty Areas

For experienced tax CPAs advising military personnel or their families, understanding the tax implications of service in combat zones and other hazardous areas is critical. Section 110018 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces changes aimed at the tax treatment of individuals performing services in certain designated hazardous duty areas, specifically extending and enhancing their linkage to tax benefits generally afforded to service in combat zones.

As described by the Joint Committee on Taxation's Explanation of the Provisions (JCT), this proposal addresses a temporary provision and expands the areas covered, aiming to make the favorable tax treatment permanent for eligible service members.

Current Law (Prior to Enactment)

Under present law, members of the Armed Forces serving in a combat zone are eligible for several tax benefits. These include, but are not limited to, an exclusion from gross income for certain military pay received during months of service or hospitalization due to service in a combat zone, an exemption from taxes on death while serving or as a result of serving in a combat zone, an estate tax exclusion, the ability to elect to file a joint return with a spouse even if one spouse is missing, and postponement of tax deadlines.

Prior law, specifically Public Law 115-97, included a **temporary provision** that treated a "qualified hazardous duty area" in the same manner as a combat zone for purposes of determining eligibility for *certain* tax benefits available to members of the Armed Forces. One such qualified hazardous duty area was the Sinai Peninsula of Egypt. This temporary treatment applied only "with respect to the applicable period," according to Section 11026(a) of Public Law 115-97. Absent legislative change, this temporary treatment, and thus the associated tax benefits for service in such hazardous duty areas, would expire after this "applicable period" ends.

Proposed Changes Under Section 110018

Section 110018 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" makes two key changes:

1. **Permanent Treatment:** Subsection (a) makes the temporary provision permanent. It amends Section 11026(a) of Public Law 115-97 by striking the phrase "with respect to the applicable period,". This ensures that qualified hazardous duty areas will **continue indefinitely** to be treated in the same manner as combat zones for purposes of eligibility for the certain tax benefits available to members of the Armed Forces.
2. **Expanded Coverage:** Subsection (b) enhances the definition of a "qualified hazardous duty area". It amends Section 11026(b) of Public Law 115-97 to specifically include:
    - The **Sinai Peninsula of Egypt**, provided that as of December 22, 2017, any member of the U.S. Armed Forces was entitled to special pay under 37 U.S.C. section 310 for duty subject to hostile fire or imminent danger in that location.
    - **Kenya, Mali, Burkina Faso, and Chad**, provided that as of the date of enactment of the proposed law, any member of the U.S. Armed Forces is entitled to special pay

under 37 U.S.C. section 310 for duty subject to hostile fire or imminent danger in those locations.

Results of Enactment

If Section 110018 is enacted as proposed, the principal result is that eligible members of the Armed Forces serving in the designated qualified hazardous duty areas (Sinai Peninsula, Kenya, Mali, Burkina Faso, and Chad, provided the specified special pay condition is met) will continue to be eligible for the tax benefits linked to combat zone service, and this eligibility will **not be subject to a future expiration date** under this specific provision. If the law were not changed, this favorable treatment would cease after the existing temporary period expired.

Affected IRC Provisions

While the direct statutory amendment is to **Section 11026(a) and (b) of Public Law 115-97**, the effect of treating a "qualified hazardous duty area" like a combat zone impacts various sections of the Internal Revenue Code that provide tax benefits for combat zone service. The JCT lists examples of these benefits, which are found under IRC sections such as **Section 112** (gross income exclusion), **Section 692** (exemption from taxes on death), **Section 2201** (estate tax), **Sections 2(a)(3) and 6013(f)(1)** (joint return election), and **Section 7508** (postponement of tax deadlines), among others. The proposed law dictates that service in the designated hazardous duty areas qualifies for the benefits prescribed by these *other* Code sections.

Effective Date

According to the JCT's Explanation, the amendments made by this section **shall apply to taxable years beginning after December 31, 2025**.

Expiration Date

The proposed legislation is titled "Extension of Treatment... and Permanent Enhancement", and it amends Public Law 115-97 by striking the language that limited the treatment to an "applicable period". As a result, if enacted, the provision making the treatment of qualified hazardous duty areas like combat zones permanent would **have no scheduled expiration date**.

Section 110019 Extension of Exclusion from Gross Income of Student Loans Discharged on Account of Death or Disability

For experienced tax CPAs advising clients on student loan matters or estate planning, understanding the tax treatment of discharged debt is essential. Proposed Section 110019 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" addresses a significant area of concern: the impending expiration of the exclusion from gross income for student loans discharged due to the death or disability of the student. As detailed by the Joint Committee on

Taxation's Explanation of the Provisions (JCT), this proposal aims to reinstate and permanently extend this favorable tax treatment.

Current Law (Prior to Enactment)

Generally, the discharge of indebtedness results in gross income to the taxpayer. However, under present law, there are exceptions to this rule. A temporary provision enacted by Public Law 115-97 created an exclusion from an individual's gross income for amounts received from the discharge of a qualifying student loan on account of the student's **death or total and permanent disability**. This exclusion applied to qualifying loans, which included certain student loans under IRC Section 108(f)(2) requirements and private education loans as defined under the Consumer Credit Protection Act.

Crucially, this temporary exclusion is set to expire. Absent legislative action, the exclusion for discharges on account of death or disability applies only to discharges occurring **before January 1, 2026**. After this date, such discharges would, under current law, generally be includible in gross income, potentially subjecting the recipient (or the estate) to income tax liability on the discharged amount.

(Note: While a broader temporary exclusion for certain student loan discharges was enacted by the American Rescue Plan Act, which also expires before January 1, 2026, the focus of this specific proposed section is on restoring the exclusion for discharges due to death or total and permanent disability that originated from Public Law 115-97.)

Proposed Changes Under Section 110019

Section 110019 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to **restore and extend** the exclusion for student loans discharged due to the death or total and permanent disability of the student. The JCT's Explanation explicitly states that the proposal **restores the Public Law 115-97 exclusion** for such discharges.

If enacted, the results of this provision would be:

- Amounts from the discharge of qualifying loans on account of the student's death or total and permanent disability would continue to be **excluded from gross income**.
- This exclusion would apply to the same types of qualifying loans as under the expired temporary provision: student loans meeting IRC Section 108(f)(2) requirements and private education loans as defined in the Consumer Credit Protection Act.

Affected IRC Provisions

The proposed legislation directly amends Internal Revenue Code Section **108(f)(5)**. Section 110019(a) of the bill rewrites this subsection. While this is the primary section affected, other Code sections relating to the definition of gross income and the treatment of debt discharge are indirectly impacted by this exclusion.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation, the amendments made by this section **shall apply to discharges after December 31, 2025**. This timing aligns with the expiration date of the current temporary provision, ensuring continuous availability of the exclusion if the bill is passed.

Expiration Date

The title of Section 110019 indicates an "Extension of Exclusion...", and the JCT describes the proposal as restoring the Public Law 115-97 exclusion. The bill language amends IRC Section 108(f)(5) to re-read in a manner that includes the exclusion for death or disability discharges. Neither the bill text nor the JCT description includes a new expiration date for this provision. Therefore, if enacted, the exclusion from gross income for qualifying student loans discharged due to death or total and permanent disability would be **made permanent** and would **have no scheduled expiration date**.

Subtitle A, Part 2 – Additional Tax Relief for American Families and Workers

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 110101 The "No Tax on Tips" Deduction for Qualified Individuals

For experienced tax CPAs advising clients in the service industry, proposed Section 110101 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a significant change to the tax treatment of tip income. Contrary to the section's title, the proposal does not eliminate the taxation of tips altogether but rather establishes a **federal income tax deduction** for certain "qualified tips" received by individuals. This provision, detailed by the Joint Committee on Taxation's Explanation of the Provisions (JCT), aims to provide tax relief for eligible tipped workers.

Present Law on Tip Taxation

Under current law, tips are generally includible in an individual's gross income and are subject to Federal income and Federal employment taxes. This includes cash tips received directly from customers, electronically paid tips (from credit/debit cards), and tips received through tip-splitting or tip-pooling arrangements. The value of noncash tips is also generally subject to income tax. Service charges added by an employer to a bill and paid to employees are treated as wages, not tips.

The Proposed "No Tax on Tips" Deduction

Section 110101 introduces a new Internal Revenue Code section, **Section 224**, titled "Qualified tips". This new section allows a deduction equal to the **qualified tips** an individual receives during the taxable year that are included on statements furnished to the individual (such as Forms W-2, 1099-K, or 1099-NEC) or reported by the taxpayer on Form 4137 (or a successor form).

Defining "Qualified Tips"

The deduction is not available for all tips. A "qualified tip" must meet specific criteria:

- It must be a **cash tip** received by an individual.
- It must be received in an occupation which **traditionally and customarily received tips** on or before December 31, 2024. The Secretary of the Treasury is required to publish a list of such occupations within 90 days of the enactment date.
- The amount must be **paid voluntarily** without consequence for non-payment, must **not be the subject of negotiation**, and must be **determined by the payor**.

- The trade or business in which the tip is received must **not be a specified service trade or business**.
- The tip must **not** be received by an individual who is a **highly compensated employee** of any employer for the calendar year or who receives earned income exceeding a certain dollar threshold for that year.
- Other requirements established by the Secretary may also apply.

For qualified tips received by an individual in the course of their own trade or business (e.g., independent contractors or sole proprietors), the deduction is limited. It is taken into account only to the extent the taxpayer's gross receipts from that business (including qualified tips) exceed the sum of the cost of goods sold allocable to those receipts and other properly allocable expenses, losses, or deductions (excluding the tip deduction itself).

Impact on Other Tax Provisions

If the tip deduction is taken, the amount deducted is **excluded from being considered qualified business income (QBI)**. This is achieved by adding a new subparagraph (D) to **IRC Section 199A(c)(4)**, which explicitly states that any amount for which a deduction is allowable under new Section 224(a) for the taxable year is excluded from the definition of qualified business income.

The proposal also necessitates changes to information reporting requirements to facilitate this deduction. For employees, the deduction is only allowed for qualified tips reported by the employer on Form W-2. The total amount of tips reported by the employee under Section 6053(a) is required to be provided on the Form W-2. For non-employees and third-party network transactions, new reporting requirements mandate a **separate accounting** of amounts properly designated as tips and an indication of whether such tips were received in an occupation described in the new Section 224(c)(1). This affects reporting under IRC Sections **6041(a), 6041(d)(3), 6041A(a), 6041A(e)(3), 6050W(a), and 6050W(f)(2)**. An omission of a correct social security number required under Section 224(d) (not detailed in the provided source text but mentioned in a conforming amendment) is also noted as a potential omission.

The Secretary is also directed to modify income tax withholding tables and procedures to account for this new deduction. Regulatory authority is granted to the Secretary to prescribe guidance necessary to prevent income reclassification as qualified tips and to prevent abuse of the deduction.

Effective Date

The amendments related to the tip deduction **shall apply to taxable years beginning after December 31, 2024**.

Expiration Date (Sunset)

The proposed legislation includes a specific **termination date** for the tip deduction. According to the new Section 224(f) and the JCT's explanation, **no deduction shall be allowed** under this section for **any taxable year beginning after December 31, 2028**.

In summary, the "No Tax on Tips" proposal introduces a temporary deduction for certain qualified tips, modifying several IRC sections related to income, deductions, QBI, and information reporting, with a sunset date of December 31, 2028.

Section 110102 No Tax on Overtime

For tax CPAs navigating proposed legislative changes impacting individual taxation, Section 110102 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a notable new federal income tax deduction related to overtime compensation. This provision, also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCT) as "No Tax on Overtime," aims to provide a specific tax benefit for certain earned income.

Present Law Context

Under present law, overtime compensation is generally includible in an individual's gross income and is subject to both Federal income and Federal employment taxes. The Federal Labor Standards Act of 1938 (FLSA) provides requirements for the payment of overtime pay. There are currently no special rules for reporting overtime compensation for income or employment tax purposes.

The Proposed Overtime Deduction

The proposed legislation creates a new **federal income tax deduction** for individuals who receive "qualified overtime compensation" during the taxable year. This deduction is added to Part VII of subchapter B of chapter 1 of the Internal Revenue Code. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" designates this new deduction under a **new Section 225** of the Code.

Defining Qualified Overtime Compensation and Limitations

"Qualified overtime compensation" is specifically defined as overtime compensation paid to an individual that is required under **Section 7 of the Fair Labor Standards Act of 1938** and is in **excess of the regular rate** at which such individual is employed. It is explicitly stated that this term does *not* include any qualified tips, preventing a double benefit with the proposed deduction for qualified tips under Section 110101.

Importantly, the deduction is subject to certain limitations based on the taxpayer's employment status and income. The overtime deduction is **not allowed**:

- For any amount received by an individual during a taxable year if such individual is a **highly compensated employee** (as defined in Section 414(q)(1)) of *any* employer for the calendar year in which the taxable year begins.
- For any amount received by an individual if such individual receives **earned income in excess of the dollar amount** in effect under Section 414(q)(1)(B)(i) for such calendar year. The JCT notes that for 2025, this amount is $160,000.

Rules similar to those found in Section 32(d) regarding married individuals will apply for purposes of this proposal.

Reporting Requirements

A critical detail for tax professionals is the requirement tied to claiming this deduction. The proposed legislation stipulates that the overtime deduction is **only allowed** for qualified overtime compensation if the **total amount of qualified overtime compensation is reported separately on Form W-2**. This places a specific reporting burden on employers and is a necessary condition for employees to benefit from the deduction.

Affected IRC Provisions

The primary change introduced by Section 110102 of the bill is the addition of a **new Section 225** to the Internal Revenue Code. Conforming amendments are also made:

- **Section 62(a)** is amended to include the deduction provided in the new Section 225 as a deduction allowed in determining adjusted gross income.
- **Section 6051(a)**, related to information reporting by employers (specifically Form W-2), is amended to require reporting the total amount of qualified overtime compensation.
- The proposal directs the Secretary of the Treasury or the Secretary's delegate to **modify the tables and procedures prescribed under Section 3402(a)** (relating to income tax collected at source, i.e., wage withholding) to account for the deduction allowed under the new Section 225.

References are also made to **Section 7 of the Fair Labor Standards Act of 1938** for the definition of the underlying compensation and **Section 414(q)(1)** for the highly compensated employee definition and income threshold. Rules similar to **Section 32(d)** apply for married individuals.

Effective Date

Both the text of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" state that the amendments made by Section 110102 shall apply to **taxable years beginning after December 31, 2024**.

Expiration Date (Sunset)

The deduction is only available for any taxable year beginning after December 31, 2028, thus **no deduction will be available in 2029 or later years**.

Section 110103 Enhanced Deduction for Seniors

For tax CPAs advising individual clients, particularly those aged 65 and older, proposed Section 110103 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a new, albeit temporary, tax deduction. This provision, described as the "Enhanced Deduction for Seniors" by the Joint Committee on Taxation's Explanation of the Provisions (JCT), aims to provide additional tax relief to this demographic.

Present Law Context

Under present law, individual taxpayers generally reduce their adjusted gross income (AGI) by the standard deduction amount if they do not elect to itemize deductions. The standard deduction consists of a basic amount and, if applicable, an additional standard deduction. The basic standard deduction amount varies based on filing status. An additional standard deduction is allowed for taxpayers who are aged 65 or older, or who are blind. For example, for taxable years beginning in 2025, the basic standard deduction is projected to be $15,000 for an unmarried individual (other than head of household or surviving spouse) and married filing separately, $22,500 for head of household, and $30,000 for married filing jointly and surviving spouse. The additional standard deduction for being age 65 or older is separate from these basic amounts. The temporary increases to the standard deduction enacted by Public Law 115-97 are set to expire, and the JCT notes that the standard deduction amounts would revert to lower levels in 2026 absent legislative action.

The Proposed Enhanced Deduction

Section 110103 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" establishes a new federal income tax deduction referred to as the "Bonus Additional Amount For Seniors". This deduction is specifically added for individuals who have attained the age of 65. For married individuals filing a joint return, the deduction is available for each spouse who meets the age criteria.

The amount of this bonus additional deduction is **$4,000 per qualifying individual**.

Unlike the current additional standard deduction for seniors, this new senior bonus amount is **allowed to taxpayers who claim the standard deduction and to taxpayers who elect to itemize deductions**. This means the benefit is not limited to those who do not itemize.

Income Limitations and Phase-out

The proposed deduction is subject to a phase-out based on the taxpayer's income. The senior bonus amount phases out for taxpayers with modified AGI exceeding certain thresholds:

- **$150,000 for taxpayers filing jointly**
- **$75,000 for all other taxpayers**

The deduction amount is **reduced by four percent of the taxpayer's modified AGI in excess of the applicable threshold amount**. For purposes of this phase-out, modified AGI includes AGI increased by amounts excluded from gross income under Section 911 (foreign earned income exclusion), Section 931 (exclusion of income for a bona fide resident of American Samoa), or Section 933 (exclusion of income for a bona fide resident of Puerto Rico).

The JCT also notes that the senior bonus amount **is not indexed for inflation**.

Social Security Number Requirement

A key requirement for claiming this deduction is the inclusion of the Social Security Number (SSN) of the taxpayer and, in the case of a joint return, the SSN of the taxpayer's spouse, on the tax return. The SSN for each individual must have been issued before the due date of the return and must be issued to a U.S. citizen or national or pursuant to a provision of the Social Security Act relating to lawful admission for employment in the U.S.. The bill includes a conforming amendment to Section 6721(a) to include an omission of a correct SSN required under the new Section 63(f)(5)(D) as a failure to comply with information reporting requirements.

Affected IRC Provisions

The primary Internal Revenue Code section directly amended by this provision is **Section 63(f)**. The proposal adds a new paragraph (5) to this subsection, creating the "Bonus Additional Amount For Seniors". Additionally, the proposal includes a conforming amendment to **Section 6721** related to penalties for failure to comply with information reporting requirements, specifically referencing the SSN requirement under the new Section 63(f)(5)(D).

Effective Date

According to both the bill text and the JCT's explanation, the amendments made by Section 110103 relating to the Enhanced Deduction for Seniors **shall apply to taxable years beginning after December 31, 2024**.

Expiration Date (Sunset)

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" specifies a termination date within the language of the new Section 63(f)(5). The JCT's explanation confirms this. The new section states that **no deduction shall be allowed** under this provision for **any taxable year beginning after December 31, 2028**. Therefore, this enhanced deduction is a temporary measure with a defined sunset date.

Section 110104 No Tax on Car Loan Interest

For experienced tax CPAs, proposed Section 110104 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a temporary new federal income tax deduction for interest paid on certain vehicle loans. This provision, referred to as "No Tax on Car Loan Interest" by the Joint Committee on Taxation's Explanation of the Provisions (JCT), aims to provide tax relief specifically related to personal vehicle financing costs.

Present Law Context

Under current law, personal interest is generally not deductible. While qualified residence interest is an exception and is allowed as an itemized deduction subject to limitations, interest paid on loans for personal assets, such as cars, is typically not deductible.

The Proposed Car Loan Interest Deduction

The proposed legislation creates a new federal income tax deduction for "qualified passenger vehicle loan interest". This deduction is added under a new Section 163(h)(4) of the Internal Revenue Code, replacing the prior paragraph (4) which is redesignated as paragraph (5).

Key Details and Limitations:

- **What Qualifies:** Qualified passenger vehicle loan interest is defined as any interest paid or accrued during the taxable year on indebtedness that was **incurred by the taxpayer after December 31, 2024**, for the purchase of an **applicable passenger vehicle** for personal use. The indebtedness must be secured by a **first lien** on the vehicle. This is referred to as "auto acquisition indebtedness".
- **Applicable passenger vehicle:** An a**pplicable passenger vehicle** is any vehicle that is:
    - Manufactured primarily for use on public streets, roads, and highways.
    - Has at least 2 wheels.
    - Is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle.
    - Is an all-terrain vehicle (designed for use on land). For this purpose, an all-terrain vehicle means any motorized vehicle which has 3 or 4 wheels, a seat designed to be straddled by the operator, and handlebars for steering control.
    - Is any trailer, camper, or vehicle (designed for use on land) which is designed to provide temporary living quarters for recreational, camping, or seasonal use, and is a motor vehicle or is designed to be towed by, or affixed to, a motor vehicle.

However, the term **"applicable passenger vehicle" shall not include any vehicle the final assembly of which did not occur within the United States**. Final assembly is defined as the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer or importer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

- **Exclusions:** Qualified passenger vehicle loan interest does not include interest owed to a person who is related to the taxpayer (within the meaning of Section 267(b) or 707(b)(1)).
- **Dollar Limitation:** The deduction is limited to interest paid on the first **$10,000** of auto acquisition indebtedness.
- **Income Phase-out:** The amount otherwise allowable as a deduction is **reduced by 20 percent** of the amount by which the taxpayer's modified adjusted gross income (modified AGI) exceeds certain thresholds.
  - Threshold for married individuals filing jointly: **$200,000**.
  - Threshold for all other taxpayers: **$100,000**.
  - For a taxpayer with an otherwise $10,000 deduction, the deduction is fully eliminated when modified AGI reaches at least $150,000 (for single/other filers) or $250,000 (for joint filers).
  - For purposes of this phase-out, modified AGI includes AGI increased by amounts excluded from gross income under Section 911, 931, or 933.
- **Deduction Type:** This deduction is allowed in determining a taxpayer's **adjusted gross income**. This means it is an above-the-line deduction and is **allowable regardless of whether the taxpayer itemizes deductions**.
- **Alternative Minimum Tax:** The deduction for qualified passenger vehicle loan interest is also allowed for purposes of the alternative minimum tax.

Reporting Requirements:

The proposal introduces a **new reporting requirement** under a new Section 6050AA. Any person engaged in a trade or business who receives at least **$600** in interest from an individual on a "specified passenger vehicle loan" in a calendar year must file an information return. A specified passenger vehicle loan is the indebtedness related to qualified passenger vehicle loan interest.

Affected IRC Provisions:

The primary changes involve:

- Adding a new **Section 163(h)(4)** to the Code.
- Redesignating the prior **Section 163(h)(4)** as **Section 163(h)(5)**.
- Amending **Section 62(a)** to include the new deduction in paragraph (22).

- Adding a new information reporting requirement in **Section 6050AA**.
- Making a conforming amendment to **Section 56(e)(1)(B)** to reflect the renumbering of Section 163(h)(4) to 163(h)(5).
- The definition of qualified passenger vehicle loan interest incorporates definitions related to related parties from **Section 267(b)** or **Section 707(b)(1)** and includes adjustments based on Modified AGI using amounts from **Section 911**, **Section 931**, or **Section 933**.

Effective Date:

The amendments related to the car loan interest deduction are effective for **indebtedness incurred after December 31, 2024**. The exclusion from personal interest and the associated deduction apply to **taxable years beginning after December 31, 2024**. The new reporting requirement also applies to calendar years beginning after December 31, 2024.

Expiration Date (Sunset):

This enhanced deduction is **temporary**. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" explicitly states that the special rules under the new Section 163(h)(4) apply for taxable years beginning after December 31, 2024, **and before January 1, 2029**. The JCT similarly notes the deduction applies for taxable years beginning in 2025, 2026, 2027, and 2028. Therefore, the deduction for qualified passenger vehicle loan interest is scheduled to expire for taxable years beginning on or after January 1, 2029.

Section 110105 Enhancement of Employer-Provided Child Care Credit

For experienced tax CPAs navigating potential changes under the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", proposed Section 110105 introduces significant enhancements to the existing employer-provided child care credit found in Internal Revenue Code (IRC) Section 45F. This provision, also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCT), aims to incentivize employers to provide child care benefits to their employees.

Current Law Framework (Section 45F)

Under current law, taxpayers (employers) may claim a general business credit for certain expenses related to providing child care for their employees. This credit is calculated as **25 percent** of qualified child care expenditures and **10 percent** of qualified child care resource and referral expenditures for the taxable year. The total maximum credit an employer can claim is currently limited to **$150,000** per taxable year.

Details of the Proposed Enhancement

The proposed legislation substantially modifies Section 45F. The core enhancements include:

1. **Increased Credit Rate:** The percentage of qualified child care expenditures eligible for the credit would increase significantly. Instead of 25 percent, the credit would be **40 percent** of qualified child care expenditures. For **eligible small businesses**, this rate is further increased to **50 percent**. The credit for qualified child care resource and referral expenditures remains at 10 percent under the proposal.
2. **Increased Maximum Credit Amount:** The overall limit on the total credit an employer may claim per taxable year is proposed to be raised. The maximum total credit would increase from $150,000 to **$500,000**. For **eligible small businesses**, this maximum is **$600,000**. These dollar limits are subject to adjustment for inflation.
3. **Modified Small Business Definition:** The test for qualifying as an "eligible small business" for purposes of the enhanced credit includes a modification to the gross receipts threshold and the period over which it is measured. The small business gross receipts test would require aggregate gross receipts of less than or equal to **$25 million**, adjusted for inflation. Crucially, this threshold would be based on the **5-year period** (rather than the current 3-year period) preceding the taxable year. The JCT notes that for 2025, the small business gross receipts threshold is $31 million.

The proposal also includes provisions related to credits for amounts paid or incurred under a contract with a third-party intermediary that contracts with child care facilities, and addresses the treatment of jointly owned or operated child care facilities. The deduction for amounts taken into account for the credit would continue to be reduced as provided under current Section 45F(e).

Affected IRC Provisions

The primary section amended by this proposal is **Section 45F**. Specifically:

- Section 45F(a)(1) is amended to change the percentage rates for qualified child care expenditures.
- Section 45F(b) is amended to revise the dollar limitation on the credit.
- Section 45F(c)(1)(A)(iii) is amended regarding third-party intermediaries.
- Section 45F(c)(2) is amended regarding jointly owned facilities.

Other relevant Code sections referenced in the context of this credit and the proposal include Section 39 (carryforward/carryback rules), Section 52 (controlled groups), and Section 448(c) (small business gross receipts test).

Effective Date

The amendments related to the enhancement of the employer-provided child care credit are effective for **amounts paid or incurred after December 31, 2025**.

Expiration Date (Sunset)

Based on the provided text in both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions", there is **no explicit expiration date or sunset clause** stated for these enhancements to the employer-provided child care credit. While other provisions within the same proposed legislation and JCT description include specific sunset dates (e.g., the proposed car loan interest deduction expiring for taxable years beginning on or after January 1, 2029), the enhancement of the Section 45F credit is presented without such a limitation in these sources.

Section 110106 Extension and Enhancement of Employer-Provided Paid Family and Medical Leave Credit

For experienced tax CPAs analyzing the proposed changes outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", Section 110106 presents a significant modification and extension to the existing employer-provided paid family and medical leave credit under Internal Revenue Code (IRC) Section 45S. As detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCT), this proposal not only extends the credit but also introduces a new method for calculating the credit based on insurance premiums.

Current Law Framework (Section 45S)

Under current law, applicable to wages paid in taxable years beginning after December 31, 2017, and before January 1, 2026, eligible employers may claim a general business credit under Section 45S. This credit is based on a percentage of eligible wages paid to qualifying employees while they are on "family and medical leave". The credit rate begins at 12.5 percent of the eligible wages if the rate of payment is 50 percent of the employee's normal wages for actual services performed. The credit increases by 0.25 percentage points for each percentage point the payment rate exceeds 50 percent, capped at a maximum credit rate of 25 percent. The maximum amount of leave taken into account per qualifying employee per taxable year is 12 weeks. Under present law, amounts deducted for compensation must be reduced by the amount of the Section 45S credit claimed.

Details of the Proposed Extension and Enhancement

The proposed legislation makes several key changes to Section 45S:

1. **Permanent Extension:** The credit, which was set to expire for taxable years beginning after December 31, 2025, is **extended permanently** under the proposal.

2. **Credit Based on Insurance Premiums:** In addition to the existing calculation based on wages paid, the proposal allows eligible employers to claim the credit based on a percentage of **premiums paid or incurred** during the taxable year for insurance policies that provide paid family and medical leave for qualifying employees. The applicable percentage for the premium-based credit is determined in the same manner as for the wage-based credit (12.5 percent to 25 percent) based on the rate of payment provided under the policy. This rate of payment is determined without regard to whether any qualifying employees actually took leave during the year.
3. **Employer Election:** An employer **elects** whether to claim the credit based on wages paid or on premiums paid; the credit cannot be claimed for both premiums paid on an insurance policy and wages paid under that same policy.
4. **Aggregation Rule:** Employers that are part of the same controlled group are treated as a **single employer** for purposes of Section 45S. This requires each member of the controlled group to have a written policy providing paid family and medical leave that meets the Section 45S requirements for the employer to qualify for the credit.
5. **Exception to Aggregation:** An exception to the written policy requirement exists if a person can demonstrate a "substantial and legitimate business reason" for failing to provide such a policy. This reason specifically **does not include** factors like operating a separate line of business, employee wage rates, job categories, or the application of State or local family and medical leave laws. It *may* include grouping employees of a common law employer.
6. **Treatment of State/Local Mandated Leave:** The proposal modifies the rule for leave mandated by a State or local government. While such leave is still taken into account when determining the total amount of paid family and medical leave provided by the employer, it is **not taken into account** when determining the amount of the credit. This prevents an employer from losing eligibility for the credit simply because another member of their controlled group provides leave under a State or locally mandated policy.
7. **Outreach Efforts:** The proposal mandates outreach regarding the credit. The Small Business Administration (SBA) is directed to conduct outreach, education, training, and technical assistance, including developing a written paid family leave policy guide. The Secretary of the Treasury (or their delegate) is also directed to perform targeted outreach to employers and relevant entities (including payroll services, tax professionals, and small businesses) about the credit's availability and requirements.

Affected IRC Provisions

The primary section amended by Section 110106 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is **Section 45S**.

- Section 45S(a) is amended.
- Section 45S(d) is amended.
- Sections 45S(c)(1) and (c)(2) are also referenced in relation to the required written policy and the controlled group rules.

- The JCT document notes that the proposal allows the credit to be claimed as part of the **general business credit** under Section 38 and refers to Section 52 for controlled group rules.

Effective Date

The amendments made by this section are effective for **taxable years beginning after December 31, 2025**.

Expiration Date (Sunset)

Based on the provided sources, the JCT document explicitly states that the proposal **extends the paid family and medical leave credit permanently**. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" does not contain an expiration date for the amendments made by Section 110106. Therefore, as described in these documents, these enhancements and the extension of the credit have **no explicit expiration date or sunset clause**. This contrasts with the current law, which includes a sunset date of December 31, 2025.

Section 110107 Enhancement of the Adoption Tax Credit

For experienced tax CPAs navigating the proposed tax law changes, Section 110107 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the corresponding description in the "Joint Committee on Taxation's Explanation of the Provisions" (JCT) outline significant enhancements to the existing income tax credit for qualified adoption expenses. These proposals aim to make a portion of the credit refundable and modify the carryforward rules.

Current Law Framework

Under present law, individual taxpayers can claim a **nonrefundable income tax credit** for qualified adoption expenses. The credit is generally allowed for expenses paid or incurred in the year an adoption becomes final, or in later years. Expenses paid or incurred before the finalization year are creditable in the taxable year after the expense is paid or incurred. If the credit exceeds the taxpayer's tax liability limitation, the unused portion may be **carried forward for up to five years**.

Details of the Proposed Enhancement

The proposed legislation introduces two primary enhancements to the adoption tax credit:

1. **Partial Refundability:** The proposal mandates that a **portion of the credit, specifically up to $5,000**, shall be treated as a refundable credit allowed under subpart C of the Code. This means taxpayers may receive this amount as a refund even if it exceeds their tax liability.

The remaining amount of the credit would continue to be treated as a nonrefundable credit allowed under subpart A.

2. **Indexing of Refundable Amount:** The $5,000 maximum refundable amount will be **indexed for inflation starting in 2026**. The inflation adjustment for this specific amount, as well as other amounts within Section 23, is calculated annually.
3. **Modification of Carryforward Limit:** The existing five-year carryforward rule is modified. The proposal limits the maximum amount of the unused adoption tax credit that may be carried forward to the maximum amount of the credit that is nonrefundable. For example, the JCT notes that for 2025, this carryforward limit would be **$12,280**, calculated as the $17,280 maximum credit minus the $5,000 refundable portion.

Additionally, Section 110108 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and Section H in the JCT document propose that **Indian tribal governments be granted the same authority as a State** for determining whether a child qualifies as having special needs for purposes of the adoption credit.

Affected IRC Provisions

The primary Internal Revenue Code section directly affected by this proposal is **Section 23**, which governs the adoption credit. Specifically:

- **Section 23(a)** is amended to introduce the refundable portion.
- **Section 23(h)** is amended to include the new refundable amount in the inflation adjustments.
- **Section 23(c)** is referenced and likely modified in the conforming amendments related to the carryforward limitation.
- The proposal explicitly references treating a portion of the credit as being allowed under **subpart C** (refundable credits) instead of solely under **subpart A** (nonrefundable personal credits).
- **Section 23(d)(3)** is amended regarding Indian tribal governments.

Effective Date

The sources present slightly different effective dates for these changes:

- The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 110107 shall apply to **taxable years beginning after December 31, 2024**.
- The "Joint Committee on Taxation's Explanation of the Provisions" states that the proposal is effective for **taxable years beginning after December 31, 2025**.
- The amendment regarding Indian tribal governments (Section 110108 in the Bill, Section H in the JCT) is effective for taxable years beginning after December 31, 2024.

Expiration Date (Sunset)

Based on the provided text of Section 110107 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee"- and the description of the proposal in the "Joint Committee on Taxation's Explanation of the Provisions"-, there is **no explicit expiration date or sunset clause** mentioned for these enhancements to the adoption credit. The provisions appear to be permanent under this proposed legislation.

Section 110108 Recognizing Indian Tribal Governments for Adoption Special Needs Determinations

Experienced tax CPAs tracking proposed changes will note a specific enhancement to the adoption tax credit included in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, detailed in Section 110108 of that document and further explained in Section H of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document), addresses the treatment of determinations made by Indian tribal governments for purposes of identifying a child with special needs.

Present Law Regarding Special Needs Adoptions

Under current law, taxpayers may claim an income tax credit for qualified adoption expenses. A significant aspect of the adoption credit relates to adoptions of children with "special needs". For such adoptions, a taxpayer is generally treated as having paid the maximum amount of qualified adoption expenses allowed for the year the adoption becomes final, regardless of the actual expenses incurred, up to the excess of the maximum credit amount ($17,250 in 2025) over the amount of qualified adoption expenses actually paid or incurred in that year and all prior years. This ensures the maximum credit is available for these adoptions, subject to income limitations.

For a child to be considered a child with special needs under Internal Revenue Code (IRC) Section 23(d)(3), a determination must be made by a **State** that the child cannot or should not be returned to the home of the child's parents, and that due to a specific factor or condition, it is reasonable to conclude the child cannot be placed without adoption assistance. While an Indian tribal government is treated as a State for certain Code sections, present law explicitly notes that neither Section 23 nor Section 7871 (which lists purposes for which tribal governments are treated as States) provides that an Indian tribal government is to be treated as a State for the purposes of the adoption credit. Consequently, a determination by an Indian tribal government that a child has special needs is not sufficient under present law to qualify the adoptive parents for the special needs adoption credit treatment.

Proposed Change: Recognizing Tribal Governments

The proposed legislation directly addresses this limitation. Section 110108 of the Tax Provisions document, as described in the JCT Explanation document, provides that an **Indian tribal**

government will be granted the same authority as a State for purposes of determining whether a child is a child with special needs for the adoption credit. This means that a determination made by a recognized Indian tribal government regarding a child's special needs status would be treated identically to a determination made by a State government for purposes of qualifying for the enhanced special needs adoption credit benefits under Section 23.

Affected IRC Provisions

This specific change is achieved by amending **IRC Section 23(d)(3)**. Specifically, Section 110108(a) of the Tax Provisions document amends Section 23(d)(3)(A) and Section 23(d)(3)(B) by inserting "or Indian tribal government" after "a State" and "such State," respectively.

Effective Date

Both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" are consistent regarding the effective date for this specific change. The amendments made by Section 110108 are proposed to apply to **taxable years beginning after December 31, 2024**.

Expiration Date (Sunset)

There is **no explicit expiration date or sunset clause** mentioned in either the proposed bill or the JCT report for the provision recognizing Indian tribal governments for special needs adoption determinations. This change appears to be permanent under the proposed legislation.

Section 110109 New Tax Credit for Contributions to Scholarship Granting Organizations

Experienced tax CPAs reviewing the proposed tax law changes will encounter a new individual income tax credit outlined in Section 110109 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in Section I of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document). While distinct from the adoption credit provisions, this proposal introduces a new incentive for certain charitable contributions.

Nature of the Proposed Credit

The proposed legislation creates a **new nonrefundable income tax credit** for individuals who make qualified contributions to scholarship granting organizations. The credit amount for a taxable year is generally equal to the **aggregate amount of qualified contributions** made by the taxpayer during that year.

However, the credit is subject to important limitations:

- **Maximum Credit Amount:** The credit allowed to a taxpayer for a taxable year cannot exceed the **greater of 10 percent of the taxpayer's aggregate gross income or $5,000**.
- **Allocation Requirement:** An individual can claim the credit **only to the extent that the Secretary of the Treasury allocates the credit** to that individual.
- **State Credit Reduction:** The amount of the federal credit allowed is **reduced by any similar credit claimed on a State tax return** for qualified contributions made by the taxpayer during the taxable year.
- **No Double Benefit:** A qualified contribution for which this credit is allowed **cannot be taken into account as a charitable contribution for purposes of IRC Section 170**.

Definition of Qualified Contribution

A "qualified contribution" for purposes of this credit is defined as a **charitable contribution (within the meaning of IRC Section 170(c))** made to a scholarship granting organization in the form of **cash or marketable securities**.

Requirements for Scholarship Granting Organizations

The proposal imposes requirements on the scholarship granting organizations receiving these qualified contributions. Specifically, they must meet certain **distribution requirements**. The amount of receipts for a taxable year that are distributed before a specified deadline must at least equal a "required distribution amount". The required distribution amount is generally 100 percent of total receipts, adjusted for reasonable administrative expenses (deemed reasonable if not exceeding 10 percent of total receipts) and carryover amounts. Distributions include formally committed amounts. The distribution deadline for receipts from a taxable year is the first day of the third taxable year following the receipt year. If an organization fails to meet these requirements, contributions made during the first taxable year after that determination will **not be treated as qualified contributions** for the credit.

Aggregate Volume Cap

A significant limitation is placed on the total amount of these credits that can be claimed. The proposal sets an **aggregate volume cap** on the total amount of credits allocated by the Secretary. According to the JCT Explanation, this cap is **$5 billion for each of calendar years 2026 through 2029**. For any calendar years **after 2029, the volume cap is zero**. The cap can increase to 105 percent of the prior year's amount in a "high use calendar year" (where 90 percent or more of the cap is allocated), but the JCT notes the cap cannot carry over past 2031.

Affected IRC Provisions

The core of this proposal involves introducing a new provision into the Internal Revenue Code. The "Tax Provisions..." document specifies that the amendments create a new section by inserting it **after Section 25E** in Subpart A of Part IV of Subchapter A of Chapter 1. The JCT Explanation also indicates this addition within **Subpart A of part IV of subchapter A of chapter 1**. The proposal also directly interacts with **Section 170** and specifically references **Section 170(c)** for the definition of a charitable contribution.

Effective Date

The sources provide differing effective dates for this provision:

- The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 110109 shall apply to **taxable years ending after December 31, 2025**.
- The "Joint Committee on Taxation's Explanation of the Provisions" states that the proposal is effective on the **date of enactment**.

Expiration Date (Sunset)

The proposed text of Section 110109 in the "Tax Provisions..." document itself does not contain a specific sunset date for the credit. However, the "Joint Committee on Taxation's Explanation of the Provisions" explicitly states that the **aggregate volume cap** on the total amount of credits that can be allocated is **zero for any calendar years after 2029**. While the statutory language provided does not include a sunset for the credit section itself, the zero volume cap effectively terminates the ability to claim the credit for contributions made in calendar years after 2029, as the credit is only available to the extent allocated by the Secretary. Therefore, the availability of the credit is effectively limited to contributions made in calendar years 2026 through 2029, subject to the annual $5 billion cap (or potentially 105% thereof).

Section 110110 Expanding Qualified 529 Expenses to Include Additional K-12 and Homeschool Costs

Experienced tax CPAs advising clients on education savings strategies using Section 529 plans should be aware of proposed changes included in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in Section J of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document). This provision, Section 110110 in the Tax Provisions document, aims to broaden the scope of expenses that can be treated as qualified distributions from these tax-advantaged accounts.

Present Law Regarding 529 Account Qualified Expenses

Under present law, distributions from a qualified tuition program (a Section 529 account) are generally excludable from gross income if they are used to pay for "qualified higher education expenses" of the designated beneficiary. Qualified higher education expenses traditionally include tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. They also include certain room and board expenses, expenses for special needs services, and expenses for the purchase of computer technology, internet access, and related services and equipment.

An amendment enacted in 2017 expanded the definition of qualified higher education expenses to include **up to $10,000 annually per beneficiary for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school**.

Proposed Change: Including Additional K-12 and Homeschool Expenses

The proposed legislation expands upon the existing allowance for K-12 tuition. Section 110110(a) of the Tax Provisions document amends IRC Section 529(c)(7). The JCT Explanation document states that the proposal provides that **additional expenses in connection with the enrollment or attendance of a designated beneficiary at an elementary or secondary public, private, or religious school, or in connection with a homeschool, are qualified higher education expenses**.

The specific additional expenses enumerated in the proposed text of IRC Section 529(c)(7) and described in the JCT Explanation document include:

- Tuition (as allowed under present law).
- Curriculum and curricular materials.
- Books or other instructional materials.
- Online educational materials.
- Tuition for certain tutoring or educational classes outside of the home.
- Fees for certain tests.
- Fees for dual enrollment in an institution of higher education.
- Certain educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies.

Notably, the proposal specifies that this term "shall include expenses for the purposes described... in connection with a homeschool (whether treated as a homeschool or a private school for purposes of applicable State law)". This explicitly extends the coverage to qualifying expenses incurred in a homeschool setting.

Affected IRC Provisions

This change is achieved by amending **IRC Section 529(c)(7)**, which specifically addresses the treatment of elementary and secondary tuition. The amendment effectively expands the definition of "qualified higher education expenses" under this subsection to include the broader list of K-12 and homeschool-related costs beyond just tuition.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions", the amendment made by this section shall apply to **distributions made after the date of the enactment of this Act**.

Expiration Date (Sunset)

Based on the provided sources, there is **no explicit expiration date or sunset clause** mentioned for this provision. The amendment to IRC Section 529(c)(7) appears to be permanent under the proposed legislation.

Section 110111 Expanding Qualified 529 Expenses to Include Postsecondary Credentialing Costs

Experienced tax CPAs navigating education savings strategies with Section 529 plans should take note of proposed changes outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and further elaborated in Section K of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document). This provision, identified as Section 110111 in the Tax Provisions document, proposes a significant expansion of qualified expenses to include costs associated with obtaining certain postsecondary credentials.

Present Law Regarding 529 Account Qualified Expenses

Under current law, distributions from a qualified tuition program (Section 529 account) are generally excluded from gross income if they are used to cover "qualified higher education expenses" for the designated beneficiary. These expenses traditionally include tuition, fees, books, supplies, and equipment necessary for enrollment or attendance at an eligible educational institution, along with certain room and board costs, special needs services, and computer technology-related expenses. While a 2017 change added an allowance of up to $10,000 annually per beneficiary for K-12 tuition, the scope for postsecondary expenses has primarily centered on degree-granting or certificate programs at Title IV-eligible institutions.

Proposed Change: Including Postsecondary Credentialing Expenses

The proposed legislation introduces a new category of qualified expenses. Section 110111(a) of the Tax Provisions document amends IRC Section 529(e)(3) to include **"certain postsecondary credentialing expenses (as defined in subsection (f))"** within the definition of qualified higher education expenses. Section 110111(b) of the Tax Provisions document creates a new IRC Section 529(f) specifically defining these expenses.

According to both sources, the term "qualified postsecondary credentialing expenses" means:

- **Tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary in a recognized postsecondary credential program**.
- **Any other expense in connection with enrollment in or attendance at such a program if such expenses would, if incurred in connection with enrollment in or attendance at an eligible educational institution, be considered qualified higher education expenses** (before the application of this proposal). This suggests that other eligible expenses like certain room and board or technology costs might apply if they meet the criteria for a postsecondary credentialing program as they would for a traditional college program.
- **Fees for testing required to obtain or maintain a recognized credential**.
- **Fees for continuing education if such education is required to maintain a recognized postsecondary credential**.

The JCT Explanation document clarifies that these expenses are treated as qualified higher education expenses "**for all purposes of section 529**". This implies that distributions used for these expenses would be tax-free and potentially eligible for other Section 529 benefits or rules that rely on the definition of qualified higher education expenses.

The proposal centers on costs related to a "recognized postsecondary credential program". While the sources define the *expenses* related to such programs, they do not explicitly define "recognized postsecondary credential program" itself. Further guidance would likely be needed to clarify the scope of programs covered.

Affected IRC Provisions

The core changes are made to **IRC Section 529**. Specifically:

- **IRC Section 529(e)(3)** is amended to include qualified postsecondary credentialing expenses in the definition of "qualified higher education expenses".
- A **new IRC Section 529(f)** is added to define the term "qualified postsecondary credentialing expenses," and the existing subsection (f) is redesignated as (g).

Effective Date

Both the Tax Provisions document and the JCT Explanation document state that the amendments made by this section shall apply to **distributions made after the date of the enactment of this Act**.

Expiration Date (Sunset)

Based on the language in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions", there is **no specified expiration date or sunset clause** for this provision. The changes appear to be intended as permanent under the proposed legislation.

Section 110112 Reinstatement of Partial Charitable Contribution Deduction for Non-Itemizers

Experienced tax CPAs advising individual clients should be aware of a proposed change related to charitable contributions included in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and discussed in Section L of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document). This provision, detailed in Section 110112 of the Tax Provisions document, proposes reinstating a limited deduction for charitable contributions made by individuals who do not elect to itemize deductions.

Present Law Regarding Charitable Contributions for Non-Itemizers

Under present law, individuals are generally permitted an income tax deduction for charitable contributions. However, this deduction is typically available only to taxpayers who **elect to itemize deductions**.

A temporary provision, enacted under prior law (specifically, section 170(p)), allowed an individual who did not itemize deductions to claim a deduction of **up to $300 ($600 in the case of a joint return)** for certain cash charitable contributions made during a taxable year beginning in **2021 only**. This temporary deduction was not available for contributions made in taxable years beginning after 2021. The eligible contributions for this temporary deduction were limited to cash contributions made to charitable organizations described in IRC Section 170(b)(1)(A), specifically excluding contributions to supporting organizations (IRC Section 509(a)(3)) or for the establishment or maintenance of a donor-advised fund.

Proposed Change: Reinstating and Modifying the Partial Deduction

The proposed legislation, Section 110112 of the Tax Provisions document, aims to reinstate a similar deduction for non-itemizers, but with a modified maximum amount and a defined period of applicability.

According to the JCT Explanation document, the proposal **reinstates the deduction** for individuals who do not itemize. The Tax Provisions document shows this is achieved by amending **IRC Section 170(p)**.

The proposed change sets the **maximum amount** of this deduction at **$150**. For married individuals filing a joint return, the maximum deduction is **$300**. This is a reduction from the maximum amounts ($300/$600) allowed under the temporary 2021 rule.

Similar to the previous temporary provision, contributions taken into account for this deduction would include only **cash contributions** made during the taxable year to a charitable organization described in IRC Section 170(b)(1)(A). Contributions to a supporting organization described in IRC Section 509(a)(3) or for the establishment or maintenance of a donor-advised fund are **not eligible** for this deduction.

Affected IRC Provision

The primary IRC section affected by this proposal is **Section 170(p)**, which specifically governs the allowance of charitable contribution deductions for individuals who do not itemize deductions.

Effective Date

The proposed legislation specifies that the amendments related to this provision shall apply to **contributions made after December 31, 2024**.

Expiration Date (Sunset)

Based on the proposed language in the Tax Provisions document and the description in the JCT Explanation document, this provision includes an expiration date. The reinstated deduction would be available for contributions made after December 31, 2024, and **before January 1, 2029**. This indicates a temporary reinstatement of the deduction.

Section 110113 Permanent Exclusion and Inflation Adjustment for Employer Student Loan Payments

Tax experienced CPAs should be aware of a proposed enhancement to educational assistance programs under Internal Revenue Code Section 127, as detailed in Section 110113 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and discussed in Section M of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document). This provision proposes making permanent the exclusion for certain employer payments of student loans and adding an inflation adjustment to the annual exclusion limit.

Present Law Regarding Employer Educational Assistance

Under current IRC Section 127, employees can exclude from gross income and wages up to **$5,250 annually** for educational assistance provided by their employer. This exclusion covers expenses like tuition, fees, books, supplies, and equipment. A temporary expansion of this exclusion, enacted under previous law, included payments made by an employer directly to an employee or to a lender for principal or interest on a qualified education loan incurred by the employee. However, this temporary provision was set to expire, applying only to student loan payments made **before January 1, 2026**.

Proposed Change: Permanency and Inflation Adjustment

The proposed legislation makes two key changes related to employer payments of student loans:

1. **Permanency of the Exclusion:** Section 110113(a) of the Tax Provisions document amends IRC Section 127(c)(1)(B) by removing the limiting language regarding payments made before January 1, 2026. The JCT Explanation document confirms that this change **removes the requirement that a student loan payment must be made before January 1, 2026**, effectively making the exclusion for employer payments of qualified education loans permanent.
2. **Inflation Adjustment:** Section 110113(b) of the Tax Provisions document amends IRC Section 127 to incorporate an inflation adjustment. The JCT Explanation document clarifies that this change would **inflation adjust the maximum exclusion under section 127 for taxable years beginning after 2026**. The specifics of the inflation adjustment methodology are not detailed in these excerpts beyond mentioning the amendment to IRC Section 127.

The proposal maintains that the payments must be made by an employer to the employee or to a lender for principal or interest on any qualified education loan incurred by the employee for education of the employee.

Affected IRC Provisions

The core of this proposed change involves amendments to **IRC Section 127**. Specifically:

- **IRC Section 127(c)(1)(B)** is amended to remove the sunset date for including student loan payments as educational assistance.
- A **new subsection (d)** is added to IRC Section 127 to provide for the inflation adjustment, with the existing subsection (d) being redesignated as (e).

Effective Date

Both the Tax Provisions document and the JCT Explanation document specify that the amendments made by this section shall apply to **payments made after December 31, 2025**. The inflation adjustment specifically applies for taxable years beginning after 2026.

Expiration Date (Sunset)

Based on the language in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions," this provision is explicitly intended to be permanent. There is **no specified expiration date or sunset clause** mentioned for the extension of the exclusion for employer student loan payments.

Section 110114 Extension of Special Rules for Certain Disaster-Related Personal Casualty Losses

Experienced tax CPAs advising clients affected by recent natural disasters should note a proposed change regarding the tax treatment of certain personal casualty losses. Section 110114 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" addresses the application of special rules for disaster-related personal casualty losses, as further explained in Section N of the "Joint Committee on Taxation's Explanation of the Provisions" (JCT Explanation document).

Present Law Regarding Personal Casualty Losses

Generally, individuals may claim an itemized deduction for a personal casualty loss. Under present law, specifically **IRC Section 165(h)(5)**, for taxable years beginning after December 31, 2017, and before January 1, 2026, personal casualty losses are deductible only to the extent they exceed personal casualty gains, unless the loss is attributable to a disaster declared by the President under the Stafford Act.

A temporary rule, **Section 304(b) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA)**, provided special treatment for certain disaster-related personal casualty losses. This special treatment applied to major disasters declared by the President under the Stafford Act if the disaster's incident period began on or after December 28, 2019, and on or before the date of the enactment of TCDTRA. For losses attributable to such disasters, the limitation that generally restricts the deduction to the extent the loss exceeds personal casualty gains did not apply. Instead, these disaster losses were deductible only to the extent that aggregate net disaster-related losses exceeded 10 percent of the individual's adjusted gross income, after applying a $500-per-casualty limitation. The incident period for these qualifying disasters was treated as ending no later than 30 days after the date of enactment of TCDTRA.

Proposed Change: Extending the Period for Eligible Disasters

The proposed legislation in Section 110114 of the Tax Provisions document and described in the JCT Explanation document does not change the *rules* for deducting personal casualty losses under IRC Section 165(h), but rather **extends the period during which a disaster must begin to qualify for the special rules** originally provided by TCDTRA Section 304(b).

Specifically, the proposal amends Section 304(b)(1)(A)(i) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020. Under the proposed amendment, Section 304(b) would be applied by substituting language such that the special rules for disaster-related personal casualty losses apply to major disasters declared by the President with an incident period beginning **after December 28, 2019, and before the date of the enactment of "The Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee"**.

This means that major disasters declared within this extended timeframe would receive the **same tax treatment as qualified disaster-related personal casualty losses under TCDTRA**. The typical limitation requiring losses to exceed personal casualty gains would be disregarded, and the deduction would be subject to the rules requiring aggregate net disaster losses to exceed 10 percent of AGI, after applying the $500-per-casualty floor.

Affected Provisions

The proposed legislation **amends Section 304(b) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020**. While this is not a direct amendment to the Internal Revenue Code, it modifies the criteria for when the special rules impacting **IRC Section 165(h)(5)** apply.

Effective Date

According to the JCT Explanation document, the provision is **effective for major disasters declared on or after December 28, 2019, and before the date of enactment** of this proposed bill. The Tax Provisions document states that Section 304(b) shall be applied for purposes of this provision.

Expiration Date (Sunset)

Based on the language in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions," the proposed change **does not contain a specific expiration date or sunset clause**. The provision defines a window of time (disasters declared on or after December 28, 2019, and before the enactment date of this bill) for which the special rules apply. Once a disaster falls within this window, the rules apply permanently to losses from that disaster, without a sunset date mentioned for the applicability of the provision itself.

Section 110115 Introduction and Details of MAGA Accounts

Experienced tax CPAs should familiarize themselves with a new type of tax-preferred savings vehicle proposed in recent legislation: the Money Account for Growth and Advancement, or "MAGA account." This new account is introduced in Section 110115 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and further described in Section O of the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25).

Nature and Structure of MAGA Accounts

Under the proposal, a **MAGA account is established as a new type of tax-preferred account**. It is defined as a trust created or organized in the United States **for the exclusive benefit of an individual**. The account must be designated as a MAGA account at the time of establishment in a manner prescribed by the Secretary. Like certain other tax-advantaged accounts such as 529 accounts and Coverdell education savings accounts for education expenses, or ABLE accounts for disability expenses, MAGA accounts are designed to allow individuals to save on a tax-preferred basis.

Tax Treatment of Earnings and Distributions

A key feature of the MAGA account is that it **shall be exempt from taxation** under subtitle A of the Internal Revenue Code. Similar to other tax-preferred accounts, **distributions from a MAGA account that are allocable to the investment in the contract are not includible in gross income**. Additionally, qualified distributions from a MAGA account are excluded from the gross income of the designated beneficiary. A qualified distribution is defined as any payment or distribution from a MAGA account if the payment or distribution is:

- Made to the designated beneficiary (or to such beneficiary's estate upon death).
- Made for the purpose of paying **qualified higher education expenses** (as defined for 529 accounts, without certain limitations).
- Made for the purpose of paying **qualified disability expenses** (as defined for ABLE accounts).
- A **qualified first-time homebuyer distribution**.

For distributions not meeting the criteria for a qualified distribution, the earnings portion of the distribution would be **includible in gross income**. The proposal indicates that such earnings would generally be subject to the **same rules as distributions from a qualified tuition program that are not used for qualified higher education expenses**, including a potential **10 percent additional tax** under IRC Section 529(c)(6).

Contribution Limits and Exceptions

The proposal sets a **contribution limit for a MAGA account of $5,000 per taxable year**. This limit is subject to **inflation adjustment**.

However, **certain contributions are not subject to this $5,000 limit**. These include:

- Qualified rollover contributions.
- Contributions from the Federal Government or any State, local, or tribal government.
- Contributions made by certain tax-exempt organizations through a special program established by the Secretary. The Secretary is directed to create a program allowing exempt organizations under IRC Section 501(c) to contribute to a large group of beneficiaries, provided the accounts are selected based on criteria like the beneficiaries' residence location or school district, and all beneficiaries receive an equal portion. Contributions made under this program are exempt from the $5,000 limit and are **not included in the account beneficiary's investment in the contract**.

A penalty may apply to excess contributions. The JCT Explanation document states that the **penalty rules for excess contributions to ABLE accounts under IRC Section 4973 would apply to MAGA accounts**.

Reporting Requirements and Confidentiality Exception

Under the proposal, the trustee of a MAGA account must **report certain information annually** regarding contributions, distributions, and other matters as required by the Secretary. A **penalty of $50 is imposed for each failure to file this report**, unless due to reasonable cause.

Significantly, the proposal includes a **new exception to the general rule of confidentiality under IRC Section 6103**. This exception authorizes the release of limited taxpayer information **solely for the purpose of enabling the Secretary to route deposits from various governmental or private exempt organizations to individual MAGA accounts**. Specific information, such as the beneficiary's name, address, SSN, account custodian and address, and account/routing numbers, may be provided to Treasury officers/employees upon written request from the head of the relevant bureau or office, but only to the extent necessary for routing funds. This information can only be used for proper routing and cannot be redisclosed by the Secretary.

Affected IRC Provisions

The establishment of MAGA accounts involves the addition of a **new Part IX** to Subchapter F of Chapter 1 of the Internal Revenue Code, including a **new IRC Section 530A** governing MAGA accounts. Conforming amendments are also made to other sections, including **IRC Section 6693(a)(2)** regarding penalties for failure to file required reports and potentially **IRC Section 4973** related to excess contributions (by cross-reference in the JCT explanation). The proposal also creates a new exception to **IRC Section 6103** regarding the confidentiality of taxpayer information.

Effective Date

The amendments made by this section establishing MAGA accounts and related provisions **shall apply to taxable years beginning after December 31, 2024**.

Expiration Date (Sunset)

Based on the text of Section 110115 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description in Section O of the "Joint Committee on Taxation's Explanation of the Provisions", **this provision does not contain a specific expiration date or sunset clause.** The establishment and rules governing MAGA accounts appear intended as a permanent addition to the Code.

Section 110116 The MAGA Accounts Contribution Pilot Program

Tax professionals should be aware of the introduction of a new federal government initiative detailed within the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and further described by the Joint Committee on Taxation (JCT) in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25). Beyond the establishment of MAGA accounts themselves, the proposed legislation includes a specific **MAGA Accounts Contribution Pilot Program** outlined in Section 110116 of the proposed bill and Section O of the JCX-21-25.

Details of the Pilot Program

The proposed pilot program establishes a mechanism for the Federal Government to make contributions directly into MAGA accounts. Specifically, the proposal states that the Secretary of the Treasury **shall pay a one-time credit of $1,000**. This credit is to be directed to the MAGA account of **each qualifying child** of a taxpayer, provided that such qualifying child is an **eligible individual**.

The definition of an **eligible individual** under this pilot program is narrow. It refers to a child who is **born after December 31, 2024, and before January 1, 2029**, and who is also a **United States citizen at birth**.

The proposed legislation includes provisions for situations where an eligible individual might not yet have a MAGA account established. If the Secretary determines that a MAGA account has not been established for an eligible individual by the qualifying date, the **Secretary must establish the MAGA account** for that individual. The "qualifying date" is defined as the first date on which a tax return is filed by an individual with respect to whom the eligible individual is a qualifying child for that taxable year. Furthermore, the Secretary is required to **notify the individual** (the taxpayer with the qualifying child) that an account has been established and provide that individual with the **opportunity to elect to decline** the Secretary's establishment of the account.

The JCT Explanation clarifies that this $1,000 credit **is part of the general business credit** and is allowed against the alternative minimum tax (AMT).

In addition to the direct credit, the pilot program provision includes a new penalty. The legislative text adds a **new IRC Section 6659**, titled "Improper claim for MAGA account contribution pilot program credit," indicating that penalties may apply for making an improper claim related to this specific credit.

Affected IRC Provisions

The core of the MAGA Accounts Contribution Pilot Program proposal involves adding a new section to the Internal Revenue Code. Section 110116(a) adds a **new IRC Section 6434** to Subchapter B of Chapter 65, specifically titled "MAGA accounts contribution pilot program".

Section 110116(c) adds a **new IRC Section 6659** to Part I of Subchapter A of Chapter 68 of Subtitle F, regarding penalties for improper claims.

Conforming amendments are made to the table of sections for Subchapter B of Chapter 65 to include the new Section 6434, and to the table of sections for Part I of Subchapter A of Chapter 68 of Subtitle F to include the new Section 6659.

As noted in the JCT Explanation, the credit is characterized as part of the general business credit (under IRC Section 38) and allowed against AMT (under IRC Section 55). While Section 110116 itself doesn't directly amend Sections 38 or 55 in the provided text, the establishment of a new credit generally necessitates integration with these broader credit provisions of the Code.

Effective Date

Regarding the effective date for the MAGA Accounts Contribution Pilot Program, the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 110116 **shall apply to taxable years beginning after December 31, 2024**.

However, the "Joint Committee on Taxation's Explanation of the Provisions" provides a different effective date for the pilot program, stating that the proposal **is effective for taxable years beginning after December 31, 2025**. Experienced tax CPAs should note this **discrepancy between the legislative text and the JCT Explanation**. The legislative text is typically the authoritative source for effective dates.

Expiration Date (Sunset)

Based on a review of Section 110116 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description in Section O of the "Joint Committee on Taxation's Explanation of the Provisions", **neither document contains a specific expiration**

date or sunset clause for the MAGA Accounts Contribution Pilot Program itself. While eligibility for the one-time credit is limited to children born before January 1, 2029, which places a de facto time limit on *who* can receive the credit, the statutory provisions establishing the program and the new IRC sections (6434, 6659) do not appear to terminate on a specific date.

Subtitle A, Part 3 – Investing in Health of American Families and Workers

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 110201 Treatment of Health Reimbursement Arrangements Integrated with Individual Market Coverage

Experienced tax CPAs examining proposed tax law changes should take note of provisions impacting health reimbursement arrangements (HRAs) integrated with individual market coverage, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and further explained by the Joint Committee on Taxation (JCT) in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25). This section of the proposed legislation aims to clarify and solidify the treatment of certain types of HRAs designed to be used in conjunction with individual health insurance plans.

Details of the Proposed Provision

The proposed legislation includes a section specifically addressing the "Treatment of Health Reimbursement Arrangements Integrated with Individual Market Coverage". At its core, the proposal modifies the Internal Revenue Code (IRC) to explicitly treat a defined arrangement as meeting certain requirements of the Public Health Service (PHS) Act.

The proposal introduces and defines the term **"custom health option and individual care expense arrangement"**. This arrangement is a type of health reimbursement arrangement that is proposed to be treated as meeting the requirements of PHS Act sections 9802, 2705, 2711, 2713, and 2715. The JCT Explanation clarifies that references within the proposal to **"CHOICE arrangements"** must be treated as including references to **individual coverage HRAs** offered under the final rules issued by the Treasury, Labor, and Health and Human Services (HHS) Departments on June 20, 2019 (84 Fed. Reg. 28888). This indicates the legislative intent to align the statutory treatment of these new "custom health option and individual care expense arrangements" (referred to as CHOICE arrangements by the JCT) with the existing regulatory framework for individual coverage HRAs.

The proposed legislation also stipulates that, to the extent not inconsistent with the amendments made by this proposal, **no inference shall be made from these amendments with respect to the rules prescribed in the Federal Register on June 20, 2019, relating to health reimbursement arrangements and other arrangements**. Furthermore, the proposal directs the Secretaries of the Treasury, Labor, and HHS to **modify the final rules as may be necessary to conform them with the amendments**.

Affected IRC Provisions

The primary IRC section directly amended by this proposal is **IRC Section 9815(b)**. Section 110201(a) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" amends IRC Section 9815(b) by adding a new paragraph (2) titled **"CUSTOM HEALTH OPTION AND INDIVIDUAL CARE EXPENSE ARRANGEMENTS"**. This new paragraph contains the definition and treatment rule for these arrangements.

While the proposal refers to specific sections of the PHS Act (sections 9802, 2705, 2711, 2713, and 2715), these PHS Act provisions are generally incorporated into the IRC through Section 9815. Thus, the amendments to Section 9815(b) are the direct changes within the Code itself.

The JCT Explanation notes that the proposed changes relate to the individual coverage HRA final rules published in 2019, which established a regulatory framework under existing IRC and PHS Act authority. The proposed legislation codifies specific treatment for these arrangements directly into Section 9815.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions", the amendments made by this section **shall apply to plan years beginning after December 31, 2025**.

Expiration Date (Sunset)

Based on a review of Section 110201 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description of the provision in Section A of Part III of the "Joint Committee on Taxation's Explanation of the Provisions", **neither document contains a specific expiration date or sunset clause for the statutory changes related to the treatment of health reimbursement arrangements integrated with individual market coverage.** The amendments to IRC Section 9815(b) appear to be permanent under the terms of the proposed legislation.

Section 110202 Cafeteria Plan Eligibility for Exchange Coverage with CHOICE Arrangements

Experienced tax CPAs should note a proposed legislative change impacting health reimbursement arrangements (HRAs), specifically those integrated with individual market coverage, and their interaction with cafeteria plans. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25) detail a provision that would allow individuals participating in certain HRAs to use their cafeteria plan to purchase health insurance coverage through an Exchange.

Details of the Proposed Provision

Section 110202 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is titled "Participants in CHOICE Arrangement Eligible for Purchase of Exchange Insurance Under Cafeteria Plan". This provision addresses a current limitation within the tax code related to cafeteria plans and health insurance purchased on an Exchange established under the Patient Protection and Affordable Care Act.

Under present law, while an individual may be eligible for the premium tax credit to subsidize qualified health plans purchased through an Exchange, reimbursement or direct payment for the premiums of such coverage is generally not considered a qualified benefit under a cafeteria plan. This means an employer typically cannot offer to reimburse an employee for individual market premiums purchased on an Exchange through their cafeteria plan, even when combined with an individual coverage HRA.

The proposed legislation aims to change this rule specifically for participants in a new type of arrangement referred to as a **"custom health option and individual care expense arrangement"**. The Joint Committee on Taxation (JCT) Explanation clarifies that references to **"CHOICE arrangements"** within the proposal are intended to include references to **individual coverage HRAs** offered under the final rules issued by the Treasury, Labor, and Health and Human Services (HHS) Departments in 2019.

The core of this provision is to **permit employees enrolled in a CHOICE arrangement (i.e., individual coverage HRA) in conjunction with a cafeteria plan to use salary reduction to purchase health insurance coverage on an Exchange**. Essentially, this proposal would make the premiums for individual Exchange coverage a qualified benefit under a cafeteria plan when the employee is participating in a CHOICE arrangement offered by their employer. This allows employees participating in such arrangements to purchase individual Exchange coverage using a cafeteria plan election.

Affected IRC Provisions

To achieve this change, the proposed legislation directly amends the section of the Internal Revenue Code that governs cafeteria plans. Section 110202(a) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" amends **IRC Section 125(f)(3)** by adding a **new subparagraph (C)**. The JCT Explanation confirms that the proposal amends Section 125(f)(3).

IRC Section 125(f)(3)(A) currently generally excludes health insurance coverage purchased through an Exchange from being treated as a qualified benefit under a cafeteria plan. The new subparagraph (C) would provide an exception to this general exclusion for participants in a "custom health option and individual care expense arrangement (within the meaning of section 9815(b)(2))".

Effective Date

Both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" are consistent regarding the effective date for this specific provision. The amendment made by this section **shall apply to taxable years beginning after December 31, 2025**.

Expiration Date (Sunset)

Based on a review of Section 110202 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description in Section B of Part III of the "Joint Committee on Taxation's Explanation of the Provisions", **neither document contains a specific expiration date or sunset clause for the statutory changes allowing cafeteria plan elections for Exchange coverage for CHOICE arrangement participants.** The amendment to IRC Section 125(f)(3) appears to be a permanent change under the terms of the proposed legislation.

Section 110203 Employer Credit for CHOICE Arrangements

Experienced tax CPAs reviewing proposed tax legislation should be aware of a new employer credit designed to incentivize the offering of health reimbursement arrangements (HRAs) integrated with individual market coverage. This credit, detailed in Section 110203 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", and further explained in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), targets employers who adopt these specific types of health benefit arrangements.

Details of the Proposed Credit

The proposed legislation establishes a new credit, termed the **"CHOICE arrangement credit,"** for eligible employers whose employees are enrolled in a custom health option and individual care expense arrangement. As clarified by the Joint Committee on Taxation (JCT), references within the proposal to **"CHOICE arrangements" are to be treated as including references to individual coverage HRAs** offered under the final rules issued in 2019.

The credit is calculated on a per-employee, per-month basis for employees enrolled in a CHOICE arrangement maintained by the employer during a defined "credit period". The **credit period** is specified as the **first two one-year periods beginning with the month during which the employer first establishes a CHOICE arrangement** on behalf of its employees.

The amount of the credit is tiered based on the year of the credit period:

- For the **first year** in the credit period, the credit is **$100 multiplied by the number of months** the employee is enrolled in the CHOICE arrangement.

- For the **second year**, the credit is **one-half of the dollar amount in effect for the first year ($50), multiplied by the number of months** the employee is enrolled.

The $100 base amount is subject to an **inflation adjustment beginning in calendar year 2027**.

To be considered an **eligible employer** for this credit, the employer **must not be an applicable large employer** (ALE) for the calendar year, as determined under IRC Section 4980H.

Furthermore, an employee is only taken into account for purposes of calculating the credit if the employee **would be treated as eligible for minimum essential coverage for purposes of the premium tax credit**, without regard to whether they have actually enrolled in the CHOICE arrangement offered by the employer. The JCT Explanation specifies that this means the credit is only available when the employer's offer of a CHOICE arrangement **constitutes affordable minimum essential coverage that provides minimum value**. Relevant regulations (Treas. Reg. sec. 1.36B-2(c)(5)) are referenced in determining this.

The proposed credit is designated as part of the **general business credit** under IRC Section 38 and is also allowed against the **alternative minimum tax**.

Affected IRC Provisions

The proposed legislation adds a new section to the Internal Revenue Code specifically for this credit. Section 110203(a) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" adds a new IRC Section, **Section 45BB, titled "Employer credit for CHOICE arrangement"**.

Additionally, conforming amendments are made to:

- **IRC Section 38(b)**, adding the Section 45BB credit to the list of components of the general business credit.
- **IRC Section 38(c)(4)(B)**, allowing the Section 45BB credit against the alternative minimum tax.
- A clerical amendment is made to the table of sections for subpart D of part IV of subchapter A of chapter 1.

Effective Date

Both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" state that the amendments establishing the employer credit for CHOICE arrangements shall apply to **taxable years beginning after December 31, 2025**.

Expiration Date (Sunset)

Based on a review of Section 110203 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description of this provision in Section C of Part III of the "Joint Committee on Taxation's Explanation of the Provisions", **neither document contains a specific expiration date or sunset clause** for the statutory changes creating the employer credit for CHOICE arrangements. The addition of IRC Section 45BB appears to be permanent under the terms of the proposed legislation.

Section 110204 HSA Eligibility Expansion: Medicare Part A Entitlement for Older Individuals

Experienced tax CPAs should take note of a significant proposed change impacting Health Savings Account (HSA) eligibility for individuals entitled to Medicare Part A based on age. Section 110204 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", detailed in Section D of Part III of the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), addresses this specific population group.

Details of the Proposed Provision

Under current law, an individual generally must be covered under a high deductible health plan (HDHP) and not be covered under any other health plan that is not an HDHP (with certain exceptions) to be eligible to contribute to an HSA. A key restriction is that individuals eligible for Medicare are generally not permitted to contribute to an HSA. Specifically, once an individual attains age 65 and is enrolled in Medicare benefits, they generally cannot make contributions to an HSA.

The proposed legislation changes this rule for a specific group of individuals. The core of Section 110204 provides that **entitlement to hospital insurance benefits under Part A of title XVIII of the Social Security Act *by reason of section 226(a)* of such Act does not prevent an individual from being an eligible individual** for purposes of contributing to an HSA. Section 226(a) of the Social Security Act is the provision that generally provides for entitlement to Medicare Part A benefits upon reaching age 65.

This means that under the proposal, an individual who becomes entitled to Medicare Part A *solely due to their age* (typically at age 65) would **no longer be disqualified from contributing to an HSA simply because of that entitlement**.

The Joint Committee on Taxation (JCT) Explanation notes that while these individuals would be allowed to contribute, the proposal also stipulates that those who have attained age 65 and are eligible to contribute to an HSA **generally may not use HSA funds to pay for health insurance**, unlike other individuals who have attained age 65. Furthermore, the 20-percent additional tax on HSA distributions used for non-qualified expenses would continue to apply to these individuals if they are considered "eligible individuals".

Affected IRC Provisions

To enact this change, the proposed legislation amends the section of the Internal Revenue Code that defines "eligible individual" for HSA purposes. Section 110204(a) of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation confirm that the proposal amends **IRC Section 223(c)(1)(B)**.

Specifically, a **new clause (iv)** is added to Section 223(c)(1)(B) that reads "entitlement to hospital insurance benefits under part A of title XVIII of the Social Security Act by reason of section 226(a) of such Act". The JCT Explanation also mentions a conforming amendment to IRC Section 223(c)(1)(B)(ii). These amendments effectively create an exception to the general rule that Medicare entitlement prevents HSA contributions for individuals who qualify for Part A based on age.

Effective Date

Both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" are clear and consistent regarding the effective date of this provision. The amendments made by this section shall apply to **months beginning after December 31, 2025**.

Expiration Date (Sunset)

Based on a review of Section 110204 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the description provided in Section D of Part III of the "Joint Committee on Taxation's Explanation of the Provisions", **neither document contains a specific expiration date or sunset clause** for the statutory changes allowing individuals entitled to Medicare Part A by reason of age to contribute to HSAs. The amendment to IRC Section 223(c)(1)(B) appears to be a permanent change under the terms of the proposed legislation.

Section 110205 Treatment of Direct Primary Care Service Arrangements for Taxpayers with Health Savings Accounts

As experienced tax professionals, we are always seeking to understand the nuances of proposed tax legislation and its potential impact on our clients. One area addressed in the recent proposals involves the interaction between direct primary care service arrangements (DPC arrangements) and eligibility for contributing to Health Savings Accounts (HSAs). The Chairman's Amendment in the Nature of a Substitute to the Budget Reconciliation Legislative Recommendations Related to Tax, referred to hereafter as the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", along with the Joint Committee on Taxation's Description of the Tax Provisions, referred to hereafter as the "Joint Committee on Taxation's Explanation of the Provisions" (and the Joint Committee on Taxation will be referred to as the JCT thereafter), outline specific changes in this area.

Current Interaction and Proposed Change

Under present law, an individual's eligibility to contribute to an HSA is generally contingent upon being covered under a High Deductible Health Plan (HDHP) and *not* being covered by other health plans that provide coverage for benefits covered under the HDHP. This has created uncertainty regarding whether participation in a DPC arrangement might disqualify an individual from making HSA contributions, as these arrangements involve direct payments for primary care services outside of the HDHP.

The proposed legislation explicitly addresses this issue. According to both the Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee and the JCT's Explanation of the Provisions, a **direct primary care service arrangement will not be treated as a health plan that would make an individual ineligible to contribute to an HSA**. This aims to remove a potential barrier for individuals who wish to utilize DPC arrangements while still maintaining HSA eligibility.

Definition and Limitations

The proposal defines a "direct primary care service arrangement" for this purpose. It is an arrangement under which an individual receives medical care consisting **solely of primary care services** provided by primary care practitioners. A key characteristic is that the **sole compensation for such care must be a fixed periodic fee**. The JCT's Explanation of the Provisions notes that a proposed rule in 2020 defined such an arrangement as a contract where the physician or physicians agree to provide medical care for a fixed annual or periodic fee without billing a third party.

Additionally, the proposal imposes a **monthly fee limitation**. For any month, the aggregate fees for all direct primary care service arrangements covering an individual cannot exceed **$150 per month**. If the arrangement covers more than one individual, the limit is twice this amount ($300 per month). The JCT's Explanation of the Provisions clarifies that this aggregate limit will be **adjusted annually for inflation**.

Treatment of Fees as Medical Expenses

Beyond establishing that participation in a DPC arrangement does not disqualify HSA eligibility, the proposal also addresses the deductibility of the fees paid for these arrangements. The Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee amend Section 223(d)(2)(C) to specifically treat fees for any direct primary care service arrangement as **medical expenses** for HSA purposes. This means these fees could potentially be paid or reimbursed using HSA funds on a tax-free basis.

IRC Sections Amended

The proposed changes impacting direct primary care service arrangements primarily involve amendments to **Section 223 of the Internal Revenue Code**. Specifically:

- **Section 223(c)(1)** is amended by adding a new subparagraph (E) to address the treatment of DPC arrangements for HSA eligibility.
- **Section 223(d)(2)**, as amended by preceding provisions, is further amended by adding a new subparagraph (F) regarding the treatment of certain medical expenses. However, the JCT's explanation links the treatment of DPC fees as medical expenses to Section 223(d)(2) generally, and the legislative text includes DPC arrangements in Section 223(d)(2)(C).
- **Section 223(g)(1)** is amended to include the dollar amount in subsection (c)(1)(E)(ii)(II) (referencing the monthly fee limit) for inflation adjustment calculations.

Effective Date and Expiration

The proposed amendments related to the treatment of direct primary care service arrangements are slated to apply to **months beginning after December 31, 2025**.

Based on the provided sources, there is **no explicit expiration date** mentioned for the provisions affecting direct primary care service arrangements. The changes appear to be permanent additions to Section 223, aligning DPC arrangements more favorably with HSA participation moving forward.

Understanding these specific proposed changes is crucial for advising clients who currently utilize or are considering a direct primary care service arrangement in conjunction with an HDHP and HSA.

Section 110206 Expanding Health Savings Account Eligibility with Bronze and Catastrophic Plans

For experienced tax CPAs, staying ahead of proposed legislative changes is essential for effective client planning. Among the tax provisions recently put forth, modifications affecting Health Savings Accounts (HSAs) and the types of health plans that qualify for contributions are particularly noteworthy. Specifically, proposed changes regarding **Bronze and Catastrophic plans** would significantly impact HSA eligibility for certain individuals.

Under present law, an individual must generally be covered under a High Deductible Health Plan (HDHP) and meet other requirements to be eligible to make or receive contributions to an HSA [See our previous discussion on HSA eligibility]. This HDHP requirement has traditionally meant that health plans not meeting specific deductible and out-of-pocket maximum thresholds would disqualify an individual from HSA contributions.

The proposed legislation, outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and detailed in the "Joint Committee on Taxation's

Explanation of the Provisions", introduces a key expansion to the definition of an HDHP for HSA purposes.

Details of the Proposed Change:

The proposal amends the Internal Revenue Code to broaden the definition of a "high deductible health plan" under **Section 223(c)(2)**. According to the proposal, the term "high deductible health plan" **shall include any plan** that meets two criteria:

1. The plan must be **available as individual coverage through an Exchange** established under section 1311 or 1321 of the Patient Protection and Affordable Care Act.
2. The plan must be a **Bronze plan** or a **Catastrophic plan**. These plan types are described in subsection (d)(1)(A) or (e) of section 1302 of the Patient Protection and Affordable Care Act, respectively.

This proposed change means that individuals covered solely under certain Bronze or Catastrophic plans purchased through a health insurance Exchange would **now be treated as being covered under an HDHP** for purposes of HSA eligibility, provided other HSA eligibility rules are met. This removes a barrier for individuals choosing lower-premium, higher-cost-sharing plans on the Exchange who also wish to leverage the tax benefits of an HSA.

IRC Sections Changed:

The primary Internal Revenue Code section directly amended by this provision is **Section 223(c)(2)**, which defines the term "high deductible health plan". The proposal adds a **new subparagraph (H)** to this section to incorporate Bronze and Catastrophic plans from the Exchange into the definition of an HDHP for HSA purposes.

Effective Date and Expiration:

The amendments made by this section are proposed to **apply to months beginning after December 31, 2025**.

Based on the language in both the Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee and the Joint Committee on Taxation's Explanation of the Provisions, there is **no explicit expiration date** mentioned for this change. The proposal appears to make this treatment a permanent inclusion in the definition of an HDHP for HSA eligibility purposes.

In summary, if enacted as proposed, this provision would significantly expand the universe of individuals eligible to contribute to HSAs by including those covered by Bronze and Catastrophic plans offered through the health insurance Exchanges, effective for months beginning after December 31, 2025.

Section 110207 Clarifying HSA Eligibility for Individuals with Access to On-Site Employee Clinics

For tax professionals advising clients on Health Savings Accounts (HSAs), understanding the rules surrounding eligibility is paramount. Current law requires individuals to be covered under a High Deductible Health Plan (HDHP) and generally not have other health coverage that duplicates HDHP benefits to be eligible to contribute to an HSA. This has created questions regarding whether access to free or low-cost services at an employer-sponsored on-site clinic could jeopardize HSA eligibility.

The proposed legislation, as outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (and the Joint Committee on Taxation will be referred to as the JCT thereafter), seeks to provide clarity and a specific exception for access to certain services at on-site employee clinics.

Present Law Context

Under present law, an individual's ability to contribute to an HSA is contingent on being covered under an HDHP and not having disqualifying coverage. Access to free health care or health care at charges below fair market value from an on-site employer clinic currently does not necessarily disqualify an individual from HSA eligibility, provided the clinic does not offer "significant benefits in the nature of medical care" beyond disregarded coverage or preventive care. This distinction between permissible and disqualifying services from an on-site clinic has been a point addressed in IRS guidance.

Proposed Change: A Special Rule

The proposed legislation introduces a specific rule to address access to on-site employee clinics. According to the Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee, a **special rule for qualified items and services** is added to the provisions governing HSA eligibility.

The JCT's Explanation of the Provisions elaborates on this, stating that under the proposal, **an individual shall not be treated as covered under a health plan that would make the individual ineligible for HSA contributions merely by reason of receiving, or having the right to receive, at an on-site employee clinic, qualified items and services**. This means that merely having access to or using certain services at an on-site clinic would not, by itself, disqualify an individual from contributing to an HSA.

The proposed legislation defines "qualified items and services" for this purpose. These are items and services that are **provided at a clinic located on an employer's premises**. They are specifically those **described in new clause (ii) of section 223(c)(1)(A), or are preventive care**. The JCT notes that preventive care is defined by reference to Notice 2019-45 and its appendix (as it may be updated).

In essence, the proposal carves out access to certain limited, specified services and preventive care at an on-site clinic, ensuring that such access does not negate HSA eligibility for an otherwise qualified individual.

IRC Sections Amended

The core of this proposed change is an amendment to **Section 223 of the Internal Revenue Code**. Specifically, **Section 223(c)(1)**, which details eligibility requirements for HSAs, is amended by adding a **new subparagraph (F)**. This new subparagraph contains the "Special Rule for Qualified Items and Services" provided by on-site employee clinics.

Effective Date and Expiration

Determining the precise effective date requires careful review of both source documents, as there appears to be a slight discrepancy.

- The **Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee** states that the amendments made by Section 110207 (relating to on-site employee clinics) shall apply to **distributions made after December 31, 2025**.
- The **JCT's Explanation of the Provisions** states that the proposal is effective for **taxable years beginning after December 31, 2025**.

While these phrases are similar, "distributions made after" could potentially be interpreted differently than "taxable years beginning after". Tax professionals should note this difference and monitor further clarification if the legislation progresses. However, given the context of HSA eligibility and contributions, the "taxable years beginning after" effective date mentioned by the JCT aligns more closely with typical HSA rules.

Based on the language in both the Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee and the JCT's Explanation of the Provisions, there is **no explicit expiration date** mentioned for this provision. The change regarding the treatment of on-site employee clinics for HSA eligibility appears to be intended as a permanent modification to Section 223.

In summary, the proposed legislation provides a welcome clarification for individuals with access to on-site employee clinics, creating a safe harbor for HSA eligibility provided the clinic services accessed are limited to specific qualified items and services or preventive care. This change is proposed to take effect for periods (either distributions made or taxable years beginning, depending on which text is followed) after December 31, 2025.

Section 110208 Expanding Qualified Medical Expenses for HSAs to Include Fitness Costs

For tax professionals guiding clients on maximizing the benefits of Health Savings Accounts (HSAs), understanding the scope of "qualified medical expenses" is fundamental. Under present law, contributions to an HSA, and distributions from an HSA used to pay for qualified medical expenses, receive favorable tax treatment. However, certain costs, such as membership fees at a fitness facility or expenses for physical activity, generally are *not* treated as medical care and thus cannot be paid for with tax-advantaged HSA funds.

Proposed legislation, as outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and further described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the Joint Committee on Taxation will be referred to as the JCT), seeks to broaden the definition of qualified medical expenses to include specific costs related to physical activity and fitness.

Details of the Proposed Change

The proposal introduces a significant change by treating certain amounts paid for physical activity, fitness, and exercise as amounts paid for medical care for HSA purposes. This expansion is intended to allow individuals with HSAs to use these tax-advantaged funds for health and wellness activities that contribute to overall health.

Specifically, the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that "amounts paid for qualified sports and fitness expenses shall be treated as paid for medical care" for purposes of Section 223(d)(2)(A) of the Internal Revenue Code. The bill further defines "qualified sports and fitness expenses" as amounts paid *exclusively for the sole purpose of participating in a physical activity*, which includes:

- Membership at a fitness facility.
- Participation or instruction in physical exercise or physical activity.

The JCT's Explanation of the Provisions reinforces this, stating that the proposal amends the Code to expand the definition of qualified medical expenses to include certain sports and fitness expenses paid for the purpose of participating in a physical activity. The JCT report also provides a definition for a "fitness facility" for this purpose. A qualifying fitness facility is one providing instruction or facilities for physical fitness or serving as a site for such a program of a State or local government, with certain exclusions (e.g., not a private club with specific facilities like golf, hunting, sailing, or riding, and where the health/fitness component is not incidental to its overall function).

Important Limitations:

The proposal includes limitations on the amount of qualified sports and fitness expenses that can be treated as medical care:

- **Overall Dollar Limitation:** The aggregate amount treated as qualified sports and fitness expenses for any taxpayer for any taxable year shall not exceed **$500**. This limit is increased to **$1,000** in the case of a joint return or a head of household. The JCT report also notes this overall dollar limitation.
- **Monthly Limit:** The proposal also includes a monthly limitation on the amount that can be taken into account as paid for participating in a physical activity during a month which is set at 1/12th of the annual limit.

Additionally, the JCT report clarifies that if a program includes physical exercise or activity along with other components (such as travel or accommodations), expenses paid for those *other* components may not be taken into account.

IRC Sections Changed:

The primary Internal Revenue Code section affected by this proposal is **Section 223(d)(2)**, which defines "qualified medical expenses" for HSA purposes. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" specifically adds a **new subparagraph (E)** to Section 223(d)(2) to define "qualified sports and fitness expenses".

Effective Date and Expiration:

The amendments made by this section are proposed to apply to **taxable years beginning after December 31, 2025**.

There is **no explicit expiration date** mentioned for this provision. The proposal appears to intend this change to be a permanent inclusion in the definition of qualified medical expenses for HSA purposes.

In conclusion, this proposed change would significantly expand the permissible uses of HSA funds, allowing individuals to pay for certain fitness and physical activity expenses, subject to specific dollar and monthly limitations, effective for taxable years beginning after 2025. Tax advisors should take note of this potential new opportunity for clients utilizing HSAs.

Section 110209 Enhanced HSA Catch-Up Contribution Flexibility for Married Couples

For tax professionals advising married clients, particularly those approaching retirement age, understanding the rules surrounding Health Savings Account (HSA) contributions is crucial. Under present law, individuals age 55 and older are permitted to make additional "catch-up" contributions to their HSAs. While married individuals with family coverage share a single family contribution limit, the rules for allocating catch-up contributions between spouses could sometimes present complexities.

Proposed legislation, as found in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), seeks to simplify and enhance the ability of married couples to make catch-up contributions.

Details of the Proposed Change (Sec. 110209)

Section 110209 of the proposed bill, titled "Allow Both Spouses to Make Catch-up Contributions to the Same Health Savings Account", directly addresses the allocation of contribution limits for married individuals eligible for catch-up contributions.

Under the proposal, if both spouses are eligible for catch-up contributions (i.e., both have attained age 55 by the end of the taxable year) and either spouse has family coverage under a high deductible health plan as of the first day of any month, their combined annual contribution limit is determined differently. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the annual contribution limit that can be allocated between the spouses (after being reduced by any aggregate Archer Medical Savings Account contributions) shall **include the catch-up contribution amounts for both spouses**. This total combined amount is then divided equally between the spouses unless they agree to a different division.

The JCT's Explanation of the Provisions clarifies the effect of this change. It states that if both spouses are eligible for catch-up contributions and either has family coverage, the annual contribution limit that can be allocated between them **includes the catch-up contribution amounts of both spouses**. This allows the spouses to agree to have their **combined basic and catch-up contribution amounts allocated to one spouse** to be contributed to that spouse's HSA.

In essence, this change allows a married couple, both aged 55 or older, with family HSA coverage to contribute their aggregate basic family limit plus *both* of their individual catch-up contributions ($1,000 each for 2025 under present law) to either one spouse's HSA or split the combined amount between their two HSAs, as they agree. This removes a potential restriction under present law where a married couple with family coverage had to ensure each spouse's catch-up contribution was made to their *own* HSA, even if contributing up to the family limit to one account was otherwise permissible.

IRC Sections Changed:

The core statutory change is an amendment to **Section 223(b)(5)** of the Internal Revenue Code. This section currently governs the contribution limit for married individuals and how it is divided.

The proposal amends this paragraph to specifically address the inclusion and allocation of both spouses' catch-up contributions when both are eligible.

Effective Date and Expiration:

The amendments made by this section shall apply to **taxable years beginning after December 31, 2025**.

No expiration date is provided for this provision in the bill. This suggests the change is intended to be a permanent modification to the rules governing HSA catch-up contributions for married couples.

In summary, Section 110209 offers welcomed flexibility for married couples, both age 55 or older, with family HSA coverage, by explicitly allowing them to combine their total eligible basic and catch-up contributions and contribute that aggregate amount to one spouse's HSA, effective for taxable years beginning after 2025. Tax advisors should factor this potential change into future planning for eligible clients.

Section 110210 Facilitating Transfers from FSAs and HRAs to HSAs

For tax professionals working with clients who participate in employer-sponsored health plans, the interplay between Health Savings Accounts (HSAs), Health Flexible Spending Arrangements (FSAs), and Health Reimbursement Arrangements (HRAs) can be complex. Under present law, generally, an individual cannot contribute to an HSA if they are covered by a health plan that is not a high deductible health plan (HDHP), which typically includes coverage under a general-purpose FSA or HRA. This limitation has often created "use-it-or-lose-it" scenarios for FSA balances and restricted the ability to transition from an FSA or HRA to an HSA without potentially forfeiting funds.

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the Joint Committee on Taxation will be referred to as the JCT), introduces a mechanism to allow individuals to transfer certain amounts from FSAs and HRAs to fund HSAs.

Details of the Proposed Change (Sec. 110210)

Section 110210 of the proposed bill, titled "FSA and HRA Terminations or Conversions to Fund HSAs", creates a pathway for tax-free transfers of funds from these accounts to an HSA. This is achieved by defining a new term, "qualified HSA distribution".

According to the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", Section 106(e)(2) of the Internal Revenue Code is amended to define "qualified HSA distribution". The JCT's Explanation of the Provisions clarifies that this term refers to a distribution from a health flexible spending arrangement or a health reimbursement arrangement that meets specified requirements, allowing it to be contributed to an HSA without being included in the individual's gross income.

Key aspects of this proposed "qualified HSA distribution":

- **Eligible Sources:** The distribution must come from a health flexible spending arrangement or a health reimbursement arrangement.
- **Amount Limitation:** The amount transferred as a qualified HSA distribution is limited. The JCT report specifies that the amount transferred cannot exceed the lesser of:
    - the amount that would have otherwise been forfeited by the individual at the end of the FSA or HRA plan year, or
    - the individual's maximum HSA contribution limit for the taxable year. The JCT also notes that the proposal applies to amounts that would have otherwise been forfeited at year-end or upon termination of the plan.
- **Tax Treatment:** A qualified HSA distribution is specifically treated such that it is **not included in gross income**.

Information Reporting:

The proposal also includes a change to information reporting requirements related to these distributions. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" amends Section 6051(a) to require that the **amount of any qualified HSA distribution be included on the information to be reported on Form W-2**. The JCT report confirms this requirement.

IRC Sections Changed:

The primary Internal Revenue Code section amended is **Section 106(e)(2)**, where the term "qualified HSA distribution" is defined. Additionally, **Section 6051(a)** is amended to incorporate the reporting requirement for these distributions on Form W-2.

Effective Date and Expiration:

The amendments made by Section 110210 are proposed to apply to **distributions made after December 31, 2025**.

The bill does not mention an expiration date for these changes. This indicates that the provision is intended to be a permanent addition to the tax code.

In summary, Section 110210, if enacted, offers a valuable planning opportunity for individuals transitioning from FSA or HRA coverage to HSA eligibility, allowing them to carry over otherwise potentially forfeited funds up to certain limits, tax-free. This change is proposed to take effect for distributions made after December 31, 2025.

Section 110211 Closing an HSA Reimbursement Gap

Experienced tax professionals know that the timing of Health Savings Account (HSA) establishment relative to the start of High Deductible Health Plan (HDHP) coverage has significant implications for the tax-free reimbursement of medical expenses. Under present law, a distribution from an HSA is only excludable from gross income if it pays for a qualified medical expense incurred on or after the date the HSA was established. This rule means that medical expenses incurred *after* an individual enrolls in an HDHP but *before* they actually establish their HSA are not eligible for tax-free reimbursement from that HSA.

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), addresses this timing gap with a specific rule.

Details of the Proposed Change (Sec. 110211)

Section 110211 of the proposed bill, titled "Special Rule for Certain Medical Expenses Incurred Before Establishment of Health Savings Account", introduces a mechanism to allow reimbursement of certain medical expenses incurred shortly after HDHP coverage begins but before an HSA is set up.

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT's Explanation of the Provisions, the proposal creates a **special rule** for determining whether an expense is a qualified medical expense. Under this proposed rule, **if an HSA is established during the 60-day period beginning on the date that coverage of the account beneficiary under a high deductible health plan begins, then, solely for purposes of determining whether an amount paid is used for a qualified medical expense, such account shall be treated as having been established on the date that such coverage begins**.

The JCT report further clarifies the effect: if a taxpayer establishes an HSA within 60 days of their HDHP coverage starting, **any distribution from that HSA used for a qualified medical expense incurred during that 60-day period after the HDHP coverage began is excludable from gross income** as a payment for a qualified medical expense, even though the expense was incurred before the HSA itself was formally established.

This provision effectively provides a 60-day look-back window for qualified medical expenses incurred after HDHP coverage starts, contingent upon the HSA being established within that 60-day timeframe.

IRC Sections Changed:

The proposed change involves an amendment to the Internal Revenue Code. Specifically, Section 110211 amends **Section 223(d)(2)** of the Internal Revenue Code by adding a new subparagraph (F). This is the section that defines "qualified medical expenses" for HSA purposes.

Effective Date and Expiration:

The amendments made by Section 110211 shall apply **with respect to coverage beginning after December 31, 2025**.

The bill does not provide an expiration date for this specific provision. This suggests the special 60-day look-back rule, if enacted, is intended to be a permanent change to the HSA rules for future HDHP coverage periods.

In summary, Section 110211 proposes a beneficial change for individuals who experience a short delay between the start of their HDHP coverage and the establishment of their HSA, allowing them to use HSA funds tax-free for qualified medical expenses incurred during that interim period, provided the HSA is opened within 60 days of the HDHP coverage start. This change, if enacted, is set to apply to coverage beginning after December 31, 2025.

Section 110212 Navigating Spousal FSA Coverage and HSA Eligibility

For experienced tax CPAs, advising clients on the complex rules governing Health Savings Accounts (HSAs) is a regular occurrence. A key limitation under present law is that an individual is generally not eligible to contribute to an HSA if they are covered by certain other health plans, which includes coverage under a general-purpose health flexible spending arrangement (FSA) or health reimbursement arrangement (HRA). This restriction extends to coverage under a spouse's FSA or HRA, often preventing one spouse from contributing to an HSA even if they are otherwise eligible and enrolled in a high deductible health plan (HDHP).

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), introduces a specific rule to alleviate this restriction when the disqualifying coverage is a spouse's health FSA.

Details of the Proposed Change (Sec. 110212)

Section 110212 of the proposed bill, titled "Contributions permitted if spouse has health flexible spending arrangement", creates an exception to the general rule that coverage under a health FSA disqualifies an individual from contributing to an HSA.

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT report, the proposal provides that for purposes of determining whether an individual is eligible to contribute to an HSA, **coverage under the employee's spouse's health FSA for any plan year of such FSA is disregarded**, provided that certain requirements are met.

The critical requirement for this exception is linked to the amount of reimbursements from the spouse's health FSA. Specifically, the **aggregate reimbursements under the health FSA for the plan year must not exceed the aggregate expenses that would be eligible for reimbursement under the FSA if the expenses were determined without regard to any expenses paid or incurred with respect to the otherwise HSA-eligible individual**.

In essence, if the spouse's health FSA is only used to reimburse the spouse's own eligible medical expenses (and not those of the individual seeking to contribute to an HSA), the existence of the spouse's FSA coverage will not prevent the individual from contributing to their HSA.

IRC Sections Changed:

The proposed change amends the Internal Revenue Code by modifying the rules related to HSA eligibility found in **Section 223(c)(1)(B)**. The amendment adds a new clause (vi) to this section. The JCT report describes the effect of this amendment on the determination of HSA eligibility under Section 223(c)(1).

Effective Date and Expiration:

The amendment made by Section 110212 is proposed to apply to **plan years beginning after December 31, 2025**.

The bill does not mention an expiration date for this change. This indicates that the provision is intended to be a permanent change to the rules governing HSA eligibility in cases where a spouse has health FSA coverage.

This proposed change provides welcome flexibility for families where one spouse participates in an HDHP and wishes to contribute to an HSA, while the other spouse has access to or participates in a health FSA.

Section 110213 Significant Boost to HSA Contribution Limits for Certain Individuals

Experienced tax CPAs understand the value of Health Savings Accounts (HSAs) as a tax-advantaged savings vehicle for medical expenses. Contributing to an HSA allows for pre-tax or tax-deductible contributions, tax-free growth, and tax-free distributions for qualified medical expenses, provided the individual is an eligible individual covered by a High Deductible Health Plan (HDHP). Under present law, contributions to an HSA made by or on behalf of an eligible individual (excluding employer contributions) are deductible, up to an annual limit. For 2025, the basic annual limit is

$4,300 for self-only coverage and $8,550 for family coverage. Individuals age 55 or older can make an additional "catch-up" contribution of $1,000.

Proposed legislation, as outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), introduces a substantial increase to these contribution limits for certain taxpayers, subject to income limitations.

Details of the Proposed Change (Sec. 110213)

Section 110213 of the proposed bill, titled "Increase in Health Savings Account Contribution Limitation for Certain Individuals," aims to significantly increase the amount that eligible individuals can contribute to their HSAs.

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT report, the proposal **increases the applicable annual HSA contribution limit**. Specifically, the limit is increased by **$4,300 for taxpayers with self-only coverage** and by **$8,550 for those with family coverage**. These increased amounts are subject to an inflation adjustment in subsequent years. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" specifies that the indexing uses "calendar year 2025" as the base year for adjustments.

It is important to note that this increase applies to the limit on deductions related to aggregate HSA contributions for a year. The increased amount under this provision applies only to **employee contributions**; it does not affect contributions made by an employer.

This significant increase is **subject to limitations based on income**. The proposed increase amount phases out above certain income levels based on the taxpayer's adjusted gross income (AGI). The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT report detail the phase-out ranges:

- For eligible individuals with self-only coverage or filing as single, married filing separately, or head of household, the increased amount phases out ratably over a range beginning at **$75,000 and ending at $100,000 of adjusted gross income**.
- For eligible individuals with family coverage and who are filing as married filing jointly, the increased amount phases out ratably over a range beginning at **$150,000 and ending at $200,000 of adjusted gross income**.

These income limitations are also subject to inflation adjustment in future years. For purposes of this income limitation, AGI is determined in a specific manner, referenced in the JCT report as similar to how it's determined under Section 219(g)(3)(A), notably without regard to any deduction allowed for HSA contributions under Section 223.

IRC Sections Changed:

The proposed changes are made to the Internal Revenue Code.

- Section 110213(a) amends **Section 223(b)** by adding a new paragraph (9) to introduce the increased contribution limits and the income limitations.
- Section 110213(a) also amends **Section 106(d)(1)** to clarify that the increase applies to employee contributions.
- Section 110213(b) amends **Section 223(g)(1)(B)** to include inflation adjustments for the new dollar amounts introduced in Section 223(b)(9)(A) and (b)(9)(B)(i)(II).

Effective Date and Expiration:

The amendments made by Section 110213(a) (introducing the increased limits and income phase-out) shall apply to **taxable years beginning after December 31, 2025**.

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" also provides a specific effective date for the inflation adjustment amendments made by Section 110213(b), stating they shall apply to **taxable years beginning after December 31, 2026**.

The bill does not contain an expiration date for the changes made by Section 110213. This suggests that, if enacted, the increased HSA contribution limitations and the associated income phase-out rules are intended to be a permanent feature of the Code for taxable years beginning in 2026 and beyond.

This proposed provision offers a significant opportunity for certain taxpayers to increase their tax-advantaged savings for medical expenses, particularly those with AGI below the specified phase-out thresholds. Tax professionals should take careful note of these potential changes when advising clients on HSA contributions and tax planning for future years.

Section 110214 Regulatory Authority Granted for Health-Related Provisions

Experienced tax CPAs are well aware that new tax legislation often requires further clarification and implementation guidance from the U.S. Department of the Treasury and the Internal Revenue Service (IRS). Proposed legislation, as outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), includes a standard provision granting such authority specifically related to certain health-focused changes.

Details of the Proposed Change (Sec. 110214)

Section 110214 of the proposed bill, titled "Regulations" in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", falls within Part 3 of Subtitle A, which focuses on "INVESTING IN HEALTH OF AMERICAN FAMILIES AND WORKERS".

According to the JCT report, Section 110214 provides that the **Secretary of the Treasury may prescribe such rules and other guidance as may be necessary or appropriate to carry out the amendments by this Part of Subtitle A**. This grant of authority explicitly includes guidance related to proposals concerning **CHOICE arrangements and HSAs**.

This provision is not a substantive change to the tax rules themselves but rather empowers the Treasury and IRS to issue regulations, forms, instructions, and other guidance to help taxpayers and practitioners understand and comply with the new health-related provisions enacted within this part of the bill. This would be crucial for sections like those dealing with HSA eligibility for spouses with FSAs, increased HSA contribution limits, and potentially new arrangements like CHOICE arrangements (which are introduced elsewhere in Part 3 of Subtitle A).

IRC Sections Changed:

Section 110214 itself, as described in the sources, **does not directly amend specific Internal Revenue Code (IRC) sections**. Instead, it provides the Secretary with the authority to issue regulations under the IRC sections that are amended by other provisions within Part 3 of Subtitle A. For example, as previously discussed, Section 110212 amends IRC Section 223(c)(1)(B), and Section 110213 amends IRC Sections 223(b), 106(d)(1), and 223(g)(1)(B). The regulatory authority granted by Section 110214 would allow the Secretary to issue guidance interpreting and implementing these specific amendments to the Code.

Subtitle B, Part 1 – Extension of Tax Cuts and Jobs Act Reforms for Rural America and Main Street

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 111001 Extension and Enhancement of Bonus Depreciation

Experienced tax CPAs understand the critical role of accelerated depreciation, particularly bonus depreciation, in tax planning and incentivizing business investment. Under present law, taxpayers generally capitalize the cost of business property and recover it through depreciation deductions over time. Section 168(k) currently allows for an additional first-year depreciation deduction (commonly referred to as bonus depreciation) equal to a specified percentage of the adjusted basis of qualified property placed in service during the year. For property acquired after September 27, 2017, and placed in service before January 1, 2027 (January 1, 2028, for certain longer production period property and aircraft), the bonus depreciation rate is 100 percent. This rate is scheduled to phase down by 20 percentage points each year for property placed in service after 2026 (or 2027 for certain property), reaching 0 percent for property placed in service after 2029 (or 2030).

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), seeks to significantly alter this phase-down schedule by **extending and enhancing the 100 percent bonus depreciation allowance for certain property**.

Details of the Proposed Change (Sec. 111001)

Section 111001 of the proposed bill, titled "Extension of special depreciation allowance for certain property," proposes to **extend the availability of 100 percent bonus depreciation** for qualified property.

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT report, the proposal provides for an **elective 100 percent depreciation allowance for qualified production property** and **extends and modifies the additional first-year depreciation deduction** more broadly.

Specifically, the **allowance is increased to 100 percent for property acquired and placed in service after January 19, 2025, and before January 1, 2030**. This applies to most tangible property subject to depreciation under Section 168, provided it meets certain requirements. For **longer production period property and certain aircraft**, the 100 percent allowance is extended **through December 31, 2030** (placed in service before January 1, 2031). Additionally, the 100 percent allowance applies to **specified plants planted or grafted after January 19, 2025, and before January 1, 2030**.

The proposal also modifies the rules regarding the acquisition or construction of property for purposes of this extended bonus depreciation. For property manufactured, constructed, or produced by the taxpayer, it qualifies if the taxpayer began such activities after January 19, 2025. For property acquired by the taxpayer, it qualifies if acquired after January 19, 2025, and no binding written contract for the acquisition was in effect before January 20, 2025.

Furthermore, the proposal makes permanent the rules under Section 460(c)(6) for the allocation of bonus depreciation to a long-term contract using the percentage-of-completion method.

IRC Sections Changed:

Section 111001 makes several amendments to the Internal Revenue Code:

- Section 111001(a) amends **Section 168(k)(2)** to implement the extended and enhanced bonus depreciation rules, including changes to paragraphs (A), (B), (E)(i), and (E)(ii).
- Section 111001(b) amends **Section 460(c)(6)** to make permanent the rules for bonus depreciation allocation to long-term contracts.

It's worth noting that the bill text also includes amendments within Section 111001(a) that reference 0 percent bonus depreciation for property placed in service after December 31, 2026. As explained by the JCT, this appears to relate to the scheduled phase-down under *present* law for property *acquired before* January 20, 2025, which the new rules would generally supersede for property acquired *after* that date.

Effective Date and Expiration:

The effective date for the core bonus depreciation extension is tied to the acquisition/construction and service dates of the property. The amendments made by Section 111001 generally apply to **property acquired after January 19, 2025, and placed in service after such date**. For specified plants, the amendments apply if they are planted or grafted after January 19, 2025.

Regarding expiration, the proposal **extends the 100 percent bonus depreciation rate** until specific dates: **before January 1, 2030** for most qualified property and specified plants, and **before January 1, 2031** for longer production period property and certain aircraft. This means the 100 percent rate is **not made permanent** for most property types; it is extended to a later termination/phase-down date than under current law. The exception is the rule for allocating bonus depreciation under the percentage-of-completion method for long-term contracts, which is **made permanent**.

Tax professionals should carefully review the acquisition and placed-in-service dates (or planting/grafting dates for specified plants) to determine eligibility for the 100 percent rate under this proposed extension.

Section 111002 Temporary Reinstatement of Expensing for Domestic Research and Experimental Expenditures

Experienced tax CPAs have navigated the significant shift required by Public Law 115-97, which mandated the capitalization and amortization of research and experimental (R&E) expenditures under Internal Revenue Code (IRC) Section 174 for tax years beginning after December 31, 2021. Under that change, domestic R&E expenditures were required to be amortized over five years, while foreign expenditures were subject to a 15-year amortization period.

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), aims to temporarily revert the treatment of **domestic R&E expenditures**, allowing for potential immediate deduction once again.

Details of the Proposed Change (Sec. 111002)

Section 111002 of the proposed bill, titled "DEDUCTION OF DOMESTIC RESEARCH AND EXPERIMENTAL EXPENDITURES," introduces a new temporary regime for domestic R&E costs.

The proposal effectively **suspends the mandatory capitalization rule** under present-law Section 174 for domestic research or experimental expenditures paid or incurred during a specified period. During this period, taxpayers have options for treating domestic R&E costs:

- They **may deduct** domestic research or experimental expenditures currently (expensing).
- They may **elect to capitalize and recover** domestic research or experimental expenditures ratably over the useful life of the research, but in no case less than 60 months, beginning with the midpoint of the taxable year in which incurred.
- They may **elect to capitalize and recover** domestic research or experimental expenditures over 10 years beginning with the taxable year of the expenditure, consistent with the optional write-off rules under Section 59(e)(2).

The proposal introduces a new IRC Section 174A, titled "Temporary rules for domestic research and experimental expenditures," to house these new options. Section 174A(a) allows the immediate deduction, while Section 174A(c) provides the election for the 60-month/useful life amortization. Software development costs are explicitly included as research or experimental expenditures under Section 174A(d).

It is crucial to note that the proposed changes **do not alter the treatment of foreign R&E expenditures**. Taxpayers must continue to capitalize and amortize foreign research or experimental expenditures over 15 years, beginning with the midpoint of the taxable year in which they are paid or incurred.

Additionally, the proposal modifies the rules regarding the disposition, retirement, or abandonment of property to which foreign R&E expenditures are attributable. Under the proposal, foreign capitalized R&E expenditures cannot be recovered as a deduction or a reduction to the amount realized for any property disposed, retired, or abandoned after May 12, 2025. The JCT clarifies that this specific modification to the disposition rule in Section 174(d) is **permanent**. Domestic capitalized R&E can still be recovered upon disposition, retirement, or abandonment.

For taxpayers claiming the Section 41 research credit, domestic R&E expenditures (whether expensed or capitalized) must be reduced by the amount of the credit allowed under Section 41(a) during the temporary period. Alternatively, taxpayers may elect a reduced Section 41 credit.

Furthermore, for Alternative Minimum Tax (AMT) purposes under Section 56(b)(2), both domestic and foreign research or experimental expenditures charged to capital account and amortized must be recovered over 10 years.

IRC Sections Changed:

Section 111002 directly amends several IRC sections:

- **Section 174:** Amended by adding subsection (e) to suspend its application to domestic R&E expenditures during the specified period. Subsection (d) is also amended regarding the treatment of foreign R&E upon disposition.
- **Section 174A:** A new section is inserted, providing temporary rules for domestic R&E, including expensing and elective capitalization options.
- **Section 41(d)(1)(A):** Amended to coordinate the research credit definition with expenditures deductible or amortizable under the new Section 174A.
- **Section 280C(c):** Amended to require the reduction of domestic R&E expenditures by the Section 41 credit amount.
- **Section 56(b)(2):** Amended to refer to the new Section 174A and clarify the 10-year amortization rule for both domestic and foreign R&E for AMT purposes.
- **Section 59(e)(2)(B):** Amended to include references to Section 174A(a) for the optional 10-year writeoff.
- **Section 144(a)(4)(C)(iv):** Amended to include references to Section 174A(a).
- **Section 195(c)(1):** Amended to include references to Section 174A in relation to start-up expenditures.
- **Section 263A(c)(2):** Amended to include references to Section 174A.
- **Section 1016(a)(14):** Amended to include references to Section 174A(c) regarding basis adjustments for capitalized expenditures.
- **Section 1202(e)(2)(B):** Amended to include references to Section 174A in relation to qualified small business stock.

Effective Date and Expiration:

The effective dates for Section 111002 vary depending on the specific change:

- The core amendments establishing the temporary rules for domestic R&E expenditures (suspension of Section 174 and enactment of Section 174A) generally apply to **amounts paid or incurred in taxable years beginning after December 31, 2024**.
- The amendment to Section 174(d) concerning the treatment of foreign R&E expenditures upon disposition applies to **property disposed, retired, or abandoned after May 12, 2025**.
- The amendments made to Section 280C(c) related to the research credit coordination apply to **taxable years beginning after December 31, 2024**.
- The JCT notes that the conforming amendments, *apart from the change to Section 280C(c)*, are **permanent**.

The temporary rules for domestic R&E expenditures enacted under Section 174A are **not permanent**. Section 174A includes an explicit termination provision. The temporary rules under Section 174A will **not apply to amounts paid or incurred in taxable years beginning after December 31, 2029**. Similarly, the suspension of the present-law Section 174 amortization rule for domestic R&E is effective only for taxable years beginning "before January 1, 2030".

Upon the termination of Section 174A (i.e., for taxable years beginning after December 31, 2029), taxpayers will revert to the present-law requirement under Section 174(a)(2) to capitalize domestic R&E expenditures and amortize them over five years beginning with the midpoint of the taxable year. The JCT clarifies that this return to the prior method is treated as an **automatic accounting method change on a cutoff basis**, meaning no Section 481(a) adjustment is required.

In summary, Section 111002 provides a five-year window (taxable years beginning 2025 through 2029) during which domestic R&E expenditures may generally be expensed or subject to elective capitalization, temporarily reversing the TCJA's mandatory amortization rule for these costs. However, the mandatory 15-year amortization for foreign R&E continues, and the inability to recover foreign R&E costs upon disposition is made permanent. Tax professionals should pay close attention to the specific effective dates and the temporary nature of the domestic expensing allowance when advising clients on R&E tax treatment.

Section 111003 Reverting the Section 163(j) Business Interest Deduction Limit to an EBITDA Standard

Experienced tax CPAs have been navigating the significant impact of the changes to the business interest deduction limitation under Internal Revenue Code (IRC) Section 163(j), particularly the shift in how adjusted taxable income (ATI) is calculated for taxable years beginning on or after January 1, 2022. Under the current regime, ATI is computed without adding back depreciation, amortization, or depletion, effectively basing the interest deduction limitation on earnings before interest and taxes

(EBIT) rather than the prior earnings before interest, taxes, depreciation, and amortization (EBITDA) standard.

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), includes a provision, **Section 111003**, aimed at restoring the ATI calculation to the EBITDA standard for purposes of Section 163(j).

Details of the Proposed Change (Sec. 111003)

Section 111003, titled "MODIFIED CALCULATION OF ADJUSTED TAXABLE INCOME FOR PURPOSES OF BUSINESS INTEREST DEDUCTION," directly addresses the change in the ATI calculation base.

Under the proposal, the calculation of adjusted taxable income for purposes of Section 163(j) is modified to **reinstate the addback of depreciation, amortization, and depletion**. This change reverses the modification made by Public Law 115-97, which removed these addbacks for taxable years beginning on or after January 1, 2022. By allowing these items to be added back, the limitation on the deduction for business interest expense will once again be computed based on an EBITDA-like measure, which generally results in a higher ATI and potentially a larger deductible business interest expense, compared to the EBIT standard.

IRC Sections Changed:

The proposed change is accomplished through a specific amendment to the Internal Revenue Code. Section 111003(a) of the proposed bill indicates that **Section 163(j)(8)(A)(v)** is amended by striking the phrase "beginning before January 1, 2022". The JCT confirms that the proposal reinstates the addback by modifying this specific clause of Section 163(j).

Effective Date and Expiration:

According to the JCT, the proposal to modify the ATI calculation for the business interest deduction limitation applies to **taxable years beginning after December 31, 2024**. The JCT also notes that the Secretary of the Treasury may provide necessary rules for the application of the proposal to short taxable years that begin after December 31, 2024, and end before the date of enactment.

No date is provided in the bill for termination of this provision. Thus, this modification to the Section 163(j) ATI calculation appears intended to be permanent under the proposed legislation, effective for tax years beginning in 2025 and beyond.

In summary, Section 111003 of the proposed legislation aims to provide relief to businesses by increasing the potential deduction for business interest expense. It achieves this by reverting the ATI calculation for Section 163(j) purposes back to an EBITDA standard, allowing for the addback of depreciation, amortization, and depletion for taxable years beginning after December 31, 2024, with this change appearing to be permanent.

Section 111004 Extension of the Section 250 FDII and GILTI Deduction

Experienced tax CPAs are closely examining proposed legislative changes impacting international tax provisions, including the deduction for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) under Internal Revenue Code (IRC) Section 250. This deduction, introduced by Public Law 115-97, is currently subject to a scheduled reduction in the deduction percentages for taxable years beginning after 2025.

Proposed legislation, as outlined in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described by the Joint Committee on Taxation's Explanation of the Provisions (hereinafter, the JCT), includes a provision aimed at preventing this scheduled reduction.

Details of the Proposed Change (Sec. 111004)

Section 111004 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is titled "EXTENSION OF DEDUCTION FOR FOREIGN-DERIVED INTANGIBLE INCOME AND GLOBAL INTANGIBLE LOW-TAXED INCOME". The JCT document also refers to this section with the same title.

Under present law, U.S. corporations may be allowed a deduction equal to the sum of (1) 37.5 percent of their FDII and (2) 50 percent of their GILTI. However, for taxable years beginning after December 31, 2025, these deduction percentages are scheduled to decrease to 21.875 percent for FDII and 37.5 percent for GILTI. This reduction is provided for in Section 250(a)(3) of the IRC.

The proposal in Section 111004 directly addresses this scheduled reduction. According to the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," **Section 111004(a) amends Section 250(a) by striking paragraph (3)**. By removing Section 250(a)(3), the statutory language that mandates the decrease in deduction percentages after 2025 is eliminated. The effect of this change is to **make permanent the current, higher deduction percentages** of 37.5 percent for FDII and 50 percent for GILTI that were scheduled to expire.

IRC Sections Changed:

The primary change is made to **Internal Revenue Code Section 250(a)**. Specifically, Section 111004(a) of the proposed legislation **strikes paragraph (3) of Section 250(a)**.

Effective Date and Expiration:

The amendments made by Section 111004 apply to **taxable years beginning after December 31, 2025**. This means the provision would take effect immediately following the date the current, higher deduction percentages were scheduled to expire under present law.

The bill has **no explicit expiration date is mentioned** for this change. By striking the paragraph that imposed the scheduled reduction, the proposal appears to intend the extension of the current deduction percentages to be **permanent**.

Section 111005 Extending the Section 59A Base Erosion Minimum Tax (BEAT) Rules

Experienced tax CPAs advising multinational corporations are acutely aware of the Base Erosion Minimum Tax (BEAT) under Internal Revenue Code (IRC) Section 59A, enacted by Public Law 115-97. This minimum tax applies to certain large corporate taxpayers with significant deductible payments to foreign related parties. Under present law, specific rules within Section 59A are scheduled to change for taxable years beginning after 2025, potentially impacting the BEAT calculation.

Proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), includes a provision, **Section 111005**, aimed at preventing these scheduled changes and extending the current BEAT rules.

Details of the Proposed Change (Sec. 111005)

Section 111005 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is titled "EXTENSION OF BASE EROSION MINIMUM TAX AMOUNT". The JCT document also refers to this section by the same title.

Under present law, for taxable years beginning after December 31, 2025, special rules in IRC Section 59A(b)(2) are scheduled to take effect. These rules would (1) **increase the BEAT rate to 12.5 percent** (from the current rate) and (2) **reduce the regular tax liability taken into account** for purposes of the BEAT calculation by *all* credits, rather than just certain specified credits.

The proposal in Section 111005 directly addresses these scheduled changes by **repealing the special rules of subsection 59A(b)(2)**. By striking this paragraph, the statutory language that would mandate the increase in rate to 12.5 percent and the change in credit applicability is eliminated. This effectively maintains the current BEAT rate and the present rules regarding the reduction of regular tax liability by certain credits for purposes of the BEAT calculation, thus extending the BEAT regime as it exists for taxable years beginning before 2026. The proposal also includes conforming amendments to reflect the renumbering of certain paragraphs within Section 59A.

IRC Sections Changed:

The primary changes are made to **Internal Revenue Code Section 59A(b)**. Specifically, Section 111005(a) of the proposed legislation **strikes paragraph (2) of Section 59A(b)** and redesignates subsequent paragraphs (3) and (4) as (2) and (3), respectively. Additionally, Section 111005(b) makes a conforming amendment to **Section 59A(c)(2)(B)(ii)** by updating a cross-reference to reflect the renumbered paragraph (b)(2)(B).

Effective Date and Expiration:

The amendments made by Section 111005 apply to **taxable years beginning after December 31, 2025**. This means the provision would take effect immediately following the date the scheduled BEAT changes were set to occur under present law.

In proposed legislation there is **no explicit expiration date mentioned** for this change. By repealing the paragraph that contained the scheduled rate increase and credit rule modifications, the proposal appears to intend for the current BEAT rules, as extended, to be **permanent**.

Subtitle B, Part 2 – Additional Tax Relief for Rural America and Main Street

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 111101 New 100 Percent Depreciation Allowance for Qualified Production Property

Experienced tax CPAs navigating the complexities of capital cost recovery rules will note a significant proposed change impacting taxpayers engaged in manufacturing and production activities. Section 111101 of the proposed legislation, as detailed in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," introduces a new special depreciation allowance specifically for qualified production property. The "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT) provides further details on the scope and requirements of this new allowance.

Details of the Proposed Change (Sec. 111101)

Section 111101 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is titled "SPECIAL DEPRECIATION ALLOWANCE FOR QUALIFIED PRODUCTION PROPERTY". The JCT document also refers to this section by the same title.

The core of this provision is the creation of a new 100 percent depreciation allowance for eligible property. Under the proposal, the depreciation deduction provided by Section 167(a) for the taxable year in which qualified production property is placed in service shall include an allowance equal to **100 percent of the adjusted basis** of such property. The adjusted basis of the property must be reduced by this 100 percent deduction before computing any other depreciation deductions for the current or subsequent taxable years.

The allowance applies to "qualified production property," which is defined as a portion of any nonresidential real property. According to the JCT's description of the proposal, to be considered qualified production property eligible for this allowance, the property must meet several requirements:

- It must be property to which Section 168 applies.
- It must be used by the taxpayer as an integral part of a qualified production activity.
- It must be placed in service in the United States or any possession of the United States.
- Its original use must commence with the taxpayer.
- **Construction must begin after January 19, 2025, and before January 1, 2029**.

- It must be subject to an election by the taxpayer to treat such portion as qualified production property.
- It must be placed in service **after the date of enactment and before January 1, 2033**.

The JCT further specifies that qualified production property **does not include** portions of nonresidential real property used for offices, administrative services, lodging, parking, sales activities, software engineering activities, or other functions unrelated to manufacturing, production, or refining of tangible personal property. A "qualified production activity" is defined as the manufacturing, production, or refining of a qualified product, provided such activities result in a substantial transformation of the property comprising the product, and do not include activities other than agricultural production and chemical production.

Additionally, the proposal includes a conforming amendment to treat qualified production property as Section 1245 property, which means it would be subject to the depreciation recapture rules under Section 1245.

IRC Sections Changed:

The primary IRC sections amended by Section 111101 are:

- **Section 168:** Amended by adding a new subsection (n).
- **Section 1245(a)(3):** Amended to include qualified production property.

Effective Date and Expiration:

The amendments made by Section 111101 apply to **property placed in service after the date of the enactment of this Act**.

While the statutory language adding Section 168(n) does not contain an explicit expiration date, the JCT's description of the proposal includes requirements that effectively limit the application of the 100 percent allowance to property meeting specific construction and placed-in-service deadlines. Property must have construction beginning before January 1, 2029, and be placed in service before January 1, 2033, to qualify for the allowance. Therefore, while the IRC section itself might be permanent, the ability to claim the 100 percent allowance under this specific provision is **limited by these placed-in-service and construction end dates**.

Section 111102 Renewal and Enhancement of Opportunity Zones Under Section 111102

Experienced tax CPAs advising clients on real estate and business investments, particularly in economically distressed areas, will want to take note of Section 111102 in the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee." This provision, described by the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), aims to renew and enhance the tax incentives associated with qualified opportunity zones, originally established by Public Law 115-97.

Details of the Proposed Change (Sec. 111102)

Section 111102, titled "RENEWAL AND ENHANCEMENT OF OPPORTUNITY ZONES", proposes several key modifications and additions to the current opportunity zone regime. The core proposal allows for the **designation of additional qualified opportunity zones**. These new designations would focus on low-income communities and include areas defined as rural under the Consolidated Farm and Rural Development Act. Notably, unlike the initial round of designations, tracts contiguous with low-income communities would **not be eligible** to be designated under this new authority.

The proposal **extends the period during which investments in qualified opportunity funds can receive tax benefits**. Under present law, the deferral of gain and the related basis step-up incentives generally relate to gain recognized and invested by December 31, 2026. The proposed legislation modifies the timing for the election for these tax benefits and for the recognition of deferred gain from December 31, 2026, to **December 31, 2033** for investments made after the date of enactment of the bill. This means that for eligible investments, deferred gain would be recognized on the earlier of the date the investment is disposed of or December 31, 2033. An election under the provision cannot be made after December 31, 2033.

The investment incentives are also modified. While the basis of a deferred-gain investment immediately after acquisition is still zero, the proposal states that if the investment is held for at least five years, the basis is increased by **10 percent** of the original deferred gain. There is **no additional five percent increase** for holding the investment for seven years, as was available under previous rules.

A significant enhancement involves **new information reporting requirements**. The proposal requires every qualified opportunity fund to file an annual return containing specific information, including its name, address, TIN, and organizational structure (corporation or partnership). Qualified opportunity funds and qualified rural opportunity funds (and their underlying businesses) must also furnish written statements to investors detailing the information reported to the IRS. These reporting failures would be subject to penalties.

Furthermore, the proposal mandates the **Secretary of the Treasury to report data** on the tax incentives related to both qualified opportunity zones and the new qualified rural opportunity zones. These reports, to be published annually after enactment, must include aggregate information, with more detailed comparisons required in the sixth and eleventh years after enactment, looking back at five-year periods.

IRC Sections Changed:

The primary Internal Revenue Code sections affected by Section 111102 include:

- **Section 1400Z-1:** Amended to allow for the designation of additional zones and modify the definition of low-income communities for this purpose, including introducing "qualified rural opportunity zone". It also sets the designation period for these new zones.
- **Section 1400Z-2:** Amended to extend the period for electing tax benefits and recognizing deferred gain to December 31, 2033. It also modifies the basis increase rules for investments made after December 31, 2026.
- **New Section 6039K:** Added to require annual returns from qualified opportunity funds and qualified rural opportunity funds.
- **New Section 6039L:** Added to require reporting related to dispositions of qualified opportunity fund investments.
- **New Section 6726:** Added to impose penalties for failure to comply with the new information reporting requirements under Sections 6039K and 6039L.
- **Section 6724:** Amended to include the new reporting requirements under Sections 6039K and 6039L as payee statements subject to penalties.

Effective Date and Expiration:

Section 111102 has several different effective dates depending on the specific provision:

- The proposal establishing the designation of additional qualified opportunity zones applies to **amounts invested after the date of enactment** of the Act.
- The provisions relating to the new information reporting requirements (Sections 6039K, 6039L, and 6726) apply to **taxable years beginning after the date of enactment**.
- The requirement for the Secretary to report data on opportunity zone tax incentives becomes effective on the **date of enactment**.
- The extension of the tax benefit period (including the date for deferred gain recognition) to December 31, 2033, **applies to investments made after the date of enactment within the newly designated zones** and modifies the rules for gain recognition for existing investments.

While the statutory amendments adding the reporting sections and modifying the others are likely permanent additions to the Code, the **tax benefits provided by the opportunity zone regime, as extended, effectively expire** on **December 31, 2033**. This is the date by which any previously deferred gain must be recognized if the investment has not been disposed of earlier. The designation of the new zones also has a defined period that ends on December 31, 2033. Therefore, the opportunity to make new investments that qualify for the deferred gain benefits under this framework ceases after this date, effectively providing an expiration for the core incentive. The sources do not specify a hard repeal date for the IRC sections themselves, but the operative provisions tied to the incentives conclude by the end of 2033.

Section 111103 Increased Dollar Limitations for Section 179 Expensing Under Section 111103

Experienced tax CPAs focused on advising businesses regarding capital expenditures will find significant changes impacting the Section 179 deduction under the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee." Section 111103, as detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes to substantially increase the dollar limits for the expensing of certain depreciable business assets.

Details of the Proposed Change (Sec. 111103)

Section 111103, titled "INCREASED DOLLAR LIMITATIONS FOR EXPENSING OF CERTAIN DEPRECIABLE BUSINESS ASSETS", aims to make qualifying capital expenditures immediately deductible up to much higher thresholds than under present law. Currently, taxpayers may expense up to $1,000,000 of the cost of Section 179 property placed in service during the taxable year. This amount is reduced dollar-for-dollar by the amount by which the cost of Section 179 property placed in service during the year exceeds a phaseout threshold, which is currently $2,500,000. Both the expensing limit and the phaseout threshold are indexed for inflation.

The proposed legislation significantly increases these limits. Under Section 111103, the **maximum amount a taxpayer may expense under Section 179 would increase to $2,500,000**. Furthermore, the **phaseout threshold amount would be increased to $4,000,000**. This means the $2,500,000 expensing limit would be reduced, but not below zero, by the amount by which the cost of Section 179 property placed in service during the taxable year exceeds $4,000,000.

Consistent with the current Section 179 rules, the proposed legislation provides that the **$2,500,000 expensing amount and the $4,000,000 phaseout amount will be indexed for inflation**. For taxable years beginning after 2025, these amounts will be adjusted to reflect increases in the cost of living. The JCT explanation notes that the indexing will use "calendar year 2017' for 'calendar year 2016'" for the adjustment related to the phaseout amount in Section 179(b)(5)(A).

IRC Sections Changed:

Section 111103 directly amends **Section 179(b)** of the Internal Revenue Code. Specifically, Section 179(b)(1) is amended to strike "$1,000,000" and insert "$2,500,000". Section 179(b)(2) is amended to strike "$2,500,000" and insert "$4,000,000". Conforming amendments are also made to Section 179(b)(6)(A).

Effective Date and Expiration:

The proposed increases to the Section 179 dollar limitations under Section 111103 apply to **property placed in service in taxable years beginning after December 31, 2024**.

The amendments made by Section 111103 are **not subject to an explicit expiration date**. The proposal increases the maximum expensing amount and the phaseout threshold and incorporates the existing inflation adjustment mechanism for these new, higher amounts. This suggests these increased limits are intended to be permanent features of Section 179 going forward from their effective date, unlike some other temporary provisions discussed in the broader proposed legislation.

Section 111104 Reversion of Third-Party Network Transaction Reporting Thresholds

Experienced tax CPAs advising clients who accept payments through third-party settlement organizations, particularly small businesses and individuals engaged in online sales or providing services, should be aware of the significant changes proposed by Section 111104 in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, as described by the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), aims to roll back the recent lowering of information reporting thresholds for third-party network transactions.

Details of the Proposed Change (Sec. 111104)

Section 111104 is titled "REPEAL OF REVISION TO DE MINIMIS RULES FOR THIRD PARTY NETWORK TRANSACTIONS". The core intent of this provision is to **revert to the previous, higher de minimis reporting exception** for third-party settlement organizations.

Under present law, persons are generally required to file information returns concerning certain transactions with others. These returns are intended to assist taxpayers and the IRS in ensuring correct and complete income tax reporting. Historically, there was an exception for third-party settlement organizations.

The proposed legislation reestablishes this previous de minimis exception. Under the proposal, a third-party settlement organization would **not be required to report** unless **both** of the following conditions are met with respect to a participating payee for the year:

1. The aggregate value of third-party network transactions exceeds **$20,000**.
2. The aggregate number of such transactions exceeds **200**.

This proposed threshold is the same threshold that the IRS has followed for calendar years 2022 and 2023. The proposal explicitly repeals the revision made to these rules.

The proposal specifies that it does not change the clarification that reporting is not required on transactions which are not for goods or services. Furthermore, the obligations of a merchant acquiring entity remain unchanged; such entities must issue a Form 1099-K for all participating payees who have received payments of any amount starting with the first dollar. The application of this proposal means that a business acting as a third-party settlement organization would not have to provide a Form 1099-K to sellers on its platform who receive $20,000 or less or have 200 or fewer transactions.

The proposal also addresses the application of this de minimis rule for third-party network transactions to backup withholding. It amends Section 3406(b) to include a new paragraph specifically referencing the de minimis rule for these transactions. Under this new paragraph (8), third party network transactions are not considered reportable payments for backup withholding purposes unless the total amount of such transactions made by the payor to the participating payee during the preceding calendar year were reportable payments under Section 6050W.

IRC Sections Changed:

Section 111104 primarily impacts the following Internal Revenue Code sections:

- **Section 6050W(e)**: This section, which currently contains the lower threshold, is effectively modified to revert to the prior $20,000 and 200 transaction thresholds.
- **Section 3406(b)**: A new paragraph (8) is added to specify how the de minimis rule applies for backup withholding purposes related to third-party network transactions.

The legislative text explicitly states the amendment to section 321(a)(2)(B) of the American Rescue Plan Act and includes a conforming repeal of subsection (c) of section 321 as added by subsection (a) of Section 112031. This seems to be an error in the source text provided, as the title of Section 111104 relates to Section 6050W, not Section 321. The JCT description clarifies the intent to revert the Section 6050W rules.

Effective Date and Expiration:

Section 111104 has **two distinct effective dates** depending on the specific change:

1. The provision reinstating the **$20,000/200 transaction de minimis exception** for third-party network transactions information reporting (amending Section 6050W) applies **as if included in section 9674 of Public Law No. 117-2, the American Rescue Plan Act (enacted on March 11, 2021)**. This means it applies retroactively to **returns for calendar years beginning after December 31, 2021**.
2. The provision regarding the **application of the de minimis rule to backup withholding** (amending Section 3406(b)) applies to **calendar years beginning after December 31, 2024**.

The amendments made by Section 111104 are **not subject to an explicit expiration date**. The language used suggests that these changes are intended to be permanent modifications to the relevant IRC sections, establishing the higher de minimis threshold for Section 6050W reporting and clarifying the backup withholding rules on a going-forward basis.

Section 111105 Increased Information Reporting Threshold for Certain Payments

Experienced tax CPAs advising businesses on compliance with information reporting requirements should take note of the proposed changes outlined in Section 111105 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, as described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), seeks to increase the threshold for requiring information reporting with respect to certain payments made to persons engaged in a trade or business or for services.

Details of the Proposed Change (Sec. 111105)

Section 111105, titled "INCREASE IN THRESHOLD FOR REQUIRING INFORMATION REPORTING WITH RESPECT TO CERTAIN PAYEES", addresses the long-standing requirements under Internal Revenue Code Sections 6041 and 6041A. Present law generally requires persons to file information returns for certain transactions and to provide corresponding written statements to the payees. These requirements are intended to assist taxpayers in preparing their tax returns and help the IRS verify the correctness and completeness of income tax reporting. Historically, information reporting has been required for various payments, such as rent, salaries, wages, premiums, annuities, and other fixed or determinable income, generally when the aggregate amount paid to a single person in a calendar year equals or exceeds $600. Similarly, Section 6041A requires reporting for remuneration for services and certain direct sales, also generally with a $600 threshold.

The proposed legislation increases this threshold significantly. Under Section 111105, the information reporting threshold for certain payments to persons engaged in a trade or business (under Section 6041) and payments of remuneration for services (under Section 6041A) would be **increased to $2,000 in a calendar year**. This means that a payor would generally not be required to issue a Form 1099 or similar information return unless the total amount of qualifying payments to a payee reaches at least $2,000 during the year.

The proposal specifies that this **$2,000 threshold amount is to be indexed annually for inflation** in calendar years after 2026. This indicates an ongoing adjustment mechanism for the new limit. The JCT explanation explicitly states that **no change is made to the information reporting threshold for direct sales** under Section 6041A(a)(2).

IRC Sections Changed:

Section 111105 makes amendments to **Section 6041(a)** and **Section 6041A** of the Internal Revenue Code. Specifically, Section 6041(a) is amended by striking "$600" and inserting "$2,000". Section 6041A is also modified to reflect this increased threshold. Additionally, the proposal amends Section 6041 to include the inflation adjustment mechanism for the new dollar amount. The JCT notes that Section 6041(b)(1), concerning the $10 payment threshold for certain items, remains unchanged.

Effective Date and Expiration:

The amendments made by Section 111105, increasing the threshold for information reporting, apply to **taxable years ending after the date of the enactment of this Act**.

The changes enacted by Section 111105 are **not subject to an explicit expiration date**. The proposal increases the threshold amount and implements an inflation adjustment mechanism for future years. This structure suggests that the increased $2,000 threshold (as adjusted for inflation) is intended to be a permanent change to the information reporting requirements under Sections 6041 and 6041A, unlike some other provisions in the proposed legislation that contain specific termination dates.

Section 111106 Repeal of Excise Tax on Indoor Tanning Services

Experienced tax CPAs advising businesses involved in providing indoor tanning services should be aware of the proposed changes outlined in Section 111106 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, as described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), aims to eliminate the excise tax on indoor tanning services.

Details of the Proposed Change (Sec. 111106)

Section 111106 is titled "REPEAL OF EXCISE TAX ON INDOOR TANNING SERVICES". Under present law, a retail sales tax is imposed on indoor tanning services. This tax is levied at a rate of **10 percent** of the amount paid for such services, including any amount paid by insurance. Consumers are liable for this tax, while the service providers are responsible for collecting and remitting it to the Federal Government on a quarterly basis. This tax is imposed under **Section 5000B** of the Internal Revenue Code, which is part of Chapter 49 of Subtitle D.

The proposed legislation enacts a **complete repeal of this excise tax**. Under the proposal, the excise tax on indoor tanning services will apply only for services performed on or prior to the date of enactment of the Act. Consequently, the tax will **not apply to services performed after the date of enactment**.

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" explicitly states the repeal of Chapter 49 of Subtitle D, along with the corresponding item in the table of chapters for that subtitle.

IRC Sections Changed:

Section 111106 makes amendments to **Subtitle D** of the Internal Revenue Code. Specifically, it repeals **Chapter 49** of Subtitle D, which includes Section 5000B imposing the excise tax on indoor tanning services.

Effective Date and Expiration:

The amendments made by Section 111106 apply to **services performed after the date of the enactment of this Act**. This means that any indoor tanning services provided on or before the date the Act is enacted will still be subject to the tax, but services performed on any day after the enactment date will not be taxed.

The repeal of the excise tax on indoor tanning services is **not subject to an explicit expiration date**. The language of the provision indicates a permanent repeal of the relevant chapter and section of the IRC, suggesting this change is intended to be ongoing.

Section 111107 Proposed Tax Legislation: Exclusion of Interest on Rural or Agricultural Real Property Loans

Experienced tax CPAs advising financial institutions and clients with interests in rural and agricultural real estate should review the provisions of Section 111107 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes a new exclusion from gross income for certain interest income derived from loans secured by rural or agricultural real property.

Details of the Proposed Change (Sec. 111107)

Section 111107 is titled "EXCLUSION OF INTEREST ON LOANS SECURED BY RURAL OR AGRICULTURAL REAL PROPERTY". Under present law, interest income is generally included in gross income [105, referencing IRC Sec. 61(a)(4)]. The proposed legislation introduces a significant change by allowing certain lenders to **exclude a portion of the interest income received**.

Specifically, the proposal provides that gross income shall not include **25 percent of the interest received by a qualified lender on any qualified real estate loan**.

The provision defines who constitutes a "qualified lender" for purposes of this exclusion. These include:

- Any bank or savings association insured under the Federal Deposit Insurance Act.
- Domestic entities owned by a bank holding company.
- State or Federally regulated insurance companies.
- Domestic entities owned by a State law insurance holding company.
- The Federal Agricultural Mortgage Corporation ("Farmer Mac").

A "qualified real estate loan" is defined as a loan secured by domestic real property that meets specific criteria. This includes real property that is substantially used:

- For the production of one or more agricultural or horticultural commodities (within the meaning of section 263A(e)(5)). This covers property used in the trade or business of farming, raising livestock, or growing timber.
- In the trade or business of fishing or seafood processing.
- Any domestic aquaculture facility, or a leasehold mortgage on such facility.

The definition also includes a leasehold mortgage on property substantially used in farming, livestock, timber production, fishing, or seafood processing . A special rule addresses refinancings: a loan shall not be treated as made after the date of enactment to the extent its proceeds are used to refinance a loan made on or before the enactment date (or a series of refinancings originating from a pre-enactment loan).

Furthermore, the proposal treats qualified real estate loans as obligations described in section 265(a)(2) for purposes of coordinating with the rule disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry tax-exempt obligations.

IRC Sections Changed:

Section 111107 primarily adds a **new section 139J** to the Internal Revenue Code. This new section is inserted into **Part III of subchapter B of chapter 1**. A corresponding clerical amendment is made to the table of sections for Part III of subchapter B of chapter 1 to add the entry for Section 139J. The provision also includes a coordination rule referencing **Section 265(a)(2)**. While not explicitly amended, **Section 61(a)(4)**, which includes interest income in gross income, is the underlying rule from which this exclusion is derived.

Effective Date and Expiration:

The amendments made by Section 111107 are specified to **apply to taxable years ending after the date of the enactment of this Act**. The JCT explanation provides further detail, stating the proposal applies to **original debt incurred in taxable years ending after the date of enactment**. This implies that interest on loans originating before the enactment date (unless subsequently refinanced under the provision's rules) would not qualify for the exclusion, even if received in a taxable year ending after enactment.

The exclusion of interest on loans secured by rural or agricultural real property enacted by Section 111107 is **not subject to an explicit expiration date**. The text of the provision and the JCT explanation do not mention any specific future date on which this change would terminate or revert. Therefore, this change appears to be intended as a permanent modification to the tax treatment of this specific type of interest income for qualified lenders.

Section 111108 Tax Treatment for Qualified Sound Recording Productions

Experienced tax CPAs advising clients in the music and sound recording industries should take note of Section 111108 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes specific tax treatment for certain qualified sound recording productions.

Details of the Proposed Change (Sec. 111108)

Section 111108 is titled "TREATMENT OF CERTAIN QUALIFIED SOUND RECORDING PRODUCTIONS". Under present law, Section 181 allows taxpayers to elect to deduct up to $15 million ($20 million in certain areas) of production costs for qualified film, television, and live theatrical productions that commenced before January 1, 2026, in lieu of capitalizing these costs. Costs exceeding this limit are capitalized and recovered through depreciation, potentially including bonus depreciation under Section 168(k) if eligible.

The proposed legislation expands this special expensing rule to include **qualified sound recording productions**. A **qualified sound recording production** is defined as a sound recording (as defined in 17 U.S.C. sec. 101) that is **produced and recorded in the United States**.

Under the proposal, taxpayers may elect to deduct aggregate qualified sound recording production costs, subject to a **specific dollar limitation**. This limitation is **$150,000 per qualified sound recording production**, or **$150,000 in aggregate for all qualified sound recording productions in the taxable year**.

Similar to other qualified productions, the Section 181 deduction for qualified sound recordings **only applies to those productions that commence before January 1, 2026**.

Furthermore, the proposal **expands the definition of qualified property eligible for bonus depreciation under Section 168(k)** to include qualified sound recording productions. For bonus depreciation purposes, a qualified sound recording production is considered **placed in service at the time of initial release or broadcast**.

IRC Sections Changed:

Section 111108 makes several changes to the Internal Revenue Code. Primarily, it amends **Section 181**, specifically:

- Section 181(a)(1) is amended to include qualified sound recording productions among the types of productions eligible for the expensing election.
- Section 181(a)(2) is amended to add a new subparagraph (C) establishing the **$150,000 limitation** for qualified sound recording productions.
- Section 181(c) appears to be added or amended relating to the exclusivity of this deduction.
- The heading for Section 181 is changed to "TREATMENT OF CERTAIN QUALIFIED PRODUCTIONS".
- The table of sections for Part VI of subchapter B of chapter 1 is updated to reflect the new Section 181 heading.

Additionally, **Section 168(k)**, relating to bonus depreciation, is amended:

- Section 168(k)(2)(A)(vi) is added to include qualified sound recording productions placed in service before January 1, 2029, as eligible property.
- Section 168(k) is amended to specify the placed-in-service rule for qualified sound recording productions.

Effective Date and Expiration:

The amendments made by Section 111108 apply to **productions commencing in taxable years ending after the date of the enactment of this Act**.

While the statutory text itself does not contain an explicit "expiration date" for Section 181 or Section 168(k), the **application of the benefits to qualified sound recording productions is time-limited**:

- The Section 181 expensing election is available **only for qualified sound recording productions that commence before January 1, 2026**.
- The eligibility for bonus depreciation under Section 168(k) for qualified sound recording productions applies to those **placed in service before January 1, 2029**.

Therefore, the benefits introduced for qualified sound recording productions under this section are not permanent but are limited by the production commencement date for expensing and the placed-in-service date for bonus depreciation.

Section 111109 Key Modifications to the Low-Income Housing Credit

Experienced tax CPAs advising clients involved in affordable housing development and investment should carefully review Section 111109 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, further elaborated upon in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes several significant changes to the low-income housing credit (LIHC) under Section 42 of the Internal Revenue Code. These modifications aim to increase the availability and enhance the attractiveness of the LIHC for certain projects.

Details of the Proposed Changes (Sec. 111109)

Section 111109, titled "MODIFICATIONS TO LOW-INCOME HOUSING CREDIT", introduces several key changes to the operation of the LIHC:

1. **State Housing Credit Ceiling Increase:** Under present law, the total amount of housing credits a State can allocate annually is limited by the State housing credit ceiling. The proposal **increases this ceiling** by adding specific calendar years to the list of years where a higher ceiling applies. Specifically, Section 42(h)(3)(I) is amended to include the years **2026, 2027, 2028, and 2029** alongside previous years in the determination of the State housing credit ceiling. This means more credit authority will be available for allocation by State housing finance agencies during these years.
2. **Modified Tax-Exempt Bond Financing Requirement:** Current law allows buildings to qualify for four-percent LIHCs without receiving a credit allocation from the State ceiling if at least **50 percent** of the aggregate basis of the building and land is financed by certain tax-exempt bonds subject to the private activity bond volume limit. The proposal significantly lowers this threshold. A building may now qualify for four-percent credits without a State allocation if at least **25 percent** (rather than 50 percent) of the aggregate basis of the building is financed with one or more qualified obligations. A qualified obligation is a tax-exempt bond issued after December 31, 2025, and before January 1, 2030. Additionally, one or more of these qualified obligations must provide financing for at least **five percent** of the aggregate basis of the building and land.
3. **Temporary Inclusion of Indian Areas and Rural Areas as Difficult Development Areas:** Buildings located in "difficult development areas" are eligible for an increase in eligible basis, which in turn increases the amount of LIHC they can receive. The proposal temporarily expands the definition of difficult development areas. For buildings placed in service after December 31, 2025, and before January 1, 2030, **Indian areas and rural areas** will be treated as difficult development areas. This temporary expansion means that qualifying buildings in these areas will have their eligible basis increased from 100 percent to **130 percent** of the otherwise applicable amount.

IRC Sections Changed:

Section 111109 makes direct amendments to **Section 42** of the Internal Revenue Code. Specifically:

- Section 42(h)(3)(I), related to the State housing credit ceiling, is amended.
- Section 42(h)(4), concerning the tax-exempt bond financing requirement, is amended.
- Section 42(d), relating to eligible basis and the increase for buildings in difficult development areas, is implicitly amended by the inclusion of Indian and rural areas.

Effective Dates and Expiration:

Each modification within Section 111109 has a specific effective date:

- The amendments related to the **State housing credit ceiling increase** apply to **calendar years after 2025**. The increased ceilings apply specifically for **2026, 2027, 2028, and 2029**.
- The amendments modifying the **tax-exempt bond financing requirement** apply to buildings **placed in service after December 31, 2025**. The qualified obligations must be part of an issue dated after December 31, 2025, and before January 1, 2030.
- The temporary inclusion of **Indian areas and rural areas as difficult development areas** applies to buildings **placed in service after December 31, 2025, and before January 1, 2030**.

The increase in the State housing credit ceiling and the temporary inclusion of Indian and rural areas as difficult development areas are **explicitly temporary**, applying only for specific calendar years (2026 through 2029) or periods (buildings placed in service before January 1, 2030). The modification to the tax-exempt bond financing requirement links to bonds issued before January 1, 2030, suggesting the modified threshold for financing may also be temporary, though the language applies to buildings placed in service after December 31, 2025, without an explicit end date for the *rule itself* as applied to *those* buildings. However, the reliance on "qualified obligations" issued before January 1, 2030, effectively limits its prospective application. None of the changes appear to have a broad, single expiration date for the entire Section 111109. Instead, the temporary nature is embedded within the descriptions or effective periods of the individual modifications.

Section 111110 Enhanced Gross Receipts Threshold for Small Manufacturing Businesses

Experienced tax CPAs advising clients in the manufacturing sector should take immediate note of Section 111110 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes a significant increase in the gross receipts threshold that determines eligibility for certain simplified accounting methods and other tax benefits, specifically targeted at manufacturing taxpayers.

Details of the Proposed Change (Sec. 111110)

Section 111110, titled "INCREASED GROSS RECEIPTS THRESHOLD FOR SMALL MANUFACTURING BUSINESSES", aims to provide tax relief to small manufacturing businesses by allowing those with higher gross receipts to utilize certain accounting methods typically available only to smaller entities.

Under present law, Section 448(c) includes a gross receipts test that generally allows taxpayers meeting certain thresholds to use the cash method of accounting and provides exemptions from limitations on business interest (Section 163(j)), uniform capitalization rules (Section 263A), and certain inventory accounting rules (Section 471). For taxable years beginning in 2024, the general gross receipts threshold is $29 million (indexed for inflation).

The proposed legislation **increases this gross receipts threshold specifically for a "manufacturing taxpayer"**. The new threshold for these taxpayers would be **$80,000,000**. This $80 million amount will be **indexed annually for inflation**.

A **"manufacturing taxpayer"** is defined in the proposal as a corporation or partnership where **substantially all** of its gross receipts during the three-taxable-year period ending with the taxable year preceding such taxable year are derived from the lease, rental, license, sale, exchange, or other disposition of **"qualified products"**.

A "**qualified product**" means a product that is

- Any tangible personal property, except any food or beverage prepared in the same building as a retail establishment in which substantially similar property is sold to the public, and
- Produced or manufactured by the taxpayer in a manner that results in a substantial transformation (within the meaning of proposed section 168(n)(2)(D)) of the property comprising the product.

By meeting this increased $80 million gross receipts test, a qualifying manufacturing taxpayer would be able to **qualify for the cash method of accounting** and also benefit from the **exemptions from the limitation on business interest, uniform capitalization rules, and accounting for inventories under Section 471**.

IRC Sections Changed:

Section 111110 directly amends **Section 448** of the Internal Revenue Code:

- Section 448(c) is amended by adding a new paragraph (4) that establishes the $80 million gross receipts test specifically for manufacturing taxpayers.

- Section 448(c)(5) (as redesignated) is amended to ensure the inflation adjustment applies to both the general threshold in paragraph (1) and the new manufacturing threshold in paragraph (4).
- Section 448(d) is amended to add a new paragraph (8) defining "manufacturing taxpayer".

Effective Date and Expiration:

The amendments made by Section 111110 are effective for **taxable years beginning after December 31, 2025**.

There is **no explicit expiration date** for the changes introduced by Section 111110. The increase in the threshold for manufacturing taxpayers appears to be intended as a permanent modification to Section 448, with the threshold itself being indexed for inflation annually.

Section 111111 GILTI Exclusion for Virgin Islands Services

Experienced tax CPAs navigating the complexities of international taxation, particularly concerning U.S. shareholders of controlled foreign corporations (CFCs), should be aware of the changes proposed by Section 111111 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), introduces a carve-out from the calculation of Global Intangible Low-Taxed Income (GILTI) for certain income derived from services performed in the Virgin Islands.

Details of the Proposed Change (Sec. 111111)

Section 111111, titled "GLOBAL INTANGIBLE LOW-TAXED INCOME DETERMINED WITHOUT REGARD TO CERTAIN INCOME DERIVED FROM SERVICES PERFORMED IN THE VIRGIN ISLANDS", targets specific situations involving income generated within the U.S. Virgin Islands.

Under present law, a U.S. shareholder of a CFC must include in gross income its GILTI. GILTI is generally the excess of the shareholder's net CFC tested income over its net deemed tangible income return. The proposed legislation introduces an **exclusion from "tested income"** for certain income. Specifically, for a "specified United States shareholder," the exclusion applies to "qualified Virgin Islands services income". This means that qualifying income earned from services in the Virgin Islands will **not be included in the calculation of tested income**, thereby reducing or potentially eliminating the GILTI inclusion related to that income for the specified shareholders.

The proposal defines **"qualified Virgin Islands services income"** as gross income which is:

- Compensation for labor or personal services performed in the Virgin Islands by a corporation formed under the laws of the Virgin Islands.

- Attributable to services performed from within the Virgin Islands by individuals for the benefit of such corporation.
- Effectively connected with the conduct of a trade or business within the Virgin Islands.

A **"specified United States shareholder"** is defined as a United States shareholder which is:

- An individual, trust, or estate.
- A closely held C corporation, provided such corporation acquired its direct or indirect equity interest in the foreign corporation which derived the qualified Virgin Islands services income **before December 31, 2023**.

The proposal directs the Secretary of the Treasury to provide regulations or other guidance necessary to carry out the provision, including regulations to prevent its abuse.

IRC Sections Changed:

Section 111111 makes direct amendments to **Section 951A(c)(2)** of the Internal Revenue Code.

- Section 951A(c)(2)(A)(i) is amended to add a new subclause (VI) to exclude qualified Virgin Islands services income.
- Section 951A(c)(2) is further amended by adding a new subparagraph (C) to include provisions related to qualified Virgin Islands services income, including definitions for "qualified Virgin Islands services income" and "specified United States shareholder," and directing the Secretary to prescribe regulations.

Effective Date and Expiration:

The amendments made by Section 111111 are effective for **taxable years of foreign corporations beginning after the date of enactment**, and to **taxable years of United States shareholders in which or with which such taxable years of foreign corporations end**.

There is **no explicit expiration date** stated for the changes introduced by Section 111111. The provision appears to be intended as a permanent modification to the GILTI rules for qualifying income derived from services performed in the Virgin Islands by specified U.S. shareholders.

Section 111112 Extension and Modifications to the Clean Fuel Production Credit

Experienced tax CPAs advising clients involved in the production and sale of clean transportation fuels should carefully review Section 111112 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, along with the related Section 112010, introduces significant changes, including an extension, modifications, and a future repeal of transferability for the Clean Fuel Production Credit. These provisions are described in greater detail in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT).

Details of the Proposed Changes (Sec. 111112)

Section 111112, titled "EXTENSION AND MODIFICATION OF CLEAN FUEL PRODUCTION CREDIT", aims to alter key aspects of the existing credit for transportation fuel.

Under present law, the Clean Fuel Production Credit is a business credit for transportation fuel that meets specific lifecycle greenhouse gas emissions rate criteria. The credit is generally available for electricity produced during a 10-year period beginning when a qualified facility is placed in service. Under prior law, the credit did not apply to transportation fuel sold after December 31, 2027.

The proposed legislation makes several key modifications and an extension:

- **Prohibition on Foreign Feedstocks:** The proposal requires that the transportation fuel eligible for the credit must be derived exclusively from a feedstock that was produced or grown in the **United States, Mexico, or Canada**.
- **Determination of Emissions Rate:** The proposal introduces two changes to how emissions rates are determined.
    - **Indirect Land Use:** Lifecycle greenhouse gas emissions are to be adjusted as necessary to exclude any emissions attributed to indirect land use change. This adjustment is to be based on regulations or methodologies determined by the Secretary of the Treasury in consultation with the Administrator of the Environmental Protection Agency and the Secretary of Agriculture.
    - **Animal Manure Feedstocks:** For transportation fuels derived from animal manure, the emissions rates table prescribed by the Secretary is to provide a distinct emissions rate for each specific feedstock used, including dairy manure, swine manure, poultry manure, and other sources determined appropriate by the Secretary.
- **Extension of the Credit:** The proposal **extends the availability of the clean fuel production credit** by amending the current termination date. The credit will now apply to transportation fuel sold before **December 31, 2031**, extending it from the previous date of December 31, 2027.
- **Restrictions Related to Prohibited Foreign Entities:** The proposal restricts the availability of the credit based on the taxpayer's status regarding foreign entities.
    - No credit is allowed for any taxable year beginning after the date of enactment if the taxpayer is a **specified foreign entity** (as defined in Section 7701(a)(51)(B)).
    - No credit is allowed for any taxable year beginning two years after the date of enactment if the taxpayer is a **foreign-influenced entity** (as defined in Section 7701(a)(51)(D)).

Additionally, a separate section, **Section 112010**, titled "REPEAL OF TRANSFERABILITY OF CLEAN FUEL PRODUCTION CREDIT", directly impacts the Clean Fuel Production Credit. This section proposes to **terminate the transferability of the credit** under Section 6418.

IRC Sections Changed:

The amendments made by Section 111112 directly modify **Section 45Z** of the Internal Revenue Code:

- Section 45Z(f)(1)(A) is amended to add the foreign feedstock requirement.
- Section 45Z(b)(1)(B) is amended to add the provisions regarding emissions rate determination.
- Section 45Z(g) is amended to extend the credit's termination date.
- Section 45Z(f) is amended by adding a new paragraph (8) concerning restrictions related to prohibited foreign entities.

The amendment made by Section 112010 directly modifies **Section 6418** of the Internal Revenue Code:

- Section 6418(f)(1)(A) is amended to remove the Clean Fuel Production Credit from the list of transferable credits.

Effective Dates and Expiration:

The effective dates for the changes related to the Clean Fuel Production Credit vary depending on the specific modification:

- The **prohibition on foreign feedstocks** is effective for transportation fuel sold after **December 31, 2025**.
- The changes to the **determination of emissions rates** (indirect land use and animal manure sources) apply to emissions rates published for taxable years beginning after **December 31, 2025**.
- The **extension of the clean fuel production credit termination date** is effective on the **date of enactment** of the Act.
- The **restrictions relating to prohibited foreign entities** apply to taxable years beginning after the date of enactment for specified foreign entities and to taxable years beginning two years after the date of enactment for foreign-influenced entities.
- The **repeal of transferability** under Section 112010 applies to fuel produced after **December 31, 2027**.

The **Clean Fuel Production Credit itself is extended** and is subject to a new termination date, meaning it will **expire for fuel sold after December 31, 2031**. The modifications related to feedstock sources, emissions rate determination, and restrictions on foreign entities appear to be permanent changes that apply to the credit for as long as it is in effect. The repeal of transferability is also a permanent change applying to fuel produced after its effective date.

Subtitle C, Part 1 – Working Families Over Elites

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 112001 Termination of Previously-Owned Clean Vehicle Credit

Experienced tax CPAs assisting clients with vehicle purchases, particularly those seeking clean energy incentives, should be aware of the significant change proposed by Section 112001 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes to terminate the credit for the purchase of previously-owned clean vehicles.

Details of the Proposed Change (Sec. 112001)

Section 112001, titled "TERMINATION OF PREVIOUSLY-OWNED CLEAN VEHICLE CREDIT", directly impacts the availability of the clean vehicle credit for used vehicles.

Under present law, a credit is available for previously-owned clean vehicles acquired by a taxpayer. This credit was set to expire, meaning no credit would be allowed for any vehicle acquired after December 31, 2032.

The proposed legislation, through Section 112001, **repeals the previously-owned clean vehicle credit**. Instead of allowing the credit to continue until its prior expiration date of December 31, 2032, the proposal effectively ends its availability much sooner.

IRC Sections Changed:

Section 112001 directly amends **Section 25E(g)** of the Internal Revenue Code. This subsection previously contained the termination date for the previously-owned clean vehicle credit. The amendment strikes the existing language referencing "December 31, 2032" and replaces it with "December 31, 2025".

Effective Date:

The amendment made by Section 112001 is effective for **vehicles acquired after December 31, 2025**.

Section 112002 Termination of Clean Vehicle Credit

Experienced tax CPAs advising clients considering the purchase of new clean vehicles should pay close attention to Section 112002 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section proposes a significant change to the current Clean Vehicle Credit under Internal Revenue Code Section 30D, accelerating its termination. Details regarding this proposal are further elaborated in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT).

Details of the Proposed Change (Sec. 112002)

Section 112002 is specifically titled "TERMINATION OF CLEAN VEHICLE CREDIT". Under present law, a credit is available for each new clean vehicle placed in service by a taxpayer, subject to various requirements including the vehicle's battery capacity, manufacturer's suggested retail price (MSRP), the taxpayer's adjusted gross income (AGI), and sourcing rules for battery components and critical minerals. Under prior law, no Clean Vehicle Credit was allowed for any vehicle placed in service after December 31, 2032.

The proposed legislation, through Section 112002, makes two key changes:

- **Accelerated Termination Date:** The most significant change is the **modification of the termination date** for the new clean vehicle credit. The proposal states that no credit will be allowed for any vehicle placed in service after **December 31, 2026**, significantly shortening the credit's availability compared to the previous December 31, 2032 date.
- **Special Rule for Taxable Year 2026 (Manufacturer Limitation):** A special rule is introduced for vehicles sold after December 31, 2025, and before January 1, 2027. Under this rule, a vehicle will **not be treated as a new clean vehicle** for purposes of the credit if the manufacturer of that vehicle has already manufactured and sold a total of 200,000 "covered vehicles" for use in the United States after December 31, 2009, and before January 1, 2026. Covered vehicles for this limitation include new qualified plug-in electric drive motor vehicles (as defined under prior law Section 30D) placed in service before January 1, 2023, and new clean vehicles (under current law). This limitation appears to apply only for the 2026 taxable year, before the credit's overall termination at the end of 2026.

IRC Sections Changed:

Section 112002 primarily amends **Section 30D** of the Internal Revenue Code. Specifically:

- Section 30D(h) is redesignated as Section 30D(i).
- Section 30D(i) (as redesignated) is amended by striking the previous termination date ("December 31, 2032") and inserting the new date ("December 31, 2026").
- A new Section 30D(h) is inserted, containing the special rule regarding the manufacturer limitation for taxable year 2026.

Effective Date:

The amendments made by Section 112002 are effective for **vehicles placed in service after December 31, 2025**.

Section 112003 Termination of Qualified Commercial Clean Vehicles Credit

Experienced tax CPAs advising business clients on vehicle acquisitions, particularly those targeting clean energy incentives, should be aware of a proposed significant change affecting the Qualified Commercial Clean Vehicles Credit. Section 112003 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to terminate this credit. The details are further outlined in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT).

Details of the Proposed Change (Sec. 112003)

Section 112003, explicitly titled "TERMINATION OF QUALIFIED COMMERCIAL CLEAN VEHICLES CREDIT", aims to end the availability of the credit for qualified commercial clean vehicles. Under present law, a credit is available for qualified commercial clean vehicles placed in service by a taxpayer. This credit was previously scheduled to terminate for vehicles placed in service after December 31, 2032.

The proposed legislation, through Section 112003, **repeals the commercial clean vehicle credit**. This means that, generally, the credit would no longer be available for vehicles acquired after the effective date of the proposal.

An **exception** to this termination is provided for vehicles placed in service before January 1, 2033, which are acquired pursuant to a written binding contract entered into before May 12, 2025. For vehicles meeting these specific criteria, the credit's availability would extend until the former termination date or placement in service deadline.

IRC Sections Changed:

The primary Internal Revenue Code section directly amended by Section 112003 is **Section 45W(g)**. This subsection previously contained the termination rule for the credit. The proposed amendment restructures or replaces Section 45W(g) to implement the repeal.

Effective Date:

The proposed change to terminate the Qualified Commercial Clean Vehicles Credit is effective for **vehicles acquired after December 31, 2025**.

Section 112004 Termination of Alternative Fuel Vehicle Refueling Property Credit

Experienced tax CPAs advising clients on investments in alternative fuel vehicle refueling infrastructure should be aware of a significant change proposed by Section 112004 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, as described in the "Joint Committee on Taxation's Explanation of the Provisions" (hereinafter, the JCT), proposes to terminate the credit for alternative fuel vehicle refueling property.

Details of the Proposed Change (Sec. 112004)

Section 112004, titled "TERMINATION OF ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT", targets the tax credit available for qualified alternative fuel vehicle refueling property. Under present law, a credit is available for such property placed in service by a taxpayer. This credit was previously scheduled to not apply to property placed in service after December 31, 2032.

The proposed legislation, through Section 112004, **repeals the alternative fuel vehicle refueling property credit**. This means that, generally, the credit would no longer be available for property placed in service after the effective date of the proposal.

IRC Sections Changed:

The primary Internal Revenue Code section directly amended by Section 112004 is **Section 30C(i)**. This subsection previously contained the termination date for the credit. The proposed amendment strikes the language indicating the credit terminates after "December 31, 2032" and replaces it with "December 31, 2025".

Effective Date:

The proposed change to terminate the Alternative Fuel Vehicle Refueling Property Credit is effective for **property placed in service after December 31, 2025**.

Section 112005 Proposed Termination of the Energy Efficient Home Improvement Credit

As experienced tax professionals, staying abreast of potential legislative changes is crucial for advising clients effectively. The proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," offered by Mr. Smith of Missouri, includes significant changes to various tax credits and deductions. One notable provision, Section 112005, targets the **termination of the energy efficient home improvement credit**,.

Present Law Overview

According to the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, present law provides individuals with a **30-percent credit** for amounts paid or incurred for qualified energy efficiency improvements, residential energy property expenditures, and home energy audits under **Section 25C** of the Internal Revenue Code,.

Qualified energy efficiency improvements include expenses for insulation, exterior windows and skylights, exterior doors, and certain roofing materials installed on a dwelling unit located in the United States and owned or used by the taxpayer as their principal residence. Residential energy property expenditures cover costs for qualified energy property placed in service, such as central air conditioners, furnaces, hot water boilers, heat pumps, water heaters, biomass stoves, and certain electrical components, provided they meet or exceed specified energy efficiency standards.

Under present law, the Section 25C credit does not apply to property placed in service after December 31, 2032,.

Proposed Changes under Section 112005

Section 112005 of the proposed bill, titled "Termination of Energy Efficient Home Improvement Credit," directly addresses the future of this credit. The proposal, as described by the JCT, would **repeal the energy efficient home improvement credit entirely**.

Specifically, the proposed legislation would amend **Section 25C(i)** of the Internal Revenue Code to state that this section shall not apply with respect to any property placed in service after December 31, 2025,.

A conforming amendment is also proposed to **Section 25C(d)(2)(C)**, which describes qualifying oil furnaces or hot water boilers. This paragraph would be amended to apply to such property placed in service **before January 1, 2026**. This aligns the description of eligible property with the proposed termination date.

Effective Date

The amendments made by Section 112005 are proposed to apply to **property placed in service after December 31, 2025**,,. This means that under the proposed legislation, the energy efficient home improvement credit would generally not be available for expenditures on property installed on or after January 1, 2026.

Section 112006 Proposed Termination of the Residential Clean Energy Credit

Tax professionals are closely monitoring legislative proposals emanating from Congress. The proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," introduced by Mr. Smith of Missouri, contains numerous provisions impacting existing tax credits and deductions. Among these is Section 112006, which proposes the **termination of the residential clean energy credit**.

Present Law Overview

As detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, present law under **Section 25D** of the Internal Revenue Code provides an income tax credit for individuals. This credit is available for the purchase of qualified clean energy property installed on a dwelling unit located in the United States and used as a residence by the taxpayer. Eligible property includes qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology.

The JCT Explanation describes various aspects of the credit, such as the definition of qualified fuel cell property, qualified solar electric property, qualified solar water heating property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. It also notes that the credit is nonrefundable and may be carried forward.

Under present law, as indicated by the text of the proposed bill, the residential clean energy credit currently does not apply to property placed in service after December 31, 2034. The JCT Explanation also notes this current expiration date.

Proposed Changes under Section 112006

Section 112006 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" is explicitly titled "TERMINATION OF RESIDENTIAL CLEAN ENERGY CREDIT". The proposal, as described by the JCT, would **repeal the residential clean energy credit**.

The primary mechanism for this repeal in the bill is the amendment of **Section 25D(h)** of the Internal Revenue Code. Section 25D(h), which currently provides the December 31, 2034, termination date, would be amended by striking "December 31, 2034" and inserting "**December 31, 2025**".

Additionally, the proposal includes **conforming amendments to Section 25D(g)**. Specifically, Section 25D(g) would be amended by striking paragraphs (4) and (5) and by inserting "and" after the comma in paragraph (2) and replacing the existing language in paragraph (3) regarding the percentage and date with "**January 1, 2026, 30 percent.**". These amendments align the descriptions and phase-out percentages (under current law) with the proposed earlier termination date.

Effective Date

Both the proposed bill text and the JCT Explanation are clear regarding the effective date of these changes. The amendments made by Section 112006 are proposed to apply to **property placed in service after December 31, 2025**. This means that, if enacted as proposed, expenditures on qualifying residential clean energy property installed on or after January 1, 2026, would generally not be eligible for this credit.

Section 112007 Proposed Termination of the New Energy Efficient Home Credit

Experienced tax CPAs understand the importance of monitoring potential shifts in tax legislation. The proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways &

Means Committee," put forth by Mr. Smith of Missouri, includes several provisions that would significantly alter or repeal existing tax credits. Among these is **Section 112007, titled "TERMINATION OF NEW ENERGY EFFICIENT HOME CREDIT"**.

Present Law Overview

The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, outlines the current state of the new energy efficient home credit under **Section 45L** of the Internal Revenue Code. This credit is available to an eligible contractor for each qualified new energy efficient home that they construct and that is subsequently acquired by a person for use as a residence. The credit amounts vary depending on the home's energy efficiency standards and whether it is a single-family or multi-family dwelling, ranging from $500 to $5,000 under present law. The JCT Explanation notes that, under current law, the Section 45L credit applies to homes purchased prior to January 1, 2033.

Proposed Changes under Section 112007

Section 112007 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" proposes to end the availability of this credit.

The proposed legislation achieves this by amending **Section 45L(h)** of the Internal Revenue Code. Section 45L(h), which currently contains the termination date for the credit, would be struck and replaced with new language.

The new text for Section 45L(h) would read: **"TERMINATION.—This section shall not apply with respect to any qualified new energy efficient home acquired after December 31, 2025 (December 31, 2026, in the case of any home for which construction began before May 12, 2025)."**.

The JCT Explanation confirms this, stating that the proposal generally repeals the credit for qualified new energy efficient homes acquired after December 31, 2025, but provides an exception for homes where construction began before May 12, 2025, in which case the credit is repealed for homes acquired after December 31, 2026.

Effective Date

The effective date for the amendments made by Section 112007 is proposed to be for **homes acquired after December 31, 2025**. This general rule aligns with the primary termination date in the amended statutory text. However, as noted in the proposed text of Section 45L(h) and the JCT Explanation, the specific rule regarding homes where construction began before May 12, 2025, extends the potential eligibility for the credit for those particular homes if acquired on or before December 31, 2026.

Section 112008 Proposed Phase-out and Restrictions on Clean Electricity Production Credit

Tax professionals must remain vigilant regarding potential changes to energy-related tax incentives, as proposed legislation continues to be debated. Section 112008 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," introduced by Mr. Smith of Missouri, addresses the **clean electricity production credit**, proposing significant phase-out and new restrictions.

Present Law Overview

As described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation,, present law provides a clean electricity production credit under **Section 45Y** of the Internal Revenue Code. This credit is available to a taxpayer who produces eligible electricity at a qualified facility and sells it to an unrelated person or, in some cases, consumes or stores it. The credit is available for electricity produced during the 10-year period beginning when the facility is originally placed in service. The credit is part of the general business credit.

Under current law, the Section 45Y credit begins to phase out in the later of 2032 or the calendar year when U.S. electricity production emissions reach a certain threshold (25 percent or less of 2022 levels). The phase-out is based on when construction of the facility begins, with percentage reductions applying in the second, third, and subsequent calendar years following the "applicable year".

Proposed Changes under Section 112008

Section 112008, titled "PHASE-OUT AND RESTRICTIONS ON CLEAN ELECTRICITY PRODUCTION CREDIT", proposes substantial modifications to the Section 45Y credit.

Phase-Out Acceleration and Modification: The proposal modifies the phaseout of the clean electricity production credit. The statutory text amends **Section 45Y(d)(1)** to apply the phase-out percentage to facilities "which is placed in service after December 31, 2028". It strikes existing paragraphs (2) and (3) of Section 45Y(d) and inserts a new paragraph (2) outlining a fixed phase-out schedule based on the calendar year the facility is placed in service,.

The proposed phase-out percentages are as follows,:

- For a facility placed in service during calendar year 2029, the phase-out percentage is 80 percent,.
- For a facility placed in service during calendar year 2030, the phase-out percentage is 60 percent,.

- For a facility placed in service during calendar year 2031, the phase-out percentage is 40 percent,.
- For a facility placed in service after December 31, 2031, the phase-out percentage is 0 percent,.

Restrictions Related to Prohibited Foreign Entities: The proposal introduces new restrictions based on the taxpayer's status and payments to prohibited foreign entities,. It amends **Section 7701(a)** by adding new paragraphs related to prohibited foreign entities.

- No Section 45Y credit is allowed under Section 38 for any taxable year beginning after the date of enactment if the taxpayer is a **specified foreign entity** (as defined in Section 7701(a)(51)(B)),.
- No Section 45Y credit is allowed under Section 38 for any taxable year beginning **two years after the date of enactment** if the taxpayer is a **foreign-influenced entity** (as defined in Section 7701(a)(51)(D)),.
- For taxable years beginning **two years after the date of enactment**, no credit is allowed if the taxpayer makes certain payments (dividends, interest, compensation, rentals, royalties, guarantees, or any other fixed, determinable, annual, or periodic amount) related to the production of electricity,. This disallowance applies if the payments are,:
    - To a single **prohibited foreign entity** (as defined in Section 7701(a)(52),) in an amount equal to or greater than five percent of the total such payments made by the taxpayer during the taxable year,.
    - To more than one **prohibited foreign entity** in an aggregate amount equal to or greater than 15 percent of such payments made by the taxpayer during the taxable year,. The proposal also modifies Section 50 to require 100 percent recapture of the Section 48E credit (referenced in the description of the Clean Electricity Investment Credit, which is subject to similar rules) for a specified taxpayer if an applicable payment is made during the 10-year period after the property is placed in service.

Repeal of Transferability: The proposal terminates the ability for eligible taxpayers to elect to transfer the clean electricity production credit under **Section 6418**,. The bill amends Section 6418(f)(1) by striking clause (vii) and adjusting references.

IRC Sections Changed

The primary Internal Revenue Code sections proposed to be changed by Section 112008 include:

- **Section 45Y(d)**, regarding the phase-out schedule,.
- **Section 6418(f)(1)**, regarding the transferability of credits,.
- **Section 7701(a)**, by adding new definitions related to prohibited foreign entities.

Effective Date

The effective dates for the amendments made by Section 112008 vary depending on the specific provision:

- **In general:** Except as otherwise provided, the amendments are proposed to apply to **taxable years beginning after the date of enactment of this Act**,.
- **Phase-out:** The modified phase-out applies based on the date the facility is **placed in service** (after December 31, 2028),. The rule itself is generally effective for taxable years beginning after enactment.
- **Restrictions related to specified foreign entities:** These restrictions apply to **taxable years beginning after the date of enactment**,.
- **Restrictions related to foreign-influenced entities and payments to prohibited foreign entities:** These restrictions apply to **taxable years beginning after the date that is 2 years after the date of enactment**,.
- **Repeal of transferability:** The repeal applies to facilities for which construction **begins after the date that is 2 years after the date of enactment**,.

Section 112009 Sweeping Changes Proposed for Clean Electricity Investment Credit (IRC Section 48E)

Tax professionals advising clients in the renewable energy sector must take immediate note of significant proposed changes to the clean electricity investment credit (Section 48E). Section 112009 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee," as described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, introduces an accelerated phase-out and new restrictions, fundamentally altering the credit's future availability and application.

Current Landscape: Section 48E at a Glance

Under present law, the clean electricity investment credit under **Section 48E** is available as a business energy credit for a qualified investment in any qualified facility or energy storage technology. The credit is typically calculated as a percentage of the qualified investment. While a base rate exists, an increased alternative rate is available for facilities meeting certain size limitations or prevailing wage and apprenticeship requirements. Present law includes provisions for bonus credits, including domestic content and energy communities adders. The credit can also be transferred under Section 6418,.

Proposed Modifications under Section 112009

Section 112009, titled "PHASE-OUT AND RESTRICTIONS ON CLEAN ELECTRICITY INVESTMENT CREDIT", proposes substantial alterations to the Section 48E credit, impacting both its duration and eligibility.

Accelerated Phase-Out

The proposal significantly modifies the phase-out schedule for the clean electricity investment credit. Currently, the JCT Explanation does not explicitly detail a fixed phase-out for Section 48E under present law, although Section 45Y, the related production credit, has an emissions-based trigger (or 2032, if later). The proposed changes accelerate the reduction of the Section 48E credit based on the date the facility or energy storage technology is placed in service, rather than an emissions-based trigger or a later date,.

The statutory text amends **Section 48E(e)** to state that the phase-out percentage applies to facilities "which is placed in service after December 31, 2028". It replaces the existing phase-out rules with a fixed schedule:

- For a facility or energy storage technology placed in service during **calendar year 2029**, the credit is reduced by **20 percent**.
- For a facility or energy storage technology placed in service during **calendar year 2030**, the credit is reduced by **40 percent**.
- For a facility or energy storage technology placed in service during **calendar year 2031**, the credit is reduced by **60 percent**.
- For a facility or energy storage technology placed in service **after December 31, 2031**, the credit is reduced by **100 percent**.

This effectively means **no Section 48E credit would be available** for qualified investments in facilities or energy storage technology placed in service after December 31, 2031.

Restrictions Related to Prohibited Foreign Entities

The proposal introduces new restrictions on credit eligibility based on connections to "prohibited foreign entities", as defined in proposed new paragraphs under **Section 7701(a)**,,,,,. These restrictions apply at different times.

- No Section 48E credit is allowed for any taxable year beginning **after the date of enactment** if the taxpayer is a **specified foreign entity** (as defined in Section 7701(a)(51)(B)).
- No Section 48E credit is allowed for any taxable year beginning **after the date that is two years after the date of enactment** if the taxpayer is a **foreign-influenced entity** (as defined in Section 7701(a)(51)(D)).

- For taxable years beginning **after the date that is two years after the date of enactment**, no credit is allowed if the taxpayer makes certain payments related to the production of electricity or storage of energy to a prohibited foreign entity or entities. This disallowance applies if the total payments (dividends, interest, compensation, rentals, royalties, guarantees, or any other fixed, determinable, annual, or periodic amount) to a **single prohibited foreign entity** are equal to or greater than **five percent** of the total such payments made by the taxpayer during the taxable year, or to **more than one prohibited foreign entity** in an aggregate amount equal to or greater than **15 percent** of such payments made by the taxpayer during the taxable year.

Repeal of Transferability

The proposal also terminates the ability for eligible taxpayers to elect to transfer the clean electricity investment credit under **Section 6418**. While the bill text excerpt for Section 112009 primarily shows amendments to Section 48E(e), the JCT Explanation clearly states that the proposal terminates transferability of the credit. Further sections in the bill text reference Section 6418(f)(1)(A) *as amended by sections 112008 and 112009*,, confirming that Section 112009 intends to impact Section 6418.

Modification to Recapture Rules

The proposal modifies **Section 50** to require 100 percent recapture of the Section 48E credit for a specified taxpayer if an applicable payment (as described in the restrictions related to prohibited foreign entities) is made during the 10-year period beginning on the date the investment credit property was placed in service. A "specified taxpayer" for this purpose is a taxpayer who has been allowed a credit under Section 48E(a) for any taxable year beginning after the date which is two years after the date of enactment.

IRC Sections Changed

Based on the proposed language in the "Tax Provisions...", and the JCT Explanation,,,, the primary Internal Revenue Code sections proposed to be changed by Section 112009 include:

- **Section 48E(e)**, regarding the phase-out schedule,.
- **Section 7701(a)**, by adding new definitions related to prohibited foreign entities,.
- **Section 6418(f)(1)**, regarding the transferability of credits,.
- **Section 50**, regarding the recapture of the credit.

Effective Dates

The amendments made by Section 112009 have staggered effective dates,:

- **In general:** Except for the repeal of transferability, the amendments are generally proposed to apply to **taxable years beginning after the date of enactment of this Act**.
- **Phase-out:** The modified phase-out rules apply based on when the facility or energy storage technology is **placed in service**, specifically after December 31, 2028,. The rule itself is within the scope of the general effective date.
- **Restrictions related to specified foreign entities:** These restrictions apply to **taxable years beginning after the date of enactment**,.
- **Restrictions related to foreign-influenced entities and certain payments to prohibited foreign entities:** These restrictions apply to **taxable years beginning after the date that is 2 years after the date of enactment**,.
- **Repeal of transferability:** The repeal applies to facilities and energy storage technology for which construction **begins after the date that is 2 years after the date of enactment**,.
- **Modification to Recapture Rules (Section 50):** This modification applies to a specified taxpayer (one allowed a credit for a taxable year beginning after 2 years after enactment) who makes an applicable payment during the 10-year recapture period. This aligns with the effective date for the payment restrictions.

Section 112010 Repeal of Clean Fuel Production Credit Transferability (IRC Section 6418)

Experienced tax CPAs advising clients in the clean energy and transportation fuel sectors should be aware of a significant proposed change affecting the **clean fuel production credit** (Section 45Z). Section 112010 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a **repeal of the credit's transferability**, as detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation. This provision would terminate the ability to transfer the Section 45Z credit for fuel produced after a specific date.

Present Law: Clean Fuel Production Credit and Transferability

Under present law, the clean fuel production credit is a business credit available for the production of qualified clean hydrogen and other transportation fuels that meet certain lifecycle greenhouse gas emissions rate requirements. The credit is calculated based on the kilograms of qualified clean hydrogen or the amount of transportation fuel produced and sold to an unrelated person during the taxable year, or consumed/stored by the taxpayer, at a qualified facility during the 10-year period beginning when the facility was originally placed in service. Section 45Z does not apply to transportation fuel sold after December 31, 2027.

Present law, under **Section 6418**, allows an eligible taxpayer to elect to transfer all or a portion of certain eligible credits, including the clean fuel production credit determined with respect to that taxpayer for any taxable year, to an unrelated taxpayer.

Proposed Repeal under Section 112010

Section 112010, titled "REPEAL OF TRANSFERABILITY OF CLEAN FUEL PRODUCTION CREDIT," directly targets the ability to utilize the transferability provisions of Section 6418 for the Section 45Z credit.

The proposal **terminates the transferability** of the clean fuel production credit. This means that for fuel produced after a specific date, the eligible taxpayer who produces the fuel and determines the credit would no longer be able to elect to transfer that credit to an unrelated taxpayer under Section 6418.

IRC Sections Changed

Based on the proposed text in the "Tax Provisions...", Section 112010 directly amends **Section 6418(f)(1)(A)**. The text specifies that Section 6418(f)(1)(A), "as amended by sections 112008 and 112009," is amended by striking clause (viii). This indicates that Section 6418 is the code section being modified to eliminate the transferability of the Section 45Z credit. While Section 45Z defines the credit itself, Section 112010 acts upon the transferability mechanism provided elsewhere in the Code (Section 6418).

Section 112011 Proposed Restrictions and Repeal of Transferability for Carbon Oxide Sequestration Credit (Section 45Q)

Experienced tax CPAs advising clients involved in carbon capture, utilization, and sequestration (CCUS) projects should take note of significant proposed changes to the **carbon oxide sequestration credit** (Section 45Q). Section 112011 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces new restrictions related to foreign entities and, critically, proposes a **repeal of the credit's transferability**. These changes are further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Present Law: Carbon Oxide Sequestration Credit and Transferability

Present law provides a general business credit under Section 45Q for the capture and sequestration of carbon oxide. Taxpayers can claim this credit over a 12-year period beginning on the date the carbon capture equipment is originally placed in service. The credit rates vary depending on the method of disposal or utilization and when the carbon capture equipment was placed in service.

Present law, under **Section 6418**, generally allows an eligible taxpayer to elect to transfer all or a portion of certain eligible credits, including the carbon oxide sequestration credit determined with respect to that taxpayer, to an unrelated taxpayer.

Present law does not currently include explicit restrictions on claiming the Section 45Q credit based on whether the taxpayer is a foreign entity or foreign-influenced entity.

Proposed Changes under Section 112011

Section 112011, titled "RESTRICTIONS ON CARBON OXIDE SEQUESTRATION CREDIT," introduces two key changes to the Section 45Q landscape.

Foreign Entity Restrictions

The proposal adds new restrictions related to foreign entities that would limit eligibility for the Section 45Q credit.

- **Specified Foreign Entities:** Under the proposal, no Section 45Q credit determined under Section 38 would be allowed for any taxable year beginning after the date of enactment if the taxpayer is a specified foreign entity, as defined in **Section 7701(a)(51)(B)**. Section 112011(a) of the "Tax Provisions..." adds a new paragraph (10) to Section 45Q(f) to implement this.
- **Foreign-Influenced Entities:** Additionally, the proposal disallows the Section 45Q credit for any taxable year beginning two years after the date of enactment if the taxpayer is a foreign-influenced entity, as defined in **Section 7701(a)(51)(D)**. This restriction is also added to Section 45Q(f).

Repeal of Transferability

The proposal also **terminates the transferability of the carbon oxide sequestration credit**. This means that eligible taxpayers would no longer be able to elect to transfer the Section 45Q credit to an unrelated taxpayer under Section 6418 for certain carbon capture equipment.

Section 112011(b) of the "Tax Provisions..." states that Section 6418(f)(1)(A), as amended by sections 112008, 112009, and 112010, is further amended by striking clause (iv). This amendment to **Section 6418(f)(1)(A)** removes the Section 45Q credit from the list of eligible credits for transferability.

IRC Sections Changed

Section 112011 directly amends two key sections of the Internal Revenue Code:

- **Section 45Q(f):** Section 112011(a) adds a new paragraph (10) to Section 45Q(f) to incorporate the restrictions related to specified foreign entities and foreign-influenced entities.
- **Section 6418(f)(1)(A):** Section 112011(b) amends Section 6418(f)(1)(A) by striking the clause that lists the carbon oxide sequestration credit (Section 45Q) as an eligible credit for transfer.

Effective Dates

The effective dates for the changes introduced by Section 112011 differ for the two types of modifications:

- **Foreign Entity Restrictions:** The amendments related to specified foreign entities (Section 7701(a)(51)(B)) apply to taxable years beginning **after the date of enactment** of the Act. The restrictions related to foreign-influenced entities (Section 7701(a)(51)(D)) apply to taxable years beginning **two years after the date of enactment**. The JCT Explanation confirms these effective dates.
- **Repeal of Transferability:** The repeal of transferability for the Section 45Q credit applies to carbon capture equipment the construction of which **begins after the date that is two years after the date of enactment** of the Act. The JCT Explanation explicitly states this effective date for the repeal of transferability.

Section 112012 Proposed Phase-out and Restrictions on Zero-Emission Nuclear Power Production Credit (Section 45U)

Experienced tax CPAs advising clients in the nuclear energy sector should be aware of proposed changes impacting the **zero-emission nuclear power production credit** under Section 45U of the Internal Revenue Code. Section 112012 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a phase-out schedule, new restrictions related to foreign entities, and the repeal of transferability for this credit. These details are further explained in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Present Law: Zero-Emission Nuclear Power Production Credit

Present law provides a zero-emission nuclear power production credit under Section 45U for electricity produced and sold by a taxpayer from a qualified nuclear power facility. The base credit rate is **0.3 cents per kilowatt-hour**. The total credit amount is subject to a reduction based on the facility's gross receipts, intended to limit the credit when electricity prices are high. This base credit rate and the reduction threshold amount are adjusted for inflation. If certain prevailing wage requirements are met, the credit amount is multiplied by five.

Under Section 6418, eligible taxpayers may currently elect to transfer all or a portion of a zero-emission nuclear power production credit to an unrelated taxpayer.

Present law for the Section 45U credit does not currently include explicit restrictions based on whether the taxpayer is a specified foreign entity or a foreign-influenced entity.

Proposed Changes under Section 112012

Section 112012, titled "PHASE-OUT AND RESTRICTIONS ON ZERO-EMISSION NUCLEAR POWER PRODUCTION CREDIT," makes several key modifications to the Section 45U credit.

Credit Phase-Out

The proposal introduces a **phase-out schedule** for the Section 45U credit based on the taxable year in which the electricity is produced and sold. For taxable years beginning after December 31, 2028, the otherwise allowable credit amount would be multiplied by a phase-out percentage.

The proposed phase-out percentages are:

- **80 percent** for taxable years beginning in calendar year 2029.
- **60 percent** for taxable years beginning in calendar year 2030.
- **40 percent** for taxable years beginning in calendar year 2031.
- **0 percent (no credit)** for taxable years beginning in calendar year 2032 or later.

Foreign Entity Restrictions

The proposal adds new restrictions based on foreign ownership and influence.

- **Specified Foreign Entities:** No Section 45U credit would be allowed under Section 38 for any taxable year beginning after the date of enactment if the taxpayer is a specified foreign entity, as defined in Section 7701(a)(51)(B).
- **Foreign-Influenced Entities:** No Section 45U credit would be allowed under Section 38 for any taxable year beginning **two years after the date of enactment** if the taxpayer is a foreign-influenced entity, as defined in Section 7701(a)(51)(D).

Repeal of Transferability

The proposal explicitly **terminates the transferability of the zero-emission nuclear power production credit**. This change means that eligible taxpayers would no longer be able to elect to transfer the Section 45U credit to an unrelated taxpayer under Section 6418. Section 112012(c) of the "Tax Provisions..." amends Section 6418(f)(1)(A) by striking clause (iv), which currently lists the Section 45U credit as transferable. The JCT Explanation confirms this repeal of transferability.

IRC Sections Changed

Section 112012 modifies two sections of the Internal Revenue Code:

- **Section 45U(e):** Section 112012(a) replaces the existing language of Section 45U(e) with the new phase-out schedule. Section 112012(b) adds foreign entity restrictions to Section 45U(e).
- **Section 6418(f)(1)(A):** Section 112012(c) amends Section 6418(f)(1)(A) to remove the Section 45U credit from the list of eligible credits for transfer.

Effective Dates

The effective dates for the proposed changes vary:

- **General Effective Date:** Except as otherwise provided, the amendments made by Section 112012 (which include the specified foreign entity restriction and other potential modifications not specifically tied to later dates) apply to taxable years beginning **after the date of enactment** of the Act.
- **Foreign-Influenced Entity Restriction:** This specific restriction applies to taxable years beginning **two years after the date of enactment**.
- **Phase-Out:** The credit phase-out schedule applies for taxable years beginning **after December 31, 2028**.
- **Repeal of Transferability:** The amendment repealing transferability applies to **electricity produced and sold after December 31, 2027**.

The JCT Explanation summarizes these effective dates.

Section 112013 Proposed Termination of Clean Hydrogen Production Credit (Section 45V)

Experienced tax CPAs advising clients involved in clean hydrogen production should be aware of significant proposed changes impacting the **clean hydrogen production credit** under Section 45V of the Internal Revenue Code. Section 112013 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces an accelerated termination date for the eligibility of new facilities. These details are further explained in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Present Law: Clean Hydrogen Production Credit

Under present law, Section 45V provides a business credit for the production of qualified clean hydrogen. This credit is a component of the general business credit under Section 38. The credit is available for qualified clean hydrogen produced by the taxpayer at a qualified clean hydrogen production facility during the **10-year period** beginning on the date such facility was originally placed in service. The amount of the credit is determined by multiplying the kilograms of qualified clean hydrogen produced by an applicable amount. Taxpayers may elect either a direct payment or transfer the credits in lieu of the credit.

Under the terms of present law in Section 45V(c)(3)(C), the clean hydrogen production credit generally does not apply to facilities where construction begins after **December 31, 2032**.

Proposed Changes under Section 112013

Section 112013 is titled "TERMINATION OF CLEAN HYDROGEN PRODUCTION CREDIT". The core proposal made by this section is to **accelerate the date after which new facilities are no longer eligible for the credit**.

Specifically, Section 112013(a) of the "Tax Provisions..." amends Section 45V(c)(3)(C) by striking "January 1, 2033" and inserting "January 1, 2026". The JCT Explanation confirms that the proposal terminates the clean hydrogen production credit for facilities that begin construction after December 31, 2025.

The JCT Explanation also notes that the proposal similarly terminates the election to treat clean hydrogen production facilities as energy property for purposes of Section 48 for facilities where construction begins after December 31, 2025.

IRC Sections Changed

Section 112013 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" makes a specific amendment to the Internal Revenue Code:

- **Section 45V(c)(3)(C):** Section 112013(a) directly modifies this subsection to change the date after which the credit no longer applies for new construction.

Effective Date

The effective date for the amendment made by Section 112013 is tied to the start of construction of the facility. Section 112013(b) of the "Tax Provisions..." states that the amendment applies to facilities the construction of which begins **after December 31, 2025**. This means that facilities starting construction on or after January 1, 2026, would generally no longer be eligible for the Section 45V credit.

Section 112014 Proposed Phase-out and Restrictions on Advanced Manufacturing Production Credit (Section 45X)

Experienced tax CPAs with clients in the manufacturing sector, particularly those producing clean energy components, should take note of significant proposed changes affecting the **advanced manufacturing production credit** under Section 45X of the Internal Revenue Code. Section 112014 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces new restrictions and accelerates the phase-out and termination dates for this credit. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further details on these proposed modifications.

Present Law: Advanced Manufacturing Production Credit

Under present law, Section 45X provides a credit for eligible components produced by a taxpayer and sold to an unrelated person during the taxable year. This must occur within the taxpayer's trade or business. Eligible components are defined to include solar energy components (such as solar modules, photovoltaic cells, and polysilicon), wind energy components (like blades, nacelles, and towers), certain inverters, qualifying battery components (electrode active materials, battery cells, and modules), and applicable critical minerals. The credit is generally calculated per unit of eligible component produced and sold [1209 in source 127 - reference error in source, this seems to be a section reference within the larger act/bill]. Section 45X currently includes a phase-out schedule based on calendar year.

Proposed Changes under Section 112014

Section 112014, titled "Phase-out and Restrictions on Advanced Manufacturing Production Credit", introduces several key modifications. The JCT Explanation notes that the proposal adds several restrictions and accelerates the termination of the credit.

The core proposed changes include:

- **Restrictions Related to Prohibited Foreign Entities:**
  - No credit is allowed for any taxable year beginning after the date of enactment if the taxpayer is a specified foreign entity (as defined in section 7701(a)(51)(B)).
  - No credit is allowed for any taxable year beginning two years after the date of enactment if the taxpayer is a foreign-influenced entity (as defined in section 7701(a)(51)(D)).
- **Restrictions Related to Components Themselves:** For taxable years beginning two years after the date of enactment, an eligible component does not include:
  - Any property that includes material assistance from a prohibited foreign entity (as defined in section 7701(a)(52)).

    - Any property produced subject to a licensing agreement, valued in excess of $1,000,000, with a prohibited foreign entity (as defined in section 7701(a)(51)).
- **Modified Phase-out Schedule:** The proposal modifies the existing phase-out schedule for the credit.
    - For **wind energy components**, the credit would no longer apply to components sold after December 31, 2027. This accelerates the termination specifically for these components compared to the original schedule.
    - For **all other eligible components and applicable critical minerals**, the credit would no longer apply to components sold after December 31, 2031. This is reflected in the amendment striking the phase-out rate for calendar year 2032 and inserting a 0 percent rate after December 31, 2031.
- **Repeal of Transferability:** The proposal terminates the ability to transfer the credit (under Section 6418) that is attributable to components sold after December 31, 2027.

IRC Sections Changed

Section 112014 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" makes specific amendments to the Internal Revenue Code:

- **Section 45X(b)(3):** Section 112014(a) modifies this subsection to revise the phase-out schedule.
- **Section 6418(f)(1)(A):** Section 112014(c) amends this subsection to repeal the transferability of the credit, specifically striking clause (ix) and redesignating subsequent clauses. This change is confirmed by the JCT Explanation.

Effective Date

The effective dates for the amendments made by Section 112014 vary depending on the specific provision.

- **In General:** Except as specifically provided otherwise, the amendments are generally effective for taxable years beginning after the date of enactment of the Act. This includes the restrictions related to specified foreign entities.
- **Restrictions Related to Foreign-Influenced Entities and Component Requirements:** The restrictions related to foreign-influenced entities and the requirements regarding material assistance from or licensing agreements with prohibited foreign entities apply to taxable years beginning after the date that is **2 years after the date of enactment**.
- **Repeal of Transferability:** The amendment repealing the transferability of the credit applies to components sold after **December 31, 2027**.
- **Phase-out Modifications:** The changes to the phase-out schedule apply to components sold after the respective dates specified in the modified Section 45X(b)(3), specifically:
    - Wind energy components sold after December 31, 2027.

- Other components and minerals sold after December 31, 2031.

Section 112015 Proposed Phase-out and Restrictions on Energy Investment Credit (Section 48)

Experienced tax CPAs advising clients on investments in energy property should be aware of significant proposed changes impacting the **energy investment credit** under Section 48 of the Internal Revenue Code. Section 112015 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a new phase-out schedule and imposes restrictions on this credit. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides additional context for these proposed modifications.

Present Law: Energy Investment Credit

Under present law, Section 48 provides a business energy credit based on a percentage of the qualified investment in certain energy property placed in service during the taxable year . The base rate is generally 6 percent, which can be increased to 30 percent if certain requirements related to wage and apprenticeship are met, or for facilities below a certain output threshold . The credit applies to various types of energy property, including geothermal heat pump property, solar energy property, and certain other technologies. The credit for geothermal heat pump property, specifically referenced in Section 48(a)(3)(A)(vii), currently applies if construction begins before January 1, 2035. Section 48(a)(7) currently outlines a general phase-out schedule for certain energy properties based on the calendar year construction begins. The JCT Explanation notes that Section 48 credits can be transferred under Section 6418.

Proposed Changes under Section 112015

Section 112015, titled "Phase-out of Credit for Certain Energy Property", proposes several key modifications to the Section 48 credit. The JCT Explanation notes that the proposal modifies the phase-out and adds restrictions relating to prohibited foreign entities.

The core proposed changes include:

- **Modified Phase-out and Construction Deadline:**
    - Section 112015(a)(1) specifically amends the requirement for geothermal heat pump property (Section 48(a)(3)(vii)), changing the date by which construction must begin from before January 1, 2035, to before **January 1, 2032**.

    - Section 112015(a)(2) replaces the existing general phase-out schedule in Section 48(a)(7) with a new schedule based on when the construction of the property begins. For certain energy property (as described in Section 48(a)(3)(A)), the applicable percentage for the credit would be reduced based on the construction start date:
        - Construction beginning after December 31, 2028, and before January 1, 2030: **8.8 percent**.
        - Construction beginning after December 31, 2029, and before January 1, 2031: **7.6 percent**.
        - Construction beginning after December 31, 2030, and before January 1, 2032: **4.4 percent**.
        - Construction beginning after December 31, 2031: **0 percent**.
    - The JCT Explanation specifically discusses the phase-out for geothermal heat pump property, listing base credit rates of six percent, 5.2 percent, and 4.4 percent for construction beginning in specified periods before January 1, 2032. While the JCT focuses on geothermal, the bill text's amendment to Section 48(a)(7) applies more broadly to "certain energy property".
- **Restrictions Related to Prohibited Foreign Entities:** Section 112015(b) adds a new paragraph 48(a)(16) imposing restrictions related to prohibited foreign entities.
    - No credit would be allowed for any taxable year beginning after the date of enactment if the taxpayer is a specified foreign entity (as defined in section 7701(a)(51)(B)).
    - No credit would be allowed for any taxable year beginning two years after the date of enactment if the taxpayer is a foreign-influenced entity (as defined in section 7701(a)(51)(D)).
- **Repeal of Transferability (with Exception):** Section 112015(c) amends Section 6418(f)(1)(A)(iv) to terminate the transferability of the Section 48 credit. **However**, this repeal does *not* apply to the portion of the credit determined under Section 48(a)(3)(A)(vii), which relates to **geothermal heat pump property**. This means the ability to transfer the credit for geothermal heat pump property under Section 48 would be preserved, while transferability for other Section 48 properties would be terminated.

IRC Sections Changed

Section 112015 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" makes specific amendments to the Internal Revenue Code:

- **Section 48(a)(3)(vii):** Amended to change the construction deadline for geothermal heat pump property.
- **Section 48(a)(7):** Struck and replaced with a new paragraph detailing the phase-out schedule based on construction start dates.
- **Section 48(a)(16):** Added to impose restrictions related to prohibited foreign entities.

- **Section 6418(f)(1)(A)(iv):** Amended to repeal the transferability of the credit, with an exception for the credit related to geothermal heat pump property. The JCT Explanation also notes this change to Section 6418.

Effective Date

The effective dates for the amendments made by Section 112015 vary depending on the specific provision:

- **In General:** Except as specifically provided otherwise, the amendments generally apply to **taxable years beginning after the date of enactment** of the Act. This includes the restrictions related to specified foreign entities.
- **Restrictions Related to Foreign-Influenced Entities:** The restrictions related to foreign-influenced entities apply to taxable years beginning after the date that is **2 years after the date of enactment**.
- **Repeal of Transferability:** The amendment repealing the transferability of the credit applies to property the construction of which begins after the date that is **2 years after the date of enactment**.
- **Phase-out Modifications:** The changes to the phase-out schedule apply to property the construction of which begins after the dates specified in the new Section 48(a)(7) and to geothermal property constructed after the date specified in the amended Section 48(a)(3)(vii).

Section 112016 Publicly Traded Partnerships - New Qualifying Income from Hydrogen and Carbon Capture Activities Proposed

Experienced tax CPAs advising publicly traded partnerships (PTPs) or clients with interests in such entities should note a significant proposed change in how certain energy-related income is treated. Section 112016 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" would expand the definition of "qualifying income" for PTPs, potentially allowing those engaged in hydrogen storage or carbon capture activities to maintain their partnership classification for U.S. federal income tax purposes. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further details on this proposal.

Present Law: Publicly Traded Partnerships and Qualifying Income

Under present law, a PTP is generally treated as a corporation for federal income tax purposes unless 90 percent or more of its gross income for the taxable year is "qualifying income". Qualifying income is defined in Section 7704(d)(1) and includes passive-type income (such as interest, dividends, real property rents, and gain from the sale of real property), as well as certain income and gains derived from activities related to minerals or natural resources. The JCT Explanation notes that income derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource qualifies.

Proposed Changes under Section 112016

Section 112016, titled "Income from Hydrogen Storage, Carbon Capture Added to Qualifying Income of Certain Publicly Traded Partnerships Treated as Corporations," proposes to **expand the definition of qualifying income** under Section 7704(d)(1)(E).

The proposal specifically adds income and gains with respect to the following activities to the list of qualifying income sources:

- The **transportation or storage of sustainable aviation fuel** (as described in sections 6426(k) or 40B).
- The **transportation or storage of liquified hydrogen**.
- The **transportation or storage of compressed hydrogen**.
- The **generation, availability for such generation, or storage of electric power**.
- The **capture of carbon dioxide by a qualified facility**. The JCT Explanation clarifies that a "qualified facility" for this purpose is defined as any industrial facility or direct air capture facility in which not less than 50 percent of the total carbon oxide production is qualified carbon oxide.

The JCT Explanation reiterates that the proposal expands the definition of qualifying income of a publicly traded partnership to include income and gains from these specific activities.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112016 is **Section 7704(d)(1)(E)**.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112016 shall apply to **taxable years beginning after December 31, 2025**.

Section 112017 Proposed Changes to Sports Franchise Amortization Under Section 197

Experienced tax CPAs should be aware of a proposed change affecting the amortization of certain sports franchises and related intangibles. Section 112017 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces a significant limitation on the amount of the adjusted basis of such assets that can be amortized under Section 197. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides a description of this proposal.

Present Law: Amortization of Section 197 Intangibles

Under present law Section 197, an "amortizable section 197 intangible" held in connection with a trade or business is generally amortizable on a straight-line basis over 15 years. Section 197 intangibles include various assets such as goodwill, going concern value, workforce in place, and importantly, franchises, trademarks, or trade names.

Proposed Changes under Section 112017

Section 112017, titled "Limitation on Amortization of Certain Sports Franchises", proposes to **limit the application of Section 197 amortization** for specific types of franchises.

According to the proposal, in the case of any amortizable section 197 intangible which is a franchise engaged in **professional football, basketball, baseball, hockey, soccer, or other professional sport**, or any item acquired in connection with such a franchise, the following rules would apply:

- **Section 197 amortization would only apply to 50 percent of the adjusted basis of such intangible**.
- **Any amortization allowable with respect to the remainder of such adjusted basis shall be determined under Section 167**.

The JCT Explanation confirms that the proposal "excludes 50 percent of the adjusted basis of an amortizable section 197 asset from amortization" for these specified professional sports franchises or items acquired in connection with them.

IRC Sections Changed

The primary Internal Revenue Code section directly amended by Section 112017 is **Section 197**. Specifically, a new subsection (g) would be added to Section 197 to implement this limitation. The proposal also references **Section 167** as the method for determining amortization for the portion of the adjusted basis not subject to Section 197 amortization.

Effective Date

Both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation state that the amendments made by this section shall apply to **property acquired after the date of the enactment of this Act**.

Section 112018 Proposed Permanent Overhaul of SALT Deduction Limitation under Consideration

Experienced tax CPAs navigating the complexities of the State and Local Tax (SALT) deduction should pay close attention to a significant proposed change in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee." Section 112018 of this proposed legislation fundamentally alters the mechanism for limiting individual SALT deductions, replacing the current temporary cap with a permanent denial of certain taxes under a different Internal Revenue Code (IRC) section. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides detailed insights into this proposal.

Present Law: Temporary SALT Cap

Under present law, Section 164 generally allows individuals to deduct certain state and local taxes, including income taxes, sales taxes, and property taxes, paid or accrued during the taxable year. However, for taxable years beginning after December 31, 2017, and before January 1, 2026, Section 164(b)(6) imposes a temporary limitation. During this period, the aggregate amount of state and local taxes taken into account under Section 164(a)(1), (2), and (3) and Section 164(b)(5) that an individual may deduct is limited to **$10,000 ($5,000 in the case of a married individual filing a separate return)**. This limitation does not apply to foreign taxes described in Section 164(a)(3) or to taxes described in Section 164(a)(1) and (2) which are paid or accrued in carrying on a trade or business or an activity described in Section 212. Absent legislative action, this temporary limitation is scheduled to expire for taxable years beginning after December 31, 2025.

Section 275 of the IRC generally lists certain taxes for which no deduction is allowed.

Proposed Changes under Section 112018

Section 112018, titled "Limitation on Individual Deductions for Certain State and Local Taxes, etc.," proposes to **remove the temporary $10,000 limitation** enacted by Public Law 115-97. Instead of reinstating the prior law's treatment of SALT deductions, the proposal introduces a **permanent denial** of deductions for certain state, local, and foreign taxes for individuals. This is accomplished by amending **Section 275** to add a new subsection (b).

Under the proposed Section 275(b), individuals would be **denied a deduction** for:

- **Disallowed foreign real property taxes**. This term is defined as foreign real property taxes *other than* those paid or accrued in carrying on a trade or business or an activity described in Section 212.

- The aggregate amount of **"specified taxes"**. Specified taxes are defined to include:
    - State and local and foreign property taxes, *other than* disallowed foreign real property taxes and State and local property taxes paid or accrued in a trade or business or an activity described in Section 212.
    - State and local income, war profits, excess profits, and general sales taxes. However, this category *excludes* income, etc. taxes paid or accrued by a partnership or S corporation in carrying on a **qualified trade or business** (within the meaning of Section 199A(d)(1)) if at least 75 percent of the gross receipts (within the meaning of Section 448(c)) of all trades or businesses under common control with such partnership or S corporation are from such qualified trade or business. Note that a **qualified trade or business** does not include a specified service trade or business (SSTB).
    - Any substitute payment (as defined in proposed Section 275(b)(5)).

The JCT Explanation clarifies that taxes paid or accrued by a partnership or S corporation would be taken into account separately by partners and shareholders. The proposal amends Section 702(a)(6) to explicitly include substitute payments and other taxes described in Section 275(b)(2) as items to be separately stated. Correspondingly, Section 703(a)(2)(B) is amended to disallow the deduction for these taxes at the partnership level. Similar rules are contemplated for S corporations. Section 6031 would be amended to require partnerships to report information necessary for partners to determine their limitation under Section 275(b).

Additionally, the proposal includes changes related to the capitalization of specified taxes by amending Section 266(c). It also amends Section 68, which relates to the overall limitation on itemized deductions (the "Pease limitation"), which is effectively reinstated under another section of the proposed bill. The JCT Explanation notes that the proposal's limitation on the tax benefit of itemized deductions applies after the application of any other limitation, such as the proposed limitation under Section 275(b).

IRC Sections Changed

The primary IRC sections amended by Section 112018 are:

- **Section 275**, by adding a new subsection (b) to deny the deduction for certain taxes for individuals.
- **Section 164(a)(3)**, with a conforming change to the definition of specified taxes.
- **Section 702(a)(6)**, to separately state certain taxes and substitute payments for partnerships.
- **Section 703(a)(2)(B)**, to disallow the deduction for these taxes at the partnership level.
- **Section 1363(b)**, for corresponding S corporation rules.
- **Section 6031**, by adding a new subsection (g) for reporting requirements by partnerships.
- **Section 266(c)**, regarding the capitalization of specified taxes.
- **Section 68**, regarding the limitation on tax benefit of itemized deductions.

- **Section 164(b)(6)** is effectively superseded or repealed by striking the end date of the temporary limitation.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112018 shall apply to **taxable years beginning after December 31, 2025**.

Section 112019 Proposed Entity Aggregation Rule for Executive Compensation Deduction Limit

Experienced tax CPAs should take note of a significant proposed change affecting the deduction limitation for executive compensation within controlled groups. Section 112019 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces an entity aggregation rule for the $1,000,000 deduction limitation under Section 162(m) of the Internal Revenue Code. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides details on this proposed modification.

Present Law: Section 162(m) Limitation

Under present law Section 162(m), a publicly held corporation generally cannot deduct applicable employee remuneration paid to a covered employee to the extent that the remuneration for the taxable year exceeds $1,000,000. Present law Section 162(m) does not currently include an entity aggregation rule. A "covered employee" includes, among others, the principal executive officer and principal financial officer at any time during the year, the three highest compensated officers (other than the PEO or PFO), and anyone who was a covered employee in a preceding taxable year beginning after December 31, 2016.

Proposed Changes under Section 112019

Section 112019, titled "Excessive employee remuneration from controlled group members and allocation of deduction," proposes to add an **entity aggregation rule to Section 162(m)**.

According to the proposal, in the case of any **publicly held corporation which is a member of a controlled group**, if any member of such controlled group provides applicable employee remuneration to an individual who is a specified covered employee of such controlled group, and the **aggregate amount of applicable employee remuneration provided by *all* such members** with respect to that specified covered employee exceeds **$1,000,000**, then the **deduction allowed to such members for that remuneration is limited to $1,000,000**.

The JCT Explanation clarifies that "controlled group" means any group treated as a single employer under the rules of Section 414(b), (c), (m), or (o). A "specified covered employee" includes individuals who are covered employees under the existing Section 162(m)(3)(A), (B), or (D) rules with respect to the publicly held corporation member, as well as any employee described in Section 162(m)(3)(C) if that subparagraph were applied by taking into account the employees of *all* members of the controlled group.

Allocation of Deduction: When remuneration is paid to a specified covered employee by more than one controlled group member and the aggregate exceeds $1,000,000, the proposal provides rules for allocating the $1,000,000 deduction limit among the controlled group members that paid remuneration to that employee. Each member's share of the $1,000,000 limitation is equal to **$1,000,000 multiplied by a fraction**. The numerator of the fraction is the amount of applicable employee remuneration provided by that specific member to the employee, and the denominator is the total aggregate applicable employee remuneration provided by all controlled group members to that employee.

For example, if two controlled group members each paid $750,000 in remuneration to the same specified covered employee (totaling $1,500,000), the aggregate deduction limit is $1,000,000 [109, 110 (fn 1312)]. The $1,000,000 deduction would be allocated equally between the two members because they each paid 50% of the total remuneration ($750,000 / $1,500,000 = 0.5) [111 (fn 1316)]. Each member would be allowed to deduct $500,000 of the $750,000 they paid, resulting in a $250,000 deduction disallowance for each member [111 (fn 1316)].

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112019 is **Section 162(m)**. The provision also references **Section 414(b), (c), (m), and (o)** for the definition of a controlled group and **Section 162(m)(3)(A), (B), (C), and (D)** for the definition of a specified covered employee.

Effective Date

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendment made by Section 112019 shall apply to **taxable years beginning after December 31, 2025**. The JCT Explanation confirms this effective date.

Section 112020 Proposed Expansion of Executive Compensation Excise Tax on Tax-Exempt Organizations

Experienced tax CPAs should be aware of a proposed significant expansion to the excise tax on excess compensation paid by tax-exempt organizations. Section 112020 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" introduces changes that would broaden the application of the existing excise tax under Section 4960 of the Internal Revenue Code. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further context and details on these proposed modifications.

Present Law: Section 4960 Excise Tax

Under present law Section 4960, an applicable tax-exempt organization may be subject to an excise tax on certain excessive employee remuneration and excess parachute payments. The tax rate is equal to the corporate tax rate (currently 21 percent). This tax applies to the sum of:

1. Any remuneration (other than an excess parachute payment) exceeding **$1,000,000** paid to a **covered employee** by the organization for a taxable year.
2. Any **excess parachute payment** paid by the organization to a covered employee.

A "covered employee" under present law Section 4960(c)(2) is generally defined as any employee (including any former employee) of an applicable tax-exempt organization who is one of the **five highest compensated employees** of the organization for the taxable year, or was a covered employee of the organization (or a predecessor) for any taxable year beginning after December 31, 2016 [111 (fn 1319), 114].

Proposed Changes under Section 112020

Section 112020, titled "Expanding application of tax on excess compensation within tax-exempt organizations," proposes to revise the definition of a **"covered employee"** under Section 4960(c)(2).

According to the proposed amendment, the term "covered employee" would mean **any employee (including any former employee) of an applicable tax-exempt organization or any related person or governmental entity**.

The JCT Explanation clarifies the impact of this revised definition:

- An employee **need not be one of the five highest compensated employees** of the organization for the taxable year.
- An employee **need not have been a covered employee** of the organization (or predecessor) in a taxable year beginning after December 31, 2016.
- An employee **also need not be an employee (or former employee) of an applicable tax-exempt organization itself** to be a covered employee. The definition would include individuals employed (or formerly employed) by a **related person or governmental entity**.

This change significantly broadens the pool of individuals whose compensation could potentially trigger the excise tax under Section 4960, effectively removing the "top five" limitation and extending the scope to employees of related entities who meet the criteria. The excise tax rate remains at 21% on remuneration exceeding $1,000,000 or on excess parachute payments for these defined covered employees.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112020 is **Section 4960(c)(2)**. The proposed change revises the definition of "covered employee" within that section.

Effective Date

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 112020 shall apply to **taxable years beginning after the date of the enactment of this Act**.

Section 112021 Proposed Tiered Excise Tax on Private College and University Endowments

Experienced tax CPAs should note significant proposed changes to the excise tax on the investment income of certain private colleges and universities. Section 112021 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" replaces the existing flat-rate excise tax under Section 4968 with a new tiered structure based on the institution's student adjusted endowment. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further details on this proposed modification.

Present Law: Section 4968 Excise Tax

Under present law Section 4968, an applicable educational institution is subject to an excise tax equal to **1.4 percent** of its net investment income for the taxable year. Net investment income is generally determined using rules similar to those for private foundations under Section 4940(c) and includes gross investment income (such as interest, dividends, rents, royalties, and capital gains) reduced by expenses incurred to earn that income. Certain types of income are excluded from gross investment income, such as interest from student loans made by the institution, rental income from student/faculty housing, and royalty income from intellectual property developed by students or faculty.

An "applicable educational institution" is an educational institution (other than a governmental entity) that had at least 500 students in the preceding taxable year, is not described in Section 170(b)(1)(A)(ii) (generally, a publicly supported school), and has an aggregate fair market value of assets held by it or related organizations (other than those used directly in carrying out the institution's exempt purpose) of at least $500,000 per student.

Present law also requires institutions subject to this tax to report certain information on their annual Form 990, including the number of students, the aggregate fair market value of assets, and the aggregate value of assets not used directly in carrying out the exempt purpose.

Proposed Changes under Section 112021

Section 112021, titled "Modification of excise tax on investment income of certain private colleges and universities," proposes to **replace the existing Section 4968** with a new version. The key change is a **tiered excise tax rate structure** based on the institution's **student adjusted endowment**.

Under the proposal, the excise tax imposed on an applicable educational institution for each taxable year would be equal to the **applicable percentage** of its net investment income. The applicable percentage varies depending on the student adjusted endowment:

- **1.4 percent** for institutions with a student adjusted endowment exceeding $500,000 and not exceeding $750,000.
- **7 percent** for institutions with a student adjusted endowment exceeding $750,000 and not exceeding $1,250,000.
- **14 percent** for institutions with a student adjusted endowment exceeding $1,250,000 and not exceeding $2,000,000.
- **21 percent** for institutions with a student adjusted endowment exceeding $2,000,000.

The proposal also includes an anti-avoidance directive. The Secretary of the Treasury is instructed to prescribe regulations or other guidance necessary to prevent avoidance of the tax. This includes guidance to prevent avoidance through restructuring endowment funds or other arrangements designed to reduce or eliminate the value of net investment income or assets subject to the tax.

Additionally, the proposal requires applicable educational institutions filing Form 990 to include on the return the number of eligible students used in calculating the student adjusted endowment, as well as the number of students determined based on daily attendance.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112021 is **Section 4968**, which is replaced in its entirety. The provision also makes changes to **Section 6033** regarding information reporting requirements for applicable educational institutions.

Effective Date

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 112021 shall apply to **taxable years beginning after December 31, 2025**.

Section 112022 Proposed Increase and Tiering of Excise Tax on Private Foundation Investment Income

Experienced tax CPAs should be aware of proposed changes to the excise tax on the net investment income of private foundations. Section 112022 of the proposed "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" would replace the current flat-rate excise tax under Section 4940 with a new tiered structure based on a foundation's asset value. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further details on this proposed modification.

Present Law: Section 4940 Excise Tax

Under present law Section 4940(a), private foundations (other than exempt operating foundations) that are recognized as exempt from Federal income tax under Section 501(a) are subject to an excise tax of **1.39 percent** on their net investment income. This 1.39 percent rate was established effective for taxable years beginning after December 20, 2019, revising a previous two percent rate.

Net investment income generally includes interest, dividends, rents, royalties, and capital gain net income, reduced by expenses incurred to earn this income. Present law also provides a mechanism to reduce the tax rate from two percent to one percent if the foundation's qualifying distributions meet certain criteria relative to its assets and average distributions over the preceding five years. The JCT Explanation notes that the prior two-percent rate could be reduced to one percent under certain circumstances. However, the description of the proposed changes focuses on the new tiered structure replacing the 1.39 percent rate, without explicitly mentioning how the prior rate reduction mechanism might apply to the new tiers.

Proposed Changes under Section 112022

Section 112022, titled "Increase in rate of tax on net investment income of certain private foundations," proposes to replace the existing 1.39 percent excise tax with a **tiered structure**. The proposed amendment modifies Section 4940(a) to strike "1.39 percent" and insert "the applicable percentage". It then adds new paragraphs to Section 4940(a) defining the "applicable percentage" based on the private foundation's asset value.

Under the proposal, the applicable percentage for any taxable year would be:

- **1.39 percent** for a private foundation with assets of **less than $50,000,000**.
- **2.78 percent** for a private foundation with assets of at least $50,000,000, and **less than $250,000,000**.
- **5 percent** for a private foundation with assets of at least $250,000,000, and **less than $5,000,000,000**.
- **10 percent** for a private foundation with assets of **at least $5,000,000,000**.

The JCT Explanation confirms these thresholds and corresponding rates. The proposal includes rules for determining the aggregate assets of the private foundation, which would include assets held by any "related organization". A related organization is defined as one that controls, is controlled by, or is controlled by one or more persons who also control the private foundation. Assets that are used directly in carrying out the private foundation's exempt purpose are excluded from this calculation.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112022 is **Section 4940(a)**. This includes striking existing language and adding new paragraphs to define the tiered applicable percentage.

Effective Date

The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" states that the amendments made by Section 112022 shall apply to **taxable years beginning after the date of the enactment of this Act**.

Section 112023 Proposed Disregard of Certain Employee-Owned Stock for Private Foundation Excess Business Holdings Tax

Experienced tax CPAs should note a specific modification proposed within Section 112023 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" concerning the excise tax on private foundation excess business holdings. This provision aims to disregard certain employee-owned stock for purposes of calculating these holdings, according to both the proposed bill text and the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Background: Private Foundation Excess Business Holdings

Private foundations are generally prohibited from holding excess business holdings. Section 4943 imposes an excise tax on a private foundation if it has excess business holdings for any taxable year. The permissible holdings vary depending on whether the business is a corporation, partnership, or sole proprietorship. For a corporation, the general rule limits the foundation's holdings, together with holdings of all disqualified persons, to 20 percent of the voting stock, or 35 percent if unrelated parties control the entity. Holdings exceeding these limits are considered "excess business holdings" subject to the tax.

Proposed Change under Section 112023

Section 112023, titled "Certain purchases of employee-owned stock disregarded for purposes of foundation tax on excess business holdings," proposes to modify the rules for determining excess business holdings by **disregarding certain employee-owned stock** when calculating the limitations under Section 4943.

Specifically, the proposal adds new clauses to Section 4943(c)(4)(A). A new clause (v) specifies that, for purposes of determining permitted holdings under clause (i), subparagraph (D), and paragraph (2) of Section 4943(c), certain voting stock shall be disregarded. This stock must meet the following criteria:

- It is **not readily tradable on an established securities market**.
- It is **purchased by the business enterprise on or after January 1, 2020**.
- It is purchased from a disqualified person (as defined in Section 4946(a)) other than a private foundation.
- It is purchased **pursuant to a plan** in which the business enterprise agrees that **all voting stock** which is held by employees of the business enterprise (or certain related entities) immediately after the purchase **will be acquired by an employee stock ownership plan** (as defined in Section 4975(e)(7)) or transferred to such employees as compensation **not later than 60 days after the purchase**.
- Immediately after the purchase, **more than 50 percent of the voting stock and value of the business enterprise is held by employees**.

This change effectively treats certain non-publicly traded voting stock, acquired by the business enterprise in connection with a transition to majority employee ownership via an ESOP or direct compensation, as not counting towards the private foundation's or disqualified persons' percentage of voting stock for purposes of the excess business holdings calculation.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112023 is **Section 4943(c)(4)(A)**.

Effective Date

According to the JCT Explanation, the proposal is effective for **taxable years beginning after the date of enactment**.

Section 112024 Proposed Increase in UBTI for Certain Fringe Benefit Expenses of Tax-Exempt Organizations

Experienced tax CPAs should be aware of a proposed change within Section 112024 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" that would directly impact the calculation of Unrelated Business Taxable Income (UBTI) for certain tax-exempt organizations. This provision, also detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, would increase UBTI by the amount of certain fringe benefit expenses for which a deduction is disallowed.

Present Law Context

Under present law, organizations exempt from tax under Section 501(a) are generally subject to tax on income derived from any unrelated trade or business. UBTI is typically calculated by subtracting expenses directly connected with carrying on the unrelated trade or business from the gross income derived from that business. Certain specific types of income, such as dividends, interest, royalties, and rent from real property, are generally excluded from UBTI. While the sources do not provide extensive detail on the present law treatment of the specific fringe benefits addressed by this proposal as they relate to UBTI, the JCT Explanation notes that these expenses were generally not subject to UBTI before this proposal.

Proposed Change under Section 112024

Section 112024, titled "Unrelated business taxable income increased by amount of certain fringe benefit expenses for which deduction is disallowed," proposes to modify Section 512(a) by adding a new paragraph (7). This new paragraph would **increase the unrelated business taxable income of an organization by any amount paid or incurred by such organization for certain specified fringe benefits**.

The expenses that would be added back to UBTI under this proposal are amounts paid or incurred for:

- **Any qualified transportation fringe benefit** (as defined in section 132(f)).
- **Any parking facility used in connection with qualified parking** (as defined in section 132(f)(5)(B)).
- **Any on-premises athletic facility** (as defined in section 132(j)(4)(B)).

The JCT Explanation clarifies that this proposal effectively makes these disallowed deductions (which, outside of the tax-exempt context, would typically apply to for-profit entities under provisions like prior law Section 274(a)(4)) add-backs to UBTI for tax-exempt organizations.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112024 is **Section 512(a)**.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112024 shall apply to **amounts paid or incurred after December 31, 2025**.

Section 112025 Proposed Treatment of Name and Logo Royalties as Unrelated Business Taxable Income

Experienced tax CPAs with tax-exempt organization clients should take note of a significant proposed change concerning Unrelated Business Taxable Income (UBTI) within Section 112025 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, as further described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, would specifically subject income derived from the sale or licensing of an organization's name or logo to UBTI.

Present Law on UBTI and Royalties

Under present law, organizations exempt from tax under Section 501(a) are generally taxed on income derived from an unrelated trade or business. An unrelated trade or business is typically defined as any trade or business the conduct of which is not substantially related to the organization's performance of its exempt purposes. Certain types of passive income, such as dividends, interest, and royalties, are generally excluded from the calculation of UBTI.

Proposed Change under Section 112025

Section 112025, titled "Name and logo royalties treated as unrelated business taxable income," proposes to modify the rules for determining UBTI by **treating income from the sale or licensing of a tax-exempt organization's name or logo as UBTI**.

The proposal achieves this by adding a new subsection (k) to Section 513. This new subsection states that any sale or licensing by an organization of any name or logo of the organization, including any trademark or copyright related to such name or logo, shall be treated as an unrelated trade or business regularly carried on by such organization.

Furthermore, the proposal amends Section 512(b) by adding a new paragraph (20). This new paragraph specifically provides that, **notwithstanding any other paragraph of Section 512(b)**, any income derived from any sale or licensing described in the new Section 513(k) shall be included as an item of gross income derived from an unrelated trade or business. This means the general exclusion for royalty income under Section 512(b)(1) would not apply to income from the sale or licensing of a name or logo.

IRC Sections Changed

The primary Internal Revenue Code sections amended by Section 112025 are **Section 513** and **Section 512(b)**.

Effective Date

The amendments made by Section 112025 shall apply to **taxable years beginning after December 31, 2025**.

Section 112026 Proposed Limitation on Research Income Exclusion from UBTI

Experienced tax CPAs should be aware of a proposed change under Section 112026 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" that would narrow the scope of the exclusion for research income when calculating Unrelated Business Taxable Income (UBTI). This provision is also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Present Law Context

Under present law, organizations exempt from tax under Section 501(a) are generally subject to tax on income derived from any unrelated trade or business. Certain types of income are specifically excluded from UBTI, including income derived from research performed under Section 512(b)(9). The JCT Explanation notes that under present law, Section 512(b)(9) allows for the exclusion of income "from research performed by such organization for any person". This exclusion, according to the JCT Explanation, applied not only to income derived from fundamental research available to the general public but also income from research performed for any person.

Proposed Change under Section 112026

Section 112026, titled "Exclusion of research income limited to publicly available research," proposes to modify the exclusion for research income from UBTI. The proposal amends **Section 512(b)(9)** by striking the phrase "from research" and inserting "from such research".

The JCT Explanation clarifies that this modification means an organization can only exclude from unrelated business taxable income the income that is derived from **fundamental research where the results are freely available to the general public**. Income from research performed by the organization for any person that is *not* fundamental research with results freely available to the general public would no longer be excluded under this section.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112026 is **Section 512(b)**. Specifically, it amends paragraph (9) of Section 512(b).

Effective Date

The amendment made by Section 112026 shall apply to **amounts received or accrued after December 31, 2025**.

Section 112027 Proposed Permanency and Modification of Excess Business Loss Limitation

Experienced tax CPAs should take note of Section 112027 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", which proposes significant changes to the limitation on excess business losses for noncorporate taxpayers. This provision is further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Background on Excess Business Losses

Under present law, an excess business loss of a taxpayer other than a corporation is **not allowed for the taxable year**. This limitation applies to taxable years beginning after December 31, 2017, and before January 1, 2029. The JCT Explanation clarifies that an excess business loss is generally the amount by which aggregate deductions attributable to trades or businesses of the taxpayer exceed the sum of aggregate gross income and gains attributable to such trades or businesses plus a threshold amount. For taxable years beginning in 2025, this threshold amount is $289,000, or $578,000 in the case of a joint return, indexed for inflation.

An excess business loss that is disallowed is treated as a **net operating loss ("NOL") for the taxable year** that is carried over to subsequent taxable years under the applicable NOL carryover rules. Under current rules, the amount of the taxpayer's NOL carried to a subsequent year is generally limited to 80 percent of the taxable income (determined without regard to certain deductions) for that subsequent taxable year.

Proposed Changes under Section 112027

Section 112027, titled "Limitation on excess business losses of noncorporate taxpayers," proposes two key changes:

1. **Permanency of the Limitation:** The provision would make permanent the limitation on excess business loss currently found in Section 461(l). This is achieved by striking the expiration date ("and before January 1, 2029,") from Section 461(l)(1). According to the JCT

Explanation, this means the limitation would continue to apply for taxable years beginning after December 31, 2028.

2. **Clarification for "Specified Losses":** The proposal also introduces a rule related to "specified losses" by adding a new subparagraph to Section 461(l)(2). A "specified loss" is defined as a loss that is disallowed under Section 461(l)(1) for a taxable year beginning after December 31, 2024. The JCT Explanation clarifies that the proposal amends Section 461(l)(2) to require that the full amount of such a specified loss **must increase the subsequent taxable year aggregate deductions** used in calculating the excess business loss under Section 461(l)(1) for that subsequent taxable year. This clarifies how losses previously disallowed under the excess business loss rules flow into the calculation in future years. The specified loss is still treated as an NOL arising from the original year.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112027 is **Section 461(l)**. Specifically, Section 461(l)(1) is amended to remove the expiration date, and Section 461(l)(2) appears to be amended to add the rule regarding specified losses.

Effective Date

The amendments made by Section 112027 shall apply to **taxable years beginning after December 31, 2025**.

Section 112028 Proposed 1% Floor on Corporate Charitable Contribution Deductions

Experienced tax CPAs should be aware of a proposed change under Section 112028 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" that would introduce a minimum threshold for the corporate charitable contribution deduction. This provision is also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation.

Present Law Context

While the sources primarily describe the proposed change rather than extensively detailing current law limitations, under present law, corporations are generally allowed to deduct charitable contributions up to 10 percent of their taxable income, calculated with certain modifications.

Proposed Change under Section 112028

Section 112028, titled "1-percent Floor on Deduction of Charitable Contributions Made by Corporations," proposes to modify the limitations on corporate charitable contribution deductions. The proposal amends **Section 170(b)(2)(A)**.

Specifically, the proposal would allow a corporate charitable contribution deduction **only to the extent that the aggregate of such contributions exceeds 1 percent of the taxpayer's taxable income**. This introduces a "one-percent floor" below which the deduction would not be permitted.

The existing limitation, stating that the aggregate of such contributions does not exceed 10 percent of the taxpayer's taxable income, is retained. Thus, contributions would need to fall between the 1 percent floor and the 10 percent limit to be deductible in the current year under this primary rule.

The proposal specifies that this limitation applies to "[a]ny charitable contribution (other than any contribution to which subparagraph (B) or subparagraph (C) applies or any contribution for which a deduction is not allowable under this section without regard to this paragraph)". This suggests certain types of contributions, such as those to certain private foundations (subparagraph (B)) or certain organizations described in section 170(b)(1)(E) (subparagraph (C)), may be subject to different rules. The JCT Explanation notes that the proposal does not modify the treatment of qualified conservation contributions by certain corporate farmers and ranchers or Native Corporations.

Additionally, Section 112028 makes a conforming amendment to **Section 170(d)(2)** regarding the application of the carryforward rules for corporations. This amendment modifies the text describing contributions that are not allowed as a deduction by reason of the 10 percent limit.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112028 is **Section 170(b)(2)(A)**, which imposes the percentage limitations on corporate charitable contribution deductions. A conforming amendment is also made to **Section 170(d)(2)**, relating to the carryforward of excess contributions.

Effective Date

The amendments made by Section 112028 shall apply to **taxable years beginning after December 31, 2025**.

Section 112029 Proposed "Unfair Foreign Tax" Enforcement Provision

Experienced tax CPAs should analyze Section 112029 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", titled "Enforcement of remedies against unfair foreign taxes." This provision, described further in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, proposes to implement tax increases on certain foreign persons from countries deemed to impose "unfair foreign taxes."

Details of the Proposed Provision

Section 112029 proposes to add a new **Section 899** to the Internal Revenue Code. This new section establishes a mechanism to increase specified U.S. tax rates applicable to certain foreign persons connected with foreign countries that are identified as imposing "unfair foreign taxes" and are designated as "discriminatory foreign countries".

Under this new provision, the **specified rate of tax** that applies to an **"applicable person"** is increased by an **"applicable number of percentage points"**. The JCT Explanation clarifies that the taxes subject to this potential increase generally include:

- The 30-percent tax rate imposed on U.S.-source income of a nonresident alien individual that is fixed or determinable annual or periodic (FDAP) income, certain capital gains, and other specified types of income.
- The individual income tax rates imposed on a nonresident alien individual's effectively connected income (ECI), but specifically limited to gains and losses from the disposition of a United States real property interest.
- The branch profits tax rate imposed under Section 884.
- The four-percent excise tax rate imposed under Section 4948 on the investment income of a foreign private foundation.

The proposal also specifies that the gross income exclusion provided under **Section 892(a)**, which exempts income of foreign governments from certain U.S. investments and bank interest, **shall not apply** to any government of a discriminatory foreign country.

The provision directs the Secretary of the Treasury to issue necessary regulations and guidance, including publishing a quarterly list of discriminatory foreign countries (along with each country's "applicable date") and notifying Congress of any changes to this list.

IRC Sections Changed

The primary Internal Revenue Code sections affected are the addition of **Section 899** and the modification of the application of **Section 892(a)**. The provision increases rates *imposed under* other sections (such as those related to FDAP, ECI on real property, branch profits tax, and foreign private foundation excise tax), but the sources do not explicitly state that those specific sections are amended, rather that the calculation results in an increased tax based on those underlying rates.

Effective Date

According to the JCT Explanation, the proposal **is effective on the date of enactment**. However, the application of the increased tax rates depends on when a foreign country is deemed "discriminatory" due to imposing an "unfair foreign tax." The effective dates for the rate increases are tiered:

- For the increased rates on FDAP income, ECI from U.S. real property gains, the branch profits tax, the excise tax on foreign private foundations, and modifications related to the Base Erosion and Anti-Abuse Tax (BEAT): These apply to **taxable years beginning after the later of** (i) 90 days after the date of enactment, (ii) 180 days after the date of enactment of the unfair foreign tax by the foreign country, or (iii) the first date that the unfair foreign tax of such country begins to apply.
- For the increased rates on U.S. withholding tax: These apply with respect to a person for **each calendar year beginning during the period** that such person is an "applicable person," provided certain listing requirements by the Secretary are met.

Section 112030 Proposed Reduction of Excise Tax on Firearms Silencers

Experienced tax CPAs should be aware of a proposed change under Section 112030 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, addresses the excise tax imposed on firearms, specifically silencers.

Present Law Context

Under present law, the National Firearms Act (the "NFA"), codified as chapter 53 of the Code, imposes excise taxes on the transfer and making of firearms. Generally, an excise tax is levied on firearms transferred. While rates vary for different types of firearms, the general tax rate is $200 for most transferred firearms. This includes silencers, which are defined under Section 5845(a)(7).

Proposed Change under Section 112030

Section 112030, titled "Reduction of Excise Tax on Firearms Silencers," proposes to modify the excise tax rates on transferred firearms. Specifically, it amends the rate structure found in Section 5811(a).

The proposal states that there shall be levied, collected, and paid on firearms transferred a tax at the rate of:

- $5 for each firearm classified as any other weapon under section 5845(e).

- **$0 for each firearm transferred in the case of a silencer (as defined in section 5845(a)(7))**.
- $200 for any other firearm transferred.

This proposal **reduces the transfer tax on silencers from $200 to $0**.

IRC Sections Changed

The primary Internal Revenue Code section amended by Section 112030 is **Section 5811(a)**, which specifies the rate of excise tax on transferred firearms.

Effective Date

The amendment made by this section shall apply to **transfers after the date of the enactment of this Act**.

Section 112031 Proposed Modifications to De Minimis Entry Privilege for Commercial Shipments

Experienced tax CPAs should be aware of proposed changes under Section 112031 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, titled "Modifications to de minimis entry privilege for commercial shipments," proposes significant changes to the *de minimis* entry threshold for commercial shipments, but it is important to note that these changes primarily affect **customs law (Title 19 of the U.S. Code)** rather than directly amending the Internal Revenue Code (Title 26).

While the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides details on many tax provisions in the bill, the provided excerpts do not contain a description of Section 112031. Therefore, the details below are drawn directly from the legislative text in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee".

Details of the Proposed Provision

Section 112031 includes two main components: the imposition of a civil penalty and the repeal of a commercial shipment exception to the *de minimis* entry privilege.

1. **Civil Penalty:** Section 112031(a) proposes an "Additional Penalty Imposed". While the specific statutory section being amended is not fully detailed in the provided excerpt beyond a reference to "Section 4", the context clearly relates to a **civil penalty for any commercial shipment**. The text specifies that a penalty will be imposed.
2. **Repeal of Commercial Shipment Exception:** Section 112031(b)(1) explicitly proposes the "Repeal" of a specific provision within customs law. It amends Section 321(a)(2)(B) of an

unspecified Act, identified by its U.S. Code citation as **19 U.S.C. 1321(a)(2)(B)**. This amendment strikes language that provided an exception. Section 112031(b)(2) enacts a "Conforming Repeal" of Subsection (c) of 19 U.S.C. 1321, which was added by subsection (a) of Section 112031 itself. This indicates a significant change to how commercial shipments below the *de minimis* threshold are treated under customs regulations.

Affected U.S. Code Sections

Based on the provided text, the primary U.S. Code section affected is **19 U.S.C. 1321**. This provision focuses on customs law governing the entry of merchandise, not directly on the Internal Revenue Code (Title 26). There may be a civil penalty provision referenced (Section 4), but the source does not provide enough context to link it to a specific, commonly known penalty section, and its placement within this section focused on customs indicates it is related to the *de minimis* rules for commercial shipments.

Effective Dates

The proposed changes have different effective dates:

- The amendment made by Section 112031(a), which concerns the civil penalty, shall take effect **30 days after the date of the enactment of this Act**.
- The amendments made by Section 112031(b), which repeal the commercial shipment exception and enact a conforming repeal, shall take effect on **July 1, 2027**.

Section 112032 Proposed Limitation on Drawback of Taxes on Substituted Merchandise

Experienced tax CPAs should be aware of a proposed change under Section 112032 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, addresses the drawback of internal revenue taxes, specifically concerning substituted merchandise.

Present Law Context

Drawback is generally the refund or remission, in whole or in part, of a customs duty, internal revenue tax, or fee lawfully assessed or collected because of a particular use made of the merchandise on which the duty, tax or fee was assessed or collected. The provision specifically focuses on drawback of internal revenue tax imposed under **Chapter 52 of the Internal Revenue Code of 1986**. Chapter 52 of the Code relates to tobacco products and related products.

Proposed Change under Section 112032

Section 112032, titled "Limitation on drawback of taxes paid with respect to substituted merchandise," proposes a restriction on the amount of drawback that can be claimed for substituted merchandise. The proposal states that for purposes of drawback of internal revenue tax imposed under chapter 52 of the Internal Revenue Code of 1986, the amount of drawback granted under such Code, or the Tariff Act of 1930, on the export or destruction of substituted merchandise **may not exceed the amount of taxes paid (and not returned by refund, credit, or drawback) on the substituted merchandise**. This limits the potential drawback amount to the actual tax paid on the substituted goods, preventing claims for amounts exceeding that paid tax.

Affected U.S. Code Sections

While Section 112032 does not explicitly amend a specific numbered section within the Internal Revenue Code in the manner of some other provisions, it directly limits the **amount of drawback granted under the Code**, specifically referencing drawback of tax imposed under **Chapter 52**. It also references the Tariff Act of 1930. Therefore, it modifies the application of existing drawback provisions found within Chapter 52 of the Code.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the limitation on drawback of taxes paid with respect to substituted merchandise is **effective for claims filed on or after July 1, 2026**.

Subtitle C, Part 2 – Removing Taxpayer Benefits for Illegal Immigrants

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 112101 Proposed Limitations on Premium Tax Credit Eligibility for Certain Individuals

Experienced tax CPAs should take note of proposed changes under Section 112101 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and as described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation. This section, titled "Permitting premium tax credit only for certain individuals", significantly alters the eligibility rules for the premium tax credit for certain lawfully-present aliens.

Details of the Proposed Provision

Section 112101 proposes that a lawfully-present alien will be eligible for the premium assistance credit only if the individual is, and is reasonably expected to be for the entire period of enrollment for which the credit is claimed, an alien who is **lawfully admitted for permanent residence under the Immigration and Nationality Act**. This provision appears to narrow the categories of lawfully-present aliens who can qualify for the premium tax credit. The bill text includes language requiring an attestation that the individual is an eligible alien (within the meaning of section 36B(e)(2) of the Internal Revenue Code of 1986).

Affected IRC Sections

The primary section of the Internal Revenue Code affected by this provision is **Section 36B(e)(2)**. Section 36B relates to the premium tax credit provided for eligible individuals who purchase health insurance coverage through an Exchange. The proposal modifies the rules within Section 36B(e)(2) governing the eligibility of lawfully-present aliens for this credit. Section 112101 also includes conforming amendments.

Effective Dates

The changes proposed under Section 112101 have different effective dates depending on the specific amendment.

- The **core amendments made by Section 112101** (other than those made by subsection (c)), which include the change to eligibility rules for lawfully-present aliens, shall apply to **taxable years beginning after December 31, 2026**.

- The **conforming amendments made by subsection (c) of Section 112101** shall apply with respect to **plan years beginning on or after January 1, 2027**.

Section 112102 Proposed Further Limitations on Premium Tax Credit Eligibility

Experienced tax CPAs should note a significant proposed change under Section 112102 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee", which builds upon the restrictions discussed in our previous alert regarding Section 112101. As detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, this provision specifically targets certain categories of lawfully-present aliens, treating them as ineligible for the premium tax credit.

Details of the Proposed Provision

Section 112102, titled "Certain aliens treated as ineligible for premium tax credit", adds a further restriction to the eligibility requirements for the premium assistance credit. While Section 112101 primarily limits eligibility for lawfully-present aliens to those lawfully admitted for permanent residence, Section 112102 introduces an additional layer of ineligibility.

Specifically, the proposal amends **Section 36B(e)(2) of the Internal Revenue Code**. It adds a new subparagraph that explicitly states that *notwithstanding* other rules regarding lawfully-present aliens, an individual who is an alien and lawfully present will be treated as eligible for the premium tax credit **only if** the individual is *not*, and is not reasonably expected to be for the entire enrollment period for which the credit is claimed, one of the following categories of aliens:

- An alien paroled into the United States for a period other than for permanent residence.
- An alien residing in the United States under color of law.
- An alien granted temporary protected status under section 244 of the Immigration and Nationality Act.
- An alien granted deferred action or deferred enforced departure.
- An alien granted withholding of removal under section 241(b)(3) of the Immigration and Nationality Act.

This means that individuals falling into any of these specific categories of lawful presence will be ineligible for the premium tax credit, even if they might otherwise meet the general "lawfully present" criteria as defined elsewhere in the Code.

Affected IRC Sections

The core of this provision directly amends **Section 36B(e)(2) of the Internal Revenue Code of 1986**, the section that defines eligibility rules for lawfully-present aliens concerning the premium tax credit.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendment made by Section 112102 shall apply to **taxable years beginning after December 31, 2026**.

Section 112103 Proposed Elimination of Premium Tax Credit Eligibility for Low-Income, Medicaid-Ineligible Lawfully-Present Aliens

Experienced tax CPAs should be aware of a significant proposed change under Section 112103 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, also described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, repeals a special rule that currently allows certain low-income lawfully-present aliens to qualify for the premium tax credit.

Present Law Context

Under current law, to be considered an "applicable taxpayer" eligible for the premium tax credit, an individual's household income must generally fall between 100 percent and 400 percent of the Federal Poverty Line (FPL) for their family size. However, there is a **special rule for lawfully-present aliens**. This rule allows a lawfully-present alien with a household income *less than* 100 percent of FPL, who is ineligible for Medicaid solely due to their alien status, to be treated as an applicable taxpayer with a household income *equal to* 100 percent of FPL. This effectively makes them eligible for the premium tax credit despite having income below the standard 100% FPL threshold.

Proposed Change under Section 112103

Section 112103, titled "Disallowing premium tax credit during periods of Medicaid ineligibility due to alien status", proposes to **repeal this special rule for lawfully-present aliens**. The proposal explicitly states that lawfully-present aliens with household incomes less than 100 percent FPL who are ineligible for Medicaid by reason of alien status will no longer be eligible for premium tax credits.

In addition to repealing this eligibility pathway, the proposal also includes a conforming amendment to the basic health program standards. This amendment ensures that basic health programs are not required to cover such individuals. The proposal also grants the Secretary of the Treasury and the Secretary of HHS the authority to prescribe necessary rules and guidance to carry out these amendments.

Affected IRC Sections

The primary section of the Internal Revenue Code affected by this provision is **Section 36B(c)(1)**, which relates to the eligibility requirements for the premium tax credit. Section 112103 directly modifies the rules within this subsection by removing the special eligibility treatment for the specified group of lawfully-present aliens.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112103 shall apply with respect to plans enrolled in during calendar months beginning after the **third calendar month ending after the date of the enactment of this Act**.

Section 112104. Limiting Medicare coverage of certain individuals

This section of the bill has no tax related items.

Section 112105 Proposed Excise Tax on Remittance Transfers

Experienced tax CPAs should take note of a significant new proposed excise tax under Section 112105 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This provision, detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, imposes a tax on certain transfers of funds outside the United States.

Present Law Context

Present law defines "remittance transfer" as the electronic transfer of funds requested by a sender in a U.S. state, territory, possession, or the District of Columbia, to a designated recipient in a foreign country, initiated by a remittance transfer provider. This definition applies regardless of whether the sender has an account with the provider or if the transfer is also an electronic fund transfer, but it excludes certain small-value transactions. A "remittance transfer provider" is any person or financial institution providing such transfers to a consumer in the normal course of business. The "sender" is the consumer requesting the transfer, and the "designated recipient" is the person identified by the sender in the foreign country.

Proposed Excise Tax under Section 112105

Section 112105, titled "Excise tax on remittance transfers", proposes to impose a **5 percent excise tax on any remittance transfer**. The tax is generally to be paid by the sender to the designated recipient. However, to the extent the tax is not collected from the sender at the time of the transfer, it is owed by the remittance transfer provider. The proposal mandates that the remittance transfer provider is responsible for collecting the excise tax from the sender and remitting it to the Secretary of the Treasury (the "Secretary").

The proposal defines the terms "remittance transfer," "remittance transfer provider," "sender," and "designated recipient" consistently with existing definitions in relevant titles of the United States Code. The anti-conduit rules of section 7701(l) are to apply to remittance transfers under this provision.

Exception and Credit for U.S. Citizens and Nationals

The proposal provides an exception from the excise tax for remittance transfers made by citizens and nationals of the United States. This exception applies if a "verified United States sender" makes the transfer through a "qualified remittance transfer provider". A "qualified remittance transfer provider" is a provider with a written agreement with the Secretary to verify the sender's status as a U.S. citizen or national. A "verified United States sender" is a sender whose status is verified by such a provider under this agreement.

In addition to the exception, the proposal also **establishes a tax credit**, Section 36C, for the excise tax paid on remittance transfers made by citizens and nationals of the United States. The amount of this credit equals the amount of the excise tax paid with respect to the remittance transfer. For purposes of this credit, the term "social security number" has the same meaning as in amended Section 24(h)(7), and rules similar to Section 32(d) apply for married individuals.

Information Reporting Requirements

Section 112105 also imposes **information reporting requirements** on remittance transfer providers. Each provider must file a return, at a time specified by the Secretary, setting forth:

- For transfers by verified United States senders through qualified providers (where the tax does not apply), the aggregate number and value of such transfers.
- For senders who certify an intent to claim the credit, the sender's name, address, and social security number, the amount of excise tax paid by the sender, and the amount of excise tax remitted by the provider for those transfers.
- For all other remittance transfers, the aggregate amount of excise tax paid and the aggregate amount of tax remitted by the provider.

These returns are considered information returns. Providers are also required to furnish a written statement to each person who certified an intent to claim the credit, including the provider's contact information and the information reported to the Secretary regarding the claim. These statements are considered payee statements.

The proposal grants the Secretary of the Treasury and the Secretary of HHS authority to prescribe necessary rules and guidance to carry out these amendments.

Affected IRC Sections

This provision makes several changes and additions to the Internal Revenue Code:

- A **new Subchapter C, "Remittance Transfers,"** is added to Chapter 36.
- Within this new subchapter, a **new Section 4475, "Imposition of tax,"** is added.
- A **new Section 36C, "Credit for excise tax on remittance transfers of citizens and nationals of the United States,"** is added to Subpart C of Part IV of Subchapter A of Chapter 1.
- A **new Section 6050AA, "Returns relating to remittance transfers,"** is added to Subpart B of Part III of Subchapter A of Chapter 61.
- Conforming amendments are made to the table of sections for Subpart C of Part IV of Subchapter A of Chapter 1, the table of sections for Subpart B of Part III of Subchapter A of Chapter 61, and the table of subchapters for Chapter 36.
- A conforming amendment is made to 31 U.S. Code § 1324(b)(2).

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112105 shall apply to transfers made after **December 31, 2025**. The amendments related to the tax credit (Section 36C) are effective at the same time as the amendments related to the tax itself.

Section 112106 Proposed Enhanced Social Security Number Requirement for Education Credits

Experienced tax CPAs should be aware of proposed changes under Section 112106 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" that would significantly strengthen the Social Security Number (SSN) requirements for claiming the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC). The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides further details on this provision.

Present Law Context

Under present law, a taxpayer generally must include the taxpayer identification number (TIN) of the eligible student on their tax return to claim the AOTC or LLC. For the AOTC, the taxpayer must also include the employer identification number (EIN) of the educational institution.

Proposed Enhanced Social Security Number Requirement

Section 112106, titled "Social Security number requirement for American opportunity and lifetime learning credits", proposes to replace the current TIN requirement with a more stringent SSN requirement.

Specifically, the proposal states that **no credit shall be allowed** under Section 25A (which governs the AOTC and LLC) to a taxpayer unless the taxpayer includes on the tax return for the taxable year:

- **The taxpayer's social security number**.
- If the individual is married, **the social security number of such individual's spouse**.
- In the case of a credit with respect to the qualified tuition and related expenses of an individual other than the taxpayer or the taxpayer's spouse (e.g., a dependent child), **the name and social security number of such individual**.

For the AOTC, the proposal also clarifies that the taxpayer is allowed the credit only if the taxpayer includes the **EIN of any institution** to which qualified tuition and related expenses were paid.

The term "social security number" for purposes of this rule means, as defined in Section 24(h)(7), an SSN that is issued by the Social Security Administration **before the due date** for the tax return. The SSN must be issued to a citizen of the United States or pursuant to specific provisions of the Social Security Act relating to lawful admission for employment. Rules similar to Section 32(d) apply for married individuals.

The JCT Explanation also notes that the proposal treats the omission of a correct, required social security number or EIN as a **mathematical or clerical error** for purposes of Section 6213.

Affected IRC Sections

Based on the provided sources, Section 112106 makes the following changes to the Internal Revenue Code:

- **Section 25A(g)(1)** is amended to institute the new SSN requirements.
- **Section 6213(g)(2)** is amended to treat the omission of a required correct SSN or EIN as a mathematical or clerical error.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112106 shall apply to **taxable years beginning after December 31, 2025**.

Subtitle C, Part 3 – Preventing Fraud, Waste, and Abuse

This analysis of provisions from The One, Big, Beautiful Bill as approved by the House Ways & Means Committee on May 16, 2025 was prepared with assistance from NotebookLM.

Section 112201 Proposed Health Exchange Verification Requirements for Premium Tax Credit Eligibility

Experienced tax CPAs should be aware of significant proposed changes under Section 112201 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" concerning the eligibility requirements for the premium tax credit (PTC) under Section 36B. These changes, detailed further in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, would require verification of eligibility by the Health Insurance Exchange for PTC eligibility.

Present Law Context

Under present law, a refundable tax credit, known as the premium tax credit, is available to eligible individuals and families to help subsidize the purchase of qualified health plans through a Health Benefit Exchange. Advance payments of this credit are generally made directly to the insurer. Eligibility for enrollment in a qualified health plan through an Exchange is limited to citizens, nationals, or lawfully present aliens. Information provided by applicants, including income, family size, and citizenship or immigration status, is subject to verification during the Exchange process. Exchanges also verify eligibility for special enrollment periods. The Federal Exchange currently conducts pre-enrollment verification only for special enrollment periods related to the loss of health coverage.

Proposed Exchange Verification Requirement

Section 112201, titled "Requiring Exchange verification of eligibility for health plan", proposes to condition eligibility for the premium tax credit on verification by the Exchange. The proposal states that the term "coverage month" (a requirement for claiming the PTC) **shall not include any month beginning before the Exchange verifies eligibility**.

Specifically, the proposal makes the premium tax credit, and thus advance payments, unavailable for months of coverage under a qualified health plan for which an individual's eligibility for:

- **Enrollment** (including new open enrollments, each annual re-enrollment, and enrollment through a special enrollment period).
- **Any advance payment of the premium tax credit** (if applied for).
- **Any cost-sharing reductions**. **has not been verified by the Exchange**. This includes verification during the required 90-day period for addressing discrepancies.

The proposal explicitly **prohibits passive reenrollment**.

The verification process must utilize applicable enrollment information provided by the applicant. This information must at least include an affirmation from the applicant regarding:

- Income.
- Immigration status.
- Health coverage status.
- Place of residence.
- Family size.
- Any other information the Secretary (in consultation with the Secretary of HHS) determines necessary to verify eligibility.

The proposal allows a month of coverage that begins before verification is completed to be treated as a coverage month for PTC purposes **if the Exchange later completes verification for that month** using the applicant's information.

Additionally, for individuals to be eligible for the PTC, the proposal requires Exchanges to **establish a pre-enrollment verification process**. This process must allow individuals to verify with the Exchange their eligibility for enrollment, advance payment, or reduced cost-sharing for the subsequent plan year **starting on August 1 of the immediately preceding year**.

Finally, the proposal requires that no month of coverage qualifies as a "coverage month" if the Exchange **is not verifying that applicants have reconciled advance payments** with the actual premium assistance credit allowed for a taxable year. This effectively codifies proposed CMS regulations for purposes of PTC eligibility.

The Secretary of the Treasury and the Secretary of HHS are authorized to prescribe necessary rules and guidance to carry out these amendments.

Affected IRC Sections

Based on the provided text from Section 112201, the provision makes changes to **Section 36B(c)** by adding new paragraphs (5) and (6).

Effective Date

The amendments made by Section 112201 shall apply with respect to **taxable years beginning after December 31, 2027**.

Section 112202 Proposed Disallowance of Premium Tax Credit for Specific Special Enrollment Period Enrollments

Experienced tax CPAs should be aware of proposed changes under Section 112202 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" that would impact eligibility for the premium tax credit (PTC) under Section 36B. The "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, provides details on this provision, which targets coverage obtained through a specific type of special enrollment period.

Present Law Context

Under present law, individuals can generally enroll in a qualified health plan through a Health Benefit Exchange during the annual open enrollment period. Exchanges are also required to provide **special enrollment periods (SEPs)** for individuals experiencing certain qualifying life events, such as losing health coverage, getting married, or having a baby. There are various types of SEPs available.

Proposed Disallowance of PTC for Certain SEP Enrollments

Section 112202, titled "Disallowing premium tax credit in case of certain coverage enrolled in during special enrollment period", proposes to disallow the premium tax credit for individuals who enroll in coverage through a specific special enrollment period.

Specifically, the JCT Explanation clarifies that the proposal provides that **no premium tax credit is allowed** to an individual for any month the individual is enrolled in a qualified health plan through the Exchange during a special enrollment period available to individuals who have, or reasonably expect to have, **household income below 150 percent of the federal poverty level**.

The JCT Explanation notes that this proposal does not affect other individuals who enroll in the same qualified health plan through the Exchange; it only applies to individuals who use this specified special enrollment period to enroll.

Affected IRC Sections

Based on the sources, Section 112202 makes changes to the Internal Revenue Code. The "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation indicate that the provision amends **Section 36B(c)(1)**.

Effective Date

According to both the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, the amendments made by Section 112202 shall apply to **taxable years beginning after December 31, 2027**.

Section 112203 Proposed Elimination of Limitation on Recapture of Advance Premium Tax Credit Payments

Experienced tax CPAs should note a significant proposed change under Section 112203 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" regarding the recapture of excess advance payments of the premium tax credit (PTC). This provision, further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, would eliminate the current limitation on the amount of advance PTC that must be repaid if a taxpayer receives excess advance payments.

Present Law Context

Under present law, a refundable premium tax credit is available to eligible individuals and families purchasing qualified health plans through a Health Benefit Exchange. Advance payments of this credit are often made directly to the insurer during the year.

If, based on a taxpayer's actual income and household size for the taxable year, the amount of advance PTC received exceeds the amount of PTC they are ultimately allowed, this excess amount must generally be treated as an additional tax liability on their income tax return (is "recaptured").

Crucially, for individuals with household income **below 400 percent of the federal poverty level (FPL)**, present law **limits the amount of this recapture** to a specific dollar amount. This "applicable dollar amount" varies based on the taxpayer's income relative to the FPL. For example, for taxable year 2025, the recapture limitation ranges from $350 (for income below 200% of FPL) to $1,500 (for income between 300% and 400% of FPL) for taxpayers who are not married filing separately, with half these amounts for those who are married filing separately [134, Table 9].

It's worth noting that the American Rescue Plan Act of 2021 temporarily removed the recapture requirement entirely for taxable year 2020.

Proposed Elimination of Recapture Limitation

Section 112203, titled "Eliminating Limitation on Recapture of Advance Payment of Premium Tax Credit", proposes to **remove the limitation on the recapture amount**.

The JCT Explanation clarifies that the proposal amends present law **by striking the subparagraph that limits the amount of additional tax liability attributable to excess advance payments** based on household income as a percentage of the FPL.

Effectively, this means that under the proposal, if a taxpayer receives advance payments of the PTC in excess of the amount of PTC they are ultimately allowed based on their tax return, **the entire amount of the excess advance payments would be subject to recapture**, regardless of their income level relative to the FPL.

The proposal authorizes the Secretary of the Treasury and the Secretary of Health and Human Services to prescribe necessary rules and guidance to carry out these amendments.

Affected IRC Sections

Based on the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and the JCT Explanation, Section 112203 makes changes to **Section 36B(f)(2)** by striking subparagraph (B).

Effective Date

According to the sources, the amendments made by Section 112203 shall apply to **taxable years beginning after December 31, 2025**.

Section 112204 Proposed Implementation of AI Tools for Medicare Improper Payments

Experienced tax CPAs should be aware of proposed Section 112204, titled "Implementing artificial intelligence tools for purposes of reducing and recouping improper payments under Medicare", within the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". While this provision pertains to Medicare operations rather than directly amending the Internal Revenue Code (IRC), it is included in tax-related legislative proposals and may be of interest.

Details of the Proposal

Section 112204 mandates the implementation of artificial intelligence (AI) tools to address improper payments within the Medicare program. Specifically, the proposal requires the Secretary (presumably of Health and Human Services, given the context of Medicare and the Social Security Act) to:

- Implement AI tools determined appropriate for the purposes of **reducing improper payments made under parts A and B of Medicare**.
- Implement AI tools for the purpose of **identifying any such improper payments so made**.
- Seek to contract with a **vendor of artificial intelligence tools and with data scientists** for purposes of implementing these tools.
- To the extent practicable, **recoup payments identified using the implemented AI tools**.
- Report to Congress **not later than January 1, 2029, and not less frequently than annually thereafter**, on the implementation of the AI tools and the recoupment efforts.

Affected IRC Sections

Based on the provided excerpts from the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee"-, this provision **does not amend the Internal Revenue Code**. Instead, it amends **Part E of title XVIII of the Social Security Act (42 U.S.C. 1395x et seq.)** by adding a new section, **Section 1899D**.

Effective Date

The text of Section 112204 as provided in the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" does not contain a specific "Effective Date" subsection-. However, it includes a deadline for the mandated action: the Secretary **shall implement** the artificial intelligence tools **"Not later than January 1, 2027"**.

Section 112205 Significant COVID-Related Employee Retention Credit Enforcement Provisions Proposed

Experienced tax CPAs should pay close attention to the proposed enforcement measures concerning the COVID-related employee retention credit (ERTC) outlined in Section 112205 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". This section, further described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, introduces several provisions aimed at preventing and recouping improper ERTC payments and targeting promoters of the credit.

Proposed Enforcement Measures

Section 112205 proposes a multi-faceted approach to ERTC enforcement. Key provisions include:

- **Focus on ERTC Promoters:** The proposal introduces the concept of an "ERTC promoter". An ERTC promoter is defined as any person providing aid, assistance, or advice regarding an ERTC document (such as a return, affidavit, or claim) or relating to eligibility or calculation of the credit, if they meet certain materiality or gross receipts tests.
- **Enhanced Penalties for Promoters:** The proposal increases the assessable penalty under Section 6701(a) for ERTC promoters who aid and abet understatements of tax liability related to COVID-ERTC documents. For purposes of the Internal Revenue Code, this penalty is treated similarly to a penalty under Section 6695(g). Promoters may also face assessable penalties for failure to disclose information or maintain client lists as required by Sections 6111, 6112, 6707, and 6708.
- **Treatment as Listed/Reportable Transactions:** The proposal treats any COVID-related employee retention tax credit (whether or not claimed by the taxpayer) as a listed transaction and a reportable transaction for purposes of Sections 6111, 6112, 6707, and 6708, if an

ERTC promoter provides aid, assistance, or advice with respect to the credit. This designates the ERTC promoter as a material advisor subject to related penalties.

- **Hard Deadline for Credit/Refund Claims:** A significant proposed change imposes a limitation on the allowance of credits and refunds for COVID-related ERTCs. Notwithstanding Section 6511 or any other provision of law, **no credit or refund of any COVID-related employee retention tax credit shall be allowed or made after the date of the enactment of this Act, unless a claim for such credit or refund is filed by the taxpayer on or before January 31, 2024**. The JCT Explanation clarifies this as a bar on allowance of refunds claimed after January 31, 2024.
- **Extension of Assessment Limitation Period:** The proposal amends Section 3134(l) to extend the limitation on assessment related to the ERTC. This allows the IRS more time to assess tax attributable to the disallowance of the credit.
- **Regulatory Authority:** The proposal grants regulatory authority to the Secretary to coordinate and extend limitation periods for certain corrective IRS actions.

Affected IRC Sections

Section 112205 explicitly amends **Section 3134(l)** to extend the limitation on assessment.

While not directly amended by Section 112205 itself in the provided text, other IRC sections are referenced and implicated by the proposal's framework for applying existing penalties and requirements. These include:

- Section 6701(a) (aiding and abetting understatement penalty).
- Section 6695(g) (treatment of promoter penalty).
- Sections 6111, 6112, 6707, and 6708 (disclosure and list requirements, promoter penalties).
- Section 6511 (limitations on credit or refund).
- Section 414(m) or (o) (related persons for promoter definition).
- Section 3134 and Section 2301 of the CARES Act (definition of COVID-related ERTC).

Effective Dates

Section 112205 contains multiple effective dates depending on the specific provision:

- **General Rule:** Except as otherwise provided, the provisions of Section 112205 relating to aid, assistance, and advice apply to aid, assistance, and advice provided **after March 12, 2020**.
- **Due Diligence Requirements:** Subsections (b) and (c) (relating to due diligence and certain penalties) shall apply to aid, assistance, and advice provided **after the date of the enactment of this Act**.
- **Limitation on Credit and Refund (January 31, 2024 Deadline):** Subsection (h) shall apply to credits and refunds allowed or made **after the date of the enactment of this Act**.

This means that after the date of enactment, any claim *not* filed by January 31, 2024, would be barred.

- **Amendments to Extend Limitation on Assessment:** The amendments made by subsection (i) shall apply to assessments made **after the date of the enactment of this Act**.
- **Transition Rule for Disclosure/Lists:** A transition rule provides that any return under Section 6111 or list under Section 6112 required solely by reason of Section 112205(d) for aid, assistance, or advice provided *before* the date of enactment is not required to be filed or maintained before the date which is **90 days after the date of the enactment of this Act**.

Section 112206 Proposed Earned Income Tax Credit Certification Program

Experienced tax CPAs should be aware of significant proposed changes to the administration and enforcement of the Earned Income Tax Credit (EITC), outlined in Section 112206 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". These reforms, further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, aim to address improper EITC claims through a new certification program.

Details of the Proposed Reforms

Section 112206 mandates the creation of an **Earned Income Tax Credit certification program**. This program requires the Secretary (presumably of the Treasury or the Secretary's delegate, as is typical for tax administration) to establish a process under which, based on a taxpayer's application regarding a child, the Secretary is required to issue an **EITC certificate**. The purpose of this certificate is to formally establish, for purposes of Section 32 of the Internal Revenue Code, a child's status as a **qualifying child *only* of the taxpayer for a taxable year**.

The proposal includes specific consequences for taxable years beginning after 2027 related to not having this certificate. In such years, if a taxpayer claims a child as a qualifying child under Section 32 for whom an EITC certificate has **not been issued** to that taxpayer for that year, the Secretary is **not permitted to credit the portion of any overpayment** for that year that is attributable to the taxpayer claiming the child. This disallowance occurs unless the taxpayer obtains the required EITC certificate by the due date of the return for that taxable year. Furthermore, if the taxpayer fails to obtain the certificate, this failure is treated both as an omission of information required by Section 32 regarding the child and as arising out of a mathematical or clerical error, subject to assessment under Section 6213(b)(1). A **termination of an EITC certificate is treated in the same manner** as a failure to obtain one.

Transition rules are provided for taxable years beginning **before 2028**. Specifically, for any taxable year beginning after December 31, 2023, and before January 1, 2027, if the Secretary finds that more than one taxpayer has claimed the earned income credit under Section 32 using the same child as a qualifying child, the Secretary must send a notice to each such taxpayer. This notice, sent by certified or registered mail to the last known address, will detail how these taxpayers will be treated under the proposal regarding the child for subsequent taxable years beginning before 2028.

Additionally, Section 112206 addresses penalties and creates a task force related to the EITC, including penalties for improper use of the certification program. A new section, Section 6720D, is added to impose penalties with respect to the EITC certificate program, including penalties for reckless or intentional disregard.

Affected IRC Sections

The proposed EITC reforms directly impact or reference several sections of the Internal Revenue Code:

- **Section 32** (Earned Income Tax Credit) is central to the proposal, as the certification program establishes a child's status as a qualifying child specifically for Section 32 purposes. The consequences of not having a certificate involve requirements imposed under Section 32.
- A **new section, Section 7531**, is added to Chapter 77 of the Code, related to the Earned Income Tax Credit certification program.
- A **new section, Section 6720D**, is added to Part I of subchapter B of chapter 68, specifically for penalties related to the EITC certificate program.
- **Section 6213(b)(1)** (Assessment authority) is referenced, as failure to obtain a certificate is treated as a mathematical or clerical error subject to assessment under this section.
- **Section 6111** may be implicated as returns required under this section may need to account for the certification program.

Effective Date

Section 112206 contains multiple effective dates for its various components. For the core EITC reforms related to the certification program and its attendant penalties:

- The proposal creating the earned income tax credit certification program, **including attendant penalties**, shall apply to taxable years beginning **after December 31, 2024**.
- While the requirement to have a certificate to receive the overpayment credit attributable to the child is described as applying for taxable years beginning **after 2027**, the program itself and its related penalties are effective earlier.
- The **transition rules** regarding multiple claims for the same child apply to taxable years beginning after December 31, 2023, and before January 1, 2027.

Other parts of Section 112206 (Task Force and Purple Heart credit increase) have different effective dates as noted in the source, but the primary certification program starts applying for taxable years beginning after December 31, 2024.

Section 112207 Tax Alert: Proposed Termination of Direct File and New Task Force

Experienced tax CPAs should note proposed changes impacting the Internal Revenue Service's (IRS) Direct File program and potential future free tax filing options, as outlined in Section 112207 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee". These provisions, further detailed in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation, mandate the termination of the existing Direct File program and the establishment of a task force to explore alternative free filing solutions.

Details of the Proposed Reforms

Section 112207 includes two primary directives regarding the IRS Direct File program:

1. **Termination of Direct File:** The Secretary of the Treasury is required to ensure that the Internal Revenue Service Direct File program is **terminated as soon as practicable**, and in any event, **not later than 30 days after the date of the enactment of this Act**. The JCT Explanation notes that the IRS had previously announced Direct File would become a permanent option for the 2025 tax season following a pilot program.
2. **Task Force and Report on Public-Private Partnership:** The proposal appropriates **$15,000,000** for necessary expenses of the Department of the Treasury. This funding is specifically for establishing a **task force** to deliver a report to Congress. The report is required within **90 days following the date of the enactment of this Act**.

   The purpose of this task force and report is to design a "better public-private partnership" between the IRS and private sector tax preparation services to provide for free tax filing. The report must cover several specific areas:
   - The cost of a new partnership aimed at providing free tax filing for **up to 70 percent of all taxpayers**.
   - Taxpayer opinions and preferences regarding a taxpayer-funded, government-run service versus a free service provided by the private sector.
   - An assessment of the feasibility of this new partnership approach.
   - How to ensure the free filing options are consistent and simple for taxpayers across all participating providers.
   - How to incorporate features addressing taxpayer needs.
   - How much money should be appropriated to advertise the new option.

The appropriation of $15,000,000 for the task force and report is specified to **remain available until September 30, 2026**.

Affected IRC Sections

Based on the provided source material regarding Section 112207, this provision primarily enacts administrative directives (termination of a program, requirement for a report) and appropriates funds. It does **not explicitly amend specific, enumerated sections of the Internal Revenue Code** related to tax liability, deductions, credits, or standard tax procedures in the same manner as many other sections of the proposed legislation. While it relates to tax administration and funding, the sources do not indicate that Section 112207 itself makes numerical changes or adds/removes specific code sections beyond the directive and appropriation functions described. The JCT Explanation notes that section references are generally to the Code, but the actions in Section 112207 are framed as directives to the Secretary of the Treasury and an appropriation, rather than amendments to specific Code sections governing tax calculations or taxpayer obligations.

Effective Date

Section 112207 is effective **on the date of enactment** of the Act. The required actions stem directly from this effective date: the termination of Direct File is required within 30 days of enactment, and the report is due within 90 days of enactment.

Section 112208 Proposed Tax Deadline Relief for Hostages and Wrongfully Detained Individuals

Experienced tax CPAs should be aware of proposed changes to the Internal Revenue Code providing relief from tax deadlines for individuals held hostage or wrongfully detained abroad, as detailed in Section 112208 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation. This provision aims to address the challenges faced by such individuals upon their return by extending tax deadlines and providing relief from associated interest and penalties.

Details of the Proposed Relief

Section 112208 establishes a new framework within the tax code to disregard periods of unlawful or wrongful detention or hostage-taking for certain tax-related deadlines and calculations. The proposal adds a **new section, Section 7511**, to Chapter 77 of the Internal Revenue Code.

The core mechanism of the relief is that the **period during which an "applicable individual" was unlawfully or wrongfully detained abroad, or held hostage abroad, is disregarded** for determining:

- Whether certain acts described in Section 7508(a)(1) were performed within the prescribed time. These acts include filing tax returns (income, estate, gift, employment, excise), filing petitions with the Tax Court, and actions related to refunds.
- The amount of any interest, penalty, additional amount, or addition to tax for periods after the date the detention or hostage-taking began.
- The amount of any credit or refund.

This disregarded period is similar to the rules currently applicable to individuals serving in combat zones. The relief also **extends to the spouse** of any individual entitled to these benefits. Special rules regarding overpayment interest rates are also adopted, similar to those for combat zones.

An **"applicable individual"** is defined by reference to federal law regarding wrongfully detained persons or hostages. This includes a person determined to be wrongfully detained under section 302 of the Robert Levinson Hostage Recovery and Hostage-Taking Accountability Act or determined to be a hostage under findings of the Hostage Recovery Fusion Cell. The Secretary of State is required to provide the Secretary of the Treasury with a list of persons wrongfully detained, and the Attorney General, through the Hostage Recovery Fusion Cell, is required to provide a comparable list of persons believed to be hostages. The initial reports are due no later than January 1, 2026, with annual updates thereafter.

The proposal includes both **prospective and retroactive relief**:

- **Prospective Relief:** For applicable individuals, the period that may be disregarded is the entire period they were held hostage or wrongfully detained during any taxable year ending after the date of enactment of the Act.
- **Retroactive Relief:** A special program is established, in consultation with the Secretary of State and the Hostage Recovery Fusion Cell, for persons detained during an **applicable period beginning January 1, 2021, and ending before the date of enactment**. These "eligible individuals" (persons who would have been applicable individuals but for the taxable years involved, and their dependents or spouses) may seek a **refund of interest and penalties** assessed with respect to tax years ending during this applicable period. If interest, penalties, or fines were assessed before the person was identified, the Secretary is directed to **abate and refund any such amounts as overpayments**, similar to the process under Section 6402.

The Secretary is also required to make necessary updates to IRS databases and systems to suspend expiration dates, interest/penalty accrual, and collection activities consistent with this proposal.

Affected IRC Sections

The primary change is the **addition of a new section, Section 7511**, to the Internal Revenue Code, specifically addressing time postponements for hostages and wrongfully detained individuals.

The provision also references and incorporates concepts from other IRC sections:

- **Section 7508(a)(1):** The list of tax acts for which deadlines are extended is drawn from this section, which applies to combat zones.
- **Section 6402:** The abatement and refund of penalties and interest are to be handled in the same manner as refunds of overpayments under this section.

Effective Date

Section 112208 has different effective dates for its prospective and retroactive components:

- The amendments made by Section 112208(a), which add the new Section 7511 providing prospective relief, apply to taxable years ending after the date of enactment of the Act.
- The amendment made by Section 112208(b), which relates to the refund and abatement of penalties and fines for eligible individuals with respect to periods prior to the date of enactment, applies to taxable years ending on or before the date of enactment.

Section 112209 Proposed Termination of Tax-Exempt Status for Terrorist Supporting Organizations

Experienced tax CPAs should be aware of proposed changes affecting the tax-exempt status of organizations deemed to provide support for terrorism, as outlined in Section 112209 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), hereinafter referred to as the JCT Explanation. This provision expands the existing rules for suspending the tax-exempt status of terrorist organizations to also include those that support such entities.

Details of the Proposed Changes

Under **present law**, Section 501(p) of the Internal Revenue Code provides that the tax-exempt status of an organization is **suspended** during any period in which the organization is designated or identified by federal authorities as a terrorist organization or supporter of terrorism. An organization so designated is also **ineligible to apply for tax-exempt status**. The suspension period generally begins on the later of the designation date or November 11, 2003, and ends when all relevant designations are rescinded. No deduction is allowed for contributions made to such an organization during the suspension period. Challenges to the suspension, ineligibility, or deduction denial are prohibited in tax proceedings, though the organization can challenge the underlying designation in other administrative or judicial actions.

Section 112209 proposes to **extend the application of Section 501(p)** to specifically include **"terrorist supporting organizations"**.

Key aspects of the proposal include:

- **Treatment as Terrorist Organizations:** A terrorist supporting organization is treated as a terrorist organization described in Section 501(p)(2). This means their tax-exempt status is suspended, and they become ineligible to apply for tax-exempt status.
- **Definition of Terrorist Supporting Organization:** This term is defined as an organization that the Secretary of the Treasury determines has provided material support or resources (as defined in section 2339A(b)(1) of title 18, United States Code) to or for the benefit of a terrorist organization (as defined in section 212(a)(3)(B)(vi)(II) of the Immigration and Nationality Act).
- **Suspension Period:** The period of suspension for a terrorist supporting organization is treated as beginning on the date the Secretary designates the organization and ending on the date the Secretary rescinds the designation.
- **Designation Process and Notice:** Before making a designation, the Secretary is required to mail a written notice to the organization's most recent address on file with the IRS. The notice must state that the organization will be designated unless it meets certain requirements. It must also name the terrorist organization(s) supported and describe the material support, unless disclosure of the description would be inconsistent with national security and law enforcement interests. If disclosure is limited for national security reasons, the notice must state that such a determination was made. The Secretary is required to coordinate with the Secretary of State and the Attorney General regarding organizations providing material support.
- **Opportunity to Cure:** The organization is provided an opportunity to avoid designation. Within 30 days after the notice date (or up to 90 days if the Secretary grants an extension), the organization must certify to the Secretary that it has **ceased providing material support or resources** to the specified terrorist organization(s) and has **implemented internal controls** to prevent providing such support in the future. If the organization makes this timely certification and the Secretary verifies that these conditions are met, the organization will **not be designated**.
- **Date of Designation:** If the organization does not timely provide the required certification or if the Secretary determines that the conditions are not met within the specified period, the designation becomes effective 30 days after the date of the notice.
- **Rescission of Designation:** The Secretary may rescind a designation if the organization demonstrates it no longer provides support and has controls in place, or if the Secretary determines rescission is in the national interest. Rescission is effective when the organization is notified.

- **Limited Judicial Review:** Judicial review of a designation as a terrorist supporting organization is **limited**. A court's review is confined to determining whether the Secretary complied with the procedural requirements of notice and opportunity to cure. This limited review is the sole method for challenging the designation.

Affected IRC Sections

The primary change is the **amendment of Section 501(p)** of the Internal Revenue Code by adding a new paragraph (8). This addition defines "terrorist supporting organizations" and outlines the process for their designation and the effect on their tax-exempt status.

Effective Date

The provisions of Section 112209 are effective for **designations made after the date of the enactment of this Act**. This applies to **taxable years ending after such date**.

Section 112210 Proposed Increase in Penalties for Unauthorized Disclosures of Taxpayer Information

Experienced tax CPAs are acutely aware of the stringent rules surrounding the protection of taxpayer information. Proposed legislation includes significant increases to penalties for unauthorized disclosures, as detailed in Section 112210 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" and described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), prepared by the staff of the Joint Committee on Taxation (JCT).

This provision aims to significantly enhance the deterrent effect against the improper handling and disclosure of confidential taxpayer data, an area of paramount importance for all tax professionals.

Details of the Proposed Changes

Under **present law**, unauthorized disclosure or inspection of tax returns and return information is subject to criminal penalties under Section 7213(a) of the Internal Revenue Code, including a fine of up to $5,000 and imprisonment of not more than 5 years.

Section 112210 of the proposed legislation makes substantial changes to these penalties:

- **Increased Monetary Fine:** The maximum fine for unauthorized disclosures or inspections under Section 7213(a) is proposed to be significantly increased from **$5,000 to $250,000**. The JCT Explanation notes this is consistent with 18 U.S.C. section 3571.
- **Increased Term of Imprisonment:** The maximum term of imprisonment upon conviction of a Section 7213 violation is proposed to be increased from **five years to 10 years**.

- **Treatment of Multiple Taxpayer Disclosures:** For a willful unauthorized disclosure involving the returns or return information of **multiple taxpayers**, the proposal specifies that a **separate violation occurs with respect to each such taxpayer** whose return or return information is disclosed in violation of Section 7213(a). This clarifies and reinforces that a single act of disclosure affecting many taxpayers can result in multiple severe penalties.

Affected IRC Sections

The proposed changes directly amend **Section 7213(a)** of the Internal Revenue Code. Specifically:

- Paragraphs (1), (2), (3), (4), and (5) of Section 7213(a) are amended to increase the maximum fine and imprisonment term.
- A new paragraph (6) is added to Section 7213(a) to address unauthorized disclosures involving multiple taxpayers.

Effective Date

The amendments made by Section 112210 are proposed to apply to **disclosures made after the date of the enactment of this Act**.

Section 112211 Proposed Restriction on Regulation of Contingency Fees

Experienced tax CPAs should be aware of a proposed provision that would limit the Treasury Secretary's authority regarding the regulation of contingent fees for tax services. Section 112211 of the "Tax Provisions of The One Big Beautiful Bill Approved by the House Ways & Means Committee" addresses this, and its details are described in the "Joint Committee on Taxation's Explanation of the Provisions" (JCX-21-25), prepared by the staff of the Joint Committee on Taxation (JCT).

Details of the Proposed Changes

Section 112211 of the proposed legislation aims to directly address the regulatory authority of the Secretary of the Treasury concerning contingent fees in specific tax contexts.

The core of the proposal is a **restriction on the Secretary of the Treasury's power**. The proposed language specifies that the Secretary **may not regulate, prohibit, or restrict the use of a contingent fee** in connection with tax returns, claims for refund, or documents prepared on behalf of a taxpayer that are related to tax returns or claims for refund.

Affected IRC Sections

The text of Section 112211 provided in the sources does not explicitly amend a specific section of the Internal Revenue Code. Instead, it imposes a **direct limitation on the regulatory authority** of the Secretary of the Treasury, which implicitly affects the scope under which certain existing Code sections and regulations (like those governing practice before the IRS) can be administered with respect to contingent fees in these specific areas.

Proposed Change to Definition of Solicitation of Orders Under PL 86-272

Section 70301 of the One Big Beautiful Bill, titled "SOLICITATION OF ORDERS DEFINED", explicitly amends Section 101(d) of Public Law 86-272.

Change in the Proposed Law

Public Law 86-272, under Section 101(a), sets a minimum standard that limits the power of states to impose a net income tax on income derived from interstate commerce. A state cannot impose such a tax if the *only* business activities within that state by or on behalf of a person are, primarily, the **solicitation of orders** for sales of tangible personal property, where these orders are sent outside the state for approval and are filled by shipment or delivery from a point outside the state. Section 101(d) of PL 86-272 is where definitions for that section are located, defining terms like "independent contractor" and "representative". However, the provided excerpts of the original PL 86-272 do not define "solicitation of orders" within Section 101(d) or Section 101(a).

The BBBO amendment affects the provisions of PL 86-272 by **adding a specific definition for the term "solicitation of orders"** to Section 101(d). The amendment does this by striking certain text in paragraphs (1) and (2) of Section 101(d) and adding a new paragraph (3).

The new definition added by the BBBO amendment is: **"the term *solicitation of orders* means any business activity that facilitates the solicitation of orders even if that activity may also serve some independently valuable business function apart from solicitation."**.

Therefore, the key impact of the BBBO amendment on PL 86-272 is that it **provides a statutory definition** for the crucial term "solicitation of orders", which is central to determining whether a business has sufficient activity in a state to subject it to net income tax under the framework established by Section 101(a). This definition clarifies or potentially expands what activities qualify as "solicitation of orders" by including activities that *facilitate* solicitation, even if they also have other business value.

Impact of the Definition of Solicitation of Orders

Public Law 86-272 (PL 86-272) limits the power of states to impose a net income tax on income derived from interstate commerce. Specifically, under Section 101(a), a state cannot impose such a tax if the **only** business activities within that state by or on behalf of a person are the **solicitation of orders** for sales of tangible personal property, provided these orders are sent outside the state for approval and are filled by shipment or delivery from a point outside the state. The definition of the term "solicitation of orders" is therefore **crucial** because it determines the scope of the activities an out-of-state business can conduct within a state without triggering state net income tax nexus.

Originally, PL 86-272, enacted in 1959, did not define "solicitation of orders". For decades, state courts interpreted the term, leading to conflicting results and uncertainty for businesses. The Supreme Court addressed this for the first time in 1992 in *Wisconsin Department of Revenue v. William Wrigley, Jr., Co.*.

The *Wrigley* Court defined "solicitation of orders" to mean activities **entirely ancillary** to requests for purchases – specifically, those activities that **serve no independent business function apart from their connection to soliciting orders**. This interpretation excluded activities that served an "independent business function". Under this standard, activities considered "entirely ancillary" included providing a car and samples, recruiting sales representatives, using hotels for sales meetings, and mediating credit disputes. Activities deemed *not* entirely ancillary included repairing products, replacing stale gum (which served an independent business purpose beyond facilitating requesting sales), stocking racks with gum that retailers were billed for, and storing gum for non-solicitous purposes. State courts and bodies like the Multistate Tax Commission (MTC) have subsequently applied and interpreted this standard, particularly in the context of modern business activities and internet interactions. Recent MTC guidance, influenced by the *Wayfair* decision, has taken the position that certain online activities, such as providing post-sale assistance via website chat or using certain types of cookies, can exceed the protection of PL 86-272 because they are not considered "entirely ancillary" under the *Wrigley* interpretation.

The proposed new definition, referred to as the "BBBO amendment" (Section 70301) and part of bills like H.R. 427, directly affects PL 86-272 by **amending Section 101(d)**. It adds a new paragraph (3) which explicitly **defines** "solicitation of orders".

The **proposed new definition** is: "**the term `solicitation of orders` means any business activity that facilitates the solicitation of orders even if that activity may also serve some independently valuable business function apart from solicitation**".

The proposed new definition is meant to accomplish a **broadening** of the definition of "solicitation of orders" under PL 86-272. By including activities that **facilitate** solicitation *even if* they have an **independently valuable business function**, this definition **directly contrasts** with the *Wrigley* interpretation that excluded activities with independent business functions.

The goal of this proposed change is to **bring a wider range of in-state business activities under the protection of P.L. 86-272 tax immunity**. This would allow out-of-state sellers to perform more types of activities within a state without losing their immunity from the state's net income tax. Consequently, it is intended to **limit a state's authority** to impose net income tax based on those activities. If enacted, this provision could potentially preempt state nexus provisions, including those adopting recent MTC guidance on internet activities.

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