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This update reflects facts as of Monday morning, June 23, 2025. The situation is fluid and may change.

The Senate Finance Committee released last week proposed tax legislation intended for potential inclusion as the tax subtitle of budget reconciliation legislation, commonly known as the "One Big Beautiful Bill" (read *TaxNewsFlash*). The House passed its version of the legislation (H.R. 1) last month (read *TaxNewsFlash*). Finance also released a subtitle addressing healthcare, including Medicaid, and another raising the debt ceiling. Other Senate committees are preparing the other elements of the bill.

The KPMG detailed analysis of both the House and Senate versions of the tax legislation is found here: KPMG reports: Tax title for "One Big Beautiful Bill."

Senate Republican leadership has as its goal passage of its reconciliation bill before adjourning at the end of the week for its Independence Day recess. Issues remain under negotiation, however, and review by the Senate Parliamentarian on consistency with budget reconciliation rules is ongoing. The state and local tax (SALT) cap, phase-outs of the Inflation Reduction Act (IRA) energy credits, the international provisions and the retaliatory tax on residents of countries that impose discriminatory or extraterritorial taxes on U.S. taxpayers are still apparently being discussed, among other things. Further changes are possible before or during a Senate vote.

The effect of the legislation on deficits and the national debt is also a concern. So, too, are the proposed offsets. Cuts to Medicaid and the Supplemental Nutrition Assistance Program remain controversial; the latter have been affected by rulings of the Parliamentarian. The tax cuts and the spending cuts are related in that both affect the net effect of the legislation on deficits.

The tax subtitle would, like the House bill, make permanent most of the expiring individual tax provisions of the Tax Cuts and Jobs Act (TCJA). It also includes temporary campaign tax benefits promised by the president for tip income, overtime pay, and auto loan interest. The Senate bill does make several modifications to the House bill, however, as described below.

Among the important business provisions of the Finance tax subtitle are provisions that would:

- Reinstate and make permanent expensing of R&D costs, the higher EBITDA cap on the deduction for interest, and 100% bonus depreciation (the House bill would only extend these provisions for five years)

- Make permanent the section 199A deduction for passthrough business income but at the current 20% rate instead of the higher 23% rate of the House bill

- Renew and reform the Opportunity Zone program

- Add a 100% first-year depreciation deduction for real property used in a production activity (the House bill included a similar proposal)

The Finance tax subtitle also includes provisions that would increase revenues, in some cases modifying provisions of the House bill, and would:

- Repeal or phase out energy tax credits created by the IRA, though in some cases extending the credits further than the House bill

- Make extensive reforms to the U.S. international tax regime, including to foreign-derived intangible income (FDII), global intangible low-taxed income (GILTI) (renamed “net CFC tested income”), and the base erosion minimum tax (BEAT)

- Impose a retaliatory tax on certain non-U.S. corporations and individuals if their home jurisdiction has adopted taxes on U.S. taxpayers deemed to be discriminatory or extraterritorial, albeit with a delayed one-year effective date relative to the House bill and a reduced maximum rate of additional tax

- Permanently extend the CFC look-through rule of 954(c)(6)

- Continue the existing $10,000 cap on the SALT deduction, while extending and increasing the SALT cap for certain passthrough entity taxes

- Impose a 3.5% tax on remittances to a recipient outside the United States

- Increase taxes on college endowments but at lesser rates than those of the House bill (but omitting a provision on private foundations)

- Bar the IRS from making payment on employee retention credit claims filed after January 31, 2024

Differences with the House may present obstacles to final passage. Several House members have said they will not vote for the bill if it includes a SALT cap of less than $40,000. Others have expressed concern about the effect of any version of the bill on deficits and the national debt, and that concern will only increase with the apparent additional revenue cost of the Finance tax subtitle.

The bill lacks the support of Democrats, and the Republican majorities in the House and Senate are very narrow: eight in the House, six in the Senate. With only three votes to spare, resolution of conflicting concerns may prove difficult and take time. The original Independence Day goal for final passage of the bill seems now out of reach. The next natural deadline is adjournment for the August recess, the end of July.

Other legislative activity. The House recently passed 216-214 a recissions bill, after a last-minute switch of a vote. The bill, in addition to rescinding current funding for public broadcasting and international aid programs, also eliminated remaining 2024 and 2025 funding for international organizations. These recissions would eliminate U.S. contributions to the Organization for Economic Cooperation and Development. The effect this might have on negotiations over Pillar 2 and other matters, should the Senate agree, is uncertain.

The Senate has confirmed the nomination of former representative Billy Long to be IRS Commissioner. The Majority Leader has begun the process leading to a vote on the nomination of Kenneth Kies as Assistant Secretary for Tax Policy. And the President has nominated Don Korb for IRS Chief Counsel, a position he held during the Bush Administration.

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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Contacts

John Gimigliano
Co-Principal in Charge, Federal, Legislative & Regulatory Services
Washington National Tax
T: 202-533-4022
E: jgimigliano@kpmg.com

Jennifer Acuña
Co-Principal in Charge, Federal, Legislative & Regulatory Services
Washington National Tax
T: 202-533-3800
E: jenniferacuna@kpmg.com

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