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# KPMG report: Initial analysis and observations on Chairman’s Mark for budget reconciliation bill

Yesterday the Chairman of the House Committee on Ways and Means, Jason Smith (R-MO), introduced an **amended version** of his tax bill intended to prevent the expiration of many tax cuts originally enacted in the Tax Cuts and Jobs Act (TCJA) of 2017. The bill was supplemented with a technical explanation (**JCX-21-25**), revenue estimate (**JCX-22-25R**), and distribution of the estimated revenue effects (**JCX-23-25**) from the Joint Committee on Taxation (JCT).

**Extensions of current law**

The Ways and Means legislation would generally make permanent the expiring TCJA provisions. These permanent extensions include:

- The expiring individual provisions for lower rates, the higher standard deduction, and the higher AMT exemption amount, among many others
- The lower rates for the international provisions GILTI, FDII, and BEAT

Notably, the legislation does not extend the CFC look-through rule of 954(c)(6) and would presumably allow that provision to expire.

**Modifications of current law**

Beyond merely extending current law, the bill would make several important adjustments to current law. These include:

- Increasing the section 199A deduction for passthrough businesses from 20% to 23%
- Increasing the estate and gift tax base exemption amount from $5 million to $15 million
- Increasing the standard deduction through 2028

**Restoring expired items**

The legislation would also restore several expired business tax benefits from the TCJA. These include:

- Restoring the deductibility of U.S. research and development costs under section 174 from 2025 through 2029
- Restoring 100% bonus depreciation from 2025 through 2029
- Restoring the interest deductibility limit to 30% of EBITDA

**New tax benefits**

The legislation also includes several new tax benefits proposed by the president during the campaign. These new items include:

- 100% bonus depreciation for new manufacturing facilities
    - "Manufacturing" is defined as manufacturing, production, or refining of tangible personal property
    - A "qualifying facility" is one where construction begins after January 19, 2025, and before 2029 and is placed in service before 2033
- A new “tip deduction” to offset certain amounts of tip income received by an individual from 2025 through 2028
- A new deduction for overtime pay for qualifying overtime income from 2025 through 2028
- A new deduction of up to $4,000 for Social Security recipients subject to an income phaseout
- A deduction for interest on qualified auto loan interest (generally for vehicles with final assembly in the United States) available from 2025 through 2028

**Revenue raising provisions**

The revenue cost of the above taxpayer-favorable changes would be partially offset by a host of revenue-raising provisions. Notably, these tax increases include the following:

- Extension of the existing limit on the individual deduction for state and local taxes (SALT). The SALT cap is increased to $30,000 for individuals and married couples and $15,000 for married individuals filing separately but remains a significant revenue raising provision.
- Material modifications to the energy provisions enacted in the Inflation Reduction Act (IRA). The modifications include early sunsets, phase outs, and other changes to the energy tax credits.
- Retaliatory measures imposed on certain non-U.S. corporations and individuals if their home jurisdiction has adopted taxes deemed to be discriminatory or extraterritorial, including the undertaxed profits rule of Pillar Two, digital services taxes, diverted profits taxes, and potentially others.
- Increased tax rates on certain university endowments and private foundations.

**Not included**

A number of revenue-raising proposals discussed as being under consideration are not included in the legislation. These excluded provisions include:

- SALT limitation for C-Corporations
- Increase in the stock buyback excise tax rate
- New higher tax rate for wealthy individuals
- Limitation of capital gains treatment for carried interest

**What’s next**

As the Ways and Means Committee conducts its markup of the legislation, amendments could be adopted. Further changes could occur as the legislation is considered by the House Rules Committee or even on the floor of the House of Representatives during debate.

House passage of a reconciliation bill is complicated by the narrow seven-vote Republican majority. As the majority can afford to lose only three votes without Democratic support, factions with different interests must be satisfied, while available revenue is limited. This week's markup should provide at least an indication of how quickly and, perhaps, with what components budget reconciliation is likely to proceed. The Senate, of course, may have different ideas when it takes up its version of the budget reconciliation legislation.

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