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Overview of Senate tax measures for budget reconciliation

This week, the Senate Finance Committee released 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 health care, including Medicaid, and another raising the debt ceiling. Other Senate committees are preparing other elements of the bill. The announced goal is for the Senate to pass a budget bill before adjourning for its Independence Day recess on June 27.

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:

- Reinststate 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, that would:

- Repeal or phase out energy tax credits created by the Inflation Reduction Act (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 deduction eligible income, global intangible low-taxed income (renamed “net CFC tested income”), and the base erosion anti-abuse tax

- 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 state and local tax (SALT) deduction (versus the \$40,000 SALT cap in the House bill), with significant changes to the treatment of passthrough entity taxes (both compared to current law and the House Bill)
- Impose a 3.5% tax on remittances to a recipient outside the United States
- Increase taxes on college endowments but at lower rates than those of the House bill (and omitting a provision on private foundations)
- Bar the IRS from making payment on certain employee retention credit claims filed after January 31, 2024

There may well be further changes to the Finance tax subtitle before—and even during—a Senate vote. Some of the changes Finance proposes to make to the House bill may be controversial even in the Senate. For example, a number of GOP Senators have already asked for a longer phaseout of certain of the IRA energy tax credits. And estimates of the overall cost of these provisions has not yet been provided but could be substantially greater than the cost of the House provisions, a matter of concern to some members. Moreover, some of that additional cost could be offset with cuts to Medicaid in the second subtitle released by Finance, another area of concern for some members. The third subtitle would also provide a \$5 trillion increase in the debt ceiling, larger than the \$4 trillion increase in the House bill, and again something that might be opposed by some.

Differences with the House may also 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 had 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 legislation lacks the support of Democrats, and the Republican majorities in the House and Senate are very narrow. 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.

KPMG will be providing detailed analysis of the major provisions of the Senate tax subtitle, along with its analysis of the House bill, on its [dedicated website](#).

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