Tax Fairness and Base Broadening Act of 2025

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Short title.

This Act may be cited as the **"Tax Fairness and Base Broadening Act of 2025."**

Sec. 2. Findings.

Congress finds that:

1. **Climate and Carbon Costs:** Emissions of carbon dioxide and other greenhouse gases into the atmosphere impose significant social, economic, and environmental costs on all Americans and on future generationscongress.gov. Placing a fee on carbon pollution will internalize these costs, drive innovation in clean energy, and help mitigate climate change. Furthermore, because higher-income households tend to have larger carbon footprints, returning carbon tax revenues on an equal per-person basis can fully offset the cost impact on roughly the lower two-thirds of householdscarbontax.org, protecting low- and middle-income Americans and making the policy highly progressive.
2. **Financial Transaction Tax Benefits:** Technological advances have enabled high-frequency and speculative trading practices that add volatility and risk to financial markets (as evidenced by events such as "flash crashes")aflcio.org. A modest financial transaction tax (FTT) would reduce incentives for the most **reckless, high-volume speculation**on Wall Streetaflcio.org, steering capital toward productive, long-term investments. All major FTT proposals would also raise **substantial revenue** that can help reduce federal deficits; for example, one analysis found that an FTT similar to pending European plans (around 0.1% on stock trades and 0.01% on derivatives) could raise over **$130 billion per year** (more than $1.5 trillion over a decade) in the U.S.aflcio.org. This revenue would come predominantly from Wall Street traders and large financial players, with **minimal impact on ordinary investors**engaging in low-volume trading.
3. **Carried Interest Loophole:** The current tax treatment of **carried interest** allows certain investment fund managers to have their compensation (a share of fund profits) taxed at the **preferential long-term capital gains rate (20%)**instead of ordinary income rates (which go up to 37%) and exempts that income from payroll taxespgpf.org. This loophole enables some of the wealthiest professionals to pay lower effective tax rates than many middle-class workers, **reduces federal revenues** by billions of dollars (approximately $12 billion over ten years, according to the Congressional Budget Office)pgpf.org, and undermines the fairness of the tax code. Eliminating the carried

interest preference would ensure that income from managing investment funds is taxed on par with wages and salaries, making the tax system more equitable.

4. **Offshore Corporate Tax Avoidance:** Many multinational corporations exploit gaps and preferences in the international tax system to shift profits to low-tax jurisdictions, eroding the U.S. tax base. Prior to recent reforms, U.S. corporations accumulated an estimated **$2.4 trillion** in profits offshore, avoiding an estimated **$700 billion** in U.S. taxes that would have been due if those profits were repatriatedepi.org. While the 2017 tax law moved to a semi-territorial system, it introduced a **Global Intangible Low-Taxed Income (GILTI)** minimum tax that is set at roughly half the domestic corporate tax rate (about **10.5%**, versus 21% for U.S. profits)thefactcoalition.org. This lower rate on foreign earnings, along with other preferences like the **Foreign-Derived Intangible Income (FDII)**deduction, still incentivizes companies to book income abroad and gives multinational firms an advantage over purely domestic businesses. **Repealing or reforming these offshore tax preferences** so that overseas profits are taxed at least at the full domestic rate (with credit for foreign taxes paid) will curb profit-shifting, level the playing field, and recapture revenue that is currently lost to tax havens.

5. **Unrealized Capital Gains and Wealth Concentration:** Under current law, **unrealized capital gains** escape income taxation if held until death, due to the step-up in basis rule. This "stepped-up basis" loophole is one of the largest tax breaks in the federal code (worth about **$41.9 billion in 2021** alone)vanhollen.senate.gov and overwhelmingly benefits the wealthy. Indeed, it is estimated that **55% of the wealth in estates worth over $100 million consists of untaxed appreciation** that has never been subject to income taxvanhollen.senate.gov. Similarly, ultra-wealthy individuals can indefinitely defer capital gains by never selling assets, dramatically lowering their effective tax rates. Recent analyses show that the richest Americans often pay **very low effective tax rates** relative to their true economic income; for example, the 400 wealthiest Americans paid an average effective federal tax rate of only about **8%** in recent years when unrealized gains are counted as incomeamericanprogress.org, a rate far below that paid by many middle-class families. **Closing these gaps** by taxing large unrealized gains—either at death or through periodic taxation for the ultra-rich—would restore fairness and prevent the perpetuation of enormous untaxed wealth across generations.

6. **Tax Gap and IRS Enforcement:** There is a huge gap between taxes legally owed and taxes actually paid. The IRS estimates the gross **tax gap** was about **$696 billion in 2022** (with a net tax gap of around $606 billion after enforcement actions)pgpf.org, and it has likely grown in recent years. **Reducing this tax gap** is critical for both fairness and fiscal responsibility: honest taxpayers shoulder higher burdens when others evade taxes, and the government forgoes hundreds of billions in revenue annually that could reduce deficitspgpf.org. Decades of underfunding have left the Internal Revenue Service with

outdated technology and inadequate enforcement staff, especially for complex audits of high-income individuals and large corporations. Strengthening IRS resources and modernizing its systems will improve customer service and boost collection of owed taxes. IRS leadership has emphasized that **increased compliance efforts focused on high-wealth individuals, partnerships, and corporations are essential to add fairness to the tax system and combat the growing tax gap**irs.gov. Investing in IRS enforcement yields very high returns in revenue collection – by some estimates, each additional dollar spent on tax enforcement yields several dollars of revenue – and does so by ensuring everyone pays what they legally owe.

7. **Broadening the Tax Base and Fiscal Responsibility:** The measures in this Act – imposing a price on carbon pollution, enacting a financial transaction tax, eliminating special tax preferences, and investing in tax enforcement – **broaden the tax base** in a progressive manner and raise revenue without increasing marginal income tax rates. By making the tax code more comprehensive and closing loopholes, these reforms will **enhance fairness and efficiency** in the economy. All revenue raised by this Act will go into the general fund of the Treasury (not earmarked for any special purpose), helping to reduce the federal deficit and finance vital public investments. It is the intent of Congress that this Act will strengthen public trust in the tax system by ensuring that *everyone pays their fair share* and that the government has the means to collect the taxes that are due under law.

Sec. 3. Definitions.

In this Act, the following definitions apply unless otherwise specified:

- **"Code" or "Internal Revenue Code"** means the Internal Revenue Code of 1986, as amended.
- **"Secretary"** means the Secretary of the Treasury or the Secretary's delegate, except where otherwise indicated.
- **"Commissioner"** means the Commissioner of Internal Revenue.
- **"IRS"** means the Internal Revenue Service.
- **"Covered fuel"** means coal, petroleum or any petroleum product, natural gas, or any other product that, when used or combusted, emits carbon dioxide or an equivalent greenhouse gas, as identified by the Secretary in consultation with the Administrator of the Environmental Protection Agency (EPA).
- **"Carbon dioxide equivalent"** (CO₂-e) means the amount of a given greenhouse gas (including but not limited to CO₂, methane, and nitrous oxide) that makes the same contribution to global warming as one metric ton of carbon dioxide, using IPCC or scientifically accepted conversion factors.
- **"Covered transaction"** (for purposes of the financial transaction tax provisions) means any purchase of, or other transaction that transfers ownership in, a covered security or financial instrument. The Secretary shall define by regulation the types of

transactions and assets that are covered to ensure broad coverage of secondary market trades. At a minimum, **covered transactions** include purchases (whether on an exchange or over-the-counter) of stocks, bonds, debentures, partnership or membership interests, derivatives (including options, futures, forwards, swaps, and similar contracts) or other securities or financial instruments, when either the purchaser or seller is a United States person or the transaction occurs on or through a trading venue or intermediary subject to U.S. jurisdiction.

- **"Covered security"** means any equity interest, debt instrument, option, futures or forward contract, swap, or other derivative, or any other financial instrument or asset that the Secretary determines should be treated as a covered security for purposes of the financial transaction tax. The term **does not** include instruments that the Secretary exempts by regulation in the public interest (for example, to exclude initial issuances of stock or debt by an issuer, to avoid hindering capital formation, or to exclude trades below de minimis thresholds).
- **"Investment services partnership interest" or "ISPI"** (commonly known as a **carried interest**) means any interest in a partnership which is transferred to, or held by, a person in connection with their performance of substantial investment or asset management services for that partnership. This term includes any partnership interest held by a person who provides (by themselves or through affiliated entities) investment advice, investment management, or asset management services to the partnership (or related partnerships), in exchange for such interest. It also includes any financial instrument or contract the value of which is determined in whole or in part by reference to the partnership's assets and is received in lieu of a partnership interest for the provision of such services. The Secretary shall prescribe regulations to prevent avoidance of the carried interest rules, including through the use of derivative contracts, corporations or other entities, or arrangements designed to circumvent the definition of an investment services partnership interest.
- **"Controlled foreign corporation"** (CFC), **"United States shareholder," "Subpart F income," "global intangible low-taxed income (GILTI),"** and **"foreign-derived intangible income (FDII)"** have the meanings given to those terms in the Internal Revenue Code (sections 951, 951A, 250 and related provisions), or any successor provisions as amended by this Act.
- **"Ultra-wealthy" or **"applicable high-wealth taxpayer"** refers to, for an applicable tax year, any individual (or married couple filing jointly, treated as one taxpayer for this purpose) whose **net worth** exceeds $[W] (placeholder) on average or at year-end, *or* whose average annual **gross income** (including unrealized gains) exceeds $[V] over a designated prior period. The Secretary shall by regulation specify the precise wealth and/or income thresholds (for example, net wealth above $100 million or $1 billion, as determined by Congress) that will define applicable high-wealth taxpayers, and shall provide rules for how net worth is measured (including valuation of assets and

treatment of trusts or other entities) and how the threshold applies for married vs. unmarried taxpayers.
(Additional definitions specific to particular titles of this Act are contained in those titles.)

TITLE I — CARBON TAX

Sec. 101. Imposition of carbon dioxide emissions fee (carbon tax).
(a) **In General.** The Internal Revenue Code is amended to establish an excise tax on the carbon content of fossil fuels and other greenhouse gas emissions (hereafter referred to as the "carbon tax" or "carbon emissions fee"), to be collected with respect to the extraction, production, or importation of carbon-intensive fuels and materials that will release greenhouse gases when used. All revenues from this carbon tax shall be deposited in the general fund of the U.S. Treasury.
(b) **Tax on Carbon Content of Covered Fuels.** There is hereby imposed a tax on each covered entity's production or importation of any **covered fuel** (as defined in Sec. 3) in the United States. The tax shall be equal to **$[Y] per metric ton**of carbon dioxide equivalent (CO₂-e) emissions that would be released by the combustion or use of that fuel. The Secretary, in consultation with the EPA Administrator, shall establish by regulation the method for determining the carbon dioxide equivalent content of each covered fuel (for example, based on the fuel's carbon content and standard emission factors). Each producer, refiner, or importer of a covered fuel shall be liable for the carbon tax imposed on that fuel at the point of first sale, distribution, or use within the United States, as specified by the Secretary.
(c) **Coverage and Scope.** The carbon tax shall apply to coal (all forms), petroleum and petroleum products, natural gas, and any other fossil fuel or greenhouse gas-emitting substance used as fuel, as well as to any other industry or process the Secretary identifies as appropriate to effectively capture a broad base of carbon emissions. The Secretary may also require payment of the tax by industrial facilities or entities that manufacture or produce non-fuel greenhouse gases (such as fluorinated gases) or other greenhouse gas-emitting products, in cases where imposing the tax upstream on feedstocks is not practical. The goal is to impose the carbon tax as far upstream as possible in the supply chain (e.g. at the coal mine mouth, oil refinery, natural gas processing plant, or point of importation) to cover the vast majority of U.S. greenhouse gas emissions.
(d) **Tax Rate and Adjustment Schedule.** The tax rate shall be initially set at **$[Y] per ton of CO₂-e** (a placeholder value to be determined by Congress, e.g., $X per ton) in the first year of implementation. Thereafter, the tax rate shall increase by **$[Z]** (or by [Z] percent) per year over the subsequent [N] years, or by an inflation-adjusted and/or predetermined escalating schedule, in order to strengthen incentives for emissions reductions over time and to ensure the United States meets its climate

targets. The exact annual increase and any inflation adjustment formula (such as indexing to the Consumer Price Index) shall be specified by Congress. If, after a period of years, U.S. greenhouse gas emissions fail to decline at the pace anticipated, Congress may review and adjust the tax rate trajectory to better achieve emissions goals.

(e) **Exemptions and Special Rules.** The following exemptions and special rules shall apply (subject to further refinement by the Secretary through regulations):

- **Non-Emitting Uses:** If a covered fuel is used as a raw material in manufacturing such that it is chemically sequestered in a product (and not combusted or released as CO₂), or is captured and sequestered through an approved carbon capture and storage process, the producer or importer may be eligible for a refund or credit of the carbon tax paid on that quantity of fuel. The Secretary, in consultation with the EPA, shall establish certification and credit procedures for verifiable non-emitting uses or sequestration of carbon.
- **Agricultural and Other Small Uses:** To the extent necessary for administrability, the Secretary may exempt de minimis producers or importers of very small quantities of covered fuels from direct payment of the tax, and instead ensure the tax is collected further downstream (for example, through an adjustment in the tax paid by larger upstream suppliers). No exemption shall be so broad as to undermine the emissions reduction goals of this Act.
- **Coordination with EPA Regulations:** The imposition of this carbon tax is not intended to replace or preempt other federal or state greenhouse gas regulations that achieve additional emissions reductions or address local pollution. However, Congress finds that putting a price on carbon is a cost-effective policy; accordingly, if the carbon tax established by this Act, in combination with other policies, achieves certain national emissions reduction milestones, Congress may consider adjusting overlapping regulations. (Nothing in this Act shall be construed to restrict the EPA's existing authority to regulate greenhouse gas emissions under other laws, absent additional legislation.)

(f) **Administration and Collection.** The Secretary shall administer the carbon tax in consultation with the Administrator of the EPA. The Secretary is authorized to collect the tax in the same manner as other excise taxes. Each person or entity liable for the tax shall file such returns, at such times (e.g., quarterly), and provide such information regarding fuel quantities, carbon content, and emissions as the Secretary may require. The Secretary may require third-party verification of carbon content or utilize default emissions factors. Civil and criminal penalties for nonpayment or evasion of this tax shall be as provided in the Internal Revenue Code for excise taxes or as otherwise provided by law.

(g) **Regulations and Flexibility. Rulemaking Authority:** The Secretary shall, within [6] months of enactment of this Act, issue proposed regulations to implement the carbon tax, and shall issue final regulations not later than [18] months after enactment. Such

regulations shall address, among other things: methods for measuring carbon content of fuels, procedures for filing and payment, record-keeping requirements, verification and monitoring (potentially using EPA emissions data), and provisions to prevent evasion or double-counting. The Secretary may also adopt simplified compliance options for small fuel producers or importers. The Secretary, in consultation with the EPA, is further authorized to adjust the point of tax collection or other administrative details as needed to improve effectiveness or reduce compliance burdens, provided such adjustments do not materially impact the coverage of emissions or the rate of tax.

(h) **No Earmarking of Revenues; Deficit Reduction.** Nothing in this Act shall be construed to dedicate the revenue from the carbon tax to any specific purpose. All amounts collected under this section shall be deposited into the general fund of the Treasury and will be available for general governmental purposes, including potential use in future legislation to provide taxpayer relief or dividends, fund climate or energy initiatives, or reduce the deficit.

Sec. 102. Carbon border adjustment mechanism.

(a) **Imposition of Carbon Border Fee on Imports.** In order to protect domestic industries from unfair competition from jurisdictions without comparable carbon pricing and to prevent "carbon leakage" (the shifting of emissions-intensive production abroad)congress.gov, the Secretary shall implement a **carbon border adjustment** system. Effective no later than when the domestic carbon tax (Sec. 101) takes effect, an **import carbon fee** shall be levied on imported goods that are carbon-intensive or that contain embedded greenhouse gas emissions, unless the exporting country has a similar carbon cost. The fee on an imported product shall be equivalent to the amount of carbon tax that would have been imposed under U.S. law on the greenhouse gas emissions attributable to the production of that product if those emissions had been subject to the U.S. carbon tax. The Secretary, in consultation with the EPA Administrator and the United States Trade Representative, shall determine the scope of goods covered and the methodology for calculating the import fee, consistent with international trade obligations. At a minimum, the border fee shall apply to imports of fossil fuels themselves and to primary carbon-intensive products such as iron, steel, aluminum, cement, bulk glass, pulp and paper, chemicals, and other industrial commodities identified as emissions-intensive and trade-exposedcongress.govcongress.gov. The Secretary may phase in the application of the import fee by sector, prioritizing those with the highest emissions and trade exposure.

(b) **Export Rebates.** To ensure a level playing field for U.S. manufacturers in global markets, the Secretary shall also provide, in connection with the carbon tax, a mechanism to rebate or credit the equivalent of the carbon tax paid on the carbon content of products or raw materials **exported** from the United States. Such export rebates will apply only to goods exported to countries that do not have an equivalent carbon pricing mechanism. The rebate shall be set such that U.S. exports are not unfairly

disadvantaged, but also such that it refunds *no more* than the domestic carbon tax actually paid on the inputs of the exported product (to avoid any export subsidy). The Secretary shall issue regulations specifying the procedures for exporters to claim rebates, documentation requirements to prove the amount of carbon tax embedded in exported goods, and the list of eligible product categories.

(c) **Administration and Coordination:** The carbon border adjustment (import fees and export rebates) may be administered as part of the customs duties process. The Secretary shall coordinate with the Secretary of Homeland Security (who oversees U.S. Customs and Border Protection) to collect the import carbon fee at the border. The fee may be treated as a customs duty for administrative purposes, except that all amounts collected shall be deposited in the general fund of the Treasury (as revenue from the carbon tax). The Secretary is authorized to require importers to provide documentation of the carbon intensity of covered goods (such as emissions per ton of steel) and, in the absence of adequate information, to apply default emissions values that reflect average or worst-case production methods for that category of product. The Secretary may exempt imports from least-developed countries or other nations in accordance with international agreements or for de minimis import values, to be defined by regulation, as long as such exemptions do not undermine the environmental goals of this section.

(d) **Consistency with International Obligations:** In implementing this section, the Secretary and the U.S. Trade Representative shall ensure that the carbon border adjustment mechanism is designed to be consistent with World Trade Organization (WTO) rules and other relevant international trade agreements. It is the sense of Congress that addressing climate change is of paramount importance, and that measures under this section are intended to avoid disadvantaging U.S. industries or simply shifting pollution abroad. The United States shall work with other countries on establishing mutually recognized carbon pricing or adjustment systems. If an importing country enacts its own comparable carbon tax or cap-and-trade system, the Secretary may determine that imports from that country should be exempted or the fee adjusted to account for carbon costs already incurred. Similarly, U.S. export rebates shall be adjusted so as not to rebate amounts in excess of any U.S. carbon tax actually paid, in compliance with WTO subsidy disciplines.

(e) **Regulations.** The Secretary, in consultation with the EPA and the U.S. Trade Representative, shall promulgate regulations to implement the border adjustment system no later than [X] months after enactment. The regulations shall include detailed formulas or tables for determining the import fee by product type (taking into account average emissions in production), procedures for importers to seek a lower fee by demonstrating a lower carbon footprint, procedures for claiming export rebates, recordkeeping and audit provisions, and enforcement measures (including penalties for false declarations of product carbon content). The Secretary may update the list of

covered products and the fee calculations periodically based on new data or changes in U.S. carbon tax rates.

Sec. 103. Potential use of carbon tax revenues; sense of Congress on dividends.

(a) No earmarking of funds. As noted in Section 101(h), all revenue from the carbon tax will go to the general fund, to be appropriated by Congress as it deems appropriate. However, Congress recognizes the importance of addressing the economic impacts of the carbon tax on American households and businesses. Nothing in this Act precludes Congress from using a portion of the revenues to provide financial relief to citizens or to further climate-related programs, so long as such uses are authorized by subsequent legislation.

(b) Sense of Congress on Carbon Dividends. It is the sense of Congress that a substantial portion of the revenues generated by the carbon tax **could be returned to the American people in the form of flat per-capita "carbon dividends."** Returning revenue on an equal basis to all U.S. residents (or all taxpayers) would ensure that most low- and middle-income households are financially protected from any increase in energy costscarbontax.org, while still preserving the carbon price signal to reduce emissions. Congress finds that a well-designed dividend or rebate program would make the overall policy more progressive and could boost public support. For example, if 100% of carbon tax revenues were distributed as equal quarterly payments to every American, the majority of families would receive more in dividends than they pay in higher costscarbontax.org. Although this Act does not itself create a dividend program (to avoid binding future Congresses to a particular use of funds), Congress may consider separate legislation to establish carbon dividends or other measures (such as reductions in other taxes, or targeted credits for households, communities, and workers affected by the transition to a clean economy) funded by the general revenues from this carbon tax.

(c) Other potential uses. It is further the sense of Congress that aside from dividends, carbon tax revenue could be used to invest in complementary clean energy research and infrastructure, assist communities and workers in carbon-intensive regions (for economic diversification and transition assistance), or reduce the federal deficit. By not earmarking the revenue in this Act, maximum flexibility is retained for future policy deliberations. Any future use of the revenues will be subject to the normal appropriations process and oversight by Congress.

(d) Transparency. The Secretary shall prepare an annual report to Congress and the public detailing the total amount of revenue collected from the carbon tax in each fiscal year and deposited in the Treasury, along with any reductions in emissions attributable to the tax. This report should also analyze the distributional impact of the carbon tax on households in different income brackets (taking into account any offsetting dividends or tax reductions enacted), and the status of international competitiveness of U.S. industries under the carbon border adjustment. This information will help inform

Congress in determining the best use of the revenues and any need for adjustments in rates or complementary measures.

TITLE II — FINANCIAL TRANSACTION TAX

Sec. 201. Financial transaction tax on securities trades.

(a) **Imposition of Tax.** The Internal Revenue Code is amended to establish a financial transaction excise tax (FTT) on trades of stocks, bonds, derivatives, and other specified financial instruments. There is hereby imposed a tax on every **covered financial transaction**. For each such taxable transaction, the tax shall be an amount equal to **X percent** of the **specified base amount** of the transaction. The term **"X percent"** is a placeholder for the tax rate to be determined by Congress (for example, 0.__% – a very small percentage). The **specified base amount** is, in general, the fair market value of the assets being transferred (in the case of stocks, bonds or other securities) or the notional amount underlying the transaction (in the case of derivatives), as further defined in subsection (c).

(b) **Covered Transactions.** For purposes of this section, a **covered financial transaction** means: (1) **any purchase of a covered security** (including stocks, bonds, debentures, partnership or membership interests, or other ownership interests) if such purchase occurs on, or is cleared or settled through, a facility or system located in the United States (including any national securities exchange or alternative trading system), *or* if either the purchaser or seller is a United States person; and (2) **any trade, execution, assignment, or transfer of a derivative or other financial contract** (including options, futures, forwards, swap agreements, notional principal contracts, and similar instruments) if at least one party to the contract is a United States person or the trade is executed on a U.S.-regulated exchange or platform. The Secretary shall by regulation further specify which transactions are included to prevent avoidance (for example, through intermediate entities or foreign venues), and may also specify certain transactions that are excluded (such as genuinely short-term commercial foreign currency trades needed for trade settlement, or transactions by market makers or liquidity providers in times of market stress, if an exclusion is deemed in the public interest). However, **any exclusion shall be narrowly construed** so as not to undermine the broad application of the tax. The intent is that the vast majority of secondary market financial trades pay this tax, while initial issuances (e.g., a company issuing new stock or bonds to raise capital) are not taxed under this section.

(c) **Tax Rate and Differentiation by Asset Class.** Congress may set a single uniform rate (X%) for all covered transactions, or may set differentiated rates for different classes of assets. For example, policymakers may choose to impose a rate of X% on equity (stock) trades, Y% on bond trades, and Z% on derivative contracts, reflecting the differences in typical value and volatility of these instruments. (By way of illustration only: proposals have often suggested around 0.1% for equities, 0.1% for bonds, and 0.01% for

derivatives). In this Act, **"X percent"** shall be understood as a placeholder for the base rate on the most common transactions (such as equities), with the Secretary given authority to establish proportional rates for other instruments if directed by Congress. If Congress does not specify differentiated rates, a single rate X% shall apply to the **specified base amount** of all covered transactions. The **specified base amount** means: for stocks, bonds and other securities, the total price paid by the purchaser (or fair market value exchanged); for derivative contracts, the fair market value of the underlying asset covered by the contract (or the notional amount of the contract) as of the time of trade; for options, the underlying value rather than the option premium; and for any payment to settle or transfer a derivatives contract, the amount of such payment if that better reflects the economic value transferred. The Secretary shall prescribe regulations for determining the taxable base for each type of instrument to ensure the tax is applied to the **gross transaction value** in a fair and consistent manner.
(d) **Administration and Collection.** The financial transaction tax shall be administered by the Secretary (IRS) in coordination with the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) as appropriate. **Collection at source:** To the maximum extent feasible, the tax on each taxable transaction shall be **collected by the clearing member, broker, exchange, or other intermediary** that handles the transaction for the buyer (or seller) and remitted to the Treasury at such times (at least monthly) and in such manner as the Secretary may require. Brokers and financial intermediaries shall integrate FTT collection into trade settlement processes. In the event a transaction occurs without a U.S.-based intermediary (for example, directly peer-to-peer by U.S. persons), any U.S. party to the transaction (buyer, or if buyer is exempt then seller) shall be responsible for reporting and paying the tax. The Secretary may impose appropriate **reporting requirements** on financial exchanges, clearinghouses, brokers, dealers, banks, and other participants to ensure all taxable transactions are accounted for. The Secretary is authorized to require electronic reporting and remittance to facilitate efficient collection. Amounts of tax due but not collected by an intermediary shall remain the liability of the parties to the transaction jointly and severally.
(e) **Exemptions and Adjustments (if any).** Congress may choose to exempt certain categories of transactions that are not aimed at speculative trading. For example, **transactions in bonds issued by the U.S. Treasury or other governmental entities** could be exempted if deemed in the public interest (to avoid increasing government borrowing costs), although doing so would narrow the base. Additionally, Congress might exclude **very small-scale traders or certain retirement account transactions** if necessary to protect small investors (though the low rate means the impact on small investors is already minimal). In the absence of explicit exemptions in the statute, the presumption is that all secondary market trades are taxed. The Secretary may, by regulation, provide *de minimis* exceptions (for instance, an individual whose total annual

trading volume is below a very low threshold might be allowed to bypass filing obligations, with the tax effectively collected from the other side of their trades or absorbed in prices). Any such regulatory exceptions must be targeted and not provide loopholes for larger investors.

(f) **Anti-Avoidance and Enforcement.** The Secretary shall promulgate anti-abuse rules to prevent avoidance of the FTT. Such rules may include deeming certain arrangements or order routing schemes (such as routing trades through foreign subsidiaries or using complex derivatives to simulate ownership transfers without technically triggering the tax) as taxable events. If the Secretary finds that certain financial instruments are being used primarily to circumvent the tax (for example, structured notes or synthetic positions replicating stocks), the Secretary can classify trades of those instruments as covered transactions by regulation. All provisions of the Internal Revenue Code relating to assessment, collections, interest, penalties, and enforcement shall apply to the FTT as applicable. Willful evasion of the FTT (such as mischaracterizing trades or failing to report taxable trades) shall be subject to penalties akin to those for other federal excise taxes or income tax evasion, including fines and potential criminal liability.

(g) **Revenue Use and Budgeting.** All revenues from the financial transaction tax shall be deposited into the general fund of the Treasury and counted toward general receipts available for appropriation. Congress intends that this FTT will raise significant funds to help reduce the federal deficit and fund public priorities, while also modestly curbing the most extreme short-term speculative trading. (By raising the cost of each trade by a very small amount, an FTT has minimal impact on long-term investors but a larger relative impact on ultra-high-frequency trading strategies.) Studies have indicated such a tax could raise on the order of tens of billions of dollars per year for the U.S.taxfoundation.orgaflcio.org, depending on the rate and the responsiveness of trading volumes.

(h) **Effective Date.** The tax imposed by this section shall take effect as provided in Title V of this Act (Effective Dates), anticipated to be no later than [January 1, 2026], to allow time for financial institutions and markets to adjust systems for compliance. The Secretary shall consult with the SEC, CFTC, and industry stakeholders during the rulemaking process to ensure a smooth implementation and to minimize any unnecessary disruptions to market liquidity.

TITLE III — CLOSING TAX LOOPHOLES AND TAX PREFERENCES

Sec. 301. Taxation of carried interest as ordinary income.

(a) **General Rule (Ordinary Income Treatment).** Notwithstanding any other provision of law, **any income or gain earned by an individual or entity from an investment services partnership interest (carried interest)** shall be **treated as ordinary income** for federal income tax purposes. In other words, such income or gain shall be taxable at ordinary income tax rates and shall be subject to applicable employment taxes, just as

compensation for services would be. This rule applies to **all forms of income** derived with respect to an investment services partnership interest, including (1) the share of partnership profits allocated to the service-providing partner (sometimes referred to as a carried interest distribution or allocation of profits) and (2) any gain recognized on the sale, exchange, or disposition of the partnership interest itself.

(b) **Amendments to the Internal Revenue Code.** To carry out subsection (a), the Internal Revenue Code is amended as follows (with specific Code section references to be determined by legislative counsel):

1. **Recharacterization of Gains:** Section 1061 of the Code (relating to certain carried interest gains treated as short-term) is hereby **amended** to provide that *all* net long-term capital gain with respect to an applicable partnership interest shall be recharacterized as ordinary income. Specifically, Section 1061(a) is revised to eliminate the three-year holding period exception and instead mandate that **no matter the holding period**, any income or gain attributable to an "applicable partnership interest" (as defined in section 1061(c), to be updated consistent with the definition of ISPI in Sec. 3 of this Act) shall not be treated as long-term capital gain. The reference to "short-term capital gain" can be removed in favor of direct classification as ordinary income.

2. **Inclusion in Gross Income:** A new provision (Section 710 of the Code, if available) is added to subchapter K (dealing with partners and partnerships) stating that **gross income** of a person who holds an investment services partnership interest shall include *as ordinary income* their distributive share of partnership income or gain **notwithstanding** whether, absent this section, such share might be characterized as capital gain or qualified dividend. Any such distributive share shall be excluded from the definition of "net capital gain" for purposes of preferential rates.

3. **Self-Employment Taxes:** Section 1402 (defining net earnings from self-employment) and Section 3121 (FICA wages) are amended to ensure that income from an investment services partnership interest is **subject to employment taxes**. Specifically, for a partner who is an individual, any income treated as ordinary under this section shall be considered remuneration for services and thus included in net earnings from self-employment (unless already taken into account as such), subject to self-employment tax. For the avoidance of doubt, the exclusion in Section 1402(a)(13) (which currently excludes a limited partner's distributive share other than guaranteed payments) shall **not apply** to income from an investment services partnership interest. Similarly, the Secretary shall issue guidance to ensure that where the service provider is organized as an S corporation or other passthrough, their share of income from the ISPI does not escape payroll taxation.

4. **Basis Step-up on Sale:** To prevent circumvention by selling the partnership interest, Section 751 (which treats certain sales of partnership interests as ordinary to the extent of hot assets) is expanded or a new rule added: **any gain on sale of an investment services partnership interest** shall be taxed as ordinary income to the

extent attributable to the partnership's unrealized receivables and inventory (as per Section 751) *and* to the extent of any appreciation in asset value that would have constituted the service partner's carried interest share. The Secretary shall provide rules to compute what portion of a sale's gain corresponds to the carried interest share (for instance, if the partner's interest entitles them to 20% of future profits, then 20% of the appreciation of partnership assets during the partner's tenure could be treated as stemming from their services). In summary, **no clever sale or exchange should reconvert what is economically compensation for services into capital gain**.

5. **Technical and Conforming Changes:** The Secretary shall make such other changes to the Code and regulations as necessary to implement the intent of this section. This may include revising the definition of an "applicable partnership interest" in Section 1061 to align with the broader definition of ISPI provided in this Act (ensuring that any service-related partnership profit interest is covered, regardless of holding period or whether the partnership holds certain types of assets). It may also involve repealing or amending provisions made redundant by this Act.

(c) **Effective Date and Application.** The provisions of this section (and the corresponding Code amendments) shall apply to **taxable years beginning after** the effective date specified in Title V of this Act (which is expected to be January 1, 2026). In the case of a partnership's taxable year that straddles the effective date, the ordinary income treatment shall apply to the portion of any carried interest allocations attributable to the period after the effective date, under rules the Secretary shall prescribe. The Secretary shall also prevent avoidance of this section through timing (for example, by recognizing capital gain under old law prior to effective date via distributions or sales).

(d) **Regulations and Anti-Avoidance.** The Secretary shall issue regulations or other guidance as needed to carry out this section, including: (1) rules to prevent the **conversion of what is essentially compensation for services into proceeds that might escape recharacterization** (e.g., loans that are forgiven and effectively paid out of fund profits, or special allocations through multiple partnership tiers); (2) clarification that **"carried interest" arrangements, regardless of their form, are covered** (for instance, if a management fee is waived in exchange for a profits interest, the resulting profit share is still ordinary). If taxpayers attempt new arrangements (like using derivative contracts or "priority returns" to disguise carried interest), the Secretary is empowered to issue regulations treating those arrangements equivalently under the tax law. Congress intends a **broad substance-over-form approach**: if a person is being compensated for managing other people's money, that compensation will not receive capital gains treatment.

(e) **Reporting.** Any partnership that allocates income to a partner in the form of an investment services partnership interest (carried interest) shall report such income separately to both the partner and the IRS, indicating that it is subject to ordinary

income treatment under this section. The Secretary may prescribe forms (such as revisions to Schedule K-1) to facilitate identifying these amounts.

(f) **No Inference on Other Income.** For avoidance of doubt, this section does not affect the treatment of a **true, invested capital partnership interest** held by a service provider to the extent that interest is commensurate with capital actually contributed (often referred to as the "capital interest exception"). If a fund manager invests their own money into the fund alongside investors, the returns on that invested capital can still be treated as capital gains (so long as they are allocated in the same manner as to an unrelated investor), as current law provides. However, any allocation that is disproportionate and attributable to the performance of services (the carried interest portion) is subject to ordinary income treatment. The Secretary's regulations shall include **rules distinguishing carried interests from capital interests**, consistent with existing law (e.g., requiring that capital contributions be invested and at risk, and that any preferential allocations to service providers are treated as carried interest).

Sec. 302. Repeal of tax preferences for offshore corporate income.

(a) **Repeal of Partial Exclusion for GILTI and FDII.** The provisions of the Internal Revenue Code that currently give preferential tax rates to certain foreign income of U.S. corporations are hereby **repealed or reformed** to ensure that such income is taxed at the full rate. Specifically:

1. **Global Intangible Low-Taxed Income (GILTI):** Section 250 of the Code, which provides a 50% deduction for GILTI (thus taxing it at an effective rate roughly half the domestic corporate rate), is **amended to eliminate the GILTI deduction (50% exclusion)**. Hence, 100% of a U.S. shareholder's GILTI (as defined in section 951A) shall be included in taxable income without the current-law deduction. GILTI shall thereby be taxed at the regular U.S. corporate rate (currently 21%, or at whatever corporate rate is in effect in the year of inclusion). If policymakers desire to maintain some exclusion for routine returns, they may adjust the definition of GILTI (for instance, modifying or eliminating the qualified business asset investment exemption (QBAI) that currently allows a 10% return on tangible assets to be exempt from GILTI). The intent, however, is that **mobile and intangible income earned by controlled foreign subsidiaries of U.S. companies is taxed comparably to U.S.-earned income**, to remove incentives to shift profits offshore.
2. **Foreign-Derived Intangible Income (FDII):** Section 250's provisions for a deduction on FDII (37.5% deduction on certain export-related intangible income) are **repealed** in their entirety. This preferential rate for income from exporting goods/services related to intangibles was intended to encourage keeping IP in the U.S., but it is complex and has been criticized as potentially incompatible with global agreements. Its repeal broadens the corporate tax base and simplifies the code. After repeal, income that was formerly classified as FDII will simply be taxed at the normal corporate rate. (Congress can consider alternative incentives for domestic R&D or IP if desired through direct credits rather than income exclusion.)

3. **Subpart F and high-tax exceptions:** The Secretary shall also review and tighten provisions that allow earnings to escape current U.S. taxation. For example, the so-called "high-tax exception" under GILTI or Subpart F (which allows certain income to be exempt from U.S. inclusion if it was taxed above a certain rate abroad) should be modified to a **per-country basis**. Specifically, income should be tested **country by country**, so that companies cannot blend high-taxed income in one country with low-taxed income in a tax haven to average out and escape GILTI. Under this Act, *if Congress specifies,* GILTI inclusion and foreign tax credit limitation will be done on a **jurisdiction-by-jurisdiction** basis, meaning low-taxed profits in one country are included regardless of high taxes paid elsewherethefactcoalition.orgthefactcoalition.org. The Secretary is instructed to issue regulations to implement per-country calculations and to prevent manipulation of foreign tax credit allocations.

(b) **Ensuring Equalization of Tax Rates:** The goal of these amendments is that the **effective tax rate on foreign income of U.S. corporations is no lower than the domestic rate**. Therefore, in addition to the above:

- Congress may set a specific minimum tax rate on GILTI (e.g., not less than __%), but in no case will the effective rate (after Section 250 deductions or their replacement) be below the domestic corporate rate. If the domestic corporate rate is in future adjusted, the Secretary shall adjust (or recommend adjustment of) the GILTI inclusion or credit system to maintain parity.
- To further discourage profit shifting, interest expense allocation rules that allow companies to disproportionately deduct interest against U.S. income (thus sheltering U.S. tax while foreign income goes lightly taxed) may be tightened. For example, Congress could consider limiting the deductibility of interest or royalties paid to foreign affiliates in low-tax jurisdictions (strengthening the Base Erosion and Anti-Abuse Tax, BEAT, or replacing it with something like the proposed SHIELD or an OECD Pillar Two compliant rule). For now, this Act instructs the Secretary to report to Congress within one year of enactment on additional measures to combat profit shifting, including an analysis of adopting a strong **income inclusion rule and undertaxed payments rule** consistent with the OECD global minimum tax agreement.

(c) **Anti-Inversion and Residency Rules:** To complement the above changes, Congress reinforces anti-abuse rules preventing companies from **renouncing U.S. corporate status or inverting** to foreign jurisdictions to escape U.S. tax. The Internal Revenue Code provisions under section 7874 (dealing with corporate inversions) shall be strengthened such that if a formerly U.S.-based multinational restructures so that the parent company is a foreign corporation but the shareholders are substantially the same and management and operations remain in the U.S., the foreign parent will still be treated as a U.S. domestic corporation for tax purposes (unless a real business combination with a substantial foreign business has occurred). Specifically, the threshold in section 7874 for former shareholder ownership (currently 80% for automatic treatment, 60% for

partial) could be lowered (e.g., to 50%) to catch more inversion attempts, per Congress's directive. The Secretary is also empowered to define, via regulation, arrangements that are "inversions" even if not literal mergers (e.g., serial spinoffs or use of shell holding companies) and to treat them accordingly.

(d) **Foreign Tax Credit Reforms:** With the repeal of the GILTI and FDII deductions, the foreign tax credit system will operate as follows: U.S. corporations can still claim credits for foreign income taxes paid on income that is now fully included, but those credits will be subject to the usual limitations to avoid offsetting U.S. tax on unrelated income. The Secretary shall ensure that foreign tax credits (FTCs) cannot be used to reduce U.S. tax below the minimum intended level. For example, under current law GILTI only allows 80% of foreign taxes as credit. Congress may consider allowing 100% credit now that GILTI is fully taxed – but applied strictly per country so that excess credits from high-tax countries cannot shield income from tax haven countries. The Secretary's regulations should enforce per-country FTC limitations if directed. Additionally, any expense allocation that unnecessarily reduces FTCs for genuine high-tax foreign income (thus discouraging foreign real investment) can be revisited by Treasury – but the priority is to **stop the sheltering of low-taxed foreign profits**.

(e) **Repeal of One-Time Transition Tax Regime (if applicable):** (Note: this might be obsolete after 2017 law, but mentioning for completeness.) The remnants of the one-time deemed repatriation tax on post-1986 deferred foreign income (from the Tax Cuts and Jobs Act) have largely run their course, but any remaining installments of that tax shall continue to be payable as scheduled. This Act does not alter the payment obligations of that prior Section 965 transition tax, aside from noting that going forward, **no new deferral is allowed** – foreign earnings will either be taxed currently or subject to robust minimum tax.

(f) **Regulations and Reporting.** The Secretary shall promulgate any regulations needed to implement the changes in this section. Within 1 year of enactment, the Secretary (in consultation with the Treasury's Office of Tax Policy) shall report to Congress on the impact of these changes on profit shifting and corporate behavior, including any observed changes in repatriation of profits, shifting of intellectual property, or incorporation decisions. The report should also address how these U.S. changes interact with international tax developments (such as the OECD/G20 Inclusive Framework's Pillar Two global minimum tax) and recommend whether the U.S. should make further adjustments (for example, adopting a qualified domestic minimum top-up tax if needed to claim revenue from any difference between foreign taxes paid and the 15% global minimum). The Secretary should also identify any remaining "tax preferences for offshore income" not addressed by this Act and propose legislation or rules to close them, consistent with the intent to broadly equalize tax burdens.

(g) **Effective Date.** The changes made by this section (e.g., repeal of Section 250 deductions for GILTI and FDII) shall apply to tax years of foreign corporations (and the

related inclusion years of U.S. shareholders) **beginning after** the effective date specified in Title V (likely the tax year 2026). For a U.S. corporation with a fiscal year overlapping the effective date, the Secretary may prescribe proration rules. Any previously earned foreign profits that were not taxed under prior law and which remain untaxed as of the effective date will now fall under the new regime (i.e., either taxed as GILTI without exclusion or perhaps subject to Subpart F if appropriate). To prevent any rush to shift income into the gap, this Act may optionally include an anti-abuse rule effective on the date of introduction or announcement, stating that any corporate arrangements or transfers undertaken after that date and before full enactment, with a principal purpose of avoiding the new rules of this section, shall be disregarded or recharacterized by the Secretary in administering the transition.

Sec. 303. Taxation of unrealized capital gains at death.

(a) **Treatment of Death as a Realization Event.** For decedents dying on or after the effective date of this section, **death shall be treated as a taxable event** for purposes of the income tax on capital gains. This means that when an individual dies, the **unrealized capital gains** on their assets will be **recognized** on a final income tax return (or on a special return for this purpose) as if the assets had been sold for fair market value on the date of death. Any resultant capital gains (the amount by which the asset's fair market value exceeds the decedent's adjusted basis) shall be included in the decedent's income and subject to capital gains tax (or the tax rates applicable under subsection (d) for high-income gains) as of the decedent's final taxable year. This rule **repeals the current "stepped-up basis" provision** (section 1014 of the Code) which generally resets the basis to fair market value at death; instead, carryover basis or immediate taxation will apply as specified herein. By taxing unrealized appreciation at death, this provision closes the loophole that allowed large accrued gains to permanently escape taxationvanhollen.senate.gov.

(b) **Exemption for Modest Estates and Personal Residences.** To avoid burdening middle-class households and small estates, the first **$[Z]** (placeholder) of unrealized capital gains per decedent shall be **exempt** from taxation at death. Congress shall determine an appropriate exemption threshold (for example, $1,000,000 of gains per individual, which effectively would shield a couple's $2,000,000 of gains, not counting the primary home exclusion). In addition to the basic exemption, **special rules/exclusions** include:

- **Personal Residence Exclusion:** Up to **$[H]** (placeholder, e.g., $500,000) of gain attributable to the decedent's principal residence (homestead) may be excluded from the death gains tax. This mirrors the existing $250,000/$500,000 exclusion for capital gains on sales of principal residences under section 121, and would apply if the decedent owned and used the property as a primary residence for the required timeframe. This exclusion is available to each estate independent of the basic $[Z]

exemption (or it can be integrated—Congress may decide that the general exemption already covers it, but likely it's additive to ensure homeowners aren't penalized).

- **Retirement Accounts:** Assets held in tax-deferred retirement accounts (401(k)s, IRAs, etc.) are **excluded** from this deemed realization because they will be subject to income tax by beneficiaries under current rules (or already were via required minimum distributions). These accounts will continue to be governed by existing rules (no step-up in basis is needed since withdrawals are ordinary income to beneficiaries). Similarly, **charitable remainder trusts** or other vehicles that already have their own taxation will be handled via existing rules or specific coordination rules to avoid double tax or loophole use.
- **Small Business and Farm Deferral:** Heirs of certain family-owned and operated small businesses and farms may elect to **defer payment** of the tax on unrealized gains attributable to such business/farm, under conditions ensuring continuity. If the business or farm continues to be family-operated, the tax on those gains can be paid in installments over up to **15 years** (for instance) or until the business/farm is sold (whichever comes first), similar to installment payment provisions in current estate tax law (see Section 6166 of the Code). Interest at a low rate may be applied to the deferred tax payments. This deferral is intended to avoid forcing the sale of illiquid family assets, while still eventually collecting the tax. If the business/farm is sold to an unrelated party or ceases to be family-operated during the deferral period, the remaining tax becomes due (subject to any further relief Congress provides).
- **Charitable Bequests:** If assets are left directly to a qualified **charitable organization** upon death, then any unrealized gain on those assets would not be subject to this tax, consistent with the general principle that charitable donations are not taxed. (The heir receives a carryover basis of the decedent for any assets not taxed due to charitable deduction, but since charity is tax-exempt, it effectively means no tax on that portion of gain at any point.) In practice, this can be achieved by allowing an income tax charitable deduction on the final return for the fair market value of assets donated to charity at death, offsetting the gain.
- **Spousal Transfers:** Transfers of assets at death to a surviving spouse (or to a trust for the exclusive benefit of a surviving spouse that meets conditions similar to a marital trust) shall **not trigger immediate taxation** of unrealized gains. Instead, such transfers will receive **carryover basis**, and the recognition of the decedent's unrealized gains is deferred until the surviving spouse dies or disposes of the asset. This rule treats a married couple as one economic unit (similar to current estate tax which has an unlimited marital deduction). Thus, if an asset passes to a spouse, the spouse steps into the decedent's shoes with the decedent's original basis. When the spouse eventually sells the asset (or on the spouse's own death, whichever comes sooner), the deferred gains from both decedents will then be realized. This prevents tax burdens at the first

death, aligning with common estate planning goals, but ensures the gain isn't permanently exempted.

The above exemptions and exclusions mean that truly small estates (with limited gains) will pay no tax under this section, and typical homeowners and retirement savers are largely protected. The focus is on taxing substantial accumulated gains that would otherwise never be taxed. Congress can adjust the placeholder values [Z], [H] based on desired coverage; for illustration, the STEP Act proposal provided a $1 million general exemption plus $500k housing exclusionvanhollen.senate.gov.

(c) **Gift and Trust Anti-Avoidance:** To prevent avoidance of the death event tax through gifting or trust transfers, the following rules are enacted:

- **Gifts Above Exemption Use Carryover Basis:** Inter vivos gifts of appreciated property will generally carry the donor's basis (carryover basis) as under current law (section 1015), which means the appreciation is not taxed at gift, but also not wiped out. However, if the gift is of very large value and made to an individual or non-charitable entity, Congress may consider treating large gifts similarly to death (a deemed sale for gain). An alternative approach (in STEP Act and others) is to treat gifts of appreciated assets as realization events as well (with the same $[Z] lifetime exclusion possibly covering both lifetime and death transfers). For now, this Act provides: **Cumulative Lifetime Gifting Limit:** A donor will have a cumulative lifetime limit (say $[Z], the same as the death exclusion, possibly shared) of untaxed unrealized gains that can be given without triggering a tax. Beyond that, additional gifts of appreciated assets may trigger realization of gains at the time of gift, or the donor may be required to file information reports so that these gains reduce their remaining death exemption. The exact mechanism (taxing at gift vs tracking for death) to be decided by Congress; but the principle is **no escaping tax by gifting assets shortly before death** beyond the exempt amount.
- **Trusts and Beneficiary Transfers:** If appreciated assets are transferred to or from a **trust** (other than a fully revocable grantor trust that is treated as owned by the grantor for income tax purposes) or to a **partnership or other non-corporate entity** without consideration, such transfers may be treated as realization events unless the trust/entity is merely holding assets for the same ultimate beneficiaries without abusing the step-up rules. In particular, **transfers to non-grantor trusts** will be monitored: this Act instructs Treasury to issue regulations ensuring that trust structures cannot be used to avoid recognizing gains indefinitely (for example, by creating "dynasty" trusts that never trigger tax). One possible rule: unrealized gains inside a trust will be taxed as if the trust itself has a deemed realization event at least once every [X] years (e.g., 21 years as in Canadian law), or when the trust's beneficial owners change. Additionally, distributions of appreciated property from a trust to a beneficiary could trigger gain if not already taxed. These anti-avoidance measures are complex and Congress may need to refine them, but **the clear intent is to not allow perpetual tax-free gains via trust planning**.

Treasury shall also apply these rules to similar entities and arrangements (like family partnerships if used solely to hold assets without substantive business purpose) to prevent abuse.

(d) **Tax Rate on Gains at Death; Interaction with Estate Tax.** The capital gains recognized at death under this section will generally be taxed at the **capital gains tax rates** in effect at the time (currently 20% top rate federally, plus the 3.8% net investment income tax as applicable). However, if the decedent's gains are extremely large such that, when added to other income, they place the decedent in the highest income tax bracket, those gains could alternatively be subject to the ordinary income tax rates (this detail depends on whether Congress wants to impose a special higher rate for billionaire-level gains; as a base, just use capital gains rates). Importantly, **this income tax on unrealized gains is separate from and in addition to any estate tax** that might apply. The Act ensures there is no **double taxation** on the same economic value by allowing a credit or deduction in one tax for the other: for instance, any gains taxed under this section could receive a step-up in basis for estate tax purposes or an adjustment so that the estate tax (if any) applies only to the *after-income-tax* value of assets. The STEP Act provided that income tax paid on gains at death would be deductible for estate tax purposesvanhollen.senate.gov, preventing double tax. This Act similarly provides that any income tax due on deemed-realization gains at death can be deducted on the estate tax return (for estates large enough to file one) as a debt or expense of the estate. Conversely, if estate tax is paid on an asset's full value without a deduction (should Congress choose that route), then for income tax purposes the asset's basis could be adjusted to FMV to avoid later income taxation—however, the chosen approach here is the former: tax the gain at death, deduct that liability for estate tax. Since currently the estate tax exemption is very high (around $12 million per person in 2025, though scheduled to reduce to about half that in 2026), many estates paying this capital gains tax will not also owe estate tax. For those that do, the coordination rule ensures no unfair double taxation.

(e) **Installment Payment for Illiquid Assets:** Recognizing that some estates may have large appreciated assets but little liquid cash (e.g., real estate, a closely-held business, or artwork), this Act provides that the executor may elect to pay the tax on unrealized gains at death in **installments over up to [15] years** (consistent with similar provisions in the estate tax law). The election can be made for assets that constitute a significant portion of the estate and are not easily sold. A reasonable interest rate (possibly the federal mid-term rate + a small percentage) will be charged on the unpaid installments. If an installment payment plan is in place and the asset is later sold by the heir, or if the heir itself dies or otherwise transfers the asset, the remaining deferred tax becomes due at that point (subject to any further deferral if criteria still met). The Secretary shall establish the procedures for electing installment payments, including any required security (like a lien) to ensure payment.

(f) **Authority to Issue Regulations.** The Secretary shall issue regulations or guidance necessary to implement this section. This includes regulations on valuing assets at death (to determine fair market value – generally using appraisals or well-established valuation techniques, and perhaps safe harbors for small estates or publicly traded assets valued by market price), procedures for reporting and paying the tax (possibly an expanded Form 1040 or a new form for final year capital gains at death), and rules coordinating this new regime with existing income tax and estate tax provisions. The Secretary is explicitly directed to write rules preventing **abuse through trusts, gifts, and non-arm's-length transfers** as discussed above. Additionally, Treasury should provide clear forms and instructions for executors to compute the tax, claim exemptions, and elect deferrals.

(g) **Transitional Rule for Prior Gifts:** If an individual made significant gifts of appreciated assets in the [N] years before enactment, Treasury may require those to be reported for informational purposes and possibly count against the $[Z] exemption to prevent a last-minute rush to give away assets before this law takes effect. For example, if someone gifted $5 million of stock with a $1 million basis in the year before enactment, the $4 million of untaxed gain might reduce their death exclusion. Congress may decide whether to grandfather recent gifts or not; this Act leans toward counting them if they occurred after the legislative proposal was introduced (to deter deathbed transfers purely for tax avoidance).

(h) **Illustrative Impact:** Under these rules, consider an example: a decedent leaves a portfolio of stocks worth $10 million, which they bought for $2 million (thus $8 million unrealized gain). Assume a $1 million exemption and $500k home exclusion separate (and that their home sale gain was minimal). Of the $8 million gains, $1 million is exempt, so $7 million is taxable. That $7 million is reported on their final return as capital gain. The tax due might be roughly $7 million * 23.8% = ~$1.666 million (if top capital gains rate 20% + NIIT 3.8%). The estate itself might be under the estate tax exemption, so no estate tax. The heirs inherit the assets with a **carryover basis** equal to decedent's original $2 million plus the $7 million that was taxed (effectively stepped up to market since tax paid on all but the exempt $1M portion, which presumably gets carryover basis until possibly the heir sells and uses their own exemption). In effect, nearly all the appreciation is now cleansed by tax or basis step-up. Contrast current law where all $8M gain would have been tax-free forever due to step-up – this reform raises substantial revenue and increases fairnessvanhollen.senate.gov.

Sec. 304. Annual inclusion of unrealized gains for ultra-wealthy taxpayers (Billionaire Minimum Income Tax).

(a) **Imposition of Minimum Tax on Unrealized Gains.** In addition to any other income tax imposed, a supplemental tax is hereby imposed on **applicable high-wealth taxpayers** (as defined in Sec. 3 and further specified below) to ensure that a minimum rate of tax is paid on the increase in their wealth each year, including **unrealized capital**

gains. This is intended as a **"billionaire minimum income tax"** or a mark-to-market system for extremely wealthy individuals. The tax for each taxable year shall be equal to **X%** (a placeholder, e.g., 20%) of the taxpayer's **total unrealized gains** for that year (plus realized income, or possibly applied as a top-up to reach an overall effective rate of X% – see subsection (b)). Taxes paid under this section can be credited against future capital gains taxes to avoid double taxation (subsection (e) below).

(b) **Applicable Taxpayers and Thresholds.** This section applies to any **"applicable high-wealth taxpayer"** as defined in Sec. 3. For initial implementation, Congress might set this threshold at, for example, **$100 million in net assets**(wealth) or higher, averaged over multiple years, or a similarly high figure in terms of income. Treasury shall establish rules for determining a taxpayer's net worth annually (including interests in trusts or entities that effectively belong to them). A taxpayer who meets the threshold in a given year or over a specified testing period becomes subject to this tax. To provide stability and avoid year-to-year on-off status, once a taxpayer is determined to be above the threshold, they shall continue to be treated as an applicable taxpayer for this section for some period (e.g., 5 years) even if their wealth dips slightly below, until it clearly remains below for a sustained period or there are extraordinary circumstances (to avoid manipulation or short-term fluctuations causing entry/exit). The Secretary may also allow *first-time entrants* to spread initial inclusion over a period to mitigate immediate cash-flow issues (similar to how one might transition into a mark-to-market system).

(c) **Computation of Tax Base (Unrealized Gains).** Each applicable taxpayer shall compute their **"unrealized gain income"** for the year, which consists of the net increase in value of their assets over the year, excluding (i) assets for which gains are already taxed under normal rules (i.e., if something was sold, it's realized and taxed normally, so we don't double-count the same gain as unrealized), and (ii) certain assets that Congress might exempt or allow deferral for (e.g., perhaps personal residences up to a point, or interests in active businesses where mark-to-market is impractical—though likely everything is included with deferral option instead). In principle, for each asset the taxpayer owns at year's start and still owns at year's end, the **change in fair market value** from the beginning of the year to the end of the year is the unrealized gain (or loss). Sum all such gains and losses across the portfolio. Include any new assets acquired during the year: their unrealized gain is the value at year-end minus purchase price. For assets sold during the year, those are subject to normal capital gain tax at sale; however, for minimum tax calculation, one might include them or not; an approach is to treat realized gains as part of total income for computing effective rate but ensure not taxed twice. Possibly, the minimum tax is structured to ensure the taxpayer's **total income tax** (including normal tax on realized income and this tax on unrealized) equals at least X% of total economic income (realized + unrealized). That is how the Biden Billionaire Minimum Tax was structured – as a top-up if neededcongress.gov. For simplicity here, we say a flat X% on unrealized gains themselves. The Secretary is tasked

with detailed regulations on computing and verifying yearly valuations. Publicly traded securities can use market closing prices. Private business interests may require periodic appraisal or formulas (perhaps allowing certain taxpayers to elect to treat some private business stock under a deferral regime with interest, per subsection (d)(2)).

(d) **Payment Options and Deferral with Interest:** Congress recognizes that taxing unrealized gains yearly could pose liquidity issues, especially for non-tradable assets. Thus, this section provides flexibility:

1. **Full Mark-to-Market Election:** An applicable taxpayer may elect to treat all assets as sold and re-bought at fair market value at the end of each tax year, and include all gains (or losses) in income each year. Under this elective mark-to-market method, the taxpayer will pay tax at the normal capital gains rate on those gains annually (ensuring at least the minimum is met). If this method is chosen, it satisfies the minimum tax requirement (since you're pre-paying at least as much as needed). Losses can be allowed to offset gains (with potential limitations to avoid abuse). Congress may require this method for publicly traded assets to simplify compliance, while allowing an alternative for hard-to-value assets.
2. **Deferral with Interest (Charging Method):** By default (or for certain assets designated by the Secretary), an applicable taxpayer may **defer paying** the tax on unrealized gains until they actually sell the asset or otherwise realize it (or until death, subject to rules). However, to ensure the minimum tax concept, the taxpayer must then pay a charge to compensate the Treasury for the late payment. This can be structured as an **interest charge** on the deferred tax, accruing from the year the gain accrued until the year it is realized and taxed. Alternatively, the minimum tax can be computed as a look-back charge. The aim is to make the taxpayer roughly indifferent between paying tax currently vs later with interest, thus removing the incentive to hold assets just to avoid tax. For example, if a billionaire's wealth grows by $1 billion in year 1, they owe $200 million under a 20% minimum tax. If they don't pay it in year 1, interest accrues so that if they sell the asset in year 5, they pay the $200M plus interest for 4 years. The interest rate could be the IRS underpayment rate or a higher rate to strongly encourage prompt payment. In Biden's proposal, taxpayers could elect to pay the 20% minimum tax liability in installments over up to 9 years initiallycongress.gov (since first year might be large catch-up), and 5 years for subsequent years – effectively spreading payments but not letting them accumulate indefinitely. This Act empowers the Secretary to offer similar installment options to ease initial inclusion.
3. **Realization Event True-Up:** Whenever an asset that had unrealized gain is actually sold or disposed of, the regular capital gains tax is applied. However, to avoid **double taxation**, any gain that was already taxed (because the taxpayer either paid a minimum tax or mark-to-market earlier) should **increase the basis** or otherwise be excluded at realization. Concretely, if a taxpayer paid some minimum tax on an asset's appreciation in prior years, that asset's basis can be stepped up by the amount of gain

recognized for minimum tax purposes. Thus, when sold, the taxable gain is only the portion that hadn't been previously taxed (plus any interest adjustment if prior tax was deferred). If instead the minimum tax was implemented as a top-up, then at sale the taxpayer would get a **credit** for any minimum tax paid related to that asset against the actual capital gains tax due. This ensures no double payment. Conversely, if the asset declined after being taxed, there might need to be a mechanism to refund or credit prior overpayments (likely as a carryforward loss or refund of overpaid minimum tax, subject to anti-abuse guardrails).

(e) **Credit for Excess Minimum Tax and Avoidance of Double Taxation.** This subsection explicitly provides that any tax paid under this section on unrealized gains will be credited against the eventual tax on those gains when realized, so that over the long term the taxpayer does not pay more than the standard capital gains tax on their assets' appreciation (plus the time-value interest for deferral). In legislative text, one might add a new Code section (e.g., Section 36C as hinted in some proposalscongress.govcongress.gov) to give a tax credit for "excess minimum tax" paid. For instance, if an individual paid a minimum tax on unrealized gains that ended up being higher than the normal capital gains tax eventually due, they could claim a credit for the difference. Essentially, the minimum tax serves as a prepayment or a floor, but not a permanent extra layer beyond the intended rate on capital gains.

(f) **Loss Carryforwards and Carrybacks:** If in some year an applicable taxpayer's assets decline in value (i.e., they have negative unrealized gains or a net unrealized loss), that should be able to offset positive gains in other years. Thus, the system will allow carryover of losses to reduce the tax in future (or possibly past via refund) to ensure symmetry. Without this, a billionaire could pay a lot in one year when assets rose and then get no rebate when they fall. This is tricky but necessary for fairness and likely included in regulations (for example, Biden's proposal allowed a credit carryforward of minimum taxes to offset future liabilities if asset values fell).

(g) **Valuation and Reporting Requirements:** Applicable taxpayers will be required to annually report their holdings and valuations to the IRS. For publicly traded securities and easy-to-value assets, this is straightforward. For private businesses, real estate, artwork, or other illiquid assets, the taxpayer must provide a good-faith valuation. The IRS can require periodic professional appraisals for certain categories (e.g., real estate above a threshold, closely-held business using valuation experts). Penalties will apply for substantial valuation misstatements. The Secretary is authorized to create simplified valuation methods for certain asset classes to reduce administrative burden (for instance, perhaps an approved formula for valuing minority stakes in private companies based on book value or earnings multiples). The IRS may also implement a **valuation safe harbor** where, if a taxpayer uses a particular method consistently, it will be accepted unless clearly unreasonable. It's expected that relatively few taxpayers (only those ultra-rich) fall under this, allowing IRS to manage oversight with specialist teams.

(h) **Coordination with Section 303 (Gains at Death):** If an ultra-wealthy taxpayer subject to this section dies, the question arises: do we tax again at death? Ideally, if they've been paying annually, by the time of death their gains might already be largely accounted for. Thus, for those individuals, the death realization tax in Sec. 303 can be adjusted or waived to avoid double counting. One approach: If a taxpayer has been continuously subject to the annual inclusion tax for a number of years up to death, then the Sec. 303 death tax on gains could apply only to gains that accrued since the last mark-to-market (i.e., since the last valuation used under this section, which is effectively date of death if we do it final year, or simply there's no extra because we already treating death as the final mark-to-market event under this section). In short, Sec. 303 and Sec. 304 will be integrated. Perhaps the simplest: those covered by Sec. 304 effectively are already marking to market, so at death they would include that final year's unrealized gains on their final return (like any other year under 304) and Sec. 303's separate mechanism wouldn't add extra tax beyond that. The estate still might owe estate tax, with the same deduction for any income tax as usual. Treasury's regulations should ensure an ultra-wealthy person doesn't pay two layers of income tax on the same gain at death.

(i) **Sunset or Review:** Because this is a novel approach, Congress may choose to include a provision to review its impact or even sunset it after, say, 10 years unless renewed. During this period, Treasury and the GAO will gather data on its effectiveness in raising revenue and affecting investment behavior, and Congress can adjust accordingly.

(j) **Sense of Congress:** Congress finds that the 400 wealthiest families in America have paid a historically low effective tax rate on their true income (including unrealized gains), around 8%americanprogress.org, far below the statutory rates that working families pay. By implementing this section, Congress intends to correct that inequity and ensure that extremely wealthy households cannot indefinitely defer taxation on their investment gains. This measure will significantly enhance fairness in the tax code by requiring billionaires and others of immense wealth to contribute at least a minimal share of their yearly economic gains to the nation, just as workers pay tax on their wages yearly. At the same time, the design provides flexibility (via deferral with interest and crediting) to avoid undue hardship and to integrate with the existing capital gains tax structure.

(k) **Regulations.** The Secretary shall issue comprehensive regulations to implement this section. Such regulations will cover identification of applicable taxpayers, valuation of assets, treatment of particular asset classes (e.g., derivatives, collectibles, small business stock, etc.), procedures for elective mark-to-market vs deferral and interest, computation of interest and credits, ordering rules for interactions with other tax provisions, and anti-abuse provisions to prevent taxpayers from avoiding this tax by, for instance, transferring assets to non-covered relatives or entities, changing forms of ownership, or undervaluing assets. The Secretary may also provide exceptions or

modified rules in cases of *hardship* or *extraordinary circumstances* (for example, if someone just barely crosses the threshold due to a one-time event and does not have liquidity to pay, etc., though such cases are expected to be rare). The IRS will create new forms (perhaps a Schedule UGT – Unrealized Gain Tax) for reporting under this section.

(l) **Effective Date.** This section shall apply to taxable years beginning after the effective date specified in Title V (e.g., starting with the tax year 2026). However, for the first year of implementation, an applicable taxpayer may elect to spread the initial inclusion of pre-existing unrealized gain over several years (the law might allow, say, 5-year ratable inclusion for gains that accrued prior to 2026, or the Biden plan's 9-year initial spread for the accrued gains as of that datecongress.gov). This is to mitigate the impact of entering the system with potentially decades of accrued gains suddenly subject to tax. The Secretary's regulations will detail this transition relief. For any taxpayer who becomes applicable in a later year (e.g., someone's wealth grows past $100M in 2028), similar phase-in rules may apply to their pre-threshold gains.

TITLE IV — IRS MODERNIZATION AND ENFORCEMENT

Sec. 401. Funding to modernize the Internal Revenue Service and improve tax compliance.

(a) **Appropriation of Additional Funds.** To carry out the provisions of this Act and to generally strengthen tax administration and enforcement, **an additional $[X] billion** is hereby appropriated to the Internal Revenue Service, to remain available until expended. (This is a placeholder; Congress will determine the appropriate amount and time frame. For example, an allocation on the order of $80 billion over 10 years was recently enacted to improve IRS capacityirs.gov.) These funds are supplemental to the regularly appropriated funds for the IRS and are intended to **upgrade technology, enhance enforcement, and improve taxpayer service** with the goal of significantly reducing the tax gappgpf.org and making tax compliance easier for taxpayers.

(b) **Use of Funds.** Of the funds in subsection (a), the IRS Commissioner shall allocate resources roughly as follows (actual allocations may be adjusted based on evolving needs, but priority areas are identified):

1. **Enforcement of Tax Laws:** A substantial portion (e.g., $[A] billion) shall be dedicated to **tax enforcement activities** aimed at wealthy individuals, large corporations, partnerships, and other high-complexity and high-noncompliance areas. This includes hiring and training additional revenue agents and specialized auditors (for areas like pass-through entities, international tax, transfer pricing, etc.), forensic accountants, and attorneys; investing in advanced data analytics to better identify audit targets (especially focusing on high-income non-filers, underreporting of business income, abusive tax shelters, and evasion schemes); and enhancing the IRS's capacity to pursue enforcement actions (including litigation) against tax evasion. The IRS shall particularly focus on enforcement in the areas addressed by Title III of this Act (such as

detecting misclassification of carried interest income, ensuring compliance with the new international provisions, policing valuation of assets for the wealthy, etc.). The Commissioner is instructed to **prioritize audits and enforcement for taxpayers in the top wealth/income strata, where the bulk of the tax gap in dollar terms resides**irs.gov, and **not to increase audit rates for middle- or lower-income taxpayers relative to historic levels** (other than improvements in normal correspondence audits or matching, etc.). The intent is to **restore audit coverage** of high-income individuals and large corporations to appropriate levels.

2. **Modernizing Technology and Operations:** At least $[B] billion shall be used for the **business systems modernization** of the IRS. This includes updating legacy computer systems (some of which date to the 1960s) to modern, secure, and efficient IT platforms; improving IRS online services and digital communication capabilities for taxpayers; implementing robust cybersecurity measures to protect taxpayer data; and expanding the IRS's ability to use big data techniques (with appropriate privacy safeguards) to detect patterns of noncompliance. Funds will support the development of online taxpayer accounts, where individuals and businesses can see their tax information, upload documents, and communicate with IRS securely (thus reducing burden and errors). It will also support implementation of the new provisions in this Act, such as systems to handle financial transaction tax reporting, carbon tax credits and border adjustments, and the wealth tax valuations – all requiring enhanced computational tools.

3. **Taxpayer Services:** At least $[C] billion shall be directed to improving **taxpayer services**. This encompasses hiring additional customer service representatives to significantly reduce call wait times and improve response quality on IRS hotlines; expanding in-person assistance at Taxpayer Assistance Centers across the country; enhancing taxpayer outreach and education programs to help taxpayers understand and comply with new laws (like the provisions in this Act) and their existing obligations; and revamping IRS correspondence to be clearer and more user-friendly. A portion of these funds should go to bolstering the Volunteer Income Tax Assistance (VITA) and Low-Income Taxpayer Clinic (LITC) programs that aid low-income and underserved communities. By making voluntary compliance easier (through better service and guidance), these improvements complement enforcement efforts in reducing the tax gappgpf.org.

4. **Data Analytics and Third-Party Reporting:** The IRS shall invest in advanced **data analytics** and machine learning capabilities to better detect underreported income and identify potential noncompliance from existing data (like comparing taxpayer incomes with lifestyle indicators or detecting anomalies in corporate financial ratios). Additionally, funding may be used to develop new **third-party information reporting systems** or to implement new reporting requirements enacted by Congress. (For instance, recently enacted rules for reporting cryptocurrency transactions need

enforcement; similarly, if Congress mandates more 1099 reporting for certain business transactions or bank account flows, the IRS needs systems to capture and use that data.) Increased information reporting has been shown as one effective way to boost compliance, especially where underreporting is common. The IRS should also upgrade its automatic document matching systems to incorporate data from new forms or sources.

(c) **Reduction of the Tax Gap – Goals and Metrics.** The IRS shall develop and implement a comprehensive strategic plan to **reduce the net tax gap** (the difference between taxes owed and taxes paid on time) by at least [___] percent (placeholder, e.g., 10% or 15%) over the next decade. Within one year of enactment, the IRS Commissioner shall submit to Congress a report outlining the specific initiatives, timeline, and resource deployment intended to achieve a significant reduction in the tax gap, including how the additional funding is being used. The plan should identify key areas of noncompliance and set **quantifiable targets**, such as increased audit coverage rates for high-income individuals and large entities, improved voluntary compliance rates in certain sectors, and faster collection of known arrears. The IRS shall also update its tax gap estimates more frequently (preferably annually or biannually instead of every few years)irs.gov to track progress, and those estimates should be refined as data analytics improve.

(d) **Reporting to Congress and Transparency.** Beginning two years after enactment, the IRS shall annually report to the House Committee on Ways and Means and the Senate Committee on Finance on the use of these additional funds and the results achieved. The report should include: the number of additional personnel hired in each functional area; improvements in telephone level of service and other customer service metrics; IT modernization projects initiated or completed; audit rates and yield from audits by income class; changes in voluntary compliance indicators; and the amount of additional revenue collected attributable to the enforcement investments (both directly through enforcement and indirectly through deterrence, as estimated). The report should highlight notable successes (for instance, major enforcement cases against tax evasion schemes or large improvement in compliance in a certain industry) and also identify any challenges or bottlenecks encountered. These reports shall be made public to ensure transparency and accountability, except for any portions that would divulge taxpayer-specific information or jeopardize enforcement techniques (those can be provided in a confidential appendix if necessary).

(e) **Enhanced Enforcement Measures and Authorities.** While the funding provided will bolster traditional enforcement, Congress also authorizes the following to further reduce evasion:

1. **Whistleblower Program Strengthening:** The IRS Whistleblower Office shall receive sufficient resources and support to process tips on tax evasion more swiftly and to protect whistleblowers. Awards for information leading to collection of taxes from high-dollar evasion cases will continue under section 7623, and the IRS is encouraged to

actively pursue leads on noncompliance among the wealthy and corporations provided by knowledgeable insiders. (No statutory change in percentages is made here, but emphasis on usage.)

2. **Information Sharing:** The IRS is authorized to coordinate with other financial regulatory agencies and law enforcement (with appropriate privacy safeguards) to identify tax evasion. For example, sharing data with FinCEN (Financial Crimes Enforcement Network) about suspicious activity reports could help identify persons possibly hiding taxable income. The IRS shall also use foreign account reports obtained via FATCA and international exchanges to ensure taxpayers are reporting offshore income properly.

3. **Improved Document Matching:** The Secretary is authorized to require additional forms where needed to enhance compliance. For instance, if not already mandated, **cryptocurrency brokers and exchanges** must report transactions to the IRS (a mandate already legislated in the Infrastructure Investment and Jobs Act of 2021, effective 2023) and the IRS will utilize that. Payment platforms may have lower thresholds to issue 1099-Ks (already dropping to $600 per current law). The IRS should fully implement these new reports and ensure they translate into higher compliance.

4. **Automation of Collections:** The IRS will modernize its collections process for overdue tax debts by using data analytics to prioritize cases and by offering easier online payment plan setup for those willing to resolve debts. The aim is both increased collection of owed taxes and a less onerous process for taxpayers to get back into compliance.

(f) **No Increase in Audits for Below-Threshold Taxpayers.** Consistent with the Department of Treasury's directives and to address taxpayer concerns, Congress directs that **none** of the funds provided in this section are intended to increase audit rates or intensity for **taxpayers with taxable income under $400,000** annually, relative to historic levels in recent years. The focus of enhanced enforcement is on high-income/high-wealth individuals and large businesses that contribute disproportionately to the tax gap. The IRS shall report audit rates by income category in the annual report to verify this commitmentirs.gov. (This does not preclude routine audits for lower-income filers that are randomly selected or due to obvious discrepancies; it simply means there will be no net new enforcement focus on those categories.)

(g) **Taxpayer Rights and Service Enhancements:** In implementing the enforcement expansion, the IRS must also safeguard taxpayer rights. Training for new and existing enforcement staff will include taxpayer rights, the IRS Taxpayer Advocate's guidance, and the 10-point Taxpayer Bill of Rights. Additionally, a portion of the funds (though relatively small) should bolster the Taxpayer Advocate Service to ensure it can handle any increase in requests for assistance. The Act underscores that **equitable enforcement** is the goal – to target willful evaders, not to burden honest taxpayers with unnecessary hassles.

(h) **Infrastructure and Facilities:** If necessary, funds from this appropriation may also be used to improve IRS facilities or infrastructure (like call centers or computing centers) to support the expanded workforce and new technology deployments. The IRS shall, however, prioritize direct mission delivery improvements and use existing government facilities where possible.
(i) **Duration of Availability & Staffing Flexibility:** Given that multi-year investments are needed, the funds are available until expended, and the IRS is authorized to make multi-year hires and contracts. The IRS may also offer competitive salaries (within existing special pay rates authority or any new authority granted by appropriators) for critical positions like experienced IT professionals or data scientists, to attract talent away from the private sector in service of the government. Where necessary, the IRS and Treasury may request direct hire authority to streamline the hiring of specialized personnel (this would allow bypassing some lengthy hiring processes for certain critical occupations to expedite staffing).
(j) **Resulting Revenue and Deficit Impact:** It is the expectation of Congress that the investments in this section will **yield a substantial increase in revenue** by shrinking the tax gappgpf.org. While this section appropriates $[X] billion, the return on investment is anticipated to be several times that amount in additional tax collections over the next decade (various estimates suggest roughly $200 billion or more could be collected from an $80 billion investment, for instance). All such revenue goes to the general fund and will help offset the costs of other provisions and reduce the deficit. The Office of Management and Budget (OMB) and Congressional Budget Office (CBO) shall take into account these enhanced enforcement revenues in fiscal projections. However, for scoring, enforcement revenue is often conservatively estimated; regardless, the policy intent is clear that effective tax administration is both fair and fiscally prudent.

TITLE V — GENERAL PROVISIONS AND EFFECTIVE DATES

Sec. 501. Rulemaking authority.
Unless otherwise specified, **the Secretary of the Treasury (or the Secretary's delegate) shall prescribe such rules and regulations as are necessary to implement and enforce each provision of this Act**. This includes, without limitation, regulations to define terms, prevent avoidance of the new taxes and rules, coordinate new provisions with existing law, and ensure smooth administration. In developing regulations, the Secretary shall consult with other relevant federal agencies where appropriate (for example, consulting EPA for carbon tax regs, SEC/CFTC for transaction tax regs, etc., as noted). The Secretary is authorized to promulgate initial **temporary regulations** and guidance (including notices, revenue rulings, etc.) within 18 months of enactment for the major provisions, with final regulations to follow after opportunity for notice and comment. It is the intent of Congress that the Secretary use this authority liberally to close loopholes and address technical issues in real time, especially in the early years of implementation. All

regulations should aim to carry out the **intent of Congress** as reflected in this Act's findings and purposes, even if that requires using general anti-abuse rules or stating economic substance requirements.

Wherever this Act references that the Secretary "shall" or "may" issue regulations on a matter, it should not be construed to limit the Secretary's general authority under this section to issue regulations on related matters. Additionally, the IRS is authorized to develop forms and instructions as necessary without separate regulatory action, and to require taxpayers to furnish such information as will enable the IRS to enforce the new provisions (e.g., requiring attachable statements on returns for carbon tax liability, FTT summary, carried interest recharacterization, wealth tax asset listings, etc.).

Sec. 502. Effective dates.

Except as otherwise provided in prior sections, the provisions of this Act shall take effect as follows:

- **Short Title and Findings (Sections 1 and 2):** Upon enactment. (These do not directly impose obligations, so no effective date needed beyond enactment.)
- **Carbon Tax (Title I):** The carbon emissions fee under Section 101 shall apply to covered fuels produced or imported **beginning on January 1, 2026**. If this Act is enacted after October 1, 2025, and January 1, 2026 does not provide at least 6 months lead time, the Secretary may delay the start by up to an additional 3 months (e.g., to April 1, 2026) to allow for regulations and systems to be put in place. The carbon border adjustment (Section 102) shall be implemented as soon as practicable, but no later than **6 months after the carbon tax start date** for imports, and by the carbon tax start date for export rebates if feasible (the Secretary may announce a list of products subject to import fees by then and require importers to begin filing necessary info). Section 103 (Sense of Congress on dividends) is an expression of legislative intent and is effective upon enactment without any action required.
- **Financial Transaction Tax (Title II):** The FTT imposed by Section 201 shall take effect for **covered transactions occurring on or after July 1, 2026** (or if that date is at least 6 months after enactment; if enactment is much later, then 6 months post-enactment). This gives the financial industry and IRS time to adjust systems. The Secretary may allow a brief phase-in where failure to collect is forgiven if due to reasonable cause, through December 31, 2026, but by January 2027 full compliance and enforcement is expected. Any differentiated rates by asset class, if not specified by Congress, should be set by regulation before the effective date.
- **Carried Interest (Sec. 301):** The repeal of preferential treatment for carried interest shall apply to **taxable years beginning after December 31, 2025**. This means for partnership tax years (and partner tax years) starting in 2026, all allocations and sales will be subject to the new ordinary income rules. If a partnership's taxable year straddles that date (e.g., a fiscal year partnership), the Secretary will require pro-rata or

closing-of-books allocation to ensure post-2025 portion is ordinary. The amendments to Code sections (1061, etc.) take effect accordingly.

- **Offshore Corporate Tax Reforms (Sec. 302):** The elimination of the GILTI and FDII deductions and related changes shall apply to **corporate taxable years beginning after December 31, 2025**, and to foreign corporations' taxable years ending within those post-2025 years of U.S. shareholders. For example, for a foreign subsidiary on a calendar year, 2026 earnings will be fully taxed to the U.S. parent under new rules. If the domestic corporate rate changes in 2026 under other law, that doesn't alter the concept that full rate applies. The anti-inversion rule changes apply to any transaction completed after the date of enactment (to deter companies from rushing inversions prior to 2026).
- **Taxation of Unrealized Gains at Death (Sec. 303):** The death event gain inclusion applies to individuals dying **on or after January 1, 2026**. For deaths in 2025 or prior, the old step-up rules remain (since this isn't retroactive). The $[Z] exemption will reset per individual at death (not using up lifetime gifts unless specified by gift rules). The Secretary shall provide that for decedents in 2026, the valuation date is date of death and tax due as if a 2026 income tax obligation. Estate tax deductions for this will apply for estate tax returns filed for those estates. Installment payment elections for 2026 deaths can be made under regulations to be issued by the end of 2026. The anti-abuse rules regarding gifts/trusts may have an effective date of the **date of introduction** (to discourage any last-minute moves after Congress's intent is clear) – for example, any gift made after [Date of Bill Introduction] by someone who dies in 2026+ may be subjected to these rules to count against the exemption. Treasury can refine this with anti-stuffing rules (like ignoring gifts to certain trusts made after introduction if decedent dies shortly after).
- **Billionaire Minimum Income Tax (Sec. 304):** Applies to **taxable years beginning after December 31, 2025**. However, as described, taxpayers will have options to spread initial inclusion over multiple years. The first valuation date for existing assets of applicable taxpayers will be as of Dec 31, 2025 (to compute the baseline). They may then elect to pay the initial accrual from basis to that value over e.g. 9 years (2026–2034) as per rules. Annual inclusion of year-to-year gains starts with the increase from end of 2025 to end of 2026, reported on 2026 return filed in 2027. The Secretary may permit estimated payments for the minimum tax in installments through the year similar to estimated taxes.
- **IRS Funding and Enforcement (Title IV):** The appropriations and authorities provided in Sec. 401 take effect **upon enactment**. The funds are available immediately, and the IRS can start hiring and obligating funds right away to ramp up enforcement and services. There is no delay, because improving IRS capacity is urgentirs.gov. However, recognizing hiring and procurement takes time, Congress expects a gradual scale-up, with major impacts visible by FY2026 and onward. The audit rate commitment (not to

raise below $400k audits above recent levels) applies as a policy effective immediately and through at least 2028, aligning with the Administration's stated policy.

- **Sunset:** (If Congress wanted any part to sunset, they would mention it here, but presumably these are permanent changes except where noted as reviewing the wealth tax etc. No general sunset is included in this Act as written, since the aim is enduring reform.)

Sec. 503. Severability.

If any provision of this Act, or the application of a provision to any person or circumstance, is held to be unconstitutional or invalid by a court of competent jurisdiction, the remainder of this Act and the application of its provisions to any other persons or circumstances shall not be affected thereby. Congress declares that it would have passed each provision of this Act regardless of the potential invalidity of any particular provision or application. For example, if the annual wealth tax in Sec. 304 is struck down, that shall not affect the enforcement of the gains-at-death tax, carbon tax, financial transaction tax, or any other part, which operate independently. Each Title addresses a distinct area of law and can function even if another Title is invalidated.

Sec. 504. Budgetary Effects.

The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement submitted to the Congressional Record by the Chairman of the House Budget Committee, provided that such statement has been submitted prior to the vote on passage. In general, this Act is intended to **raise revenue and reduce the deficit** over the long term by broadening the tax base and improving compliance. Any one-time or upfront costs (such as the IRS investment) are more than offset by the decade-long increase in revenues from the new tax measures and enforcement.

End of Act.