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Tax Bill Advances To House Floor After Stumble In Budget Committee

The budget reconciliation bill, dubbed "The One Big, Beautiful Bill," advanced to the House floor after the Budget Committee overcame objections from hardline Republicans who believed the bill did not make enough cuts to Medicaid and clean energy efforts.

Included in the bill are a series of tax-related provisions. The original provisions were passed out of the Ways and Means Committee on May 13, 2025, by a party-line vote. Prior to the debate, Committee Republicans on May 12, 2025, released the so-called committee print of the legislative language a day ahead of the scheduled mark-up. The 389-page document lays out the tax cuts that will be needed as part of the planned $4.5 trillion in budget cuts.

In addition to extending the expiring provisions of the Tax Cuts and Jobs Act, the bill is addressing other campaign promises and GOP tax priorities. For example, the current bill text bill text includes provisions to remove taxes on tips and overtime, an exemption, with exceptions, of taxes on car loan interest payments, an increase in the passthrough deduction form 20 percent to 23 percent; and a temporary increase in the child tax credit.

One of the early compromises deals with the state and local tax (SALT) deduction. The bill increases the deduction cap from the current $10,000 to $30,000 for single and joint filers, well short of the $62,000/$124,000 for single/joint filers sought by moderate Republicans from high-tax blue states. This is one item that could see change as the debate over the bill proceeds.

The bill also includes a number of health care provisions, as well as provisions targeted towards rural America and other business-related expenses, as well as the termination of certain credits related to clean energy vehicles and property enhancements and investments.

Budget Committee Republicans ultimately passed the reconciliation bill, which combined the tax provisions with legislation provisions from other committees of jurisdiction for their respective topics, but failed to do so unanimously. The May 19, 2025, vote saw the combined bill pass by only one vote (17-16) with four GOP members voting "present" to allow the bill to move forward. Those members previously voted against passage in the Budget Committee.

The exact nature of the deals struck were not immediately available. Changes to the bill will be reflected in the text when the package moves through the Rules Committee during the week of May 19, 2025, but after *Federal Tax Weekly's* publication deadline.

GOP members interested in seeing the cap on the SALT deduction raised even further could still make it difficult for the bill to pass in the House, so more changes could come, and the Senate is not expected to take up this bill, but rather pursue its own legislative path, which will make final passage across Congress another hurdle to be overcome.

Interim Final Rule Calculates User Fees for Estate Tax Closing Letter

T.D. 10031; NPRM REG-107459-24

The IRS issued interim final regulations on user fees for the issuance of IRS Letter 627, also referred to as an estate tax closing letter. The text of the interim final regulations also serves as the text of proposed regulations. These regulations reduce the amount of the user fee imposed to $56.

Background

In 2021, the Treasury and Service established a $67 user fee for issuing said estate tax closing letter. This figure was based on a 2019 cost model.

In 2023, the IRS conducted a biennial review on the same issue and determined the cost to be $56. The IRS calculates the overhead rate annually based on cost elements underlying the statement of net cost included in the IRS Annual Financial Statements, which are audited by the Government Accountability Office.

Current Rate

For this fee review, the fiscal year (FY) 2023 overhead rate, based on FY 2022 costs, 62.50 percent was used. The IRS determined that processing requests for estate tax closing letters required 9,250 staff hours annually. The average salary and benefits for both IR paybands conducting quality assurance reviews was multiplied by that IR payband's percentage of processing time to arrive at the $95,460 total cost per FTE.

The Service stated that the $56 fee was not substantial enough to have a significant economic impact on any entities. This guidance does not include any federal mandate that may result in expenditures by state, local, or tribal governments, or by the private sector in excess of that threshold.

Third Quarter 2025 Interest Rates Remain Unchanged

The over and underpayment interest rates for the third quarter of 2025 remain unchanged. The third quarter begins on July 1, 2025. The rates will be:

- 7 percent for overpayments
- 6 percent for corporate overpayments
- 7 percent for underpayments, and
- 9 percent for large corporate underpayments.

The interest rate for the part of a corporate overpayment exceeding $10,000 is 4.5 percent.

Computation of Third Quarter 2025 Interest Rates

The IRS computes these interest rates quarterly. The third quarter rates are based on the federal short-term rate for April 2025 which is 0 percent.

For noncorporate taxpayers:

- the overpayment rate is the short-term rate plus 3 percent, and
- the underpayment rate is the short-term rate plus 3 percent.

For corporate taxpayers:

- the underpayment rate is the short-term rate plus 3 percent
- the overpayment rate is the federal short-term rate plus 2 percent.
- the rate on the part of a corporate overpayment that exceeds $10,000 for a tax period is the short-term rate plus 0.5.
- the underpayment rate for large corporations is 5 percent.

Rev. Rul. 2025-11; IR-2025-59

IRS Invites Grant Applications for TCE and VITA Programs

IR-2025-60

The IRS has begun accepting applications for the Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) grants for the 2025 grant cycle. Eligible organizations have been invited to apply for funding to support free federal tax return preparation services over a period of up to three years. In the most recent filing season, TCE and VITA grantees have assisted taxpayers in submitting more than 2.7 million returns nationwide, highlighting the programs' broad reach and continuing impact.

REFERENCE KEY

USTC references are to ***U.S. Tax Cases***
Dec references are to ***Tax Court Reports***

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The TCE program, established in 1978, has focused on serving individuals aged 60 and older, with support in training and outreach provided by the IRS. The VITA grant program, launched in 2007, has expanded services to underserved areas, improved volunteer training and increased the rate of accurate electronic filing for low-income and hard-to-reach populations.

Applications are being accepted through May 31, 2025. Interested organizations have been encouraged to review eligibility guidelines and prepare submissions to continue supporting these essential taxpayer assistance initiatives.

Budget Reconciliation Bill: Wolters Kluwer CCH Tax Briefing Now Available

With the sunset of many of the provisions of the Tax Cuts and Jobs Act approaching at the end of 2025, the 119th Congress has been hard at work negotiating a budget reconciliation bill to address the need for tax stability and also implement many of President Trump's proposals for tax reform. While much of that work has been going on behind the scenes, on May 12, 2025, the House took the first public step in releasing the text of the "One, Big, Beautiful Bill." The text includes permanent extensions of soon-to-expire provisions, as well as provisions eliminating taxes on tips and overtime income, increases to the standard deduction, an increase in the SALT cap and much, much more.

Since 1913, Wolters Kluwer has provided tax professionals with the most comprehensive, ongoing, practical and timely analysis of the federal tax law. In the spirit of this tradition, Wolters Kluwer is providing you with the Budget Reconciliation Bill CCH Tax Briefing.

Wolters Kluwer's Award-Winning Briefing Now Available

Wolters Kluwer's CCH Tax Briefing highlighting the significant proposals in the bill can be found https://engagetax.wolterskluwer.com/BudgetReconciliation2025here.

Washington Round-up

EITC audits significantly declined. A recent Treasury Inspector General for Tax Administration report found that the Internal Revenue Service "significantly decreased EITC [Earned Income Tax Credit] audits, increasing the likelihood of meeting the goals" of an August 2022 Treasury directive of not using Inflation Reduction Act resources to not increase audit rates on individuals or small businesses earning less than $400,000, as well as limiting the racial disparities caused by selection methodologies for auditing those with claiming the EITC. TIGTA noted in the report that the agency needs to establish and define measurable goals to ensure racial disparities are properly addressed.

TAX BRIEFS

Civil Penalties

An individual taxpayer was liable for additions to tax under Code Secs. 6651(a)(1), (2) and 6654. There was reasonable cause for the taxpayer's failure to and pay taxes. He was also liable for a Code Sec. 6673(a)(1)(B) penalty for maintaining frivolous arguments.

O'Connor, TC, Dec. 62,653(M)

Claim of Right Doctrine

A C corporation using the accrual method of accounting was entitled to a deduction in the tax year at issue for previously overreported mortgage fee income. The amounts that had been included in gross income in prior tax years under a mistaken belief that they were earned revenue from mortgage loan transactions. The claim of right doctrine applied, as the amounts had been included in income under a claim of right and the obligation to return them became definite in the tax year at issue.

Norwich Commercial Group, Inc, TC, Dec. 62,654(M)

Collections

An IRS employee's communication with an individual taxpayer was not an affirmative effort to collect taxes and thus fell outside the scope of Code Sec. 7433. The court observed that the employee only explained how to respond to a CP-11 notice. The court also lacked jurisdiction over the taxpayer's claim that the government, Department of Justice, and IRS withheld evidence and made false statements. Code Sec. 7433 was not applicable, and therefore, the court did not have jurisdiction.

Lampon-Paz, DC N.J., 2025-1 USTC ¶50,158

The Tax Court correctly dismissed an individual's amended petition challenging notices for collection action and disallowance of interest abatement for lack of jurisdiction. Because the taxpayer failed to identify any tax years or provide evidence that he was ever issued the notices, the Tax Court lacked the jurisdiction to review the IRS's collection activities.

Gorrio, CA-3, 2025-1 USTC ¶50,159

An individual taxpayer challenged the IRS' conduct on assessment of his taxes, not collection practices. The government did not waive its sovereign immunity, rendering the claim non-actionable. Therefore, the taxpayer failed to present any grounds for the court's jurisdiction over his Code Sec. 7433 claim.

Hanna, DC Calif., 2025-1 USTC ¶50,162

Interest Deductions

An individual's petition to review a notice of determination concerning a collection action under Code Sec. 6330 was untimely. The taxpayer's petition was filed after the 30-day deadline under Code Sec. 6330(d)(1). Further, the taxpayer had not met his burden to show his entitlement to equitable tolling.

Aiello, TC, Dec. 62,657(M)

Like-kind Exchanges

A limited partnership's transaction conformed with the requirements of the qualified intermediary (QI) and exchange accommodation titleholder (EAT) safe harbor rules, so that QI and titleholder would not be agents of the taxpayer, and the taxpayer would not be in actual or constructive receipt of money or other property before receiving the replacement property. The taxpayer was exchanging a fee interest in improved real estate for a long-term lease of a tract of land for a period of more than 30 years and improvements. Accordingly, the property to be transferred and the property to be received by the taxpayer were of like-kind under Reg. § 1.1031(a)-1(b).

IRS Letter Ruling 202520001

Notice of Deficiency

An individual's petition for redetermination of deficiency was untimely under Code Sec. 6213.

Stokey, TC, Dec. 62,655(M)

REITs

Amounts received by a publicly traded real estate investment trust (REIT) (taxpayer), an operating partnership and its subsidiaries did not constitute impermissible tenant service income under Code Sec. 856(d)(7)(A). Therefore, the amounts qualified as rents from real property under Code Sec. 856(c)(2). The amounts related to providing tempering, temperature reduction, and rapid services, and handling services performed by a TRS.

IRS Letter Ruling 202520010

Trust Fund Recovery Penalty

The government's complaint against an individual to recover the assessed trust fund recovery penalties was timely under Code Sec. 6503(h)(2). The taxpayer had filed for bankruptcy, and the IRS consequently tolled the 10-year statute of limitations.

Colasuonno, CA-2, 2025-1 USTC ¶50,163

Current Plan Liability Rates Set for May 2025

For pension plan years beginning in May 2025, the IRS has released

- the 30-year Treasury bond weighted average interest rate,
- the unadjusted segment rates,
- the adjusted rates, and
- the minimum present value segment rates.

Corporate Bond Rate

The three 24-month average corporate bond segment rates applicable for May 2025 (without adjustment for the 25-year average segment rate limits) are as follows:

- 4.95 for the first segment rate,
- 5.33 for the second, and
- 5.55 for the third.

May 2025 Adjustment Segment Rate

The May 2025 adjusted segment rates for plan years beginning in 2024 are:

- 4.95 for the first segment rate,
- 5.33 for the second, and
- 5.59 for the third.

The rates for plan years beginning in 2025 are:

- 4.95 for the first segment rate,
- 5.31 for the second, and
- 5.55 for the third.

30-Year Treasury Weighted Average

For plan years beginning in May 2025, the 30-year Treasury weighted average securities rate is 4.02, with a permissible range of 3.62 to 4.22 under Code Sec. 431(c)(6)(E)(ii)(I).

The rate of interest on 30-year Treasury securities for April 2025 is 4.71 percent.

The minimum present value segment rates under Code Sec. 417(e)(3)(D) for April 2025 are:

- 4.51 for the first segment rate,
- 5.49 for the second, and
- 6.07 for the third.

Notice 2025-29