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Tax Provisions of Senate Budget Reconciliation Bill Revealed

The Senate Finance Committee revealed tax provisions of the Senate's version of the budget reconciliation bill which, like the House version, aims primarily to make permanent the expiring tax cuts that were a part of the 2017 Tax Cuts and Jobs Act.

"This bill prevents an over-$4 trillion tax high and makes the successful 2017 Trump tax cuts permanent, enabling families and businesses to save and plan for the future," Senate Finance Committee Chairman Mike Crapo (R-Idaho) said in a statement.

According to an overall summary document issued by Finance Committee Chairman Mike Crapo (R-Idaho), the reconciliation package will prevent a more-than $2.6 trillion tax hike related to the expiring provisions (including an average of $1,700 in higher taxes for the average family of four), prevent the child tax credit from being cut in half, prevent tax hikes for small businesses, and prevent the death tax exemption from being cut in half.

The summary also notes the following tax provisions that are included in the reconciliation bill:

- No tax on tips;
- No tax on overtime;
- No tax on auto loan interest for new cars made in the United States;
- Repeal of reporting requirements for gig workers;
- Increasing the 1099-Misc threshold;
- Creation of a school choice tax credit;
- A $6,000 bonus exemption for certain low- and middle-income seniors;
- Enhancements to 529 savings accounts to make education more affordable; and
- Establishment of special savings accounts for newborns.

The bill also includes some sought-after business provisions, including full expensing of domestic research and development costs, full expensing of new capital investments, and restoration of "interest deductibility to a global competitive standard to help finance domestic investments."

Senate Republicans through the bill also continue to target green energy with the elimination of Green New Deal subsidies, including ending the tax credit on electric vehicles, ending penalties to fossil fuel production, and boosting investment in nuclear energy.

A section-by-section summary of the reconciliation bill can be found at https://www.finance.senate.gov/imo/media/doc/finance_committee_section-by-section_title_vii3.pdf. Legislative language of the tax provision of the reconciliation bill can be found at https://www.finance.senate.gov/imo/media/doc/finance_committee_legislative_text_title_vii.pdf.

For a deeper analysis and highlights of the Senate version of the reconciliation bill, as well as a comparison to the House-passed version, see Wolters Kluwer's CCH Tax Briefing.

Finance Committee Ranking Member Ron Wyden (D-Ore.) said in a statement that the House version of the bill "was already a class war, but Senate Republicans decided to inflict even more devastation on the lives of working Americans to give even larger handouts to the top."

He argued that wealthy corporations will get "hundreds of billions of dollars in additional tax breaks on top of what they got in the House Republican bill," paid for with "even deeper cuts to Medicaid, slashing funding for rural hospitals and other essential health care providers and throwing cash-strapped states off a funding cliff."

Wyden also stated that the cuts to the Green New Deal "would endanger hundreds of thousands of clean energy jobs and take food out of the mouths of millions of children."

IRS Reminds Newlyweds To Update Tax Information for Smoother Filing

The IRS advises newly married individuals to review and update their tax information to avoid delays and complications when filing their 2025 income tax returns. Since an individual's filing status for the entire year is based on marital status as of December 31, timely updates following marriage are essential for accurate reporting. Newlyweds should report any name changes to the Social Security Administration to ensure tax return details align with SSA records. They should also notify the IRS, their employer, and the U.S. Postal Service if their address has changed. To update their address with the IRS, Form 8822 may be submitted.

Additionally, the IRS encourages newly married individuals to reassess their tax withholding and submit an updated Form W-4 to their employer within ten days of marriage. The IRS Tax Withholding Estimator can help determine the correct withholding amount, especially when both spouses work or may be subject to the additional Medicare Tax. Married taxpayers can file jointly or separately, and comparing both options may help identify the more favorable outcome.

Tax Tip 2025-41

IRS Announces Penalty Settlement With Micro-Captive Promoter

IR-2025-68

The IRS has announced a resolution with Bruce Molnar, cofounder and majority owner of Alta Holdings, LLC, and affiliated with U.S. Risk Associates Insurance Company Limited and Newport Re, Inc., for promoting abusive micro-captive insurance arrangements. Molnar has agreed to pay penalties for organizing and marketing transactions that clients treated as insurance, though they failed to meet the standards recognized for federal tax purposes.

The resolution follows sustained IRS efforts to combat abusive tax strategies involving micro-captive insurance structures. These arrangements typically involve the creation of insurance companies that are used to generate large tax deductions without offering genuine risk coverage. In this case, the IRS determined that the transactions failed to meet the standards for legitimate insurance and required appropriate income recognition and denial of related deductions.

The IRS has reaffirmed its commitment to addressing abusive micro-captive arrangements and has finalized regulations identifying certain transactions as requiring disclosure. The agency continues to pursue promoters, advisors and participants involved in these schemes. Taxpayers involved in similar arrangements may face enforcement action, including audits and penalties, if they do not take corrective steps. The IRS encourages individuals aware of such abusive practices to report them to the Lead Development Center as part of ongoing efforts to protect the integrity of the tax system.

Pre-Filing Agreement Program Updated

IR-2025-69

The IRS has implemented a series of updates to its Pre-Filing Agreement (PFA) program, aimed at improving early issue resolution and fostering greater tax certainty for large businesses and international taxpayers. These enhancements have been part of the agency's ongoing commitment to expand cooperative compliance programs that address potential tax disputes before returns are filed. By streamlining the PFA process, the IRS has encouraged earlier engagement between taxpayers and the agency, thereby reducing audit exposure and supporting voluntary compliance.

Recent improvements to the PFA program have included the launch of a newly structured landing page offering access to program metrics, process overviews, and

REFERENCE KEY

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

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dispute resolution tools. The IRS has also introduced step-by-step guidance outlining how to submit a PFA request, including expected response times and next steps after submission. A new "PFA Likely Suitable Issues and Documentation" page has helped taxpayers determine whether the PFA process fits their situation. Additionally, updated guidance has been released to help businesses better align their submissions with tax filing deadlines. These enhancements have been designed to make the PFA program more accessible, transparent, and responsive to business needs.

Fee Incurred From Terminated Merger Was Ordinary Loss, Summary Judgement Granted

Abbvie Inc., 164 TC No. 10, Dec. 62,678

A public U.S. corporation's payment to a foreign public corporation pursuant to a "break free agreement" was an ordinary loss and not subject to Code Sec. 1234A.

The boards of the two companies agreed to work towards a merger and entered into several agreements to support this union, including a "break fee agreement." However, after the IRS released Notice 2014-52, the U.S. corporation's board withdrew its support for the merger, due to concerns regarding the potential the adverse tax consequences addressed in the notice. The board's failure to support the merger violated the terms of of the break fee agreement and triggered a $1.6 billion fee to the foreign corporation. The U.S. corporation deducted the fee as an ordinary loss.

The Tax Court held that the fee was an ordinary loss and not a capital loss pursuant to Code Sec. 1234A. Under Code Sec. 1234A(1) losses from the cancelation or termination of a right or obligation are capital in nature. For Code Sec. 1234A to apply: (1) there must be a gain or loss; (2) that gain or loss must be attributable to the cancellation, lapse, expiration, or other termination of a right or obligation; (3) the terminated right or obligation must be "with respect to" property; and (4) the property underpinning the terminated right or obligation must be a capital asset in the hands of the taxpayer. The Tax Court determined the terms of the agreement did not confer "rights or obligations with respect to property," in this case shares in the corporations, because the power to confer such rights rested with the companies' public shareholders, not the board's recommendation. Thus, because the third requirement was not satisfied, Code Sec. 1234A did not apply to the fee.

TAX BRIEFS

Exempt Organizations

An organization was denied tax-exempt status for not operating exclusively for exempt purposes under Code Sec. 501. The organization failed to carry out any activities to further an exempt purpose and did not operate as stated in its application. Thus, the organization failed to qualify for exemption under Code Sec. 501(c)(3), and contributions are not deductible under Code Sec. 170.

IRS Letter Ruling 202525013

Information Returns

A limited liability company (LLC) and its operators (defendants) filed false information returns with the IRS under Code Sec. 7434(a). The defendants misrepresented amounts paid to a former employee (plaintiff). The plaintiff was entitled to recover (1) unpaid overtime compensation under Code Sec. 7434(b); (2) liquidated damages equal to unpaid wages; (3) attorney's fees; (4) litigation costs; and (5) a penalty for filing fraudulent information returns.

Cabreja, DC N.J., 2025-1 USTC ¶50,184

Installment Agreement

The IRS did not abuse its discretion in denying an individual's request for an installment agreement to resolve unpaid income tax liabilities because the taxpayer failed to comply with estimated tax obligations and did not fully disclose financial assets. The Tax Court upheld the IRS Appeals Office's determination to sustain a proposed levy under Code Sec. 6330.

Schwartz, TC, Dec. 62,677(M)

Pension Plans

The IRS ruled that payment of active employee health benefits from a pension plan's account to employees eligible to receive in-service retirement benefits did not violate Code Secs. 401(a), (a)(36), or (h) or Reg. §1.401-14. The participants covered by a proposed plan amendment who were at least 59½ and still actively employed would not be excluded. The adoption of the proposed amendment will not adversely affect the plan's qualified status under Code Sec. 401(a) or the related trust's tax-exempt status under Code Sec. 501(a). Under Code Sec. 401, the employees were eligible to receive medical benefits from a Code Sec. 401(h) account as "retired employee."

IRS Letter Ruling 202525012

Retirement Plan Rollovers

Taxpayer would be treated as the payee or distributee of retirement plan assets from decedent's plans. The decedent's last will and testament designated the taxpayer as the sole beneficiary to decedent's estate and residuary estate. The taxpayer was decedent's spouse and sole personal representative. As a spouse, the taxpayer would be eligible to roll the assets over if the rollover occurred less than 60 days after receiving assets from the decedent's estate. The assets would be rolled over into an IRA or IRAs maintained in taxpayer's name. Finally, the taxpayer would not be required to include the distribution and rollover in gross income.

IRS Letter Ruling 202525008

Tax Court Jurisdiction

The IRS failed to establish that it issued a valid notice of deficiency to an individual under Code Sec. 6212(b). Thus, the Tax Court dismissed the case due to lack of jurisdiction.

Cano, TC, Dec. 62,679(M)