High Income Individuals Items

1) Increase the top individual rate to 39.6% ($170b)

   This marginal rate applies to married individuals filing jointly with taxable income over $450,000, to heads of households with taxable income over $425,000, to unmarried individuals with taxable income over $400,000.

2) Increase the top capital gains rate to 25% ($123b)

   The top capital gains rate (which under current law does not apply to anyone earning less than $400,000) is increased from 20% to 25%.

3) Expands the Net Investment Income Tax to capture more income ($252b)

   Expands the net investment income tax to cover net income derived in the ordinary course of a trade or business for taxpayers with greater than $400,000 in taxable income (single filer) or $500,000 (joint filer). By closing this gap, all income, be it from wages (currently subject to 3.8% HI tax), investments (currently subject to 3.8% net investment income tax), or earnings from passthrough businesses will be subject to the same amount of tax, for those with higher incomes.

4) Limitation on 199A deduction. ($78b)

   Amends section 199A by setting the maximum allowable deduction at $500,000 in the case of a joint return, $400,000 for an individual return.

5) Limitation on Excess Business Losses for Non-corporate Taxpayers ($167b)

   Extends the revenue raiser in the American Rescue Plan to permanently disallow business losses beyond the taxpayer's business income. The provision currently applies until 2027. The change makes the provision permanent.

6) Surtax on high-income individuals ($127b)

   Imposes a 3-percent surtax on individuals with adjusted gross income in excess of $5,000,000.

7) Carried interest ($14b)

   Increases the holding period for which a taxpayer must qualify for capital gains treatment from 3 to 5 years. Makes other changes that relate to complex structures to prevent taxpayers from avoiding these holding period rules.

8) Accelerating expiration of TCJA estate and gift tax parameters. ($50b)

The TCJA doubled the estate and gift tax exemption to $24,000,000 for married filers. The provision is currently scheduled to expire on December 31, 2025. The provision moves the expiration date up to December 31, 2021.

9) Changes to the treatment of grantor trusts ($7b)

This provision changes the estate and gift tax rules that apply to grantor trusts so that they are more like the income tax rules. In general, a grantor trust is a trust where the person putting assets into the trust controls it so closely that they're treated as earning the income from the trust directly. This provision applies only to future trusts and future transfers. This provision also taxes a sale from a grantor trust to its owner the same way as a normal sale of assets.

10) Modifications to estate tax valuation rules ($20b)

This provision changes the valuation rules to ignore discounts from partial ownership or lack of control of an asset in determining its value. This rule applies only to assets that are not used in a business. This provision is limited to passive assets, so these discounts are still permitted for family farms and businesses in the same way as current law.

Total for High Income Individuals: Approximately $1 trillion

<u>Corporate and International Tax Reforms</u>

1) Increase the top corporate tax rate to 26.5% (540b)

Increases the top rate to 26.5%. For very small businesses (income below $400,000) the bill lowers the corporate tax rate to 18%. The 26.5% rate applies only to businesses with income in excess of $5,000,000 (and remains at 21% for businesses below that).

2) Interest deduction limitations for domestic corporations that are part of an international financial reporting group.

Limits the interest deduction of certain domestic corporations in proportion to their share of the total earnings of their international financial reporting group. This prevents multinational corporate groups from shifting a disproportionate amount of their interest deduction to the United States in order to lower their U.S. tax liability (a practice known as "earnings stripping").

3) Modifications to the GILTI (minimum tax)

See table in appendix for explanation.

4) Modifications to the BEAT (base erosion anti-abuse tax)

   Increases the rate of the BEAT to 10% for the next two years and 12.5% thereafter. Substantially re-defines the nature of the tax to more closely approximate the Administration's SHIELD proposal, where the tax does not apply unless the taxpayer is subject to an effective rate of foreign tax that is less than the BEAT rate. The provision also removes the disallowance of tax credits under the BEAT, and changes the BEAT so it doesn't unfairly penalize companies with losses.

5) Modification to FDII (Foreign-Derived Intangible Income)

   Reduces the deduction from 37.5% (current) to 21.875%. This reduction is scheduled to occur in taxable years beginning after December 31, 2025, so the proposal would be an acceleration of that scheduled reduction. The deemed tangible income return (FDII's version of QBAI) remains at 10%.

Total Corporate/International: Still awaiting final scores, likely $900b

<u>Other Provisions</u>

1) Reforms to "Mega IRAs" ($4b)

   Recent press reports once again brought attention to a significant flaw in our current retirement system where billionaires are able to amass millions and millions of dollars in their IRAs on tax advantaged basis. In some instances, these wealthy Americans will never pay taxes on the earnings in these accounts. To avoid subsidizing retirement savings once account balances reach high levels, the legislation generally prohibits taxpayers from contributing to their IRAs once their account balances exceed $10 million. The legislation also would require distributions once the value of the assets in these accounts reach certain levels.

2) Modifications to Wash Sale and Disguised Sales rules ($16b)

   Includes transactions involving cryptocurrency in these general tax rules, to treat cryptocurrency the same as other financial instruments and to prevent taxpayer abuse of the rules.

3) Executive compensation ($16b)

   Accelerates to 2022 the change in the American Rescue Plan to the limitations on the deduction of compensation above $1,000,000 for publicly held companies. Thus in 2022, the limitation applies to the top 5 compensated employees.

4) Tobacco and Nicotine ($96b)

   Increases the rate of tax on tobacco products, and includes the Committee's marked bill that imposes a tax on nicotine not used in tobacco products (e.g., e-cigarettes)

5) Provisions related to DISCs and FSCs ($3b)

   Ends abusive transactions involving IRAs holding companies that are used to provide an incentive for export sales, and clarifies how foreign investors in these companies are taxed.

6) Other financial instrument provisions

   This bill may include several other provisions to limit corporate planning and tax avoidance, including post-inversion planning and tax avoidance through derivatives. Staff continues to develop, draft, and score these proposals and will keep Members updated.

<u>Taxpayer Compliance</u>

1) IRS funding. (Does not officially score, but CBO attributes $200b in additional revenue to it)

   Provides $80 billion over the next ten years for tax enforcement related to high-income taxpayers.

2) Conservation Easements ($11b)

   Closes the loophole for inappropriate deductions claimed by investors in syndicated conservation easement transactions, restoring the integrity of the federal conservation easement program.

<u>Drug Pricing</u>

1) Provisions of H.R. 3 and the rebate rule, which are expected in total to raise $700 billion.

Total Revenue Raised: Approximately $2.9 trillion. *<u>THIS NUMBER REMAINS VERY PRELIMINARY.</u>*

Combined with dynamic growth estimate by White House of $600b, this fully offsets the $3.5 trillion package.

Key Features of Current Law, Biden Budget, OECD Agreement, Ways & Means, and Wyden Proposals					
Global Minimum Tax Provisions					
	Current Law	**Biden Budget**	**OECD**	**Ways and Means**	**Chairman Wyden**
Minimum Rate	10.5%	21%	At least 15%	About 16.5%	Unclear from public documents, but likely 18-19%
Exemption for activities in foreign jurisdiction	10% return on physical assets only (known as QBAI)	0% return on physical assets only (no QBAI exemption)	7.5%, (with reduction to 5% after 5 yrs) of physical assets and payroll	5% return on QBAI; 10% in U.S. territories	0% return on physical assets only (no QBAI exemption)
Treatment of foreign taxes	80% of foreign tax credits can be claimed, no carryforward	80% of foreign tax credits can be claimed, no carryforward	100% of taxes paid can be claimed and carried forward	95% of taxes paid can be claimed and carried forward	[80%-100%] of foreign tax credits can be claimed, no carryforward
Treatment of losses	Losses cannot be carried forward	Losses cannot be carried forward	Losses can be carried forward	Losses can be carried forward	Unclear, considering limited averaging for losses
Country-by-Country?	No	Yes	Yes - U.S. law must be changed for U.S. to be compliant system	Yes	High tax exclusion, less generous in some cases than CbC