

Ways and Means Chairman Smith proposes revised FY 2025 tax bill for committee action

May 13, 2025

In brief

What happened?

House Ways and Means Committee Chairman Jason Smith (R-MO) on May 12 released 389-pages of revised tax proposals for consideration by the Ways and Means Committee at a “markup” scheduled to begin today, May 13, at 2:30 PM ET.

The new “chairman’s amendment in the nature of a substitute” (the Chairman’s amendment) replaces the 28-pages of tax proposals released on May 9, which focused primarily on extending permanently, with some modifications, certain individual, pass-through business, and international tax provisions enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA) that currently are set to expire at the end of this year.

The Chairman’s amendment features a large number of new business and individual tax proposals, including “bonus” depreciation and other business investment incentives; “no tax on tips” and certain other tax proposals offered by President Donald J. Trump; a new retaliatory measure to address “unfair foreign taxes;” a new \$30,000 cap for individual itemized deductions for state and local taxes; and various revenue-raising measures that include changes to energy tax credits. The Chairman’s amendment also includes a provision to increase the federal statutory debt limit by \$4 trillion.

Why is it relevant?

The goal of the Ways and Means Committee “markup” session is to report proposed tax law changes that can be considered by the full US House of Representatives during the week of May 19 as part of the Fiscal Year (FY) 2025 reconciliation “One, Big, Beautiful Bill” (OB BB). Assuming House passage, the Senate is expected to act on the

legislation in June, with the stated goal of sending a final bill to be signed by President Trump before Congress begins a July 4 recess.

Action to consider

Business leaders and individuals will need to quickly evaluate the potential effect of proposed tax law changes to be considered as part of the FY 2025 reconciliation bill on the US economy, business, and individuals. The May 13 committee action is just the first step in the process and there will be opportunities to modify the proposal before it is sent to the President for signature.

In detail

Overview

The House Ways and Means Committee is scheduled to begin a “markup” today, May 13, at 2:30 PM ET, on proposed tax law changes that can be considered by the full US House of Representatives during the week of May 19 as part of FY 2025 OBBB. A markup is a committee business meeting that considers and acts on matters contained in the notice issued by the chairman. Senate action could follow as early as June.

Observation: Narrow majorities in Congress mean Republicans can lose only three votes in both the House and Senate to pass a final version of the FY 2025 OBBB.

Prior to the start of the markup session, Chairman Smith released a Chairman’s amendment that addresses both TCJA-related provisions and many additional tax proposals that had been proposed by President Trump and Republican House members.

The Joint Committee on Taxation (JCT) staff estimates that the net cost of the Chairman’s amendment is \$3.7 trillion over 10 years. This level of net revenue cost more than complies with the FY 2025 budget resolution’s reconciliation instructions that limit deficit-increasing tax provisions to \$4 trillion if other House committees with deficit-reduction instructions can achieve \$1.5 trillion in revenue savings.

Next steps

The House Budget Committee is responsible for combining the FY 2025 budget reconciliation proposals approved by 11 House committees with reconciliation instructions into a single bill for House action. Prior to House floor debate, the House Rules Committee will meet to provide a rule for the consideration of the FY 2025 reconciliation bill and which amendments will be permitted to be offered during floor debate.

Observation: Republican leaders could make significant changes in the Rules Committee to the tax and spending measures reported by the committees as needed to secure the votes necessary for House passage of the FY 2025 OBBB.

New business tax proposals

TCJA-modified business tax provisions

The Chairman’s amendment addresses some key business tax provisions that were modified since 2017 under the TCJA. These business tax provisions include restoration of 100% bonus depreciation under Section 168(k), Section 174 expensing for US-based research investments, and the EBITDA-based business interest expense limitation under Section 163(j).

- **100% ‘bonus’ depreciation** - Under the Chairman’s amendment, the additional first-year depreciation deduction would be extended by increasing the allowance to 100% for property acquired and placed in service after January 19, 2025, and before January 1, 2030 (or January 1, 2031, for longer production period property and certain aircraft), as well as for specified plants planted or grafted within that timeframe. It also makes permanent the rules under the Section 460 percentage-of-completion method for allocating bonus depreciation to long-term contracts.
- **Section 174** -The Chairman’s amendment would suspend the current requirement to capitalize and amortize domestic (only) research or experimental (R&E) expenditures for amounts paid or incurred in tax years beginning after December 31, 2024, and before January 1, 2030. During this period, taxpayers would choose to (1) immediately deduct domestic R&E expenditures under new Section 174A, (2) elect to capitalize and recover these expenditures over the useful life of the research (with a minimum recovery period of 60 months), or (3) elect to capitalize and recover the expenditures over 10 years. Upon the disposition, retirement, or abandonment of property related to domestic R&E expenditures, taxpayers would be permitted to recover any remaining capitalized amounts. Foreign R&E expenditures would continue to be amortized over 15 years.
- **Section 163(j)** - For tax years beginning after December 31, 2024, and before January 1, 2030, the Chairman’s amendment would modify the Section 163(j) limitation on the business interest expense deduction by computing adjusted taxable income (ATI) without regard to deductions for depreciation, amortization, or depletion. Other changes would revise the definition of “motor vehicle” for purposes of floor plan financing interest and authorize the Secretary of the Treasury to issue rules for the application of these changes to short tax years that begin after December 31, 2024, and end before the date of enactment.

New bonus depreciation provision for qualified production property

The Chairman’s amendment proposes a new Section 168(n) provision to establish an elective 100% depreciation allowance for certain nonresidential real property that meets the definition of qualified production property (QPP). To qualify for this deduction, the property must (1) be subject to depreciation under Section 168; (2) be used by the taxpayer as an integral part of a qualified production activity; (3) be placed in service in the United States or any of its possessions; (4) have its original use commence with the taxpayer; (5) have construction begin after January 19, 2025, and before January 1, 2029; (6) be subject to an election by the taxpayer to treat such portion as QPP; and (7) be placed in service after the date of enactment and before January 1, 2033. The amendment would provide a number of special transition rules to address the original use requirement, the beginning of construction requirement, and others.

According to the amendment, qualified production activities would include manufacturing, production, or refining of a qualified product, defined as any tangible personal property. The amendment specifies that production activities would be limited to agricultural production and chemical production, and the taxpayer’s activities must result in a substantial transformation of the property comprising the product.

The amendment also would impose the Section 1245 depreciation recapture rules if QPP is disposed of at a gain. Under a new rule, taxpayers would be required to recapture 100% of the depreciation claimed as ordinary income if the property ceases to be used as an integral part of a qualified production activity within 10 years of being placed in service and is repurposed for a non-qualifying productive use.

International tax proposals

The Chairman's amendment retains the proposals on global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and the base erosion and anti-abuse tax (BEAT) that were proposed as part of the initial bill text released on May 9.

The proposed legislation would permanently extend the current preferential rates on GILTI and FDII. The deduction for corporations for tax years beginning after December 31, 2025 would remain at 50% of their GILTI (including the corresponding Section 78 gross-up amount) and 37.5% of their FDII.

It also would extend the current BEAT rate of 10% on modified taxable income for tax years beginning after December 31, 2025. The proposal would repeal the special rules of subsection 59A(b)(2), which would have increased the rate from 10% to 12.5% and reduced regular tax liability by the sum of all of a taxpayer's income tax credits for the tax year.

The Chairman's amendment adds a new provision to retaliate against countries that implement an under-taxed profits rule (UTPR), digital services tax (DST), diverted profits tax, or other "unfair" tax on US persons. The proposal would increase US net income, withholding, and gross-basis tax rates on residents and governments of those countries by up to 20 percentage points and disallow an exemption for foreign governments. It also would add a targeted anti-base-erosion overlay for certain corporations that eliminates BEAT applicability thresholds and raises their BEAT rate to 12.5% percent, neutralizes capitalized payments and other BEAT exceptions, and reduces regular tax liability by all credits allowed.

Other international tax proposals include excluding certain income derived from services performed in the US Virgin Islands from GILTI.

Individual tax proposals

TCJA individual provisions

While the Chairman's amendment continues to make most of the TCJA individual provisions permanent, it seeks to address the concerns of a group of House Republicans over the current \$10,000 cap on individual itemized deductions for state and local taxes. While the May 9 initial bill did not address the SALT cap, the cap would be increased after 2025 to \$30,000 (\$15,000 in the case of a married individual filing a separate return) under the Chairman's amendment. The increased cap would be reduced for individuals with income above \$400,000 (\$200,000 in the case of a married individual filing separately), but not below \$10,000 (\$5,000 in the case of a married individual filing separately). In addition, the substitute amendment would disallow the federal deduction that Notice 2020-75 currently allows for state pass-through entity taxes (PTETs) when the pass-through is a specified services trade or business. These proposed changes would be effective for tax years beginning after December 31, 2025.

The Chairman's amendment also features a modified version of the "Pease" overall limitation on itemized deductions, which the May 9 release proposed to terminate permanently. Note the prior version of Pease was scheduled to come back into effect on January 1, 2026. The new overall limitation would reduce itemized deductions by 2/37ths of the lesser of itemized deductions or taxable income increased by itemized deductions in excess of the amount of income at which the 37% rate bracket begins. This new limitation would apply after the application of any other limitation on the allowance of any itemized deduction (such as the adjusted gross income-based limitation on the charitable deduction). The effect of the reduction would be to limit the benefit of itemized deductions to 35%. This proposed change would be effective for tax years beginning after December 31, 2025.

The Chairman's amendment would enhance the permanent extension of the Section 199A pass-through business deduction with a permanent increase in the 20% deduction to 23%, up from the 22% deduction that had been proposed on May 9. Additional proposed modifications to Section 199A include changes to phase-in limitations based on certain taxable income, changes to the treatment of specified service trade or business income, new rules for qualified business development companies, and inflation indexing for threshold amounts. The proposed modifications would apply for tax years beginning after December 31, 2025.

The following TCJA individual provisions are included in the Chairman's amendment as originally proposed on May 9:

- Permanent extension of current individual tax rates, including the 37% top ordinary income tax rate, with an additional year of inflation adjustment for income bracket thresholds for rates below where the top 37% rate begins, effective for tax years beginning after December 31, 2025.
- Permanent extension of inflation-adjusted increased standard deductions (currently \$15,000 for single filers/\$30,000 for joint filers), with a temporary additional increase in certain standard deductions (e.g., \$1,000 for single filers; \$2,000 for joint filers) for tax years beginning after December 31, 2024, and before January 1, 2029.
- Permanent extension of the increased \$2,000 child tax credit, with certain modifications that include a temporary increase in the child tax credit to \$2,500 for tax years beginning after December 31, 2024, and before December 31, 2028. The proposal requires Social Security numbers to be provided and that all individuals claiming the child credit must be US citizens or have other specified legal status.
- Permanent extension of increased estate tax and gift tax exemption amounts, with an increase in unified estate and gift tax exemption to an inflation-adjusted \$15 million, effective for tax years beginning after December 31, 2025.
- Permanent extension of increased alternative minimum tax exemption and phase-out thresholds.
- Permanent extension of increased limitations on contributions to ABLE accounts and the Savers credit for ABLE contributions for individuals with disabilities, with certain permanent enhancements effective for tax years beginning after December 31, 2025.
- Permanent extension of tax treatment rule for certain individuals performing services in the Sinai Peninsula, with enhancements to include certain additional areas, effective on January 1, 2026.
- Permanent extension, with modifications, of the exclusion from gross income of certain student loans discharged on account of death or disability, effective for discharges after December 31, 2025.
- Permanent termination of deduction for personal exemptions.
- Permanent extension of limitations on individual itemized deductions for certain mortgage interest payments, casualty losses, moving expenses, the miscellaneous itemized deduction, wagering losses, and the qualified bicycle commuting reimbursement exclusion.

New or modified individual tax proposals

The Chairman's amendment proposes numerous new targeted individual tax cuts, including several provisions that were proposed by President Trump. New temporary individual provisions include:

- An above-the-line deduction for qualified tips received by an individual in an occupation that traditionally and customarily receives tips during a given tax year. Individuals who are defined as highly compensated employees (receiving compensation above \$160,000 in 2025) would not qualify. The deduction is proposed to be allowed for tax years 2025 through 2028.
- An above-the-line deduction for qualified overtime compensation during a given tax year. Individuals who are defined as highly compensated employees also would not qualify for the overtime deduction. The deduction is proposed to be allowed for tax years 2025 through 2028.
- A deduction for seniors (age 65 or older) of \$4,000 per eligible filer with a modified adjusted gross income (AGI) that does not exceed \$75,000 for single filers (\$150,000 for married filing jointly). The senior deduction would be available to both itemizers and non-itemizers, with the deduction proposed to be allowed for tax years 2025 through 2028.
- An above-the-line deduction of up to \$10,000 for qualified passenger vehicle loan interest paid during a given tax year, subject to AGI phase-outs. The deduction is proposed to be available for tax years 2025 through 2028.

Observation: While the Chairman's amendment proposes temporary versions of some of the key individual tax relief proposals advanced by President Trump, Chairman Smith does not propose any change to the tax treatment of carried interest received by investment fund managers, as had been requested by the president. The Chairman's amendment does address President Trump's request to limit certain tax benefits that are currently available to owners of sports franchises, as discussed below.

The Chairman's amendment also establishes a new type of tax-preferred account, a money account for growth and advancement (MAGA account), and includes a pilot program for \$1,000 federal government contributions for the MAGA account of each qualifying child. A MAGA account is a trust created or organized in the United States for the exclusive benefit of an individual and designated at the time of establishment as such (in such manner as the Secretary shall prescribe), provided that the written governing instrument creating the trust meets certain requirements. Qualified expenses include qualified higher education expenses, qualified post-secondary credentialing expenses, amounts paid or incurred with respect to certain small business or small farm loans, and amounts used for the purchase of a principal residence of an account beneficiary who is a first-time homebuyer. To be eligible for an account, the account beneficiary must not have attained age eight on the date the account is established. This provision is proposed to be effective for tax years beginning after December 31, 2024.

Additional new individual tax relief proposals include the following provisions:

- Enhancement of employer-provided childcare credit
- Extension and enhancement of the paid family and medical leave credit
- Enhancements of the adoption credit
- Recognition of Indian tribal government for purposes of determining adoption-credit special-needs status
- Credit for contributions to scholarship-granting organizations
- Additional elementary, secondary, and home school expenses treated as qualified higher education expenses for purposes of Section 529 accounts

- Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of Section 529 accounts
- Reinstatement of partial deduction for charitable contributions of individuals who do not elect to itemize
- Exclusion of certain employer payments of student loans under educational assistance programs made permanent and adjusted for inflation
- Extension of rules for treatment of certain disaster-related personal casualty losses
- Significant expansion of health savings accounts (HSAs)
- Codifying and expanding ability of employer to offer a CHOICE health reimbursement account integrated with individual market coverage, including through a Section 125 cafeteria plan.

Community investment incentives and small business tax proposals

The Chairman's amendment includes several new proposals intended to provide additional tax relief for "Rural America and Main Street" small businesses.

The Chairman's amendment would allow for the designation of additional qualified opportunity zones under a modified definition of low-income community and would modify the opportunity zone investment incentives. The amendment also would impose new information reporting requirements for opportunity zones and would impose penalties for non-compliance. The designation of additional qualified opportunity zones would apply for amounts invested after the date of enactment, and the new reporting requirements would apply for tax years beginning after the date of enactment.

The Chairman's amendment would increase Section 179 limitations for expensing of certain depreciable business assets to \$2.5 million and would increase the phaseout threshold to \$4 million. This proposal would apply to property placed in service in tax years beginning after December 31, 2024.

Additional new community investment incentives and small business tax proposals include the following provisions:

- Repeal of revision to de minimis rules for third party network transactions
- Increase in threshold for requiring information reporting with respect to certain payees
- Repeal of excise tax on indoor tanning services
- Exclusion of interest on loans secured by rural or agricultural real property
- Modified treatment of certain qualified sound recording productions
- Modifications to low-income housing credit
- Increased gross receipts threshold for small manufacturing businesses
- Extension and modification of clean fuel production credit.

New revenue-raising tax proposals

Inflation Reduction Act clean energy credits

The Chairman's amendment would curtail certain credits enacted by the Inflation Reduction Act in 2022 and revise the phase-out of others. In contrast, the Section 45Z clean fuel production credit would be extended through December 31, 2031 (from 2027), albeit with several new limitations.

Credits that generally would be eliminated as of December 31, 2025, include the Section 25E previously owned clean vehicle credit, the Section 30D clean vehicle credit (with a limited exception for certain manufacturers), and the Section 45W qualified commercial clean vehicle credit, as well as credits for alternative fuel vehicle refueling property under Section 30C, energy efficient home improvements under Section 25C, residential clean energy under Section 25D, new energy efficient homes under Section 45L, and clean hydrogen production under Section 45V.

Some credits are proposed to be phased down on an accelerated timeline: (1) The phase-out percentages to claim the Section 45U zero-emission nuclear power production credit, the Section 45Y production tax credit, and the Section 48E investment tax credit would be accelerated, and the credits would be eliminated for facilities placed in service after December 31, 2031. (2) The Section 45X advanced manufacturing production credit would not be available for eligible components, including applicable critical minerals, sold after December 31, 2031 (wind energy components sold after December 31, 2027).

Observation: While some IRA credits would be eliminated or curtailed, many remain available. For example, taxpayers can still benefit from other credits and incentives, such as those provided by Sections 40A (Biodiesel and Renewable Diesel used as Fuel), 40B (Sustainable Aviation Fuel), 45 (Electricity Produced from Certain Renewable Resources, etc.), 45J (Production from Advanced Nuclear Power Facilities), 45Q (Carbon Oxide Sequestration), 45Z (Clean Fuel Production), 48 (Energy Investment), 48C (Qualified Advanced Energy Project), 48D (Advanced Manufacturing Investment), and 179D (Energy Efficient Commercial Buildings).

The Chairman's amendment also would limit the transferability of credits. The credits under Sections 45U, 45X, and 45Z generally would not be transferable after December 31, 2027, while the transferability of the credits under Sections 45Q, 45Y, and 48E would be repealed for facilities beginning construction more than two years after the date of enactment.

New limitations would be imposed related to foreign entity involvement that designate new categories of foreign entities, making facilities owned by specified foreign entities immediately ineligible for credits, while others would have a two-year window to restructure.

Observation: The bonus credit rates applicable to certain credits remain intact. Accordingly, taxpayers can still benefit from higher credit amounts by satisfying the requirements for prevailing wage and apprenticeship (PWA) requirements, domestic content, and other location-based incentives.

Modification of excise tax on investment income of certain private colleges and universities

The Chairman's amendment would replace the excise tax on applicable educational institutions with a new rate structure, effective for tax years beginning after December 31, 2025. Under the proposal, the amount of tax imposed on an applicable educational institution for each tax year would be equal to the applicable percentages of the net investment income for the tax year. The proposal also would make other modifications to the current endowment excise tax provision, including amending the definition of an eligible student to include only students eligible for federal financial aid (i.e., excludes certain foreign students). The applicable percentages are as follows:

- 1.4% in the case of an institution with a student adjusted endowment in excess of \$500,000 and not in excess of \$750,000;
- 7% in the case of an institution with a student adjusted endowment in excess of \$750,000 and not in excess of \$1,250,000;
- 14% percent in the case of an institution with a student adjusted endowment in excess of \$1,250,000 and not in excess of \$2,000,000; and
- 21% in the case of an institution with a student adjusted endowment in excess of \$2,000,000.

Limitations on amortization of certain sports franchises

The Chairman's amendment would exclude 50% of the adjusted basis of an amortizable Section 197 asset from amortization in the case of a franchise engaged in professional football, basketball, baseball, hockey, soccer, or other professional sport, or any item acquired in connection with such franchise. The proposal would apply to Section 197 intangibles acquired after the date of enactment.

Other new revenue-raising tax proposals include

- Amendments to Section 162(m) to define a controlled group to address arrangements that are designed to avoid the limitation on deductible compensation in excess of \$1 million
- Limiting corporate charitable deductions by establishing a 1% floor and a 10% limit for qualifying corporate charitable deductions
- Tax-exempt employers:
 - Expansion of Section 4960 excise tax on excessive compensation of executives to employees of related parties and of governmental entities
 - Increasing unrelated business income tax (UBIT) of tax-exempt entities for amounts related to qualified transportation fringes and facilities for qualified parking
- Provisions relating to COVID-related employee retention tax credits (ERTCs). No credit or refund of the ERTC would be permitted after date of enactment except with respect to claims for a credit submitted on or before January 31, 2024; proposed penalty changes generally would be effective after March 12, 2020.
- Excise-tax and trade measures
- Measures denying or tightening premium tax credit, earned income tax credit, education credit, and remittance tax benefits where social security numbers or lawful-presence requirements are unmet
- IRS and Affordable Care Act administration reforms, rescissions, higher penalties, and hostage deadline relief.

Other non-tax provisions

The Chairman's amendment retains two non-tax provisions that were initially proposed on May 9.

The proposed bill text would limit Medicare coverage to US citizens or other individuals with specified legal status.

The proposed bill text includes a modification of administrative exemptions under the Tariff Act of 1930. The modifications would place new limits on the use of the \$800 de minimis customs duties exemption, limiting both the countries of origin and products to which the exemption applies. The amendments, including new civil penalties, would apply to articles entered or withdrawn from warehouses for consumption on or after the 30th day after the date of enactment.

For more information

Chairman Smith's [substitute amendment](#) (389-pages)

Joint Committee on Taxation staff [technical explanation](#) (432-pages)

Joint Committee on Taxation [revenue estimate](#)

Let's talk

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