

119TH CONGRESS  
1ST SESSION

# S. 2845

To amend the Internal Revenue Code of 1986 to eliminate tax loopholes that allow billionaires to defer tax indefinitely through planning strategies such as “buy, borrow, die”, to modify over 30 tax provisions so that billionaires are required to pay taxes annually, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

SEPTEMBER 17 (legislative day, SEPTEMBER 16), 2025

Mr. WYDEN (for himself, Mr. WHITEHOUSE, Ms. WARREN, Mr. SANDERS, Ms. SMITH, Mr. LUJÁN, Mr. WELCH, Ms. ALSOBROOKS, Ms. BALDWIN, Mr. BLUMENTHAL, Ms. DUCKWORTH, Mr. FETTERMAN, Mr. HEINRICH, Ms. HIRONO, Mr. MARKEY, Mr. MERKLEY, Mr. MURPHY, Mrs. MURRAY, Mr. REED, Mr. SCHATZ, and Mr. VAN HOLLEN) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to eliminate tax loopholes that allow billionaires to defer tax indefinitely through planning strategies such as “buy, borrow, die”, to modify over 30 tax provisions so that billionaires are required to pay taxes annually, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

2 **TABLE OF CONTENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the  
4 “Billionaires Income Tax Act”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
6 wise expressly provided, whenever in this Act an amend-  
7 ment or repeal is expressed in terms of an amendment  
8 to, or repeal of, a section or other provision, the reference  
9 shall be considered to be made to a section or other provi-  
10 sion of the Internal Revenue Code of 1986.

11 (c) **TABLE OF CONTENTS.**—The table of contents of  
12 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.

Sec. 2. Purpose.

**TITLE I—ELIMINATION OF DEFERRAL FOR APPLICABLE  
TAXPAYERS**

Sec. 101. Elimination of deferral of tax.

Sec. 102. Carryback of capital losses attributable to mark-to-market rules.

**TITLE II—APPLICATION OF OTHER PROVISIONS TO APPLICABLE  
TAXPAYERS AND ENTITIES**

**Subtitle A—Individuals**

Sec. 201. Applicable taxpayers not eligible for adjusted gross income limitation  
on net investment tax.

Sec. 202. Treatment of covered expatriates.

**Subtitle B—Rules for Applicable Entities and Trusts**

Sec. 211. Treatment of like-kind exchanges by applicable entities.

Sec. 212. Treatment of transfers by applicable entities in exchange for stock.

Sec. 213. Special rules for applicable trusts.

**Subtitle C—Treatment of Deferred Compensation and Certain Life Insurance  
and Annuity Contracts**

Sec. 221. Elimination of deferral of tax on certain compensation.

Sec. 222. Rules relating to certain life insurance and annuity contracts of appli-  
cable taxpayers.

**Subtitle D—Repeal of Special Treatment for Certain Investments**

Sec. 231. Treatment of exclusion for certain small business stock.

Sec. 232. Modifications for investments in qualified opportunity funds.

1 **SEC. 2. PURPOSE.**

2       The purpose of this Act is to require billionaires to  
3 pay taxes annually by eliminating the ability of high in-  
4 come and high net worth taxpayers to use tax planning  
5 strategies such as “buy, borrow, die” to defer paying taxes  
6 indefinitely, specifically by—

7           (1) under the provisions of title I of this Act—

8                   (A) requiring high income and high net  
9 worth taxpayers to pay tax on the income they  
10 earn on an annual basis, just like working peo-  
11 ple do on their income from wages, through  
12 mark-to-market taxation, and

13                   (B) shutting down the ability of the ultra  
14 wealthy to buy and hold appreciating assets and  
15 borrow against those assets to support their  
16 lavish lifestyles, all completely tax-free, and

17           (2) under the provisions of title II of this Act,  
18 closing loopholes in the tax code that allow high in-  
19 come and high net worth taxpayers to shield their  
20 income from taxation, including the loophole that al-  
21 lows ultra wealthy taxpayers to transfer untaxed ap-  
22 preciated assets to their heirs at death and such  
23 heirs to sell such assets completely tax-free.

1 **TITLE I—ELIMINATION OF DE-**  
 2 **FERRAL FOR APPLICABLE**  
 3 **TAXPAYERS**

4 **SEC. 101. ELIMINATION OF DEFERRAL OF TAX.**

5 (a) IN GENERAL.—Subchapter E of chapter 1 is  
 6 amended by adding at the end the following new part:

7 **“PART IV—ELIMINATION OF DEFERRAL FOR**  
 8 **APPLICABLE TAXPAYERS**

“Subpart A. General provisions.

“Subpart B. Definitions and rules relating to applicable taxpayers.

“Subpart C. Other definitions and rules.

9 **“Subpart A—General Provisions**

“Sec. 490. Elimination of deferral of tax for applicable taxpayers.

“Sec. 491. Treatment of tradable covered assets.

“Sec. 492. Deferral recapture amount on applicable transfers of nontradable covered assets.

“Sec. 493. Special rules for application of nondeferral rules to certain pass-through entities.

“Sec. 494. Treatment of gifts, bequests, and transfers in trust.

10 **“SEC. 490. ELIMINATION OF DEFERRAL OF TAX FOR APPLI-**  
 11 **CABLE TAXPAYERS.**

12 “In the case of an applicable taxpayer for any taxable  
 13 year—

14 “(1) if there is a taxable event with respect to  
 15 any tradable covered asset of the taxpayer during  
 16 the taxable year, gain or loss shall be recognized as  
 17 provided in section 491,

18 “(2) if there is an applicable transfer by the  
 19 taxpayer during the taxable year of any nontradable  
 20 covered asset—

1           “(A) if such applicable transfer is a dis-  
 2           regarded nonrecognition event, gain or loss  
 3           shall be recognized as provided in section  
 4           492(a)(1), and

5           “(B) the tax imposed by this chapter for  
 6           the taxable year shall be increased as provided  
 7           in section 492 with respect to any gain from  
 8           any such transfer,

9           “(3) gain or loss with respect to any applicable  
 10          entity held by the taxpayer shall be taken into ac-  
 11          count as provided in section 493, and

12          “(4) in the case of any gift, bequest, or transfer  
 13          in trust by an applicable taxpayer or applicable enti-  
 14          ty held by an applicable taxpayer, section 494 shall  
 15          apply.

16 **“SEC. 491. TREATMENT OF TRADABLE COVERED ASSETS.**

17          “(a) IN GENERAL.—For purposes of this title, in the  
 18          case of a taxable event with respect to any tradable cov-  
 19          ered asset of an applicable taxpayer—

20                 “(1) notwithstanding any other provision of this  
 21          title—

22                 “(A) gain or loss shall be recognized and  
 23                 taken into account in the taxable year in which  
 24                 the taxable event occurs as if the taxpayer had

1 sold the tradable covered asset for its fair mar-  
2 ket value—

3 “(i) in the case of a taxable event de-  
4 scribed in subsection (b)(1), on the date of  
5 the taxable event, and

6 “(ii) in the case of a taxable event de-  
7 scribed in subsection (b)(2), immediately  
8 before the taxable event, and

9 “(B) except as provided in subsection  
10 (c)(1), gain or loss taken into account by reason  
11 of a taxable event described in subsection (b)(1)  
12 with respect to a tradable covered asset which  
13 is a capital asset shall be treated as long-term  
14 capital gain or long-term capital loss, respec-  
15 tively, and

16 “(2) proper adjustments shall be made in the  
17 amount of gain or loss subsequently realized for gain  
18 or loss taken into account under paragraph (1).

19 “(b) TAXABLE EVENT.—For purposes of this part,  
20 the term ‘taxable event’ means, with respect to any  
21 tradable covered asset—

22 “(1) the holding of such asset as of the close  
23 of any taxable year with respect to which a taxpayer  
24 is an applicable taxpayer, and

25 “(2) any disregarded nonrecognition event.

1 “(c) SPECIAL RULES.—

2 “(1) CHARACTERIZATION AS ORDINARY INCOME  
3 OR LOSS.—Except as provided by the Secretary, sub-  
4 section (a)(1)(B) shall not apply to any gain or loss  
5 from a tradable covered asset if, under any other  
6 provision of this title, such gain or loss—

7 “(A) is treated as gain or loss from the  
8 sale or exchange of an asset which is not a cap-  
9 ital asset, or

10 “(B) is treated as ordinary income or loss  
11 on a basis other than the taxpayer’s holding pe-  
12 riod in such asset.

13 “(2) HOLDING PERIOD.—For purposes of this  
14 title, any taxable event described in subsection (b)(1)  
15 with respect to any tradable covered asset shall not  
16 be taken into account in determining the holding pe-  
17 riod of the taxpayer with respect to such tradable  
18 covered asset.

19 “(3) PROPER ADJUSTMENTS FOR SUBSEQUENT  
20 GAIN OR LOSS.—For purposes of subsection (a)(2),  
21 section 492(a)(1)(B), section 493(c)(1)(A)(ii), and  
22 section 493(c)(3)(C), the proper adjustments re-  
23 quired under such provisions shall include such ad-  
24 justments in basis of property, or such other adjust-

1       ments in respect of property, as the Secretary deter-  
2       mines necessary or appropriate.

3       **“SEC. 492. DEFERRAL RECAPTURE AMOUNT ON APPLICA-**  
4                   **BLE TRANSFERS OF NONTRADABLE COV-**  
5                   **ERED ASSETS.**

6       “(a) IN GENERAL.—If there is an applicable transfer  
7       during a taxable year of a nontradable covered asset of  
8       an applicable taxpayer—

9               “(1) in the case of an applicable transfer which  
10       is a disregarded nonrecognition event—

11               “(A) notwithstanding any other provision  
12       of this title, gain or loss shall be recognized and  
13       taken into account by the taxpayer (including  
14       for purposes of paragraph (2) and subsection  
15       (c)) in the taxable year in which the transfer  
16       occurs as if the taxpayer had sold the  
17       nontradable covered asset for its fair market  
18       value immediately before such transfer, and

19               “(B) proper adjustments shall be made in  
20       the amount of gain or loss subsequently realized  
21       for gain or loss taken into account under sub-  
22       paragraph (A), and

23               “(2) if there is gain from the applicable trans-  
24       fer, the tax imposed by this chapter for the taxable  
25       year (determined without regard to this section)



shall be increased by the sum of the deferral recapture amounts determined under subsection (b) for each such transfer.

“(b) DEFERRAL RECAPTURE AMOUNT.—

“(1) IN GENERAL.—For purposes of this part—

“(A) IN GENERAL.—The term ‘deferral recapture amount’ means, with respect to any applicable transfer of any nontradable covered asset, the aggregate amount of interest (determined in the manner provided under paragraph (3)) on the deemed tax amount determined under paragraph (2) for each taxable year to which gain is allocated under paragraph (2)(A) and which precedes the taxable year of the applicable transfer.

“(B) LIMITATION ON AMOUNT.—The amount determined under subparagraph (A) with respect to any applicable transfer shall not exceed the applicable percentage of the gain from such transfer. For purposes of this subparagraph, the applicable percentage is the excess of—

“(i) 49 percent, over

“(ii) in the case of the transfer of a nontradable covered asset which—

1                   “(I) is a capital asset, the rate of  
 2                   tax in effect under section 1(h)(1)(D)  
 3                   for the taxable year of the transfer, or  
 4                   “(II) is not a capital asset, the  
 5                   highest rate of tax in effect under sec-  
 6                   tion 1 for such taxable year.

7                   “(2) DEEMED TAX AMOUNT.—For purposes of  
 8                   paragraph (1)—

9                   “(A) IN GENERAL.—The deemed tax  
 10                  amount for any taxable year preceding the tax-  
 11                  able year of any applicable transfer of a  
 12                  nontradable covered asset shall be the amount  
 13                  determined—

14                 “(i) first, except as provided in sub-  
 15                 paragraph (B), by allocating the amount of  
 16                 gain from such transfer ratably to each  
 17                 day in the taxpayer’s holding period of  
 18                 such asset, and

19                 “(ii) then by multiplying the amount  
 20                 allocated under clause (i) to days in such  
 21                 preceding taxable year by—

22                 “(I) if such asset is a capital  
 23                 asset, the rate of tax in effect under  
 24                 section 1(h)(1)(D) for the taxable  
 25                 year of such transfer, or

1 “(II) if such asset is not a capital  
2 asset, the highest rate of tax in effect  
3 under section 1 for such taxable year.

4 “(B) SPECIAL RULE FOR PERIODS BEFORE  
5 BECOMING APPLICABLE TAXPAYER.—Notwith-  
6 standing subparagraph (A)(i), any gain allo-  
7 cated under such subparagraph to any taxable  
8 year preceding the first taxable year for which  
9 the taxpayer is treated as an applicable tax-  
10 payer shall be allocated to such first taxable  
11 year.

12 “(C) INCREASE IN DEEMED TAX AMOUNT  
13 BY TAX ON NET INVESTMENT INCOME.—If gain  
14 from a transfer to which this section applies for  
15 any taxable year is of a type taken into account  
16 in computing net investment income (as defined  
17 in section 1411), the deemed tax amount under  
18 this paragraph for any preceding taxable year  
19 to which such gain is allocated under subpara-  
20 graph (A)(i) shall be increased by an amount  
21 equal to the amount of such allocated gain mul-  
22 tiplied by the rate of tax in effect under section  
23 1411(a)(1) for the taxable year of such trans-  
24 fer.

25 “(3) COMPUTATION OF INTEREST.—

“(A) IN GENERAL.—The amount of interest referred to in paragraph (1) on any deemed tax amount determined under paragraph (2) for any preceding taxable year shall be determined for the period—

“(i) beginning on the due date for such preceding taxable year, and

“(ii) ending on the date on which the applicable transfer occurs,

by using the rates determined under section 6621(b) (plus 1 percentage point), and the method applicable under section 6621, for underpayments of tax for such period.

“(B) DUE DATE.—For purposes of this paragraph, the term ‘due date’ means, with respect to any preceding taxable year, the date prescribed by law (determined without regard to extensions) for filing the return of the tax imposed by this chapter for such taxable year.

“(c) SPECIAL RULE FOR TAXPAYERS WITH NET CAPITAL LOSSES.—

“(1) IN GENERAL.—If a taxpayer has a net capital loss for any taxable year for which there is an increase in tax under subsection (a)(2), such in-

1       crease in tax shall be reduced (but not below zero)  
 2       by the credit equivalent of such net capital loss.

3           “(2) CREDIT EQUIVALENT.—For purposes of  
 4       this subsection, the term ‘credit equivalent’ means,  
 5       with respect to any net capital loss for any taxable  
 6       year, an amount equal to such loss multiplied by the  
 7       rate of tax in effect under section 1(h)(1)(D) for  
 8       such taxable year.

9           “(3) COORDINATION WITH CARRYOVERS OF  
 10       LOSS.—For purposes of subsection (b) of section  
 11       1212, the net capital loss for a taxable year to which  
 12       paragraph (1) applies (determined without regard to  
 13       this subsection) shall be reduced (but not below  
 14       zero) by an amount equal to the amount of the re-  
 15       duction under paragraph (1) for such taxable year  
 16       divided by the rate of tax in effect under section  
 17       1(h)(1)(D) for such taxable year.

18       “(d) SPECIAL RULES FOR CERTAIN DIVIDEND DIS-  
 19       TRIBUTIONS.—

20           “(1) EXCESS DIVIDEND DISTRIBUTIONS.—

21           “(A) IN GENERAL.—For purposes of ap-  
 22       plying this section, any excess dividend shall be  
 23       treated as gain from an applicable transfer of  
 24       a nontradable covered asset occurring on the  
 25       date such dividend is received.

“(B) EXCESS DIVIDEND.—For purposes of this part, the term ‘excess dividend’ means, with respect to any nontradable covered asset which consists of stock in a C corporation, any dividend in respect of such stock received during any taxable year to the extent such dividend does not exceed its ratable portion of the total excess dividends (if any) for such taxable year.

“(C) TOTAL EXCESS DIVIDENDS.—For purposes of this paragraph—

“(i) IN GENERAL.—The term ‘total excess dividends’ means, with respect to stock in a C corporation described in subparagraph (B), the excess (if any) of—

“(I) the amount of the dividends in respect of such stock received by the taxpayer during the taxable year, over

“(II) 125 percent of the average amount of dividends received in respect of such stock by the taxpayer during the 3 preceding taxable years (or, if shorter, the portion of the taxpayer’s holding period before the taxable year).

1 “(ii) NO EXCESS FOR 1ST YEAR.—Ex-  
2 cept as provided by the Secretary, the total  
3 excess dividends with respect to any stock  
4 shall be zero for the taxable year in which  
5 the taxpayer’s holding period in such stock  
6 begins.

7 “(D) ADJUSTMENTS.—Under regulations  
8 prescribed by the Secretary—

9 “(i) determinations under this para-  
10 graph shall be made on a share-by-share  
11 basis, except that shares with the same  
12 holding period may be aggregated and  
13 other shares may be aggregated to the ex-  
14 tent provided by the Secretary,

15 “(ii) proper adjustments shall be  
16 made for stock splits and stock dividends,

17 “(iii) if the taxpayer does not hold the  
18 stock during the entire taxable year, divi-  
19 dends received during such year shall be  
20 annualized, and

21 “(iv) if the taxpayer’s holding period  
22 includes periods during which the stock  
23 was held by 1 or more other persons, divi-  
24 dends with respect to such stock received

1           by such other person shall be taken into  
2           account as if received by the taxpayer.

3           “(2) CAPITAL GAIN DIVIDENDS OF CERTAIN  
4       REITS.—

5           “(A) IN GENERAL.—For purposes of ap-  
6       plying this section, if an applicable taxpayer  
7       holds directly (or indirectly through 1 or more  
8       nontradable interests) stock in a real estate in-  
9       vestment trust which is a nontradable covered  
10      asset, any capital gain dividend received by  
11      such taxpayer from such entity shall be treated  
12      as gain from an applicable transfer of a  
13      nontradable covered asset occurring on the date  
14      such dividend is received.

15          “(B) REPORTING.—A real estate invest-  
16      ment trust shall include in the written notice  
17      for a capital gain dividend under section  
18      857(b)(3)(B) its holding period in the asset giv-  
19      ing rise to the capital gain dividend. The Sec-  
20      retary shall provide rules for the determination  
21      of holding periods in cases where the dividend  
22      is properly allocable to gain from more than 1  
23      asset.

24          “(3) HOLDING PERIOD.—Except as prescribed  
25      by the Secretary, if an applicable taxpayer is treated



1 under this subsection as receiving gain from an ap-  
2 plicable transfer of a nontradable covered asset, the  
3 taxpayer's holding period for purposes of computing  
4 the deferral recapture amount under this section  
5 shall be the taxpayer's holding period with respect to  
6 the stock or ownership interest in the entity to which  
7 paragraph (1) or (2) applies (or, if shorter, the hold-  
8 ing period included in the notice described in para-  
9 graph (2)(B) in the case of a capital gain dividend).  
10 “(e) HOLDING PERIOD.—For purposes of this sec-  
11 tion—

12 “(1) IN GENERAL.—The taxpayer's holding pe-  
13 riod shall be determined under section 1223, except  
14 that if a tradable covered asset of an applicable tax-  
15 payer is converted to, or exchanged for, a  
16 nontradable covered asset, such period shall only in-  
17 clude the period after the most recent taxable event  
18 under this part with respect to such tradable covered  
19 asset.

20 “(2) SECRETARIAL AUTHORITY.—The Secretary  
21 shall prescribe such regulations, rules, or guidance  
22 providing for other modifications to holding periods  
23 as may be necessary to carry out the purposes of  
24 this section.

1 **“SEC. 493. SPECIAL RULES FOR APPLICATION OF NON-**  
 2 **DEFERRAL RULES TO CERTAIN PASS-**  
 3 **THROUGH ENTITIES.**

4 “(a) TREATMENT OF OWNERSHIP INTERESTS IN AP-  
 5 PPLICABLE ENTITIES.—For purposes of applying this part,  
 6 except as provided in this section, any ownership interest  
 7 in an applicable entity held directly (or indirectly through  
 8 1 or more nontradable interests) by an applicable taxpayer  
 9 which is a tradable or nontradable covered asset shall be  
 10 treated in the same manner as any other such asset.

11 “(b) ADDITIONAL REQUIREMENTS FOR APPLICABLE  
 12 TAXPAYERS WHO ARE SIGNIFICANT OWNERS.—For pur-  
 13 poses of this part—

14 “(1) IN GENERAL.—In the case of any applica-  
 15 ble taxpayer which is a significant owner of an appli-  
 16 cable entity—

17 “(A) such taxpayer shall meet the report-  
 18 ing requirements under paragraph (2) with re-  
 19 spect to such entity, and

20 “(B) such taxpayer shall take into account  
 21 amounts with respect to such entity as required  
 22 under paragraph (3).

23 “(2) REPORTING REQUIREMENTS FOR SIGNIFI-  
 24 CANT OWNERS.—

25 “(A) NOTICE TO ENTITY OF STATUS.—

1 “(i) IN GENERAL.—In the case of the  
2 first taxable year for which a taxpayer—

3 “(I) is an applicable taxpayer,

4 “(II) is a significant owner of an  
5 applicable entity, and

6 “(III) holds directly a  
7 nontradable interest in such applicable  
8 entity,

9 such taxpayer shall, at such time and in  
10 such manner as the Secretary shall pre-  
11 scribe, notify such applicable entity that  
12 such taxpayer is a taxpayer meeting the  
13 requirements of subclauses (I), (II), and  
14 (III) and that the applicable entity is sub-  
15 ject to the notice requirements under sub-  
16 section (c) with respect to such taxpayer.  
17 Such taxpayer shall include with such no-  
18 tice such information as the Secretary may  
19 prescribe.

20 “(ii) PERIOD OF NOTICE.—Any notice  
21 provided by a taxpayer under clause (i)  
22 shall remain in effect, and such entity shall  
23 continue to be subject to the reporting re-  
24 quirements under subsection (c) with re-  
25 spect to such taxpayer, for the period spec-

ified by the Secretary. The Secretary may require additional reporting by the taxpayer for purposes of carrying out this clause.

“(B) REPORTING OF ELECTIONS TO TREAT NONTRADABLE INTERESTS AS TRADABLE ASSETS.—If—

“(i) section 496(a)(1) applies to an applicable taxpayer for any taxable year for which a notice with respect to such taxpayer is in effect under subparagraph (A), and

“(ii) the applicable taxpayer made the election under section 496(a)(3) to treat any nontradable interest in an applicable entity as a tradable covered asset for purposes of section 496(a)(1),

the applicable taxpayer shall, at such times and in such manner as the Secretary shall prescribe, report to such applicable entity notice of such election, the amount of gain described in section 496(c)(1) with respect to such treatment, and the requirement for the entity to make the basis adjustments described in section 496(c)(2).

1           “(3) CERTAIN GAIN OR LOSS OF APPLICABLE  
2 ENTITY TAKEN INTO ACCOUNT BY SIGNIFICANT  
3 OWNERS.—

4           “(A) IN GENERAL.—Each applicable tax-  
5 payer for which a notice with respect to such  
6 taxpayer is in effect under paragraph (2)(A) or  
7 subsection (c)(2) with respect to an applicable  
8 entity for any taxable year of the taxpayer  
9 shall, in computing the taxpayer’s tax liability  
10 under this chapter for such taxable year, take  
11 into account such taxpayer’s share of any gain  
12 or loss reported under subsection (c)(1)(A)(i) or  
13 (c)(1)(B)(i) to the taxpayer for any taxable year  
14 of such entity ending with or within such tax-  
15 able year of the taxpayer.

16           “(B) BASIS ADJUSTMENTS.—Under rules  
17 prescribed by the Secretary, if gain or loss is  
18 taken into account by an applicable taxpayer  
19 under subparagraph (A) with respect to any  
20 tradable covered asset by reason of the taxpayer  
21 holding a nontradable interest in an applicable  
22 entity—

23           “(i) the applicable entity’s adjusted  
24 basis of such asset (solely for purposes of

1           computing the taxpayer's share of such ad-  
 2           justed basis), and

3           “(ii) the taxpayer's adjusted basis of  
 4           such nontradable interest,

5           shall each be appropriately adjusted to reflect  
 6           gain or loss so taken into account. Such rules  
 7           shall also provide proper adjustments to ad-  
 8           justed bases where such ownership is held  
 9           through tiered entities.

10           “(C) SPECIAL RULES FOR DEFERRAL RE-  
 11           CAPTURE AMOUNT.—

12           “(i) HOLDING PERIOD.—Except as  
 13           prescribed by the Secretary, if an applica-  
 14           ble taxpayer takes into account gain under  
 15           subparagraph (A) for any taxable year  
 16           from an applicable transfer by such applica-  
 17           ble entity of a nontradable covered asset,  
 18           the taxpayer's holding period with respect  
 19           to such asset for purposes of computing  
 20           the deferral recapture amount under sec-  
 21           tion 492 shall be the shorter of—

22           “(I) the entity's holding period in  
 23           such asset, or

24           “(II) the taxpayer's holding pe-  
 25           riod in such entity.

1                   “(ii) OTHER RULES.—The Secretary  
2                   shall prescribe rules for purposes of this  
3                   section—

4                   “(I) for the treatment of frag-  
5                   mented holding periods,

6                   “(II) for the determination of  
7                   holding periods in the case of tiered  
8                   structures, and

9                   “(III) to prevent the shifting of  
10                  any deferral recapture amount be-  
11                  tween taxpayers holding ownership in-  
12                  terests in an applicable entity.

13               “(D) TAXPAYERS FAILING TO FILE NO-  
14               TICE.—Under rules required by the Secretary,  
15               if a taxpayer fails to file a notice with any ap-  
16               plicable entity as required under paragraph  
17               (2)(A), such taxpayer shall take into account, in  
18               computing the taxpayer’s tax liability under this  
19               chapter for any taxable year for which such no-  
20               tice (or a related notice under subsection (c)(2))  
21               would otherwise have been in effect, gain or loss  
22               described in subparagraph (A) which would  
23               have been reported if such notice had been  
24               filed.

1           “(4) SIGNIFICANT OWNER.—For purposes of  
2       this subsection—

3           “(A) IN GENERAL.—The term ‘significant  
4       owner’ means, with respect to any applicable  
5       entity, an applicable taxpayer who, at any time  
6       during the applicable taxpayer’s taxable year—

7           “(i) is a 5-percent owner with respect  
8       to such entity, or

9           “(ii) holds nontradable interests in  
10       such entity with an aggregate applicable  
11       value of greater than \$50,000,000.

12       “(B) 5-PERCENT OWNER.—

13           “(i) IN GENERAL.—The term ‘5-per-  
14       cent owner’ means, with respect to any ap-  
15       plicable entity, an applicable taxpayer who  
16       owns (or is considered as owning within  
17       the meaning of section 318) at least 5 per-  
18       cent of—

19           “(I) in the case of a corporation,  
20       the stock (by vote or value) in such  
21       corporation, or

22           “(II) in the case of an applicable  
23       entity other than a corporation, the  
24       capital or profits interests in such en-  
25       tity.



1                   “(ii) CONSTRUCTIVE OWNERSHIP  
2                   RULES.—For purposes of this subpara-  
3                   graph—

4                   “(I) subparagraph (C) of section  
5                   318(a)(2) shall be applied by sub-  
6                   stituting ‘5 percent’ for ‘50 percent’,  
7                   and

8                   “(II) in the case of an applicable  
9                   entity which is not a corporation,  
10                  ownership in such entity shall be de-  
11                  termined in accordance with regula-  
12                  tions prescribed by the Secretary  
13                  which shall be based on principles  
14                  similar to the principles of section 318  
15                  (as modified by subclause (I)).

16                  “(c) ADDITIONAL ENTITY REPORTING REQUIRE-  
17                  MENTS.—

18                  “(1) IN GENERAL.—Except as provided in para-  
19                  graph (4), an applicable entity for any taxable year  
20                  shall, at such times and in such manner as the Sec-  
21                  retary shall prescribe, report to each applicable tax-  
22                  payer with respect to which a notice is in effect  
23                  under subsection (b)(2)(A) or paragraph (2)—

24                  “(A) in the case of tradable covered assets  
25                  held by such entity, such taxpayer’s share of—

1 “(i) gain or loss determined by the en-  
 2 tity under rules similar to the rules under  
 3 section 491, and

4 “(ii) proper adjustments shall be  
 5 made in the amount of gain or loss subse-  
 6 quently realized for gain or loss taken into  
 7 account under clause (i),

8 “(B) in the case of nontradable covered as-  
 9 sets held by such entity—

10 “(i) such person’s share of any gain  
 11 or loss on any applicable transfer during  
 12 such taxable year of any such asset, and

13 “(ii) the holding period in each such  
 14 asset, and

15 “(C) such other information as the Sec-  
 16 retary determines necessary to carry out this  
 17 part.

18 “(2) NOTICE OF TAXPAYERS HOLDING INDI-  
 19 RECT INTERESTS IN OTHER APPLICABLE ENTI-  
 20 TIES.—

21 “(A) IN GENERAL.—Under rules pre-  
 22 scribed by the Secretary, except as provided in  
 23 subparagraph (B), if an applicable entity in a  
 24 tier of entities—

1 “(i) receives a notice under subsection  
2 (b)(2)(A) with respect to an applicable tax-  
3 payer, such entity shall notify each other  
4 applicable entity in which such applicable  
5 taxpayer holds, by reason of holding a  
6 nontradable interest in such entity, a  
7 nontradable interest in such other entity  
8 that the person holding such interest in  
9 such other entity is an applicable taxpayer  
10 with respect to which the notice require-  
11 ments of paragraph (1) apply to such other  
12 entity, or

13 “(ii) receives a notice under clause (i)  
14 or this clause, such entity shall notify each  
15 other applicable entity in which the appli-  
16 cable taxpayer holds, by reason of holding  
17 an interest in the entity receiving such no-  
18 tice, a nontradable interest in such other  
19 entity that the person holding such interest  
20 in such other entity is an applicable tax-  
21 payer with respect to which the notice re-  
22 quirements of paragraph (1) apply to such  
23 other entity.

24 Any such notice shall remain in effect, and any  
25 entity receiving such notice shall treat such tax-

1 payer as an applicable taxpayer, for the period  
2 specified by the Secretary. The Secretary may  
3 require additional reporting by such entities for  
4 purposes of carrying out this clause.

5 “(B) REQUIREMENT ONLY APPLIES IF AP-  
6 PLICABLE TAXPAYER IS SIGNIFICANT OWNER.—

7 An applicable entity shall be required to report  
8 under subparagraph (A) to another applicable  
9 entity only if the applicable taxpayer is a sig-  
10 nificant owner (within the meaning of sub-  
11 section (b)(4)) of such other entity, determined  
12 only by taking into account interests in such  
13 other entity which such applicable taxpayer  
14 holds by reason of its ownership interests in the  
15 entity otherwise required to report and such  
16 other ownership interests in such other entity  
17 as the Secretary may require to be taken into  
18 account to prevent the avoidance of the pur-  
19 poses of this part.

20 “(3) SPECIAL RULES FOR DISREGARDED NON-  
21 RECOGNITION EVENTS.—In the case of an applicable  
22 transfer of a nontradable covered asset of an appli-  
23 cable entity which is a disregarded nonrecognition  
24 event—

“(A) notwithstanding any other provision of this title, gain or loss shall be recognized and taken into account in the taxable year in which the transfer occurs as if the entity had sold the nontradable covered asset for its fair market value immediately before such transfer (or such other value as is determined as of such time under rules prescribed by the Secretary),

“(B) such entity shall report the amount of gain or loss required to be taken into account under subparagraph (A) to—

“(i) each applicable taxpayer with respect to which a notice is in effect which such entity has received under subsection (b)(1), and

“(ii) each other applicable entity from which it has received a notice under paragraph (2) with respect to such an applicable taxpayer, and

“(C) proper adjustments shall be made in the amount of gain or loss subsequently realized for gain or loss taken into account under subparagraph (A).

“(4) DELAY IN REPORTING REQUIREMENT.—

If—

1           “(A) a notice is received by an applicable  
 2           entity under subsection (b)(2)(A) or paragraph  
 3           (2) for any taxable year of the entity with re-  
 4           spect to any person holding directly (or indi-  
 5           rectly through 1 or more nontradable interests)  
 6           a nontradable interest in such entity, and

7           “(B) no notice is in effect with respect to  
 8           such person or any other person for the pre-  
 9           ceding taxable year,

10          then, except as provided by the Secretary, such no-  
 11          tice shall be treated as first taking effect for pur-  
 12          poses of this subsection, section 351(h), and section  
 13          1031(i) for the taxable year immediately following  
 14          the taxable year in which the notice is received. This  
 15          paragraph shall not apply to a notice described in  
 16          subparagraph (A) received by an applicable entity  
 17          from a person who was a significant owner (within  
 18          the meaning of subsection (b)(4)) of such entity (or  
 19          any predecessor entity) on the date of the enactment  
 20          of this part.

21          “(5) SECRETARIAL AUTHORITY.—In prescribing  
 22          rules for the application of this subsection, the Sec-  
 23          retary may provide—

24                 “(A) simplified methods for applicable en-  
 25                 tities to meet the requirements of this sub-

1 section, including the aggregation of gains and  
 2 losses where appropriate,

3 “(B) rules for determining a holder’s share  
 4 of amounts required to be reported by an appli-  
 5 cable entity under paragraph (1), and

6 “(C) any rules necessary to prevent the  
 7 avoidance of the purposes of this section, in-  
 8 cluding through the delay in the reporting re-  
 9 quirement under paragraph (4).

10 “(d) DEFINITIONS AND RULES RELATING TO APPLI-  
 11 CATION OF SECTION.—For purposes of this part—

12 “(1) APPLICABLE ENTITY.—The term ‘applica-  
 13 ble entity’ means any—

14 “(A) partnership,

15 “(B) S corporation, or

16 “(C) other pass-through entity specified in  
 17 regulations or guidance prescribed by the Sec-  
 18 retary.

19 “(2) ELECTION TO TREAT ENTITY AS APPLICA-  
 20 BLE TAXPAYER FOR TAXABLE EVENTS INVOLVING  
 21 TRADABLE ASSETS.—If an applicable entity elects  
 22 the application of this paragraph for any taxable  
 23 year—

24 “(A) this section shall not apply with re-  
 25 spect to any gain or loss in connection with a

1 taxable event involving any tradable covered  
 2 asset held directly (or indirectly through 1 or  
 3 more nontradable interests) by such entity, and

4 “(B) such entity shall be treated as an ap-  
 5 plicable taxpayer for purposes of applying sec-  
 6 tions 490(1) and 491 to such taxable event.

7 Such an election shall be made at such time and in  
 8 such manner as the Secretary may prescribe and,  
 9 once made, shall be irrevocable without the consent  
 10 of the Secretary.

11 “(e) NONTRADABLE INTEREST.—For purposes of  
 12 this part, the term ‘nontradable interest’ means any own-  
 13 ership interest in an applicable entity which is a  
 14 nontradable covered asset.

15 “(f) REGULATIONS AND GUIDANCE.—The Secretary  
 16 shall prescribe such regulations and guidance as are nec-  
 17 essary to carry out the provisions of this section, including  
 18 regulations or guidance necessary—

19 “(1) to prevent the use of pass-through entities  
 20 to avoid the purposes of this part, and

21 “(2) to simplify the application of this part.

22 **“SEC. 494. TREATMENT OF GIFTS, BEQUESTS, AND TRANS-**  
 23 **FERS IN TRUST.**

24 “(a) IN GENERAL.—



1           “(1) DEEMED SALE.—If any person described  
 2           in paragraph (3) transfers any covered asset by gift,  
 3           upon death, or in trust, such covered asset shall be  
 4           treated as sold by such person for its fair market  
 5           value to the transferee on the date of such gift,  
 6           death, or transfer.

7           “(2) NO RECOGNITION FOR LOSSES ON TRANS-  
 8           FERS BY GIFT OR IN TRUST.—

9           “(A) IN GENERAL.—No loss shall be recog-  
 10          nized with respect to any covered asset which is  
 11          treated as sold under subsection (a) by reason  
 12          of a transfer by gift or in trust.

13          “(B) AMOUNT OF GAIN FOR TRANS-  
 14          FEREE.—If a loss is not recognized by the  
 15          transferor by reason of subparagraph (A) and  
 16          the transferee sells or otherwise disposes of the  
 17          covered asset (or of other property the basis of  
 18          which in the taxpayer’s hands is determined di-  
 19          rectly or indirectly by reference to such prop-  
 20          erty) at a gain, then such gain shall be recog-  
 21          nized only to the extent that it exceeds so much  
 22          of such loss as is properly allocable to the cov-  
 23          ered asset sold or otherwise disposed of by the  
 24          transferee.

1           “(3) PERSON DESCRIBED.—A person is de-  
2       scribed in this section if such person is—

3           “(A) an individual who is an applicable  
4       taxpayer for the taxable year in which the  
5       transfer is made, or

6           “(B) an applicable entity with respect to  
7       which a notice received by the entity under sub-  
8       section (b)(2)(A) or (c)(2) of section 493 is in  
9       effect at the time of such transfer.

10       “(b) SPECIAL RULES FOR CERTAIN GRANTOR  
11   TRUSTS.—

12           “(1) TRANSFERS OF NONTRADABLE COVERED  
13   ASSETS INTO CERTAIN GRANTOR TRUSTS.—For pur-  
14   poses of applying this section to any transfer in  
15   trust, except as otherwise provided in this para-  
16   graph, any transfer of a nontradable covered asset  
17   from the person treated as the owner of an applica-  
18   ble grantor trust (other than a grantor trust which  
19   is a wholly revocable trust) to such trust shall be  
20   treated as a transfer to which subsection (a) applies.

21           “(2) DEEMED DISTRIBUTIONS.—In the case of  
22   any applicable grantor trust, any property held by  
23   such trust shall be treated as transferred by the  
24   owner in a transfer to which subsection (a) ap-  
25   plies—

1 “(A) on any date that—

2 “(i) the owner ceases to be treated as  
3 the owner under this chapter,

4 “(ii) such property is distributed to  
5 any person other than the owner, or

6 “(iii) the property would no longer be  
7 included in the owner’s gross estate under  
8 chapter 11, or

9 “(B) on the date of the death of the owner.

10 “(3) APPLICABLE GRANTOR TRUST.—For pur-  
11 poses of this subsection—

12 “(A) IN GENERAL.—The term ‘applicable  
13 grantor trust’ means the portion of any trust  
14 with respect to which an applicable taxpayer is  
15 considered the owner under subpart E of part  
16 I of subchapter J.

17 “(B) EXCEPTIONS.—The Secretary shall  
18 provide for appropriate exceptions to the treat-  
19 ment of categories of trusts as applicable grant-  
20 or trusts under subparagraph (A), including ar-  
21 rangements which are ordinarily used in the  
22 course of a trade or business, employee benefit  
23 arrangements, and arrangements for  
24 securitization transactions.

25 “(c) EXCEPTIONS.—

1 “(1) SPOUSAL EXCEPTION.—

2 “(A) IN GENERAL.—Subsection (a) shall  
3 not apply to any transfer if such transfer—

4 “(i) is—

5 “(I) made to the spouse or the  
6 surviving spouse of the transferor, or

7 “(II) made to a former spouse of  
8 the transferor if the transfer is inci-  
9 dent to divorce, or

10 “(ii) is a transfer of qualified ter-  
11 minable interest property or of property to  
12 which section 2056(b)(5) or 2523(e) ap-  
13 plies.

14 “(B) CERTAIN REMAINDER INTERESTS  
15 TREATED AS TRANSFERRED BY SPOUSE.—Prop-  
16 erty described in subparagraph (A)(ii) shall be  
17 treated as sold by the spouse or surviving  
18 spouse on the earlier of the date of the disposi-  
19 tion of such property by such spouse or sur-  
20 viving spouse or the date of the death of such  
21 spouse or surviving spouse.

22 “(C) QUALIFIED TERMINABLE INTEREST  
23 PROPERTY.—For purposes of this paragraph,  
24 the term ‘qualified terminable interest property’

1 means any property described in section  
 2 2056(b)(7) or 2523(f)(2).

3 “(D) DISALLOWANCE OF SPOUSAL EXCEP-  
 4 TION WHERE SPOUSE OR SURVIVING SPOUSE  
 5 NOT UNITED STATES CITIZEN OR LONG-TERM  
 6 RESIDENT.—

7 “(i) IN GENERAL.—Subparagraph (A)  
 8 shall not apply if the spouse or surviving  
 9 spouse of the decedent is not a citizen or  
 10 long-term resident of the United States.

11 “(ii) LONG-TERM RESIDENT.—For  
 12 purposes of clause (i), the term ‘long-term  
 13 resident’ means any individual (other than  
 14 a citizen of the United States) who is a  
 15 lawful permanent resident of the United  
 16 States—

17 “(I) for the taxable year in which  
 18 the transfer described in subsection  
 19 (a) occurs, and

20 “(II) in at least 8 taxable years  
 21 during the period of 15 taxable years  
 22 ending with the taxable year during  
 23 which the transfer described in sub-  
 24 section (a) or (b)(1) occurs.

For purposes of the preceding sentence, an individual shall not be treated as a lawful permanent resident for any taxable year if such individual is treated as a resident of a foreign country for the taxable year under the provisions of a tax treaty between the United States and the foreign country and does not waive the benefits of such treaty applicable to residents of the foreign country.

“(2) GIFTS AND BEQUESTS TO CHARITY.—

“(A) IN GENERAL.—Subsection (a) shall not apply to any transfer if such transfer is made to or for the use of an organization described in section 170(c).

“(B) SPECIAL RULE FOR SPLIT-INTEREST TRUSTS.—In the case of any transfer—

“(i) to a charitable remainder annuity trust (as defined in section 664) or a charitable remainder unitrust (as defined in section 664), or

“(ii) of an interest described in section 170(f)(2)(B),

1 subsection (a) shall not apply to the portion of  
 2 such transfer which is to or for the use of an  
 3 organization described in section 170(c).

4 “(C) SPECIAL RULE FOR POOLED INCOME  
 5 FUNDS.—In the case of any transfer to a pooled  
 6 income fund (as defined in section 642(c)(5)),  
 7 subsection (a) shall not apply to the portion of  
 8 such transfer which is to or for the use of an  
 9 organization described in section 170(b)(1)(A)  
 10 (other than in clauses (vii) or (viii)).

11 “(3) QUALIFIED DISABILITY TRUSTS AND CEM-  
 12 ETERY PERPETUAL CARE FUNDS.—Subsection (a)  
 13 shall not apply to transfers to any qualified dis-  
 14 ability trust (as defined in section 642(b)(2)(C)(ii))  
 15 or to transfers to any cemetery perpetual care fund  
 16 described in section 642(i).

17 “(d) BASIS OF TRANSFEREE.—

18 “(1) IN GENERAL.—Notwithstanding sections  
 19 1014 and 1015, to the extent that subsection (a) ap-  
 20 plies to any transfer of property—

21 “(A) except as provided in subparagraph  
 22 (B), the basis of the property in the hands of  
 23 the transferee shall be the fair market value of  
 24 the property (consistent with the amount taken

1 into account by the transferor under subsection  
 2 (a)), and

3 “(B) in the case such transfer is a transfer  
 4 upon death to any individual described in sub-  
 5 section (c)(1)(A)(i), the basis of the property in  
 6 the hands of the transferee shall be the same as  
 7 it would be in the hands of the transferor, ex-  
 8 cept that if such basis (adjusted for the period  
 9 before the date of the transfer as provided in  
 10 section 1016) is greater than the fair market  
 11 value of the property at the time of death, then  
 12 for the purpose of determining loss the basis  
 13 shall be such fair market value.

14 “(2) CONSISTENT BASIS RULES FOR TRANS-  
 15 FERS BY DEATH.—In the case of any transfer upon  
 16 death, rules similar to section 1014(f) shall apply for  
 17 purposes of this section.

18 “(e) APPLICATION OF DEPRECIATION RECAPTURE  
 19 RULES.—Paragraphs (1) and (2) of section 1245(b) and  
 20 paragraphs (1) and (2) of section 1250(d) shall not apply  
 21 to any property treated as sold by reason of subsection  
 22 (a).

23 **“Subpart B—Definitions and Rules Relating to**  
 24 **Applicable Taxpayers**

“Sec. 495. Applicable taxpayer defined.

“Sec. 496. Special rules for taxpayers entering or changing status as applicable  
 taxpayers.



1 **“SEC. 495. APPLICABLE TAXPAYER DEFINED.**

2 “(a) IN GENERAL.—For purposes of this part—

3 “(1) IN GENERAL.—The term ‘applicable tax-  
4 payer’ means, with respect to any taxable year, any  
5 taxpayer—

6 “(A) which is an individual who met either  
7 the income test of paragraph (2) or the asset  
8 test of paragraph (3) for each of the 3 imme-  
9 diately preceding taxable years (including tax-  
10 able years beginning before the date of the en-  
11 actment of this part which are included in any  
12 such 3-taxable-year period), or

13 “(B) which is—

14 “(i) an applicable trust, or

15 “(ii) the estate of an individual who  
16 was an applicable taxpayer for any taxable  
17 year during the 4-taxable-year period end-  
18 ing with the taxable year in which the indi-  
19 vidual died.

20 “(2) INCOME TEST.—The requirements of this  
21 paragraph are met for any taxable year if the appli-  
22 cable adjusted gross income of the taxpayer for the  
23 taxable year exceeds \$100,000,000 (\$50,000,000 in  
24 the case of a married individual filing separately).

25 “(3) ASSET TEST.—The requirements of this  
26 paragraph are met for any taxable year if the aggre-

gate applicable value of all tradable and nontradable covered assets held by the taxpayer as of the close of the taxable year exceeds \$1,000,000,000 (\$500,000,000 in the case of a married individual filing separately).

“(4) SPECIAL RULES RELATING TO APPLICABLE TAXPAYER STATUS.—

“(A) TERMINATION OF STATUS OF INDIVIDUAL TAXPAYERS.—A taxpayer who is treated as an applicable taxpayer under paragraph (1)(A) for any taxable year shall continue to be so treated until the first taxable year with respect to which—

“(i) the taxpayer does not, for each of the 3 taxable years immediately preceding such taxable year, meet either—

“(I) the income test of paragraph (2) in effect for such preceding taxable year, or

“(II) the asset test of paragraph (3) in effect for such preceding taxable year,

except that each such paragraph shall be applied for purposes of this clause by substituting an amount equal to one-half of

the dollar amount otherwise in effect for such taxpayer under such paragraph for each such preceding taxable year for such dollar amount, and

“(ii) the taxpayer elects, in such manner and form and at such time as the Secretary may prescribe, not to be so treated for such first taxable year.

“(B) EARLIER TERMINATION ELECTION OF APPLICABLE TAXPAYER STATUS FOR DIVORCED INDIVIDUALS.—If—

“(i) an applicable taxpayer ceases to be a married individual by reason of a decree of divorce or separate maintenance issued during any taxable year, and

“(ii) such taxpayer, for the first taxable year following the taxable year described in clause (i), does not meet either—

“(I) the income test of paragraph (2), except that such paragraph shall be applied for purposes of this subclause by substituting ‘\$1,000,000’ for the dollar amount otherwise in ef-

1                   fect for such taxpayer under such  
2                   paragraph, or

3                   “(II) the asset test of paragraph  
4                   (3), except that such paragraph shall  
5                   be applied for purposes of this sub-  
6                   clause by substituting ‘\$10,000,000’  
7                   for the dollar amount otherwise in ef-  
8                   fect for such taxpayer under such  
9                   paragraph,

10                  then such taxpayer may elect, in such manner  
11                  and form and at such time as the Secretary  
12                  may prescribe, not to be treated as an applica-  
13                  ble taxpayer beginning with such first taxable  
14                  year.

15                  “(C) ELECTION.—An election under sub-  
16                  paragraph (A) or (B)—

17                         “(i) shall be made with the taxpayer’s  
18                         return of tax for the taxable year to which  
19                         such election first applies (or such other  
20                         time as the Secretary shall prescribe) and  
21                         shall be in such form and manner as the  
22                         Secretary may prescribe, and

23                         “(ii) shall apply to such first taxable  
24                         year and all subsequent taxable years until  
25                         the first taxable year for which the tax-

1           payer is again treated as an applicable tax-  
 2           payer by reason of meeting the require-  
 3           ments of paragraph (1)(A).

4           “(5) SPECIAL RULES FOR MARRIED INDIVID-  
 5           UALS.—

6           “(A) APPLICABLE TAXPAYERS BECOMING  
 7           MARRIED INDIVIDUALS.—If an individual was  
 8           an applicable taxpayer for the taxable year be-  
 9           fore the individual became a married individual  
 10          (within the meaning of section 7703), such indi-  
 11          vidual and the individual’s spouse shall be  
 12          treated as applicable taxpayers for such taxable  
 13          year of marriage and subsequent taxable years  
 14          until such status is otherwise terminated under  
 15          this section.

16          “(B) MARRIED INDIVIDUALS FILING SEPA-  
 17          RATELY.—If a married individual filing sepa-  
 18          rately is treated as an applicable taxpayer for  
 19          any taxable year, such individual’s spouse shall  
 20          be treated as an applicable taxpayer for such  
 21          taxable year.

22          “(C) FIRST-YEAR ELECTIONS.—Under  
 23          rules prescribed by the Secretary, if an indi-  
 24          vidual is first treated as an applicable taxpayer  
 25          for a taxable year by reason of the application

1 of subparagraph (A) or (B), section 496 shall  
2 apply to such taxpayer for such first taxable  
3 year only with respect to assets held separately  
4 by such individual unless such taxable year is  
5 also the first taxable year for which the individ-  
6 ual's spouse is an applicable taxpayer.

7 “(6) REGULATORY AUTHORITY.—The Secretary  
8 shall prescribe such regulations and guidance as may  
9 be necessary to carry out the provisions of this sub-  
10 section, including—

11 “(A) rules waiving the application of para-  
12 graph (5)(B) in cases where the Secretary de-  
13 termines equitable relief is appropriate,

14 “(B) rules providing for the application of  
15 this subsection in cases where the filing status  
16 of a taxpayer changes between any taxable year  
17 and any of the 3 immediately preceding taxable  
18 years, including the first taxable year in which  
19 a taxpayer files a joint return after becoming  
20 married, and

21 “(C) rules requiring such information re-  
22 porting as the Secretary determines necessary  
23 to determine whether a taxpayer is an applica-  
24 ble taxpayer.

1       “(b) APPLICABLE ADJUSTED GROSS INCOME.—For  
 2 purposes of this section, the term ‘applicable adjusted  
 3 gross income’ means modified adjusted gross income as  
 4 defined in section 36B(d)(2)(B), except that—

5               “(1) clause (i) thereof shall be applied by sub-  
 6 stituting ‘sections 911, 931, and 933’ for ‘section  
 7 911’, and

8               “(2) in the case of a trust, no deduction under  
 9 section 651 or 661 shall be allowed.

10       “(c) APPLICABLE TRUST.—For purposes of this sec-  
 11 tion—

12               “(1) IN GENERAL.—The term ‘applicable trust’  
 13 means a trust (other than a grantor trust) which,  
 14 for each of the 3 taxable years immediately pre-  
 15 ceding such taxable year (including taxable years be-  
 16 ginning before the date of the enactment of this part  
 17 which are included in any such 3-taxable-year pe-  
 18 riod), meets either—

19                       “(A) the income test of subsection (a)(2),  
 20 except that such subsection shall be applied for  
 21 purposes of this subparagraph by substituting  
 22 ‘\$10,000,000’ for the dollar amount otherwise  
 23 in effect for such taxable year under such para-  
 24 graph, or

1           “(B) the asset test of subsection (a)(3), ex-  
 2           cept that such subsection shall be applied for  
 3           purposes of this subparagraph by substituting  
 4           ‘\$100,000,000’ for the dollar amount otherwise  
 5           in effect for such taxable year under such para-  
 6           graph.

7           “(2) EXCEPTIONS.—Such term shall not in-  
 8           clude—

9           “(A) a qualified disability trust (as defined  
 10          in section 642(b)(2)(C)(ii)),

11          “(B) any portion of a trust which consists  
 12          of property permanently set aside for the exclu-  
 13          sive use of an organization described in section  
 14          170(c),

15          “(C) a pooled income fund (as defined in  
 16          section 642(c)(5)) or a cemetery perpetual care  
 17          fund (as described in section 642(i)),

18          “(D) a settlement trust (as defined in sec-  
 19          tion 646),

20          “(E) any charitable remainder annuity  
 21          trust (as defined in section 664),

22          “(F) any charitable remainder unitrust (as  
 23          defined in section 664), or



1           “(G) any other category of trust identified  
2           in regulations or guidance provided by the Sec-  
3           retary.

4           “(3) GRANTOR TRUSTS.—

5           “(A) GRANTOR TRUST DEFINED.—For  
6           purposes of this section, the term ‘grantor  
7           trust’ means any portion of a trust with respect  
8           to which the grantor or any other person is con-  
9           sidered the owner under subpart E of part I of  
10          subchapter J.

11          “(B) ASSETS OF GRANTOR TRUST TAKEN  
12          INTO ACCOUNT.—For purposes of subsection  
13          (a)(1)(A), the assets of a grantor trust shall be  
14          included in the assets of—

15                 “(i) the grantor of such trust if the  
16                 grantor is considered the owner of such as-  
17                 sets, and

18                 “(ii) if a person other than the grant-  
19                 or is considered the owner of such assets,  
20                 both the grantor and such person.

21          “(d) SPECIAL RULES FOR FOREIGN PERSONS AND  
22          EXPATRIATES.—For purposes of this part—

23                 “(1) NONRESIDENT ALIEN INDIVIDUALS.—The  
24          following rules shall apply in determining whether a

1 nonresident alien individual is an applicable tax-  
2 payer:

3 “(A) INCOME TEST.—For purposes of the  
4 income test under subsection (a)(2)—

5 “(i) such subsection shall be applied  
6 for purposes of this subparagraph by sub-  
7 stituting ‘\$50,000,000’ for the dollar  
8 amount otherwise in effect for such taxable  
9 year under such paragraph, and

10 “(ii) the applicable adjusted gross in-  
11 come of such individual shall be equal to  
12 the taxable income of such individual, de-  
13 termined by only taking into account items  
14 of income, gain, deduction, and loss which  
15 are effectively connected with the conduct  
16 of trades or businesses within the United  
17 States.

18 “(B) ASSET TEST.—For purposes of the  
19 asset test under subsection (a)(3)—

20 “(i) such subsection shall be applied  
21 for purposes of this subparagraph by sub-  
22 stituting ‘\$500,000,000’ for the dollar  
23 amount otherwise in effect for such taxable  
24 year under such paragraph, and

1 “(ii) only assets which produce income  
 2 described in subparagraph (A) shall be  
 3 taken into account.

4 “(2) EXPATRIATES.—

5 “(A) IN GENERAL.—If, for the taxable  
 6 year which includes a covered expatriate’s expa-  
 7 triation date, such expatriate—

8 “(i) was an applicable taxpayer (with-  
 9 out regard to this paragraph), or

10 “(ii) is an applicable taxpayer under  
 11 the rules of subparagraph (B),

12 such expatriate shall be treated as an applicable  
 13 taxpayer during each of the taxable years dur-  
 14 ing the 10-taxable-year period beginning with  
 15 such taxable year (and such status shall not be  
 16 terminated during such period by reason of any  
 17 other provision of this part).

18 “(B) SPECIAL RULES FOR DETERMINING  
 19 STATUS.—For purposes of subparagraph  
 20 (A)(ii), a covered expatriate not otherwise treat-  
 21 ed as an applicable taxpayer shall be treated as  
 22 an applicable taxpayer if, during any of the 5  
 23 taxable years immediately preceding the taxable  
 24 year which includes the covered expatriate’s ex-  
 25 patriation date (including taxable years begin-

ning before the date of the enactment of this part which are included in any such 5-taxable-year period), the expatriate meets either—

“(i) the income test of subsection (a)(2), except that such subsection shall be applied for purposes of this subparagraph by substituting ‘\$50,000,000’ for the dollar amount otherwise in effect for such taxable year under such paragraph, or

“(ii) the asset test of subsection (a)(3), except that such subsection shall be applied for purposes of this subparagraph by substituting ‘\$500,000,000’ for the dollar amount otherwise in effect for such taxable year under such paragraph.

“(C) DEFINITIONS.—Any term used in this paragraph which is also used in section 877A shall have the same meaning as when used in such section.

**“SEC. 496. SPECIAL RULES FOR TAXPAYERS ENTERING OR  
CHANGING STATUS AS APPLICABLE TAX-  
PAYERS.**

“(a) INITIAL TREATMENT AS APPLICABLE TAX-  
PAYER.—

1           “(1) IN GENERAL.—In the case of the first tax-  
 2           able year for which a taxpayer is an applicable tax-  
 3           payer—

4                   “(A) the taxpayer may make the election  
 5                   under paragraph (3) with respect to  
 6                   nontradable covered assets, and

7                   “(B) if the taxpayer elects the application  
 8                   of this subparagraph, the net first-year tax li-  
 9                   ability of the taxpayer for such taxable year  
 10                  shall be payable in 5 equal annual installments  
 11                  over the 5-taxable-year period beginning with  
 12                  such taxable year.

13           “(2) NET FIRST-YEAR TAX LIABILITY.—For  
 14           purposes of this section—

15                   “(A) IN GENERAL.—The term ‘net first-  
 16                   year tax liability’ means, with respect to the  
 17                   first taxable year described in paragraph (1),  
 18                   the excess (if any) of—

19                           “(i) such taxpayer’s net income tax  
 20                           for such taxable year, over

21                           “(ii) such taxpayer’s net income tax  
 22                           for such taxable year determined without  
 23                           regard to gain or loss of the taxpayer  
 24                           taken into account for such taxable year by

1           reason of a taxable event described in sec-  
2           tion 491(b)(1).

3           “(B) NET INCOME TAX.—The term ‘net  
4           income tax’ means the regular tax liability re-  
5           duced by the credits allowed under subparts A,  
6           B, and D of part IV of subchapter A.

7           “(3) ELECTION TO PAY AND DEFER TAX ON  
8           NONTRADABLE ASSETS.—

9           “(A) IN GENERAL.—Except as provided in  
10          subparagraph (C), a taxpayer may elect to treat  
11          any nontradable covered asset held by the tax-  
12          payer as of the end of the first taxable year de-  
13          scribed in paragraph (1) as a tradable covered  
14          asset for purposes of applying section 491(b)(1)  
15          and this subsection.

16          “(B) DETERMINATION OF GAIN.—

17          “(i) IN GENERAL.—For purposes of  
18          applying section 491(a)(1)(A), the fair  
19          market value of any asset with respect to  
20          which an election is in effect under sub-  
21          paragraph (A) shall be the amount speci-  
22          fied by the taxpayer in such election, ex-  
23          cept that such value may not, unless other-  
24          wise provided by the Secretary, be less  
25          than the taxpayer’s adjusted basis in such

1           asset as of the end of the first taxable year  
2           described in paragraph (1).

3           “(ii) NO DEDUCTIONS OR CREDITS  
4           FOR BASIS INCREASES.—If there is any in-  
5           crease under this part in the taxpayer’s ad-  
6           justed basis of any asset by reason of an  
7           election under this paragraph, no deduc-  
8           tion or credit shall be allowed under this  
9           title with respect to the portion of such ad-  
10          justed basis attributable to such increase.

11          “(C) ONLY SIGNIFICANT OWNER OF APPLI-  
12          CABLE ENTITY MAY ELECT.—In the case of a  
13          nontradable covered asset which is a  
14          nontradable interest in an applicable entity, an  
15          applicable taxpayer may make an election under  
16          subparagraph (A) with respect to such asset  
17          only if such taxpayer is a significant owner (as  
18          defined in section 493(b)(4)(A)) of such entity  
19          with respect to whom a notice is in effect under  
20          section 493(b)(2)(A) for the taxable year for  
21          which the election is being made.

22          “(4) SPECIAL RULE WHERE DELAY IN REPORT-  
23          ING BY APPLICABLE ENTITY.—

24          “(A) IN GENERAL.—If—

1 “(i) there is a delay in reporting to an  
2 applicable taxpayer by 1 or more applicable  
3 entities by reason of section 493(c)(4), and

4 “(ii) any gain or loss is reported by  
5 such entities to such taxpayer under sec-  
6 tion 493(c)(1)(A)(i) and is taken into ac-  
7 count in such taxpayer’s taxable year im-  
8 mediately succeeding the first taxable year  
9 described in paragraph (1),

10 then, subject to such rules as the Secretary may  
11 prescribe, the taxpayer may elect under para-  
12 graph (1)(B) to treat the net tax liability de-  
13 scribed in subparagraph (B) as net first-year  
14 tax liability payable in 5 equal annual install-  
15 ments beginning with such succeeding taxable  
16 year. The rules of paragraph (5) shall apply to  
17 such installments in the same manner as such  
18 rules apply to installments for such first taxable  
19 year.

20 “(B) NET TAX LIABILITY.—For purposes  
21 of subparagraph (A), the net tax liability de-  
22 scribed in this subparagraph is, with respect to  
23 the taxable year described in such subpara-  
24 graph, the excess (if any) of—



1 “(i) such taxpayer’s net income tax  
2 for such taxable year, over

3 “(ii) such taxpayer’s net income tax  
4 for such taxable year determined without  
5 regard to gain or loss of the taxpayer de-  
6 scribed in subparagraph (A)(ii).

7 “(5) RULES RELATING TO INSTALLMENT PAY-  
8 MENTS.—

9 “(A) DATE FOR PAYMENT OF INSTALL-  
10 MENTS.—If an election is made under para-  
11 graph (1), the first installment shall be paid on  
12 the due date (determined without regard to any  
13 extension of time for filing the return) for the  
14 return of tax for the first taxable year described  
15 in paragraph (1) and each succeeding install-  
16 ment shall be paid on the due date (as so deter-  
17 mined) for the return of tax for the taxable  
18 year following the taxable year with respect to  
19 which the preceding installment was made.

20 “(B) ACCELERATION OF PAYMENT.—

21 “(i) DISPOSITION OF ASSETS.—

22 “(I) IN GENERAL.—If, before the  
23 close of the 5-year period described in  
24 paragraph (1), a taxpayer sells or ex-  
25 changes, transfers, or otherwise dis-

poses of an asset with respect to which an election is in effect under paragraph (1)(B), then the applicable percentage of the unpaid portion of all remaining installments described in paragraph (1)(B) shall be due on the date of such disposition (or such later date as the Secretary may prescribe).

“(II) APPLICABLE PERCENTAGE.—For purposes of this subparagraph, the applicable percentage is the percentage determined by dividing the gain not taken into account in determining net income tax under paragraph (2)(A)(ii) with respect to the asset described in subclause (I) by the aggregate amount of all gain not so taken into account.

“(ii) FAILURE TO PAY, ETC.—In the case of an addition to tax for failure to timely pay any installment required under this subsection, the death of the taxpayer, or the filing of a petition by the taxpayer in a title 11 or similar case, then the unpaid portion of all remaining installments

1           shall be due on the date of such event (or  
2           in the case of a title 11 or similar case, the  
3           day before the petition is filed).

4           “(C) PRORATION OF DEFICIENCY TO IN-  
5           STALLMENTS.—If an election is made under  
6           paragraph (1) to pay the net first-year tax li-  
7           ability under this section in installments and a  
8           deficiency has been assessed with respect to  
9           such net tax liability, the deficiency shall be  
10          prorated to the installments payable under  
11          paragraph (1). The part of the deficiency so  
12          prorated to any installment the date for pay-  
13          ment of which has not arrived shall be collected  
14          at the same time as, and as a part of, such in-  
15          stallment. The part of the deficiency so pro-  
16          rated to any installment the date for payment  
17          of which has arrived shall be paid upon notice  
18          and demand from the Secretary. This sub-  
19          section shall not apply if the deficiency is due  
20          to negligence, to intentional disregard of rules  
21          and regulations, or to fraud.

22          “(D) INSTALLMENTS NOT TO PREVENT  
23          CREDIT OR REFUND OF OVERPAYMENTS OR IN-  
24          CREASE ESTIMATED TAXES.—If an election is  
25          made under paragraph (1) to pay the net first-

1           year tax liability under this subsection in in-  
2           stallments—

3                   “(i) no installment of such liability  
4                   shall—

5                           “(I) in the case of a request for  
6                           credit or refund, be taken into ac-  
7                           count as a liability for purposes of de-  
8                           termining whether an overpayment ex-  
9                           ists for purposes of section 6402 be-  
10                          fore the date on which such install-  
11                          ment is due, or

12                           “(II) be treated as a tax imposed  
13                          by section 1 for purposes of section  
14                          6654, and

15                          “(ii) the first sentence of section 6403  
16                          shall not apply with respect to any such in-  
17                          stallment.

18           “(6) ELECTIONS.—

19                   “(A) IN GENERAL.—Any election under  
20                   paragraph (1), (3)(A), or (4)(A) shall be made  
21                   not later than the due date for the return of tax  
22                   for the first taxable year described in paragraph  
23                   (1) and shall be made in such manner as the  
24                   Secretary shall provide.

1           “(B) EXTENSIONS.—The Secretary shall  
2           by regulation prescribe such circumstances and  
3           procedures under which extensions of time will  
4           be granted to make any election under para-  
5           graph (1), (3)(A), or (4)(A). In determining  
6           whether to grant relief under this subpara-  
7           graph, the Secretary shall take into account all  
8           relevant circumstances and the time for making  
9           the election shall be treated as not expressly  
10          provided by statute.

11          “(b) TREATMENT OF TAXPAYERS LEAVING AND RE-  
12          ENTERING APPLICABLE STATUS.—If a taxpayer’s status  
13          as an applicable taxpayer is terminated under section  
14          495(a)(4) and the taxpayer is again treated as an applica-  
15          ble taxpayer for a subsequent taxable year by reason of  
16          meeting the requirements of section 495(a)(1)(A), the fol-  
17          lowing rules shall apply:

18               “(1) SUBSEQUENT YEAR NOT TREATED AS  
19               FIRST YEAR OF APPLICABLE TAXPAYER STATUS.—  
20               Subsection (a) shall not apply to any taxable year in  
21               which the taxpayer is again treated as an applicable  
22               taxpayer and such subsequent taxable year shall not  
23               be treated as the first taxable year for which the  
24               taxpayer is an applicable taxpayer for any other pur-  
25               pose of this part.

1           “(2) NONTRADABLE ASSETS.—If there is an  
 2           applicable transfer by a taxpayer of a nontradable  
 3           covered asset after the taxpayer is again treated as  
 4           an applicable taxpayer, the taxpayer’s holding period  
 5           of such asset for purposes of section 492 shall in-  
 6           clude all periods during which the taxpayer’s status  
 7           as an applicable taxpayer was previously terminated  
 8           and the taxpayer held such asset.

9           “(c) SPECIAL RULES RELATING TO OWNERSHIP OF  
 10          NONTRADABLE INTERESTS IN APPLICABLE ENTITIES.—

11           “(1) IN GENERAL.—For purposes of subsection  
 12          (a), if an applicable taxpayer elects under subsection  
 13          (a)(3) to treat a nontradable interest in an applica-  
 14          ble entity held directly as a tradable covered asset  
 15          for the first taxable year described in subsection  
 16          (a)(1), the amount of the gain taken into account  
 17          under subsection (a) with respect to such interest  
 18          shall be equal to the excess (if any) of—

19                   “(A) the value of such interest specified by  
 20                   the taxpayer under subsection (a)(3)(B), over

21                   “(B) the taxpayer’s adjusted basis in such  
 22                   interest as of the close of such taxable year.

23           “(2) ADJUSTMENTS TO BASES OF ENTITY’S  
 24          NONTRADABLE ASSETS.—

25                   “(A) PARTNERSHIPS.—

1           “(i) IN GENERAL.—If the applicable  
 2           entity is a partnership, the partnership  
 3           shall increase the adjusted bases of the  
 4           partnership’s assets by the amount de-  
 5           scribed in paragraph (1). Such increase  
 6           shall constitute an adjustment to the bases  
 7           of partnership assets solely for determining  
 8           the applicable taxpayer’s share of such  
 9           bases.

10           “(ii) ALLOCATION.—The Secretary  
 11           shall prescribe rules for the allocation of  
 12           the increase in adjusted bases among part-  
 13           nership assets in a manner which has the  
 14           effect of reducing the difference between  
 15           the value and such adjusted bases. Such  
 16           rules shall also provide proper adjustments  
 17           to adjusted bases where ownership is held  
 18           through tiered entities.

19           “(B) OTHER APPLICABLE ENTITIES.—  
 20           Rules similar to the rules of clause (i) shall  
 21           apply to applicable entities other than partner-  
 22           ships.

23           “(C) NO DEDUCTIONS OR CREDITS FOR  
 24           BASIS INCREASES.—If there is any increase in  
 25           the applicable entity’s adjusted basis of any

1           asset by reason of subparagraph (A), no deduc-  
 2           tion or credit shall be allowed under this title  
 3           with respect to the portion of such adjusted  
 4           basis attributable to such increase.

5           “(3) DEFINITIONS.—Any term used in this sub-  
 6           section which is also used in section 493 shall have  
 7           the same meaning as when used in such section.

8           “(d) SPECIAL ELECTION FOR CERTAIN TRADABLE  
 9           ASSETS OF APPLICABLE TAXPAYERS.—

10           “(1) IN GENERAL.—If a qualified taxpayer  
 11           makes an election under this subsection, then any  
 12           stock held by such qualified taxpayer which would  
 13           (but for such election) be a tradable covered asset  
 14           and which is specified in such election shall be treat-  
 15           ed as a nontradable capital asset of the taxpayer for  
 16           purposes of this part.

17           “(2) LIMITATIONS.—

18           “(A) ONLY STOCK OF A SINGLE ENTITY  
 19           TAKEN INTO ACCOUNT.—An election made  
 20           under this subsection may not specify stock in  
 21           more than one C corporation or specify more  
 22           than one class of stock in such corporation.

23           “(B) VALUE.—

24           “(i) IN GENERAL.—The aggregate  
 25           value of stock specified in an election made



1 under this subsection shall not exceed  
2 \$1,000,000,000.

3 “(ii) DETERMINATION.—For purposes  
4 of clause (i), the value of any stock speci-  
5 fied in an election made under this section  
6 shall be determined as of the last day of  
7 the first taxable year for which the tax-  
8 payer is an applicable taxpayer.

9 “(3) QUALIFIED TAXPAYER.—For purposes of  
10 this subsection, the term ‘qualified taxpayer’ means  
11 any taxpayer—

12 “(A) which is not an estate or trust, and

13 “(B) for which the first taxable year for  
14 which such taxpayer is an applicable taxpayer is  
15 a taxable year that begins before January 1,  
16 2027.

17 “(4) ELECTION.—

18 “(A) IN GENERAL.—Any election under  
19 this subsection shall be made not later than the  
20 due date for the return of tax for the first tax-  
21 able year for which the taxpayer is an applica-  
22 ble taxpayer and shall be made in such manner  
23 as the Secretary shall provide.

24 “(B) EXTENSIONS.—The Secretary shall  
25 by regulation prescribe such circumstances and

1           procedures under which extensions of time will  
 2           be granted to make any election under this sub-  
 3           section. In determining whether to grant relief  
 4           under this subparagraph, the Secretary shall  
 5           take into account all relevant circumstances and  
 6           the time for making the election shall be treat-  
 7           ed as not expressly provided by statute.

8           **“Subpart C—Other Definitions and Rules**

“Sec. 497. Terms and rules relating to covered assets.

“Sec. 498. Other definitions; coordination with title.

9           **“SEC. 497. TERMS AND RULES RELATING TO COVERED AS-**  
 10           **SETS.**

11           “(a) COVERED ASSET.—For purposes of this part,  
 12           except as otherwise provided in this part, the term ‘cov-  
 13           ered asset’ means any asset other than—

14                   “(1) any interest of the taxpayer in an applica-  
 15           ble savings plan or in a defined benefit plan,

16                   “(2) any cash or cash equivalent, or

17                   “(3) any private placement life insurance or an-  
 18           nuity contract described in section 72(e)(12)(D).

19           “(b) TRADABLE COVERED ASSET.—For purposes of  
 20           this part, except as provided in section 496(d), the term  
 21           ‘tradable covered asset’ means—

22                   “(1) any covered asset if—

23                           “(A) interests in such asset are traded on  
 24                   an established securities market,

1           “(B) interests in such assets are readily  
2 tradable on a secondary market (or the sub-  
3 stantial equivalent thereof),

4           “(C) interests in such assets are available  
5 on an online or electronic platform that regu-  
6 larly matches, or facilitates the matching of,  
7 buyers and sellers of such assets, or

8           “(D) such asset is an asset for which the  
9 Secretary determines there is a reasonable basis  
10 to determine the asset’s fair market value annu-  
11 ally, and

12           “(2) any derivative with respect to an under-  
13 lying investment which—

14           “(A) is an asset described in paragraph  
15 (1), or

16           “(B) is a nontradable covered asset which  
17 is identified in regulations or other guidance  
18 provided by the Secretary.

19           “(c) NONTRADABLE COVERED ASSET.—For pur-  
20 poses of this part—

21           “(1) IN GENERAL.—The term ‘nontradable cov-  
22 ered asset’ means any covered asset which is not a  
23 tradable covered asset.

24           “(2) CERTAIN ASSETS ONLY COUNTED FOR DE-  
25 TERMINING AGGREGATE VALUE OF ASSETS.—

1           “(A) IN GENERAL.—Any asset excluded  
2           from treatment as a covered asset under para-  
3           graph (1), (2), or (3) of subsection (a) shall be  
4           taken into account as a nontradable covered  
5           asset in computing the aggregate applicable  
6           value of all tradable and nontradable covered  
7           assets held by the taxpayer as of the close of  
8           any taxable year for purposes of section  
9           495(a)(3).

10           “(B) PRIVATE PLACEMENT LIFE INSUR-  
11           ANCE AND ANNUITY CONTRACTS.—For pur-  
12           poses of subparagraph (A)—

13           “(i) IN GENERAL.—The applicable  
14           value of a private placement life insurance  
15           or annuity contract (as defined in section  
16           72(e)(12)(D)) as of any date shall be its  
17           cash surrender value (as determined under  
18           section 7702(f)(2)(A)) on such date.

19           “(ii) ADJUSTMENTS.—The Secretary  
20           shall by regulation provide for adjustments  
21           to the cash surrender value determined  
22           under clause (i) with respect to any con-  
23           tract to the extent necessary to prevent the  
24           avoidance of the purposes of this part, in-  
25           cluding regulations which ensure that such

1 value as of any time properly reflects the  
 2 value of any underlying investments with  
 3 respect to such contract as of such time.

4 “(3) INVESTMENTS IN QUALIFIED OPPOR-  
 5 TUNITY FUNDS.—Notwithstanding subsection (b),  
 6 any investment in a qualified opportunity fund (as  
 7 defined in section 1400Z–2(d)) shall be treated as a  
 8 nontradable covered asset.

9 “(d) APPLICABLE VALUE.—For purposes of this  
 10 part—

11 “(1) TRADABLE COVERED ASSETS.—The appli-  
 12 cable value of any tradable covered asset as of any  
 13 date shall be its fair market value on such date.

14 “(2) NONTRADABLE COVERED ASSETS.—The  
 15 applicable value of any nontradable covered asset as  
 16 of any date shall be the greatest of—

17 “(A) the original cost basis of such asset,

18 “(B) the adjusted basis of such asset,

19 “(C) the value determined as of the date of  
 20 the last event with respect to the asset which  
 21 establishes such value,

22 “(D) in the case of an asset the value of  
 23 which is included in an applicable financial  
 24 statement, the value in the latest available  
 25 statement,

1           “(E) the value of such asset determined  
 2           for purposes of using such asset to secure any  
 3           indebtedness, and

4           “(F) the value of such asset determined  
 5           under such other valuation method as the Sec-  
 6           retary may prescribe.

7           If a covered asset would, but for subsection (c)(3) or  
 8           any other provision of this part, be treated as a  
 9           tradable covered asset, the asset’s applicable value  
 10          shall be determined under paragraph (1).

11          “(3) ADJUSTMENT FOR DEBT AND OTHER LI-  
 12          ABILITIES OF THE TAXPAYER.—Except as provided  
 13          by the Secretary, the aggregate applicable value of  
 14          all covered assets of the taxpayer as of any date (de-  
 15          termined without regard to this paragraph) shall be  
 16          reduced by the aggregate outstanding amount of—

17               “(A) indebtedness of the taxpayer as of  
 18               such date, and

19               “(B) any other liabilities (other than in-  
 20               debtedness) of the taxpayer as of such date  
 21               which the Secretary determines are appropriate  
 22               to be taken into account for such purpose.

23          “(4) RELIANCE ON VALUATION.—In deter-  
 24          mining the applicable value of any tradable covered

1       asset for purposes of this section, the taxpayer may  
2       rely on a valuation which is—

3               “(A) provided to the taxpayer by a broker  
4       under section 6045(b),

5               “(B) provided to the taxpayer by a dealer  
6       in securities or a dealer in commodities, within  
7       the meaning of section 475,

8               “(C) determined under an applicable finan-  
9       cial statement, or

10              “(D) provided to the taxpayer by such  
11       other persons as may be designated by the Sec-  
12       retary.

13              “(5) APPLICABLE FINANCIAL STATEMENT.—  
14       For purposes of this subsection, the term ‘applicable  
15       financial statement’ has the meaning given such  
16       term by section 451(b)(3).

17              “(6) SPECIAL RULES FOR APPLICABLE ENTI-  
18       TIES.—In the case of an applicable entity—

19               “(A) adjustments to basis of any covered  
20       asset under section 493(b)(2) shall be taken  
21       into account in determining the adjusted basis  
22       of such asset for purposes of paragraph (2)(B),

23               “(B) the value of a partner’s ownership in-  
24       terest in such partnership under paragraph  
25       (2)(C) shall not be less than the value of the

1 partner's capital account under section 704,  
2 and

3 “(C) the Secretary shall provide rules for  
4 determining the share of a holder of an owner-  
5 ship interest in such an entity of amounts in-  
6 cluded in an applicable financial statement of  
7 such entity for purposes of applying paragraph  
8 (2)(D).

9 “(7) SECRETARIAL AUTHORITY.—The Secretary  
10 shall prescribe such regulations, rules, and guidance  
11 as may be necessary to carry out the purposes of  
12 this subsection, including regulations, rules, and  
13 guidance which—

14 “(A) prevent the avoidance of such pur-  
15 poses,

16 “(B) provide rules for the application of  
17 paragraph (2)(C), including in cases of trans-  
18 actions in which gain or loss is not recognized  
19 in connection with contributions, distributions,  
20 and sales of substantially similar property from  
21 which value may be derived, and

22 “(C) provide rules for determining the ap-  
23 plicable value of assets in taxable years begin-  
24 ning before the date of the enactment of this  
25 part.



1 **“SEC. 498. OTHER DEFINITIONS; COORDINATION WITH**  
 2 **TITLE.**

3 “(a) APPLICABLE TRANSFER.—For purposes of this  
 4 part—

5 “(1) IN GENERAL.—The term ‘applicable trans-  
 6 fer’ means—

7 “(A) any sale, exchange, disposition, or  
 8 other transfer if—

9 “(i) gain or loss (if any) is, without  
 10 regard to this part, recognized under this  
 11 chapter on such sale, exchange, disposition,  
 12 or other transfer, and

13 “(ii) such sale, exchange, disposition,  
 14 or other transfer is not in the ordinary  
 15 course of a trade or business, and

16 “(B) any disregarded nonrecognition event.

17 “(2) DISREGARDED NONRECOGNITION  
 18 EVENT.—The term ‘disregarded nonrecognition  
 19 event’ means—

20 “(A) any exchange to which section 351  
 21 applies,

22 “(B) any exchange to which section 1031  
 23 applies,

24 “(C) any transfer of an asset which—

25 “(i) is identified by the Secretary,

26 “(ii) involves a C corporation, and

1           “(iii) is in connection with an asset  
2           with respect to which no gain or loss has  
3           been recognized by such corporation, or

4           “(D) any other transaction in which gain  
5           or loss is not otherwise recognized and which  
6           the Secretary determines is necessary to be  
7           treated as a disregarded nonrecognition event in  
8           order to prevent the avoidance of the purposes  
9           of this part.

10          “(3) CONVERSION OF ASSETS.—

11           “(A) NONTRADABLE TO TRADABLE.—If a  
12           taxpayer holds a nontradable covered asset  
13           (other than an investment in a qualified oppor-  
14           tunity fund (as defined in section 1400Z-2(d)))  
15           which, as part of a transaction or series of  
16           transactions, is converted to, or exchanged for,  
17           a tradable covered asset, such conversion or ex-  
18           change shall be treated as a disregarded non-  
19           recognition event if gain or loss (if any) on such  
20           conversion or exchange is, without regard to  
21           this part, not recognized under this chapter.

22           “(B) TRADABLE TO NONTRADABLE.—If a  
23           taxpayer holds a tradable covered asset which,  
24           as part of a transaction or series of trans-  
25           actions, is converted to, or exchanged for, a

1           nontradable covered asset, such conversion or  
 2           exchange shall be treated as a taxable event  
 3           with respect to the asset being converted or ex-  
 4           changed if gain or loss (if any) on such conver-  
 5           sion or exchange is, without regard to this part,  
 6           not recognized under this chapter.

7           “(b) APPLICABLE SAVINGS PLAN.—The term ‘appli-  
 8   cable savings plan’ means—

9           “(1) a defined contribution plan to which sec-  
 10          tion 401(a) or 403(a) applies,

11          “(2) an annuity contract under section 403(b),

12          “(3) an eligible deferred compensation plan de-  
 13          scribed in section 457(b) which is maintained by an  
 14          eligible employer described in section 457(e)(1)(A),

15          “(4) an individual retirement plan,

16          “(5) an Archer MSA (within the meaning of  
 17          section 220(d)),

18          “(6) a qualified tuition program (as defined in  
 19          section 529(b)),

20          “(7) an ABLE account (as defined in section  
 21          529A(e)(6)),

22          “(8) a Coverdell education savings account (as  
 23          defined in section 530), or

24          “(9) a health savings account (within the mean-  
 25          ing of section 223(d)).

1 “(c) DERIVATIVE; UNDERLYING INVESTMENT.—

2 “(1) DERIVATIVE.—The term ‘derivative’ has  
3 the meaning given such term under section  
4 59A(h)(4).

5 “(2) UNDERLYING INVESTMENT.—The term  
6 ‘underlying investment’ means, with respect to any  
7 derivative, any item—

8 “(A) which is described in clauses (i)  
9 through (v) of section 59A(h)(4)(A) (or any  
10 item substantially the same as any such item),  
11 and

12 “(B) by reference to which the value of the  
13 derivative, or any payment or other transfer  
14 with respect to the derivative, is determined ei-  
15 ther directly or indirectly.

16 “(d) REGULATORY AUTHORITY TO PREVENT AVOID-  
17 ANCE AND TO COORDINATE WITH OTHER PROVISIONS OF  
18 THIS TITLE.—The Secretary shall issue such regulations  
19 or other guidance as are necessary to—

20 “(1) prevent taxpayers from avoiding the appli-  
21 cation of this part, and

22 “(2) coordinate the provisions of this part with  
23 other provisions of this title which require taxpayers  
24 to take income into account in the absence of a pay-  
25 ment or other distribution.”.

1 (b) CLERICAL AMENDMENT.—The table of parts for  
 2 subchapter E of chapter 1 is amended by adding at the  
 3 end the following new item:

“Part IV. Elimination of deferral for applicable taxpayers.”.

4 (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to taxable events and applicable  
 6 transfers occurring in taxable years beginning after De-  
 7 cember 31, 2025.

8 **SEC. 102. CARRYBACK OF CAPITAL LOSSES ATTRIBUTABLE**  
 9 **TO MARK-TO-MARKET RULES.**

10 (a) IN GENERAL.—Section 1212 is amended by add-  
 11 ing at the end the following new subsection:

12 “(d) CARRYBACK OF LOSSES OF APPLICABLE TAX-  
 13 PAYERS FROM ASSETS MARKED TO MARKET.—

14 “(1) IN GENERAL.—If an applicable taxpayer  
 15 elects to have this subsection apply to any taxable  
 16 year in which the taxpayer has a net marked-to-mar-  
 17 ket loss (in this subsection referred to as the ‘loss  
 18 year’), the amount of such net marked-to-market  
 19 loss—

20 “(A) shall be a carryback to each of the 3  
 21 taxable years preceding the loss year, and

22 “(B) to the extent that, after the applica-  
 23 tion of paragraphs (2) and (3), such loss is al-  
 24 lowed as a carryback to any such preceding tax-

1           able year, the amount so allowed shall be treat-  
2           ed as a long-term capital loss.

3           “(2) AMOUNT CARRIED TO EACH TAXABLE  
4           YEAR.—The entire amount of the net marked-to-  
5           market loss for any loss year shall be carried to the  
6           earliest of the taxable years to which such loss may  
7           be carried back under paragraph (1). The portion of  
8           such loss which shall be carried to each of the 2  
9           other taxable years to which such loss may be car-  
10          ried back shall be the excess (if any) of such loss  
11          over the portion of such loss which, after the appli-  
12          cation of paragraph (3), was allowed as a carryback  
13          for any prior taxable year.

14          “(3) AMOUNT WHICH MAY BE USED IN ANY  
15          PRIOR TAXABLE YEAR.—An amount shall be allowed  
16          as a carryback under paragraph (1) from a loss year  
17          to any prior taxable year only to the extent—

18                 “(A) such amount does not exceed the net  
19                 marked-to-market gain for such prior year, and

20                 “(B) the allowance of such carryback does  
21                 not increase or produce a net operating loss (as  
22                 defined in section 172(c)) for such year.

23          “(4) NET MARKED-TO-MARKET LOSS.—For  
24          purposes of this subsection, the term ‘net marked-to-

1 market loss' means, with respect to any taxable  
2 year, an amount equal to—

3 “(A) the net capital loss for the taxable  
4 year determined by taking into account only  
5 marked-to-market gains and losses, reduced  
6 (but not below zero) by

7 “(B) the aggregate amount of gains from  
8 the sale or exchange of capital assets which are  
9 not marked-to-market gains.

10 “(5) NET MARKED-TO-MARKET GAIN.—For  
11 purposes of this subsection—

12 “(A) IN GENERAL.—The term ‘net  
13 marked-to-market gain’ means, with respect to  
14 any taxable year, an amount equal to—

15 “(i) the capital gain net income for  
16 the taxable year determined by taking into  
17 account only marked-to-market gains and  
18 losses, reduced (but not below zero) by

19 “(ii) the aggregate amount of losses  
20 from the sale or exchange of capital assets  
21 which are not marked-to-market losses.

22 “(B) SPECIAL RULE.—The net marked-to-  
23 market gain for any taxable year before the loss  
24 year shall be computed without regard to the

1 net marked-to-market loss for the loss year or  
 2 for any taxable year thereafter.

3 “(6) COORDINATION WITH CARRYFORWARD  
 4 PROVISIONS OF SUBSECTION (b)(1).—

5 “(A) CARRYFORWARD AMOUNT REDUCED  
 6 BY AMOUNT USED AS CARRYBACK.—For pur-  
 7 poses of applying subsection (b)(1)(B), if any  
 8 portion of the net marked-to-market loss for  
 9 any taxable year is allowed as a carryback  
 10 under paragraph (1) to any preceding taxable  
 11 year, the amount allowed as a carryback shall  
 12 be treated as a long-term capital gain for the  
 13 loss year.

14 “(B) CARRYOVER LOSS RETAINS CHAR-  
 15 ACTER AS ATTRIBUTABLE TO MARKED-TO-MAR-  
 16 KET.—Any amount carried forward as a long-  
 17 term capital loss to any taxable year under sub-  
 18 section (b)(1)(B) (after the application of sub-  
 19 paragraph (A)) shall, to the extent attributable  
 20 to marked-to-market losses, be treated as  
 21 marked-to-market loss.

22 “(C) COORDINATION WITH REDUCTION IN  
 23 NET CAPITAL LOSS FOR CREDIT.—For purposes  
 24 of this paragraph and paragraph (4), any re-  
 25 duction in net capital loss under section



1           492(c)(3) (relating to reduction for credit  
2           against tax attributable to deferral recapture  
3           amount) shall, except as provided by the Sec-  
4           retary, be applied before the application of such  
5           paragraphs.

6           “(7) OTHER DEFINITIONS AND RULES.—For  
7           purposes of this subsection—

8                   “(A) MARKED-TO-MARKET GAINS AND  
9           LOSSES.—

10                   “(i) IN GENERAL.—The terms  
11                   ‘marked-to-market gains’ and ‘marked-to-  
12                   market losses’ means, with respect to any  
13                   applicable taxpayer for any taxable year,  
14                   gains or losses which are recognized and  
15                   taken into account by such taxpayer for  
16                   such taxable year under section 491 by  
17                   reason of taxable events described in sec-  
18                   tion 491(b)(1) with respect to tradable cov-  
19                   ered assets which are capital assets. Such  
20                   terms shall not include gains and losses  
21                   from nontradable covered assets which are  
22                   treated as tradable covered assets (and to  
23                   which section 491 applies) by reason of an  
24                   election under section 496(a)(3).

1                   “(ii) APPLICABLE ENTITIES.—In the  
 2                   case of marked-to-market gains or losses of  
 3                   an applicable entity, this subsection shall  
 4                   be applied at the partner or other owner-  
 5                   ship level.

6                   “(B) OTHER TERMS.—Any term used in  
 7                   this subsection which is also used in part IV of  
 8                   subchapter E shall have the same meaning as  
 9                   when used in such part.”.

10           (b) EFFECTIVE DATE.—The amendment made by  
 11 this section shall apply to loss years beginning after De-  
 12 cember 31, 2025.

13 **TITLE       II—APPLICATION       OF**  
 14 **OTHER PROVISIONS TO AP-**  
 15 **PLICABLE TAXPAYERS AND**  
 16 **ENTITIES**

17 **Subtitle A—Individuals**

18 **SEC. 201. APPLICABLE TAXPAYERS NOT ELIGIBLE FOR AD-**  
 19 **JUSTED GROSS INCOME LIMITATION ON NET**  
 20 **INVESTMENT TAX.**

21           (a) IN GENERAL.—Section 1411(a) is amended by  
 22 adding at the end the following new paragraph:

23                   “(3) NO ADJUSTED GROSS INCOME LIMIT FOR  
 24                   APPLICABLE TAXPAYERS.—In the case of an applica-  
 25                   ble taxpayer (as defined in section 495) for any tax-

1       able year, notwithstanding paragraph (1) or (2), the  
 2       tax under this subsection for such taxable year shall  
 3       be equal to the product of—

4               “(A) in the case of an individual, the rate  
 5               of tax in effect under paragraph (1) multiplied  
 6               by the amount determined under paragraph  
 7               (1)(A), and

8               “(B) in the case of an estate or trust, the  
 9               rate of tax in effect under paragraph (2) multi-  
 10              plied by the amount determined under para-  
 11              graph (2)(A).”.

12       (b) EFFECTIVE DATE.—The amendment made by  
 13       this section shall apply to taxable years beginning after  
 14       December 31, 2025.

15   **SEC. 202. TREATMENT OF COVERED EXPATRIATES.**

16       (a) APPLICATION OF EXPATRIATE RULES TO APPLI-  
 17       CABLE TAXPAYERS.—Section 877A is amended by redes-  
 18       ignating subsection (i) as subsection (j) and by inserting  
 19       after subsection (h) the following new subsection:

20               “(i) SPECIAL RULES FOR APPLICABLE TAX-  
 21       PAYERS.—

22               “(1) IN GENERAL.—In the case of a covered ex-  
 23       patriate who is an applicable taxpayer (as defined in  
 24       section 495) for the taxable year which includes the  
 25       expatriation date—

1           “(A) no election may be made under sub-  
 2           section (b) with respect to any property treated  
 3           as sold by reason of subsection (a) (after appli-  
 4           cation of subparagraph (B)), and

5           “(B) the covered expatriate shall, for pur-  
 6           poses of subsection (a)(1), also be treated as  
 7           having sold on the last day of the 10-taxable-  
 8           year period described in section 495(d)(2)(A)  
 9           all property held by the covered expatriate as of  
 10          the close of such day which is not otherwise  
 11          treated as sold under part IV of subchapter E  
 12          as of such time.

13          “(2) APPLICATION OF SECTION 877.—Notwith-  
 14          standing section 877(h)—

15               “(A) a covered expatriate described in  
 16               paragraph (1) shall be treated as an individual  
 17               to whom section 877 applies, and

18               “(B) such individual shall be taxable as  
 19               provided in such section for each of the taxable  
 20               years in the 10-taxable-year period described in  
 21               section 495(d)(2)(A).”.

22          (b) EFFECTIVE DATE.—The amendments made by  
 23          this section shall apply to taxable years beginning after  
 24          December 31, 2025.

## 1     **Subtitle B—Rules for Applicable** 2                 **Entities and Trusts**

### 3     **SEC. 211. TREATMENT OF LIKE-KIND EXCHANGES BY AP-** 4                 **PLICABLE ENTITIES.**

5             (a) IN GENERAL.—Section 1031 is amended by add-  
6     ing at the end the following new subsection:

7             “(i) SPECIAL RULES FOR APPLICABLE ENTITIES.—  
8     Subsection (a) shall not apply to an exchange by an appli-  
9     cable entity if a notice received by the entity under sub-  
10    section (b)(2)(A) or (c)(2) of section 493 is in effect at  
11    the time of such exchange.”.

12            (b) EFFECTIVE DATE.—The amendment made by  
13    this section shall apply to exchanges completed after De-  
14    cember 31, 2025.

### 15    **SEC. 212. TREATMENT OF TRANSFERS BY APPLICABLE EN-** 16                 **TITIES IN EXCHANGE FOR STOCK.**

17            (a) IN GENERAL.—Section 351 is amended by redes-  
18    ignating subsection (h) as subsection (i) and by inserting  
19    after subsection (g) the following new subsection:

20            “(h) SPECIAL RULES FOR APPLICABLE ENTITIES.—

21                 “(1) IN GENERAL.—Subsection (a) shall not  
22    apply to an exchange by an applicable entity if an  
23    applicable notice received by the entity is in effect at  
24    the time of such exchange.

1           “(2) APPLICABLE NOTICE.—For purposes of  
2 paragraph (1)—

3           “(A) IN GENERAL.—The term ‘applicable  
4 notice’ means, with respect to any applicable  
5 entity, a notice—

6           “(i) which is received by the entity  
7 under subsection (b)(2)(A) or (c)(2) of sec-  
8 tion 493, and

9           “(ii) which relates to an applicable  
10 taxpayer who is a 20-percent owner with  
11 respect to such entity.

12           “(B) 20-PERCENT OWNER.—For purposes  
13 of subparagraph (A), a 20-percent owner shall  
14 be determined in the same manner as a 5-per-  
15 cent owner under section 493(b)(4)(B), except  
16 that ‘20 percent’ shall be substituted for ‘5 per-  
17 cent’ in applying clauses (i) and (ii)(I) thereof.

18           “(3) APPLICABLE ENTITY.—For purposes of  
19 this subsection, the term ‘applicable entity’ has the  
20 meaning given such term by section 493.”.

21           (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to exchanges completed after De-  
23 cember 31, 2025.

1 **SEC. 213. SPECIAL RULES FOR APPLICABLE TRUSTS.**

2 (a) IN-KIND DISTRIBUTIONS.—Section 643(e)(3) is  
3 amended—

4 (1) in subparagraph (A), by striking “to which  
5 an election under this paragraph applies” and in-  
6 serting “to which this paragraph applies”, and

7 (2) by striking subparagraph (B) and inserting  
8 the following:

9 “(B) DISTRIBUTIONS TO WHICH THIS  
10 PARAGRAPH APPLIES.—This paragraph shall  
11 apply to—

12 “(i) any distribution of property by an  
13 estate which is described in section  
14 495(a)(1)(B)(ii) or by an applicable trust  
15 (as defined in section 495(c)), and

16 “(ii) any distribution during the tax-  
17 able year of any other estate or trust which  
18 makes an election under this paragraph.

19 Any election made under clause (ii) shall be  
20 made on the return of such estate or trust for  
21 such taxable year, and, once made, may be re-  
22 voked only with the consent of the Secretary.”.

23 (b) TREATMENT OF LOANS.—Section 643(i) is  
24 amended—

1           (1) by inserting “or an applicable trust (as de-  
 2           fined in section 495(c))” after “foreign trust” in  
 3           paragraph (1),

4           (2) by striking “who is a United States person”  
 5           in paragraph (1)(A) and inserting “who is not ex-  
 6           empt from tax under this chapter”,

7           (3) by striking “United States person” in para-  
 8           graph (1)(B) and inserting “person (other than a  
 9           person who is exempt from tax under this chapter)”,

10          (4) by striking paragraph (2)(C), and

11          (5) by striking “FOREIGN” in the heading  
 12          thereof and inserting “CERTAIN”.

13          (c) TREATMENT OF MULTIPLE TRUSTS.—Section  
 14          643(f)(2) is amended by inserting “or the rules of part  
 15          IV of subchapter E” after “this chapter”.

16          (d) FOREIGN TRUSTS.—

17           (1) IN GENERAL.—Subpart F of part I of sub-  
 18          chapter J is amended by adding at the end the fol-  
 19          lowing new section:

20          **“SEC. 686. SPECIAL RULES FOR APPLICABLE FOREIGN**  
 21                 **TRUSTS.**

22           “(a) IN GENERAL.—For purposes of this part, in the  
 23          case of any beneficiary of an applicable foreign trust who  
 24          is required to include in income any amount attributable  
 25          to gain on an applicable transfer of any covered asset, the



1 amount of tax imposed under this chapter shall be in-  
2 creased by the amount which bears the same ratio to the  
3 amount of the deferral recapture amount which would be  
4 determined on such applicable transfer under section  
5 492(a) (determined as if such trust were an applicable tax-  
6 payer and section 492 applied to any covered asset of the  
7 trust) as—

8           “(1) the amount required to be included in in-  
9 come attributable to the gain on such applicable  
10 transfer, bears to

11           “(2) the total amount of the gain on such appli-  
12 cable transfer.

13           “(b) EXCEPTION.—Subsection (a) shall not apply to  
14 any amount to the extent that the applicable foreign trust  
15 pays (at such time and in such manner as provided by  
16 the Secretary) the tax which would be imposed under sec-  
17 tion 492(a) (determined as if such trust were an applicable  
18 taxpayer and section 492 applied to any covered asset of  
19 the trust) with respect to the applicable transfer described  
20 in subsection (a).

21           “(c) APPLICABLE FOREIGN TRUST.—For purposes of  
22 this section, the term ‘applicable foreign trust’ means any  
23 foreign trust which would be an applicable trust if such  
24 trust were a domestic trust.

1       “(d) OTHER TERMS.—Any term used in this section  
2 which is also used in part IV of subchapter E shall have  
3 the same meaning as when used in such part.”.

4           (2) REPORTING.—Section 6048(c)(1) is amend-  
5 ed by striking “and”, at the end of subparagraph  
6 (B), by redesignating subparagraph (C) as subpara-  
7 graph (D), and by inserting after subparagraph (B)  
8 the following new subparagraph:

9           “(C) such information as the Secretary  
10 shall require for purposes of determining the in-  
11 crease (if any) in tax under section 686, and”.

12          (3) CLERICAL AMENDMENT.—The table of sec-  
13 tions for subpart F of part I of subchapter J is  
14 amended by adding at the end the following new  
15 item:

“Sec. 686. Special rules for applicable foreign trusts.”.

16          (e) COORDINATION WITH THROWBACK RULES.—The  
17 Secretary of the Treasury (or the Secretary’s delegate)  
18 shall provide such regulations or other guidance as nec-  
19 essary to coordinate the amendments made by this section  
20 with the rules of subpart D of part I of subchapter J.

21          (f) EFFECTIVE DATES.—

22           (1) IN GENERAL.—Except as provided in para-  
23 graph (2), the amendments made by this section  
24 shall apply to taxable years beginning after Decem-  
25 ber 31, 2025.

1           (2) FOREIGN TRUSTS.—The amendments made  
 2       by subsection (e) shall apply to applicable transfers  
 3       occurring in taxable years beginning after December  
 4       31, 2025.

5       **Subtitle C—Treatment of Deferred**  
 6       **Compensation and Certain Life**  
 7       **Insurance and Annuity Con-**  
 8       **tracts**

9       **SEC. 221. ELIMINATION OF DEFERRAL OF TAX ON CERTAIN**  
 10       **COMPENSATION.**

11       (a) IN GENERAL.—Subpart A of part I of subchapter  
 12       D of chapter 1 is amended by adding at the end the fol-  
 13       lowing new section:

14       **“SEC. 409B. SPECIAL RULES FOR CERTAIN DEFERRED COM-**  
 15       **PENSATION.**

16       “(a) IN GENERAL.—In the case of an individual who  
 17       is an applicable taxpayer for any taxable year, the tax-  
 18       payer’s tax under this chapter for the taxable year (deter-  
 19       mined without regard to this section) shall be increased  
 20       by an amount equal to the sum of—

21               “(1) the deferral recapture amount determined  
 22       under subsection (b)(1) for any applicable deferred  
 23       compensation which is includible in the gross income  
 24       of the individual for the taxable year, and

1           “(2) 10 percent of the amount of any severance  
2           pay which is includible in the gross income of the in-  
3           dividual during the taxable year.

4           “(b) DEFERRAL RECAPTURE AMOUNT.—For pur-  
5           poses of this section—

6           “(1) IN GENERAL.—The term ‘deferral recap-  
7           ture amount’ means, with respect to any applicable  
8           deferred compensation includible in gross income for  
9           the taxable year, the aggregate amount of interest  
10          (determined in the manner provided under para-  
11          graph (3)) on the deemed tax amount determined  
12          under paragraph (2) for each preceding taxable year  
13          to which compensation is allocated under paragraph  
14          (2)(A).

15          “(2) DEEMED TAX AMOUNT.—

16                 “(A) IN GENERAL.—The deemed tax  
17                 amount for any taxable year preceding the tax-  
18                 able year in which applicable deferred com-  
19                 pensation is includible in gross income shall be  
20                 the amount determined—

21                         “(i) first, except as provided in sub-  
22                         paragraph (B), by allocating the amount of  
23                         such compensation ratably to each day in  
24                         the deferral period with respect to the ap-  
25                         plicable deferred compensation, and

1                   “(ii) then by multiplying the amount,  
 2                   if any, allocated under clause (i) to such  
 3                   preceding taxable year by the highest rate  
 4                   of tax in effect under section 1 for the tax-  
 5                   able year in which the compensation is in-  
 6                   cludible in gross income of the individual.

7                   “(B) SPECIAL RULE FOR PERIODS BEFORE  
 8                   BECOMING APPLICABLE TAXPAYER.—Notwith-  
 9                   standing subparagraph (A)(i), any compensa-  
 10                  tion which would be otherwise allocated under  
 11                  such subparagraph to any taxable year pre-  
 12                  ceding the first taxable year for which the tax-  
 13                  payer is treated as an applicable taxpayer shall  
 14                  be allocated to such first taxable year.

15                  “(3) COMPUTATION OF INTEREST.—

16                  “(A) IN GENERAL.—The amount of inter-  
 17                  est referred to in paragraph (1) on any deemed  
 18                  tax amount determined under paragraph (2) for  
 19                  any preceding taxable year with respect to ap-  
 20                  plicable deferred compensation shall be deter-  
 21                  mined for the period beginning on the due date  
 22                  for such preceding taxable year and ending on  
 23                  the last day of the deferral period with respect  
 24                  to the applicable deferred compensation, by  
 25                  using the rates determined under section

1           6621(b) (plus 1 percentage point), and the  
 2           method applicable under section 6621, for un-  
 3           derpayments of tax for such period.

4           “(B) DUE DATE.—For purposes of this  
 5           paragraph, the term ‘due date’ means, with re-  
 6           spect to any preceding taxable year, the date  
 7           prescribed by law (determined without regard to  
 8           extensions) for filing the return of the tax im-  
 9           posed by this chapter for such taxable year.

10          “(4) LIMITATION.—In no case shall the deferral  
 11          recapture amount determined with respect to any  
 12          applicable deferred compensation which is includible  
 13          in gross income for a taxable year exceed an amount  
 14          equal to 10 percent of the amount of such com-  
 15          pensation.

16          “(c) DEFINITIONS.—For purposes of this section—

17               “(1) APPLICABLE TAXPAYER.—The term ‘appli-  
 18               cable taxpayer’ has the meaning given such term by  
 19               section 495.

20               “(2) APPLICABLE DEFERRED COMPENSA-  
 21               TION.—

22               “(A) IN GENERAL.—Except as provided in  
 23               subparagraph (B), the term ‘applicable deferred  
 24               compensation’ means—

1 “(i) any compensation provided under  
 2 a nonqualified deferred compensation plan,  
 3 as defined in section 409A(d)(1), except  
 4 that—

5 “(I) such term shall include stock  
 6 appreciation rights, and

7 “(II) compensation shall not fail  
 8 to be treated as deferred solely be-  
 9 cause such compensation is not treat-  
 10 ed as deferred for purposes of section  
 11 409A by reason of such compensation  
 12 being includible in gross income for  
 13 the first taxable year after a taxable  
 14 year in which such compensation is no  
 15 longer subject to a substantial risk of  
 16 forfeiture, and

17 “(ii) any other property transferred in  
 18 connection with the performance of serv-  
 19 ices which is subject to section 83.

20 “(B) EXCEPTIONS.—Such term does not  
 21 include—

22 “(i) severance pay, or

23 “(ii) any transfer of a profits interest  
 24 in a partnership.

1           “(C) EARNINGS AND INTEREST.—Any  
 2           earnings, interest, or similar adjustment in-  
 3           cluded in an amount of applicable deferred com-  
 4           pensation shall not be treated as separately de-  
 5           ferred from such amount.

6           “(3) SEVERANCE PAY.—The term ‘severance  
 7           pay’ means any compensation the payment or vest-  
 8           ing of which is contingent, in whole or in part, upon  
 9           the termination of employment or other services, in-  
 10          cluding cash, property, reimbursement or direct pro-  
 11          vision of living, travel, and business expenses, and  
 12          life, health, or other insurance, to the extent other-  
 13          wise includible in gross income.

14          “(4) DEFERRAL PERIOD.—

15                 “(A) IN GENERAL.—Except as provided in  
 16                 subparagraphs (B) and (C), the term ‘deferral  
 17                 period’, with respect to any applicable deferred  
 18                 compensation, means the period—

19                         “(i) beginning on the date the com-  
 20                         pensation was first deferred, without re-  
 21                         gard to vesting, transferability, or risk of  
 22                         forfeiture, and

23                         “(ii) ending on the date such com-  
 24                         pensation is includible in gross income or,  
 25                         if applicable, the date described in section



1                   83(a)(1) with respect to such compensa-  
2                   tion.

3                   For purposes of the preceding sentence, com-  
4                   pensation shall be treated as first deferred as of  
5                   the date the applicable taxpayer first has a le-  
6                   gally binding right to the compensation or, in  
7                   the case of property subject to section 83, the  
8                   date of transfer of the property.

9                   “(B) COMPUTATION OF INTEREST.—Solely  
10                  for purposes of subsection (b)(3), the deferral  
11                  period shall end on the last day of the taxable  
12                  year which includes the date described in sub-  
13                  paragraph (A)(ii).

14                  “(C) PROPERTY TRANSFERRED PURSUANT  
15                  TO THE EXERCISE OF AN OPTION.—In the case  
16                  of property acquired pursuant to an option de-  
17                  scribed in section 83(e)(3), the deferral period  
18                  shall begin on the date of grant of the option  
19                  pursuant to which the property was acquired.

20                  “(d) REGULATIONS.—The Secretary shall prescribe  
21                  such regulations as may be necessary or appropriate to  
22                  carry out the purposes of this section.”.

23                  (b) INFORMATION REPORTING WITH RESPECT TO  
24                  APPLICABLE DEFERRED COMPENSATION.—Subpart B of  
25                  part III of subchapter A of chapter 61, as in effect after

1 the amendments made by section 334(d) of the SECURE  
 2 2.0 Act of 2022 and the amendments made by section  
 3 70203(c) of Public Law 119–21, is amended by adding  
 4 at the end the following new section:

5 **“SEC. 6050BB. INFORMATION WITH RESPECT TO APPLICA-**  
 6 **BLE DEFERRED COMPENSATION.**

7 “(a) IN GENERAL.—Every person making a payment  
 8 to an individual in excess of \$5,000,000 of—

9 “(1) any applicable deferred compensation de-  
 10 scribed in section 409B(c)(2)(A), or

11 “(2) any severance pay (as defined in section  
 12 409B(d)(3)),

13 shall make a return, not later than January 31 of the first  
 14 calendar year beginning after the close of the taxable year  
 15 during which such payment is includible in gross income  
 16 of the individual.

17 “(b) INFORMATION REQUIRED.—The return required  
 18 by subsection (a) shall include—

19 “(1) the name, taxpayer identification number,  
 20 and address of the individual to whom the payment  
 21 of applicable deferred compensation or severance pay  
 22 is made,

23 “(2) the date any applicable deferred compensa-  
 24 tion was first deferred (the date of the transfer, in  
 25 the case of property subject to section 83, or the

1 date of grant of the option, in the case of property  
 2 acquired pursuant to an option described in section  
 3 83(e)(3)), without regard to vesting, transferability,  
 4 or risk of forfeiture,

5 “(3) the amount of such compensation includ-  
 6 ible in gross income of the individual for the taxable  
 7 year,

8 “(4) the amount of such severance pay includ-  
 9 ible in gross income of the individual for the taxable  
 10 year, and

11 “(5) such other information as the Secretary  
 12 may require.

13 “(c) SPECIAL RULES.—

14 “(1) SECTION 83 COMPENSATION.—With re-  
 15 spect to transfers of property to which section 83  
 16 applies, the information required under paragraphs  
 17 (2) and (3) of subsection (b) shall be reported sepa-  
 18 rately for each item of property transferred, except  
 19 that property for which the information required by  
 20 such paragraphs is identical may be aggregated.

21 “(2) OTHER COMPENSATION.—With respect to  
 22 any applicable deferred compensation not described  
 23 in paragraph (1), if such compensation is paid pur-  
 24 suant to more than 1 plan or arrangement or in-  
 25 volves amounts which were first deferred on more

1       than 1 date, the information required under para-  
 2       graphs (2) and (3) of subsection (b) shall be re-  
 3       ported separately with respect to each such plan or  
 4       arrangement and each such date.

5       “(d) STATEMENTS TO BE FURNISHED TO INDIVID-  
 6       UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
 7       PORTED.—Every person required to make a return under  
 8       subsection (a) shall furnish to each individual with respect  
 9       to whom such a return is required a written statement  
 10      showing—

11           “(1) the name, address, and phone number of  
 12       the information contact of the person making such  
 13       return, and

14           “(2) the information required by paragraphs  
 15       (2) through (5) of subsection (b).

16      The written statement required under the preceding sen-  
 17      tence shall be furnished to the individual on or before Jan-  
 18      uary 31 of the first calendar year beginning after the close  
 19      of the taxable year for which the return under subsection  
 20      (a) was made.

21       “(e) ADJUSTMENTS FOR INFLATION.—

22           “(1) IN GENERAL.—In the case of any taxable  
 23       year beginning after 2026, the \$5,000,000 amount  
 24       under subsection (a) shall be increased by an  
 25       amount equal to the product of—

1 “(A) such dollar amount, and

2 “(B) the cost-of-living adjustment under  
3 section 1(f)(3) for the calendar year in which  
4 such taxable year begins, determined by sub-  
5 stituting ‘calendar year 2025’ for ‘calendar year  
6 1992’ in subparagraph (B) thereof.

7 “(2) ROUNDING.—If any amount as adjusted  
8 under paragraph (1) is not a multiple of \$250,000,  
9 such amount shall be rounded to the next lowest  
10 multiple of \$250,000.

11 “(f) REGULATIONS.—The Secretary shall prescribe  
12 such regulations as may be necessary or appropriate to  
13 carry out the purposes of this section, including regula-  
14 tions specifying what constitutes a payment to an indi-  
15 vidual of applicable deferred compensation for purposes of  
16 subsection (a).”.

17 (c) PENALTIES.—

18 (1) RETURNS.—Section 6724(d)(1)(B), as in  
19 effect after the amendments made by section 334(d)  
20 of the SECURE 2.0 Act of 2022 and section  
21 70203(c) of Public Law 119–21, is amended by  
22 striking “or” at the end of clause (xxviii), by insert-  
23 ing “or” at the end of clause (xxix), and by inserting  
24 after clause (xxix) the following new clause:

1 “(xxx) section 6050BB(a) (relating to  
 2 returns of information with respect to ap-  
 3 plicable deferred compensation), and”.

4 (2) STATEMENTS.—Section 6724(d)(2), as in  
 5 effect after the amendments made by section 334(d)  
 6 of the SECURE 2.0 Act of 2022 and sections  
 7 70203(c) and 70421(d)(2)(B) of Public Law 119–  
 8 21, is amended—

9 (A) by striking “or” at the end of subpara-  
 10 graph (NN),

11 (B) by striking the period at the end of  
 12 subparagraph (OO) and inserting “, or”, and

13 (C) by inserting after subparagraph (OO)  
 14 the following new subparagraph:

15 “(PP) section  
 16 6050BB(d) (relating to  
 17 statements of information  
 18 with respect to applicable  
 19 deferred compensation).”.

20 (d) CLERICAL AMENDMENTS.—

21 (1) IN GENERAL.—The table of sections for  
 22 subpart A of part I of subchapter D of chapter 1 is  
 23 amended by inserting after the item relating to sec-  
 24 tion 409A the following new item:

“Sec. 409B. Special rules for certain deferred compensation.”.

1           (2) INFORMATION REPORTING.—The table of  
 2           sections for subpart B of part III of subchapter A  
 3           of chapter 61, as in effect after the amendments  
 4           made by section 334(d) of the SECURE 2.0 Act of  
 5           2022 and section 70203(d)(2) of Public Law 119–  
 6           21, is amended by inserting after the item relating  
 7           to section 6050AA the following new item:

“Sec. 6050BB. Information with respect to applicable deferred compensation.”.

8           (e) EFFECTIVE DATE.—The amendments made by  
 9           this section shall apply to taxable years beginning after  
 10          December 31, 2025.

11   **SEC. 222. RULES RELATING TO CERTAIN LIFE INSURANCE**  
 12                           **AND ANNUITY CONTRACTS OF APPLICABLE**  
 13                           **TAXPAYERS.**

14          (a) TREATMENT OF AMOUNTS RECEIVED.—

15               (1) IN GENERAL.—Section 72(e) is amended by  
 16               redesignating paragraph (12) as paragraph (13) and  
 17               by inserting after paragraph (11) the following:

18                       “(12) TREATMENT OF CERTAIN AMOUNTS RE-  
 19                       CEIVED UNDER CERTAIN LIFE INSURANCE AND AN-  
 20                       NUITY CONTRACTS OF APPLICABLE TAXPAYERS.—

21                               “(A) IN GENERAL.—In the case of any ap-  
 22                               plicable amount which is received during any  
 23                               taxable year, notwithstanding paragraph (5)(A)  
 24                               or (5)(E)—

1 “(i) if such amount is received on or  
 2 after the annuity starting date, paragraph  
 3 (2)(A) shall apply, and

4 “(ii) if such amount is received before  
 5 the annuity starting date or is received  
 6 with respect to a life insurance contract to  
 7 which this section applies, the rules of  
 8 clauses (i) and (ii) of paragraph (2)(B)  
 9 shall apply.

10 “(B) APPLICABLE AMOUNT.—

11 “(i) IN GENERAL.—For purposes of  
 12 this paragraph, the term ‘applicable  
 13 amount’ means—

14 “(I) any amount to which this  
 15 subsection applies which is received  
 16 under an applicable private placement  
 17 life insurance or annuity contract, and

18 “(II) in the case of an applicable  
 19 taxpayer, notwithstanding paragraph  
 20 (5)(A), (5)(E), or (10)(A), any  
 21 amount or portion described in para-  
 22 graph (4)(A) with respect to a life in-  
 23 surance or annuity contract, except  
 24 that ‘any applicable taxpayer or any  
 25 related person (as defined in section



1                   144(a)(3)) to an applicable taxpayer’  
2                   shall be substituted for ‘an individual’  
3                   in applying such paragraph.

4                   “(ii) TREATMENT OF REFUNDS, SUR-  
5                   RENDERS, REDEMPTIONS AND MATU-  
6                   RITIES.—Notwithstanding paragraph  
7                   (5)(A) or (5)(E), amounts described in  
8                   clause (i)(I) shall include amounts de-  
9                   scribed in clause (i) or (ii) of paragraph  
10                  (5)(E) received under an applicable private  
11                  placement life insurance or annuity con-  
12                  tract.

13                  “(iii) AMOUNTS UNDER PRE-1982 AND  
14                  QUALIFIED PLAN CONTRACTS, ETC. EX-  
15                  CLUDED.—Such term shall not include  
16                  amounts received—

17                         “(I) under a contract which is  
18                         described in paragraph (5)(B) or  
19                         (5)(D), or

20                         “(II) under a qualified tuition  
21                         program (as defined in section  
22                         529(b)) or under a Coverdell edu-  
23                         cation savings account (as defined in  
24                         section 530(b)).

1           “(C) APPLICABLE PRIVATE PLACEMENT  
2 LIFE INSURANCE OR ANNUITY CONTRACT.—For  
3 purposes of this paragraph—

4           “(i) IN GENERAL.—The term ‘applica-  
5 ble private placement life insurance or an-  
6 nuity contract’ means a private placement  
7 life insurance or annuity contract the hold-  
8 er of which (whether directly or indirectly)  
9 is an applicable taxpayer.

10          “(ii) SECRETARIAL AUTHORITY.—The  
11 Secretary shall prescribe regulations or  
12 other guidance which treat a private place-  
13 ment life insurance or annuity contract as  
14 an applicable private placement life insur-  
15 ance or annuity contract in cases where an  
16 applicable taxpayer (or a related person)  
17 has an interest in such contract not de-  
18 scribed in clause (i) if such treatment is  
19 necessary to prevent the avoidance of the  
20 purposes of this paragraph.

21          “(D) PRIVATE PLACEMENT LIFE INSUR-  
22 ANCE OR ANNUITY CONTRACT.—For purposes  
23 of this paragraph, the term ‘private placement  
24 life insurance or annuity contract’ means any  
25 contract—

1 “(i) which is an annuity contract or a  
2 life insurance contract, and

3 “(ii) with respect to which the holder  
4 of the contract is required, for purposes of  
5 obtaining a registration exemption under  
6 securities laws as in effect on the date of  
7 enactment of this section (including the  
8 Securities Exchange Act of 1934 and the  
9 Investment Advisors Act of 1940), to make  
10 a representation that such owner—

11 “(I) has a specified minimum  
12 amount of income or assets,

13 “(II) has completed a specified  
14 minimum level of education, or

15 “(III) holds a specific license or  
16 credential.

17 “(E) APPLICABLE TAXPAYER.—For pur-  
18 poses of this paragraph, the term ‘applicable  
19 taxpayer’ has the meaning given such term  
20 under section 495.”.

21 (2) CONFORMING AMENDMENT.—Section  
22 72(e)(5)(C) is amended by inserting “or (12)” after  
23 “(10)”.

1           (3) EFFECTIVE DATE.—The amendments made  
2       by this subsection shall apply to amounts received in  
3       taxable years beginning after December 31, 2025.

4           (b) 10-PERCENT ADDITIONAL TAX FOR DISTRIBUTIONS FROM APPLICABLE PRIVATE PLACEMENT LIFE INSURANCE OR ANNUITY CONTRACTS.—

7           (1) IN GENERAL.—Section 72(v) is amended—

8               (A) by inserting “or an applicable private  
9       placement life insurance or annuity contract (as  
10      defined in subsection (e)(12))” after “a modified endowment contract (as defined in section  
11      7702A)” in paragraph (1), and

12              (B) by inserting “AND APPLICABLE PRIVATE PLACEMENT LIFE INSURANCE OR ANNUITY CONTRACTS” after “MODIFIED ENDOWMENT CONTRACTS” in the heading thereof.

17          (2) EFFECTIVE DATE.—The amendments made  
18      by this subsection shall apply to amounts received in  
19      taxable years beginning after December 31, 2025.

20          (c) REPEAL OF EXCLUSION FOR DEATH BENEFITS.—

22          (1) IN GENERAL.—Section 101 is amended by  
23      adding at the end the following new subsection:

24      “(k) EXCLUSION NOT TO APPLY.—

1           “(1) IN GENERAL.—Subsection (a)(1) shall not  
 2       apply to amounts received by reason of the death of  
 3       the insured under an applicable private placement  
 4       life or annuity contract (within the meaning of sec-  
 5       tion 72(e)(12)).

6           “(2) AMOUNTS PREVIOUSLY INCLUDED.—The  
 7       Secretary shall prescribe rules to ensure that para-  
 8       graph (1) shall not apply to any portion of any  
 9       amount received which was previously included in  
 10      gross income.”.

11          (2) CONFORMING AMENDMENT.—Section  
 12      101(a)(1) is amended by striking “and subsection  
 13      (j),” and inserting “subsection (j), and subsection  
 14      (k),”.

15          (3) EFFECTIVE DATE.—The amendments made  
 16      by this subsection shall apply to amounts received in  
 17      taxable years beginning after December 31, 2025.

18      (d) REPORTING REQUIREMENTS.—

19          (1) IN GENERAL.—Subpart B of part III of  
 20      subchapter A of chapter 61, as amended by this Act,  
 21      is amended by adding at the end the following new  
 22      section:

1 **“SEC. 6050CC. RETURNS RELATING TO AMOUNTS RECEIVED**  
2 **UNDER CERTAIN LIFE INSURANCE AND AN-**  
3 **NUITY CONTRACTS.**

4 “(a) IN GENERAL.—Every person who issues a life  
5 insurance or annuity contract or who reinsures such a con-  
6 tract shall make an annual return (at such time and in  
7 such manner as the Secretary shall prescribe) setting  
8 forth—

9 “(1) the name, address, and TIN of such per-  
10 son,

11 “(2) the name, address, and TIN of each per-  
12 son who receives an applicable amount (as defined in  
13 section 72(e)(12)) during the year with respect to  
14 any life insurance or annuity contract issued or rein-  
15 sured by such person,

16 “(3) the aggregate applicable amounts received  
17 by each person identified in paragraph (2), and

18 “(4) such other information as the Secretary  
19 may require.

20 “(b) STATEMENT TO BE FURNISHED TO TAXPAYERS  
21 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—

22 “(1) IN GENERAL.—Every person that is re-  
23 quired to make a return under subsection (a) shall  
24 furnish to each person whose identity is required to  
25 be set forth under subsection (a)(2) a written state-  
26 ment showing—

1           “(A) the name, address, and phone num-  
2           ber of the information contact of the person re-  
3           quired to make such return, and

4           “(B) the information required to be shown  
5           on such return with respect to the person de-  
6           scribed in subsection (a)(2) and with respect to  
7           applicable amounts received by such person.

8           “(2) FURNISHING OF INFORMATION.—The  
9           written statement required under paragraph (1)  
10          shall be furnished to the person on or before Janu-  
11          ary 31 of the year following the calendar year for  
12          which the return under subsection (a) is required to  
13          be made.

14          “(c) REGULATORY AUTHORITY.—The Secretary may  
15          prescribe such regulations and other guidance as nec-  
16          essary for purposes of carrying out this section, including  
17          regulations or other guidance to require reporting under  
18          this section by such other persons as necessary to carry  
19          out the purposes of section 72(e)(12).”.

20          (2) PENALTIES.—

21                 (A) RETURNS.—Section 6724(d)(1)(B), as  
22                 amended by this Act, is amended by striking  
23                 “or” at the end of clause (xxix), by striking  
24                 “and” at the end of clause (xxx) and inserting

1 “or”, and by inserting after clause (xxx) the  
 2 following new clause:

3 “(xxxi) section 6050CC(a) (relating to  
 4 returns of information with respect to pri-  
 5 vate placement life insurance and annuity  
 6 contracts),”.

7 (B) STATEMENTS.—Section 6724(d)(2), as  
 8 so amended, is amended—

9 (i) by striking “or” at the end of sub-  
 10 paragraph (OO),

11 (ii) by striking the period at the end  
 12 of subparagraph (PP) and inserting “, or”,  
 13 and

14 (iii) by inserting after subparagraph  
 15 (PP) the following new subparagraph:

16 “(QQ) section  
 17 6050CC(b) (relating to  
 18 statements of information  
 19 with respect to private place-  
 20 ment life insurance and an-  
 21 nuity contracts).”.

22 (3) CLERICAL AMENDMENT.—The table of sec-  
 23 tions for subpart B of part III of subchapter A of  
 24 chapter 61, as amended by this Act, is amended by



1 inserting after the item relating to section 6050BB  
 2 the following new item:

“Sec. 6050CC. Returns relating to amounts received under certain life insurance and annuity contracts.”.

3 (4) EFFECTIVE DATE.—The amendments made  
 4 by this subsection shall apply to taxable years beginning after December 31, 2025.

## 6 **Subtitle D—Repeal of Special** 7 **Treatment for Certain Investments**

### 8 **SEC. 231. TREATMENT OF EXCLUSION FOR CERTAIN SMALL** 9 **BUSINESS STOCK.**

10 (a) IN GENERAL.—Section 1202(a), as amended by  
 11 section 70432(a) of Public Law 119–21, is amended by  
 12 adding at the end the following new paragraph:

13 “(7) SPECIAL RULES FOR APPLICABLE TAX-  
 14 PAYERS.—

15 “(A) IN GENERAL.—This subsection shall  
 16 not apply to any gain from the sale or exchange  
 17 of qualified small business stock by an applica-  
 18 ble taxpayer (as defined in section 495).

19 “(B) EXCEPTION.—Subparagraph (A)  
 20 shall not apply to any qualified small business  
 21 stock acquired before September 17, 2025.”.

22 (b) EFFECTIVE DATE.—The amendment made by  
 23 this subsection shall apply to sales or exchanges on or  
 24 after September 17, 2025.

1 **SEC. 232. MODIFICATIONS FOR INVESTMENTS IN QUALI-**  
2 **FIED OPPORTUNITY FUNDS.**

3 (a) **TERMINATION OF ELECTION.**—

4 (1) **IN GENERAL.**—Section 1400Z-2(a)(2), as  
5 amended by section 70421(c)(1) of Public Law 119-  
6 21, is amended to read as follows:

7 “(2) **ELECTION.**—Except as provided in para-  
8 graph (3), no election may be made under paragraph  
9 (1) with respect to a sale or exchange if an election  
10 previously made with respect to such sale or ex-  
11 change is in effect.”.

12 (2) **SPECIAL RULES.**—Section 1400Z-2(a) is  
13 amended by adding at the end the following new  
14 paragraph:

15 “(3) **SPECIAL RULES FOR APPLICABLE TAX-**  
16 **PAYERS AND ENTITIES.**—For purposes of paragraph  
17 (2)—

18 “(A) **IN GENERAL.**—No election may be  
19 made under paragraph (1) with respect to a  
20 sale or exchange if—

21 “(i) except as provided in subpara-  
22 graph (B), in the case of a taxpayer which  
23 is (or ever was) an applicable taxpayer,  
24 such sale or exchange is on or after the  
25 first day of the first taxable year for which

1 the taxpayer was an applicable taxpayer,  
2 and

3 “(ii) in the case of an applicable enti-  
4 ty, a notice received by the entity under  
5 subsection (b)(2)(A) or (c)(2) of section  
6 493 is in effect at the time of such sale or  
7 exchange.

8 “(B) SPECIAL RULE FOR 2025.—In the  
9 case of a taxpayer which would be an applicable  
10 taxpayer for its first taxable year beginning in  
11 2025 (determined as if part IV of subchapter E  
12 applied to taxable years beginning in 2025),  
13 subparagraph (A)(i) shall be applied by sub-  
14 stituting ‘September 17, 2025’ for the date oth-  
15 erwise specified in such subparagraph.

16 “(C) DEFINITIONS.—For purposes of this  
17 paragraph and subsection (c), any term used in  
18 this paragraph which is also used in part IV of  
19 subchapter E shall have the same meaning as  
20 when used in such part.”.

21 (b) MODIFICATION OF SPECIAL RULE FOR INVEST-  
22 MENTS HELD 10 YEARS.—Section 1400Z–2(c), as amend-  
23 ed by section 70421(c)(3) of Public Law 119–21, is  
24 amended—

1           (1) by striking “In the case of” and all that fol-  
 2           lows and inserting:

3           “(1) IN GENERAL.—Except as provided in para-  
 4           graph (2), in the case of”, and

5           (2) by adding at the end the following new  
 6           paragraph:

7           “(2) SPECIAL RULE FOR APPLICABLE TAX-  
 8           PAYERS AND ENTITIES.—In the case of any taxpayer  
 9           who is an applicable taxpayer for any taxable year  
 10          during which such investment was held by the tax-  
 11          payer or any taxpayer which is an applicable entity,  
 12          the basis determined under paragraph (1) of any in-  
 13          vestment held for at least 10 years shall be the less-  
 14          er of—

15                 “(A) the fair market value of such invest-  
 16                 ment as of the last day of the taxable year  
 17                 which includes the later of—

18                         “(i) the date that such investment has  
 19                         been held for 10 years, or

20                         “(ii) in the case of—

21                                 “(I) an applicable taxpayer, the  
 22                                 date that such taxpayer first became  
 23                                 an applicable taxpayer, or

24                                 “(II) an applicable entity, the  
 25                                 first date a notice was received by the

1                   entity under subsection (b)(2)(A) or  
2                   (c)(2) of section 493, or  
3                   “(B) the fair market value of such invest-  
4                   ment on the date that investment is sold or ex-  
5                   changed (or, if earlier, the date described in  
6                   paragraph (1)(B)).”.

7           (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to sales or exchanges after Sep-  
9 tember 17, 2025, in taxable years ending after such date.

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