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Senate Finance Releases Tax Reform Legislation

On the Hill

Last night, the Senate Finance Committee released its long-awaited version of the tax portion of the "One Big Beautiful Bill," offering a counterpoint to the House version passed last month. Critically, like the House bill, the current draft of the Senate Finance text does not include any language limiting the tax-exemption for municipal bonds. While retaining much of the structural framework of the House bill, the draft introduces several material changes, particularly around revenue offsets and social spending reductions.

As released by the Senate Finance Committee, the current draft:

- Preserves the House changes to the 50% test for LIHTC deals, lowering the test to 25%, but makes the change permanent instead of sunsetting in 2029.
- Provides a 12% allocation increase for 9% LIHTC transactions, instead of the 12.5% the House bill included, but makes the change permanent unlike the House version.
- Does not include the designation of Indian areas and rural areas as "Difficult Development Areas" and also excludes the 30% boost in basis that the House provided.
- Adds the permanent extension of the New Markets Tax Credit program.
- Permanently extends the increased individual AMT exemption amounts and reverts phase-out thresholds to 2018 levels ($500,000/individual; $1,000,000/joint), indexed to inflation thereafter.
- Builds on original Opportunity Zone framework, making the policy permanent with rolling, ten-year designations beginning January 1, 2027 while tightening the income requirements for designation as a "low-income community" and adding a new category for rural areas.
- Lowers the "endowment tax" increases on private colleges and universities as compared to the House version (topping out at 8% instead of 21%), while still maintaining a tiered structure.
- Reverts the SALT cap back to what current law permits ($10,000), with a placeholder indicating the topic is still being heavily negotiated.
- Raises the debt ceiling by $5 trillion, as compared to the $4 trillion increase the House proposed.

What This Means for Tax-Exempt Bond Issuers

Like the House version, the Senate bill leaves the tax exemption for interest on tax-exempt municipal bonds, including qualified private activity bonds, untouched. The Senate bill goes further than the House in making the changes to the 50% test for 4% LIHTC deals permanent, which could free up volume cap for issuers and provide an easier path to satisfying the good costs/bad costs analysis. In fact, by making the LIHTC changes permanent, the Senate is signaling strong support for financing tools that encourage investment in affordable housing, one of which is private activity bonds.

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What's Next

With the release of the Finance portion of the bill, all ten committees of jurisdiction have now released their pieces of the legislation. Members and staff have been meeting on a daily or near-daily basis and holding multiple in-the-weeds briefings on the content and on the schedule during the last week. One of the key themes when comparing the House version to the Senate version is that the Senate clearly prioritized permanence. In several instances, the Senate legislation might slightly pare back a benefit but provide the benefit permanently instead of phasing it out, no doubt setting up an interesting discussion with their counterparts in the House as they negotiate behind the scenes.

While the situation is fluid, Senate leadership has indicated an aggressive timeline. Current reports indicate they are targeting a floor vote of their version of the "One Big Beautiful Bill" by the end of next week, with the ultimate goal of delivering legislation to the President before the July 4 recess. Majority Leader Thune has even threatened to keep the Senate in session if passage is not achieved before the July 4th holiday – perhaps providing some strong motivation for members to move quickly in their negotiations. If the Senate's changes are sufficiently narrow or pre-negotiated with the House, it is possible the House could vote on the Senate version and avoid a Conference Committee, expediating the enactment.

As always, we will continue to monitor legislative developments and provide timely updates as the process unfolds.