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House Passes Tax Reform Legislation Following Rules Committee Revisions; No Changes to Tax-Exemption

On the Hill

This morning the House of Representatives narrowly passed the "One Big Beautiful Bill" on a largely party-line vote. The vote count was 215-214, with 2 Republicans voting "No", one absent, and another voting "Present." The bill advanced to the House Floor overnight following an 8–4 vote out of the House Rules Committee late last night. During that meeting, the Rules Committee adopted a manager's amendment that introduced a series of substantive and technical revisions to the bill, signaling a tightening of the legislative coalition ahead of House floor consideration.

As passed by the House, some items in the legislation include:

- Alternative Minimum Tax Adjustments: The bill already included a permanent extension of increased individual AMT exemption amounts and phase-out thresholds originally enacted by the 2017 Tax Cuts and Jobs Act. It now includes a very small adjustment to rebase the inflation adjustment from 2025 rather than 2017. Over the long-term, this could have a subtle, pernicious effect on tax-exempt bond income attributable to certain private activity bonds in the context of being an AMT preference item.
- Opportunity Zones Overhaul: The bill tightens eligibility requirements for new Opportunity Zones and imposes new reporting requirements.
- Low-Income Housing Tax Credit Enhancements: The LIHTC provisions remain largely unchanged from the initial draft of the legislation, including the 12.5% allocation increase for 9% LIHTC transactions for 2026-2029 and reduction of the bond-financing threshold from 50% to 25% for 4% transactions between 2026–2029.
- SALT: The state and local tax deduction is capped at $40,000 per household up to income of $500,000 then phases down (by 30% of the excess over $500,000—with income being the modified adjusted income; but this reduction cannot reduce the deduction below $10,000 per household). Both the cap and income level would increase by 1% annually over the 10-year window.
- Additional Revenue Offsets: To partially address deficit concerns, the amended legislation rescinds certain unspent COVID relief funds and clean energy credits and expands IRS enforcement authorities focused on high-income and cross-border taxpayers. These additions are expected to yield several hundred billion in new projected revenue over 10 years.

What This Means for Tax-Exempt Bond Issuers

The House-passed version of the bill does not propose any changes to the federal income tax exemption for interest on state and local government bonds, including qualified private activity bonds, meaning that, at least for now, tax-exemption is maintained.

The refinements to the Opportunity Zone framework and LIHTC provisions are particularly relevant for issuers financing affordable housing and community development projects. While the newly proposed 25% bond test for unlocking 4% low-income housing tax credits remains unchanged in the final version of the House bill, the heightened compliance and disclosure environment (generally unrelated to current tax reform efforts) may require additional coordination among issuers, underwriters, developers, and investors.

That said, the addition of new revenue raisers in the amendment to the bill reinforces that no provision is entirely safe as the bill enters a new round of negotiations in the Senate.

What's Next

The bill now moves to the Senate, where Finance Committee members have signaled that they may release their own version of tax reform legislation rather than adopt the House bill wholesale. Should that occur, a conference committee would be required to reconcile the differences.

The Senate timeline remains fluid, and insiders expect committee markups to begin in early June. We anticipate further debate over revenue offsets, the SALT cap, and corporate tax reforms—any of which could reopen discussion around municipal bond tax preferences.

As always, we will continue to monitor the process and provide updates as more details emerge.