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(Original Signature of Member)

119TH CONGRESS
2D SESSION

H. R. ______

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the taxation of international entities.

IN THE HOUSE OF REPRESENTATIVES

Mr. ESTES introduced the following bill; which was referred to the Committee on ______________________________

A BILL

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the taxation of international entities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "U.S. Innovation and Global Competitiveness Act of 2026".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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

SEC. 2. MODIFICATION OF DEDUCTION FOR FOREIGN-DERIVED INTANGIBLE INCOME AND NET CONTROLLED FOREIGN CORPORATION TESTED INCOME.

(a) INCREASE IN DEDUCTION.—Section 250(a)(1)(A) is amended by striking ‘‘33.34 percent’’ and inserting ‘‘40 percent’’.

(b) DEDUCTION NOT TO APPLY AGAINST DIVIDENDS RECEIVED DEDUCTION LIMITATION.—Section 246(b)(1) is amended by striking ‘‘subsection (a) and (b) of section 245, and section 250’’ the first place it appears and inserting ‘‘and subsections (a) and (b) of section 245’’.

(c) DEDUCTION TAKEN INTO ACCOUNT IN DETERMINING NET OPERATING LOSS DEDUCTION.—Section 172(d) is amended by striking paragraph (9).

(d) LOOK-THROUGH FOR INTEREST PAYMENTS.—Section 250(b)(2) is amended by adding at the end the following new subparagraph:

‘‘(F) INTEREST PAID BY CONTROLLED FOREIGN CORPORATION.—Foreign-derived deduction eligible income shall include interest paid by a controlled foreign corporation to a corporation that is a United States shareholder with respect to such foreign corporation if such controlled foreign corporation is related (within the meaning of section 954(d)) to such United

States shareholder and such interest is an amount which is described in section 951A(c)(2)(A)(ii) with respect to such controlled foreign corporation. To the extent provided by the Secretary in regulations, the preceding sentence shall not apply to interest paid by a controlled foreign corporation to a related United States shareholder if such interest is directly related to interest expense of such shareholder (or another related person).''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 3. MODIFICATIONS TO BASE EROSION MINIMUM TAX.

(a) BASE EROSION MINIMUM TAX AMOUNT DETERMINED WITHOUT REGARD TO CREDITS.—Section 59A(b)(1)(B) is amended to read as follows:

``(B) an amount equal to the regular tax liability (as defined in section 26(b)) of the taxpayer for the taxable year.''.

(b) APPLICATION OF GENERAL BUSINESS CREDIT AGAINST BEAT.—The second sentence of section 38(c)(1) is amended by striking ``and the tax imposed by section 55'' and inserting ``, the tax imposed by section 55, and the tax imposed by section 59A''.

(c) EXPANSION AND CONSOLIDATION OF RULES TO EXEMPT CERTAIN PAYMENTS FROM TREATMENT AS BASE EROSION PAYMENTS.—

(1) IN GENERAL.—Section 59A is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) CERTAIN PAYMENTS NOT TREATED AS BASE EROSION PAYMENTS.—

"(1) EXCEPTION FOR PAYMENTS ON WHICH TAX IS IMPOSED.—

"(A) IN GENERAL.—An amount shall not be treated as a base erosion payment if—

"(i) such amount (or any portion thereof) is includible in the gross income of any taxpayer by reason of—

"(I) section 951(a),

"(II) section 951A(a),

"(III) section 871(b), or

"(IV) section 882(a), or

"(ii) the Secretary determines such amount is otherwise subject to sufficient tax under this chapter (other than by this section).

"(B) TREATMENT OF CERTAIN DEDUCTIONS.—For purposes of subparagraph (A), tax shall be treated as imposed by this chapter without regard to any deduction allowed under part VIII of subchapter B.

"(C) APPLICATION OF CERTAIN RULES.—The amount not treated as a base erosion payment by reason of this paragraph shall be determined under rules similar to the rules of section 163(j)(5) (as in effect before the date of the enactment of Public Law 115–97).

"(2) EXCEPTION FOR CERTAIN PAYMENTS SUBJECT TO SUFFICIENT FOREIGN TAX.—

"(A) IN GENERAL.—An amount shall not be treated as a base erosion payment if the taxpayer establishes to the satisfaction of the Secretary that such amount was made to a foreign person which is a related party of the taxpayer that is subject to an effective rate of foreign income tax (as defined in section 954(b)(4)) which is not less than 18.9 percent.

"(B) CERTAIN PAYMENTS TO RELATED PARTIES.—To the extent provided by the Secretary in regulations, an amount paid to a foreign person which is a related party of the taxpayer shall be treated as paid to another foreign person which is a related party of the taxpayer if such second foreign person is subject to an effective rate of foreign income tax (as defined in section 954(b)(4)) which is less than 18.9 percent, to the extent the amount so paid directly or indirectly funds a payment to such second foreign person.

"(3) CERTAIN PAYMENTS TO EXCLUSION FOR CORPORATIONS LOCATED IN A JURISDICTION WITH A DISCRIMINATORY TAX.—

"(A) IN GENERAL.—Paragraph (2) shall not apply to any payment made during any calendar year if the payment is made to a related party (as defined in section 59A(g)(1))—

"(i) that is a tax resident of a jurisdiction which imposes a discriminatory tax on a domestic corporation at any time during such calendar year, or

"(ii) if any 25-percent owner (as defined in section 59A(g)(2)) of such related party is a tax resident in a jurisdiction which imposes a discriminatory tax on any domestic corporation at any time during such calendar year.

"(B) DISCRIMINATORY TAX.—

"(i) IN GENERAL.—The term 'discriminatory tax' means—

"(I) any digital services tax,

"(II) to the extent provided by the Secretary, any tax imposed by a foreign country if—

"(aa) such tax applies more than incidentally to items of income that would not be considered to be from sources, or effectively connected to a trade or business, within the foreign country under the rules of part I of this subchapter if such part were applied by treating such foreign country as though it were the United States,

"(bb) such tax is imposed on a base other than net income and is not computed by permitting recovery of costs and expenses,

"(cc) such tax is exclusively or predominantly applicable, in practice or by its terms, to nonresident individuals and foreign corporations or partnerships (determined under rules similar to paragraphs (4) and (5) of section 7701(a) by treating the foreign country as though it were the United States) because of the application of revenue thresholds, exemptions, or exclusions for taxpayers subject to such foreign country's corporate income tax, or

"(dd) such tax is not treated as an income tax under the laws of such foreign country or is otherwise treated by such foreign country as outside the scope of any agreements that are in force between such foreign country and one or more other jurisdictions for the avoidance of double taxation with respect to taxes on income, or

"(III) to the extent provided by the Secretary, any other tax imposed by a foreign country enacted with a public or stated purpose indicating that the tax will be economically borne, directly or indirectly, disproportionately by United States persons.

"(ii) EXCEPTIONS.—Such term shall not include, except as otherwise provided by the Secretary, any tax which is a generally applicable tax which is—

"(I) an income tax generally imposed on the income of citizens or residents of the foreign country, even if the computation of income includes payments that would be foreign source income under part I of this subchapter,

"(II) an income tax which would be a discriminatory tax (determined without regard to this clause) solely because it is imposed on the income of nonresidents attributable to a trade or business in such foreign country,

"(III) an income tax which would be a discriminatory tax (determined without regard to this clause) solely because it is imposed on citizens or residents of such foreign country by reference to the income of a corporate subsidiary of such person,

"(IV) a withholding tax, or other gross basis tax, on any amount described in section 871(a)(1) or 881(a), other than any withholding tax, or other gross basis tax, imposed with respect to services performed by persons other than individuals,

"(V) a value added tax, goods and services tax, sales tax, or other similar tax on consumption,

"(VI) a tax imposed with respect to transactions on a per-unit or per-transaction basis rather than on an ad valorem basis,

"(VII) a tax on real or personal property, an estate tax, a gift tax, other similar tax,

"(VIII) a tax which would not be an extraterritorial tax or discriminatory tax (determined without regard to this clause) except by reason of consolidation or loss sharing rules that generally apply only with respect to income of tax residents of the foreign country, or

"(IX) any other tax identified by the Secretary for purposes of this paragraph.

"(C) DETERMINATION ON BASIS OF APPLICABLE FINANCIAL STATEMENTS.—Except as otherwise provided by the Secretary under subparagraph (D), the effective rate of foreign income tax with respect to any amount may be established on the basis of applicable financial statements (as defined in section 451(b)(3)).

"(D) REGULATIONS.—The Secretary shall issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations or other guidance providing procedures for determining the effective rate of foreign income tax to which any amount is subject. Such procedures may require that any transaction or series of transactions among multiple parties be recharacterized as one or more transactions directly among any 2 or more of such parties where the Secretary determines that such recharacterization is appropriate to carry out, or prevent avoidance of, the purposes of this section.

"(4) EXCEPTION FOR CERTAIN AMOUNTS WITH RESPECT TO SERVICES.—Subsections (d)(1) and (d)(2) shall not apply to so much of any amount paid or accrued by a taxpayer for services as does not exceed the total services cost of such services. The preceding sentence shall not apply unless such services meet the requirements for eligibility for use of the services cost method under section 482 (determined without regard to the requirement that the services not contribute significantly to fundamental risks of business success or failure).".

(2) CONFORMING AMENDMENT.—Section 59A(d) is amended by striking paragraph (5).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 4. MODIFICATION OF FOREIGN TAX CREDIT LIMITATION BASKETS.

(a) MODIFICATION OF FOREIGN TAX CREDIT LIMITATION BASKETS.—

(1) IN GENERAL.—Section 904(d)(1) is amended by striking subparagraphs (A) and (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (A) and (B), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Section 904(d)(2)(A)(ii) is amended by striking "income described in paragraph (1)(A), foreign branch income, and".

(B) Section 904(c) is amended by striking the last sentence.

(C) Section 904(d)(2) is amended by striking subparagraph (J) and by redesignating subparagraph (K) as subparagraph (J).

(D) Section 250(b)(3)(A)(i)(VI) is amended to read as follows:

"(VI) the business profits of such corporation which are attributable (under rules established by the Secretary) to 1 or more qualified business units (as defined in section 989(a)) in 1 or more foreign countries, over".

(E) Section 904(d)(2)(J), as redesignated by subparagraph (C)(i), is amended by striking "2007" each place such term appears (including in the heading) and inserting "2026".

(3) TRANSITION RULE.—The Secretary of the Treasury (or the Secretary's delegate) shall establish rules for the application of section 960(c)(2) with respect to categories of income described in subparagraphs (A) and (B) of section 904(d)(2) (as in effect for taxable years beginning before January 1, 2026).

(b) RULES FOR ALLOCATION OF CERTAIN DEDUCTIONS TO FOREIGN SOURCE NET CFC TESTED INCOME FOR PURPOSES OF FOREIGN TAX CREDIT LIMITATION.—Section 904(b) is amended by adding at the end the following new paragraph:

"(7) DEDUCTIONS TREATED AS ALLOCABLE TO FOREIGN SOURCE NET CFC TESTED INCOME.—In the case of a domestic corporation and solely for purposes of the application of subsection (a) with respect to amounts includible in gross income by reason of section 951A (other than passive category income), the taxpayer's taxable income from sources without the United States shall be determined—

"(A) by allocating and apportioning any deduction allowed under section 250(a)(2) (and any deduction allowed under section 164(a)(3) for taxes imposed on amounts described in section 250(a)(2)) to such income, and, "(B) by allocating and apportioning any other deduction to such income only if the Secretary determines that such deduction is directly allocable to such income.

Any deduction which would (but for subparagraph (B)) have been allocated or apportioned to such income shall only be allocated or apportioned to income which is from sources within the United States.".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2026.

(2) MODIFICATION OF FOREIGN TAX CREDIT CARRYBACK AND CARRYFORWARD.—The amendment made by subsection (a)(2)(B) shall apply to taxes paid or accrued in taxable years beginning after December 31, 2026.

SEC. 5. CARRYOVER OF NET CFC TESTED LOSS.

(a) IN GENERAL.—Section 951A(b) is amended by adding at the end the following new paragraph:

"(3) CARRYOVER OF NET CFC TESTED LOSS.—

"(A) IN GENERAL.—If the amount described in paragraph (1)(B) with respect to any

United States shareholder for any taxable year of such United States shareholder (determined after the application of this paragraph with respect to amounts arising in the preceding 5 taxable years) exceeds the amount described in paragraph (1)(A) with respect to such shareholder of such taxable year, the amount otherwise described in paragraph (1)(B) with respect to such shareholder for the succeeding taxable year shall be increased by the amount of such excess.

"(B) PROPER ADJUSTMENT IN ALLOCATIONS OF NET CFC TESTED INCOME TO CONTROLLED FOREIGN CORPORATIONS.—Proper adjustments shall be made in the application of subsection (d)(2)(B) to take into account any decrease in global intangible low-taxed income by reason of the application of subparagraph (A).".

(b) APPLICATION OF RULES WITH RESPECT TO OWNERSHIP CHANGES.—Section 382(d) is amended by adding at the end the following new paragraph:

"(4) APPLICATION TO CARRYOVER OF NET CFC TESTED LOSS.—The term 'pre-change loss' shall include any excess carried over under section

951A(b)(3) under rules similar to the rules of paragraph (1).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2026, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 6. REDETERMINATION OF FOREIGN TAXES AND RELATED CLAIMS.

(a) IN GENERAL.—Section 905(c) is amended—

(1) in paragraph (1), by striking ''or'' at the end of subparagraph (B) and by inserting after subparagraph (C) the following new subparagraphs:

''(D) the taxpayer makes a timely change in its choice to claim a credit or deduction for taxes paid or accrued, or

''(E) there is any other change in the amount, or treatment, of taxes, which affects the taxpayer's tax liability under this chapter,'',

(2) in paragraph (2)(B)(i), by inserting '', except as otherwise provided by the Secretary,'' after ''shall'', and

(3) in the heading, by striking ''ACCRUED''.

(b) ELECTION TO TREAT REDETERMINED TAX AS PAID OR ACCRUED IN YEAR OF REDETERMINATION.—

Section 905(c) is amended by adding at the end the following new paragraph:

"(6) ELECTION TO TREAT REDETERMINED TAX AS PAID OR ACCRUED IN YEAR OF REDETERMINATION.—

"(A) IN GENERAL.—At the irrevocable election of the taxpayer, in the case of a redetermination under paragraph (1)—

"(i) accrued taxes relating to such redetermination shall be treated as accrued in the taxable year in which such redetermination occurs and shall be treated solely for the purpose of determining the amount of such increase as incurred on the date such taxes were accrued, and

"(ii) the amount of any credit allowed to the taxpayer by reason of such redetermination shall be treated as allowed to such taxpayer in the taxable year in which such redetermination occurs.

"(B) REGULATIONS.—The Secretary may issue such regulations to prevent abuse of this paragraph as the Secretary determines appropriate.".

(c) MODIFICATION TO SPECIAL PERIOD OF LIMITATION.—Section 6511(d)(3) is amended—

(1) in subparagraph (A)—

(A) by inserting “a change in the liability for” before “any taxes paid or accrued”,

(B) by striking “actually paid” and inserting “paid (or deemed paid under section 960)”, and

(C) by inserting “CHANGE IN THE LIABILITY FOR” before “FOREIGN TAXES” in the heading thereof, and

(2) in subparagraph (B), by striking “the allowance of a credit for the taxes” and inserting “the allowance of an additional credit by reason of the change in liability for the taxes”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxes paid or accrued in taxable years beginning after December 31, 2026.

(2) CERTAIN CHANGES.—The amendments made by paragraphs (1) and (3) of subsection (a) shall apply to changes that occur on or after the date which is 60 days after the date of the enactment of this Act.

(3) MODIFICATION TO SPECIAL PERIOD OF LIMITATION.—The amendments made by subsection (c) shall apply to taxes paid, accrued, or deemed paid in taxable years beginning after December 31, 2026.

SEC. 7. REPEAL OF FOREIGN TAX CREDIT HAIRCUT FOR NET CONTROLLED FOREIGN CORPORATION TESTED INCOME.

(a) IN GENERAL.—Section 960(d)(1) is amended by striking ''90 percent of''.

(b) CONFORMING AMENDMENTS.—

(1) Section 960(d) is amended by striking paragraph (4).

(2) Section 78 is amended by striking ''(determined without regard to the phrase '90 percent of' in subsection (d)(1) thereof)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 8. REPEAL OF INCLUSION PERCENTAGE APPLICABLE TO DEEMED PAID CREDIT FOR TAXES PROPERLY ATTRIBUTABLE TO TESTED INCOME.

(a) IN GENERAL.—Section 960(d) is amended—

(1) by amending paragraph (1) to read as follows:

"(1) IN GENERAL.—For purposes of subpart A of this part, if any amount is includible in the gross income of a domestic corporation under section 951A, such domestic corporation shall be deemed to have paid foreign income taxes equal to the aggregate tested foreign income taxes paid or accrued by controlled foreign corporations of such corporation.", and

(2) by striking paragraph (2).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2026, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 9. APPLICATION OF FOREIGN-SOURCE DIVIDEND DEDUCTION TO AMOUNTS RECEIVED BY CONTROLLED FOREIGN CORPORATIONS.

(a) IN GENERAL.—Section 245A is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) APPLICATION TO CERTAIN DIVIDENDS RECEIVED BY CONTROLLED FOREIGN CORPORATIONS FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—If a controlled foreign corporation with respect to which a domestic corporation is a United States shareholder receives a dividend (other than a hybrid dividend) from a specified 10-percent owned foreign corporation with respect to which such domestic corporation is also a United States shareholder, the amount includible in the gross income of such United States shareholder under section 951(a)(1)(A) by reason of the foreign-source portion of such dividend shall be treated for purposes of this section in the same manner as if such amount were the foreign-source portion of a dividend received by such United States shareholder from such specified 10-percent owned foreign corporation (and by applying section 246(c) in respect of such amount by substituting 'owned (within the meaning of section 958(a))' for 'held' each place such term appears).''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made in taxable years of foreign corporations beginning after December 31, 2026, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(c) NO INFERENCE.—Nothing in the amendments made by subsection (a) shall be construed to create any inference with respect to the treatment of dividends described in section 245A(g) of the Internal Revenue Code of 1986 (as added by subsection (a)) in taxable years beginning before the taxable year described in subsection (b).

SEC. 10. ELIMINATION OF INCLUSION OF FOREIGN BASE COMPANY SALES INCOME AND FOREIGN BASE COMPANY SERVICES INCOME.

(a) REPEAL.—Section 954(a) is amended to read as follows:

"(a) FOREIGN BASE COMPANY INCOME.—For purposes of section 952(a)(2), the term 'foreign base company income' means for any taxable year the foreign personal holding company income for the taxable year (determined under subsection (c) and reduced as provided in subsection (b)(5)).".

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 954(d) is amended to read as follows:

"(d) RELATED PERSON DEFINED.—For purposes of this section, a person is a related person with respect to a controlled foreign corporation, if—

"(1) such person is an individual, corporation, partnership, trust, or estate which controls, or is controlled by, the controlled foreign corporation, or

"(2) such person is a corporation, partnership, trust, or estate which is controlled by the same person or persons which control the controlled foreign corporation.

For purposes of the preceding sentence, control means, with respect to a corporation, the ownership, directly or indirectly, of stock possessing more than 50 percent of the total voting power of all classes of stock entitled to vote or of the total value of stock of such corporation. In the case of a partnership, trust, or estate, control means the ownership, directly or indirectly, of more than 50 percent (by value) of the beneficial interests in such partnership, trust, or estate. For purposes of this subsection, rules similar to the rules of section 958 shall apply.''.

(B) The following sections are amended by striking ``954(d)(3)'' each place such term appears and inserting ``954(d)'':

(i) Section 162(r)(6)(B)(ii).

(ii) Section 250(b)(2)(D) (as redesignated by the preceding provisions of this Act).

(iii) Section 267A(b)(2).

(iv) Section 904(d)(2)(I).

(v) Section 951A(c)(2)(A)(i)(IV).

(vi) Section 953(e).

(vii) Section 956(c)(2)(L)(ii)(II).

(viii) Section 958(b).

(ix) Section 971(f).

(x) Section 988(a)(3)(C).

(xi) Section 1297(b)(2).

(xii) Subsections (d)(3)(A) and (e)(2)(B)(i) of section 1298.

(xiii) Section 1471(e)(2).

(xiv) Section 3121(z)(2).

(C) Section 954(h)(5)(E) is amended by striking "subsection (d)(3)" and inserting "subsection (d)".

(D) Subparagraphs (A) and (B) of section 954(i)(2) are each amended by striking "subsection (d)(3)" and inserting "subsection (d)".

(2) Section 954 is amended by striking subsection (e).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2026, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 11. CORPORATIONS EXEMPT FROM SUBPART F INCLUSION FOR INVESTMENT IN UNITED STATES PROPERTY.

(a) IN GENERAL.—Section 956(a) is amended by inserting "(other than a corporation)" after "United States shareholder" in the matter preceding paragraph (1).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations ending after December 31, 2026, and to taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 12. SPECIAL RULES FOR TRANSFERS OF INTANGIBLE PROPERTY FROM CONTROLLED FOREIGN CORPORATIONS TO UNITED STATES SHAREHOLDERS.

(a) IN GENERAL.—Subpart F of part III of subchapter N of chapter 1 is amended by adding at the end the following new section:

"SEC. 966. TRANSFERS OF INTANGIBLE PROPERTY TO UNITED STATES SHAREHOLDERS.

"(a) IN GENERAL.—In the case of any distribution of intangible property which is held by a controlled foreign corporation on the date of enactment of this section and which is described in subsection (b)—

"(1) for purposes of part I of subchapter C and any other provision of this title specified by the Secretary, the fair market value of such property on the date of such distribution shall be treated as not exceeding the adjusted basis of such property immediately before such distribution, and

"(2) if the distribution is not a dividend—

"(A) the United States shareholder's adjusted basis in the stock of the controlled foreign corporation with respect to which such distribution is made shall be increased by the amount (if any) of such distribution which would (but for this subsection) be includible in gross income, and

"(B) the adjusted basis of such property in the hands of such United States shareholder immediately after such distribution shall be such adjusted basis immediately before such distribution reduced by the amount of the increase described in subparagraph (A).

"(b) DISTRIBUTION.—A distribution is described in this section if the distribution is—

"(1) received by a domestic corporation from a controlled foreign corporation with respect to which such corporation is a United States shareholder, and

"(2) made by the controlled foreign corporation before the last day of the third taxable year of the controlled foreign corporation beginning after December 31, 2025.

"(c) INTANGIBLE PROPERTY.—For purposes of this subsection, the term 'intangible property' means property which is—

"(1) intangible property (as defined in section 367(d)(4) determined without regard to subparagraph (F) thereof), or

"(2) computer software described in section 197(e)(3)(B).".

(b) CONFORMING AMENDMENTS.—

(1) Section 197(f)(2)(B)(i) is amended by inserting "966(a)," after "731,".

(2) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by adding at the end the following new item:

"Sec. 966. Transfers of intangible property to United States shareholders.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made in taxable years of foreign corporations beginning after December 31, 2026, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 13. NET CFC TESTED INCOME DETERMINED WITHOUT REGARD TO CERTAIN INCOME DERIVED FROM SERVICES PERFORMED IN THE UNITED STATES VIRGIN ISLANDS.

(a) IN GENERAL.—Section 951A(b)(2)(A)(i) is amended by striking "and" at the end of subclause (IV), by striking "over" at the end of subclause (V) and inserting "and", and by adding at the end the following new subclause:

"(VI) in the case of any specified United States shareholder, any qualified United States Virgin Islands services income, over".

(b) DEFINITIONS AND SPECIAL RULES.—Section 951A(b)(2) is amended by adding at the end the following new subparagraph:

"(C) PROVISIONS RELATED TO QUALIFIED UNITED STATES VIRGIN ISLANDS SERVICES INCOME.—For purposes of subparagraph (A)(i)(VI)—

"(i) QUALIFIED VIRGIN ISLANDS SERVICES INCOME.—The term 'qualified United States Virgin Islands services income' means any gross income which satisfies all of the following requirements:

"(I) Such gross income is compensation for labor or personal services (within the meaning of section 862(a)(3)) performed in the United States Virgin Islands by a corporation formed under the laws of the United States Virgin Islands.

"(II) Such gross income is attributable to services performed from within the United States Virgin Islands by individuals for the benefit of such corporation.

"(III) Such gross income is effectively connected with the conduct of a trade or business within the United States Virgin Islands.

"(ii) SPECIFIED UNITED STATES SHAREHOLDER.—The term 'specified United States shareholder' means any United States shareholder which is—

"(I) an individual, trust, or estate, or

"(II) a closely held C corporation (as defined in section 469(j)(1)) if such corporation acquired its direct or indirect equity interest in the foreign corporation which derived the qualified United States Virgin Islands services income before December 31, 2023.

"(iii) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out this subparagraph and subparagraph (A)(i)(VI), including regulations or other guidance to prevent the abuse of such subparagraphs.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after the date of the enactment of this Act, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 14. REPEAL OF MODIFICATION TO DEFINITION OF ADJUSTED TAXABLE INCOME FOR PURPOSES OF THE LIMITATION ON BUSINESS INTEREST.

(a) IN GENERAL.—Section 163(j)(8)(A) is amended—

(1) in clause (iv), by inserting "and" after the comma, and

(2) by striking clause (vi).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 15. RESEARCH CREDIT TREATED AS A SPECIFIED CREDIT FOR ALL TAXPAYERS FOR PURPOSES OF GENERAL BUSINESS CREDIT.

(a) IN GENERAL.—Section 38(c)(4)(B)(ii) is amended by striking ‘‘for the taxable year with respect to an eligible small business (as defined in paragraph (5)(A) after application of the rules of paragraph (5)(B))’’.

(b) CONFORMING AMENDMENT.—Section 38(c) is amended by striking paragraph (5).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 16. REGULATIONS TO PREVENT DUPLICATIVE CHARGES TO CAPITAL ACCOUNT FOR CERTAIN RESEARCH AND DEVELOPMENT EXPENDITURES.

(a) IN GENERAL.—Section 174 is amended by adding at the end the following new subsection:

‘‘(e) REGULATIONS.—The Secretary shall prescribe regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance that prevents the same economic expense from being charged to capital account by more than 1 member of a controlled group of corporations (as defined in section 41(f)(5)). Such regulations shall not change the treatment of such expenses for other purposes of this title.''.