



Achieving Fiscally Responsible Tax Reform:

Top 20 Proposals to Reduce Wasteful Spending, Close Tax Loopholes, and Save up to \$4 Trillion

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 **Arnold Ventures**



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Introduction

Enacted in 2017, the Tax Cuts and Jobs Act (TCJA) stimulated economic growth, delivered tax relief for hardworking Americans, and made significant progress toward simplifying the tax code. Now, Congress is facing tough decisions about how to deal with the expiration of many of those crucial but expensive reforms. This report presents 20 priority reforms—10 spending cuts and 10 tax loophole closers—that would generate up to \$4 trillion in savings to help advance the permanent extension of the TCJA without adding to the deficit.

Unlike in 2017, the nation is contending with the effects of an unsustainable debt burden. Since 2020, interest payments on the national debt have nearly tripled as rates have increased, and interest now ranks as the nation's second-largest federal expenditure. As bondholders demand higher rates of return to compensate them for the risk of an ever-growing debt burden, every percentage point increase in interest rates adds [\\$3 trillion](#) to borrowing costs over 10 years. This causes a vicious spiral: Greater risk leading to higher rates leading to higher borrowing costs leading to *even greater* risk. If Congress chooses to finance extensions of the expiring TCJA provisions solely through additional borrowing, we will be unable to fully realize the benefits of pro-growth tax policy as spiraling interest costs cannibalize more and more of taxpayers' hard-earned money.

The good news: There are viable savings options to fund the cost of tax reform without increasing the deficit. The proposals outlined in this brief offer a menu of options that would allow policymakers to “do both”—preserve the benefits of pro-growth tax reform without adding to the national debt. Each reform is designed to address inefficiencies, inequities, or outdated policies within the federal budget. These solutions, rooted in evidence and rigorous analysis, aim to foster greater economic resilience, promote long-term fairness, and enhance efficiency.

The following spending cuts and tax loophole closers are intended to allow Congress to make permanent expiring TCJA provisions without increasing the deficit. As such, the savings estimates provided below first assume that the expiring TCJA provisions are permanent. Moreover, the budget savings from a particular proposal are estimated relative to that assumption. Additionally, these savings estimates do not include macroeconomic effects from the proposals themselves. In other words, these are traditional estimates that currently do not use dynamic scoring. We believe, however, that these proposals will not impose significant burdens on the economy, as they are focused on reducing waste, fraud, abuse, windfalls, and economic distortions—and *not* on penalizing economically productive activity.

By protecting the tax relief Americans rely on while closing loopholes and enacting targeted spending reforms, we can promote economic growth without adding to the deficit—setting our economy up for success without pushing the cost onto future generations.

Top Ten Spending Cuts

Higher Education & Student Loans

I. Simplify Student Loan Repayment

Background: Approximately [43 million Americans](#) currently have a federal student loan, according to data from the U.S. Department of Education. The federal government offers *seven* different repayment plans, including standard repayment plans, graduated plans that begin with lower monthly amounts, and extended repayment plans.

Income-Driven Repayment (IDR) plans, introduced in 1995, aim to make federal student loan repayment more manageable. These plans determine monthly payments based on a borrower's income and family size, often resulting in lower payments compared to the standard repayment plan. Additionally, any remaining balance after 20 or 25 years of qualifying payments is forgiven.

Research suggests that income-driven repayment largely meets the goal of lowering the risk of delinquency and default for many borrowers, though issues remain. Today, about 30% of federal student loan borrowers are enrolled in an IDR plan.

Problem: The number of repayment plans leads to confusion among student loan borrowers. At the same time, millions of borrowers fall behind on their loans every year and even default. Furthermore, some repayment plans, like the Biden SAVE plan, give the most benefits to well-off graduates of medical and law schools—not the students who need support the most.

Solution: Policymakers can streamline those seven plans into just two, creating a more consumer-friendly repayment program and incentivizing higher repayment rates.

One repayment plan would be a 10-year, fixed payment plan. The second would be an income-driven repayment plan that caps payments at 10% of borrowers' incomes for up to 25 years for graduate borrowers and that provides earlier forgiveness for low-income, low-balance, undergraduate borrowers. A simplified repayment system would reduce the potential for waste, fraud, and abuse from borrowers who may intentionally try to game the system and take out needless loans for worthless graduate degrees.

Different versions of this idea can be found in (1) Rep. Virginia Foxx's (R-NC) College Cost Reduction Act and (2) Senators Bill Cassidy's (R-LA) and John Cornyn's (R-TX) Streamlining Accountability and Value in Education (SAVE) for Students Act.

10-YEAR SAVINGS: Up to \$210 billion, assuming the SAVE IDR plan has not been invalidated by the courts ([Congressional Budget Office \(CBO\)](#)).

II. Reform Grad PLUS Loans

Background: A distinguishing feature of federal lending for graduate and professional education is that, unlike undergraduate student loans, there are currently no statutory or regulatory limits for Grad PLUS loans. The only limit is that these loans cannot exceed a student’s cost of attendance, which is determined by the institution.

Problem: The price of graduate programs is directly influenced by the availability of federal loan subsidies. The more federal aid has become available, the higher the cost of a typical graduate program has [soared](#) even though the value of the degree has not.

Solution: Congress can address this out-of-control pricing while still ensuring opportunity for students to access a graduate program of their choice by following the lead of Rep. Virginia Foxx’s (R-NC) College Cost Reduction Act and establishing reasonable limits for graduate student loans. For example, setting a lifetime cap of \$100,000 for Graduate Stafford loans for non-professional degree programs and \$150,000 for professional degree programs, while eliminating Grad PLUS loans, would still cover the expenses of [95%](#) of today’s Grad PLUS borrowers, while forcing the priciest graduate programs to address their high costs of attendance and prove their worth to students.

10-YEAR SAVINGS: \$40 billion ([CBO](#)).

III. Create Performance Standards for Title IV Funding

Background: Title IV of the Higher Education Act authorizes programs that provide financial assistance to students to aid them in obtaining a postsecondary education at qualifying institutions of higher education. Title IV financial assistance is the largest source of federal aid to postsecondary students, and the Title IV eligibility and participation requirements for institutions establish a framework of federal oversight for a significant portion of postsecondary schools.

Problem: Overall, just 6 in 10 students graduate within 6 years of entering school—and even when they graduate, some students find that the credential they earned is scarcely worth the paper on which it was printed. While the primary penalty for institutions that have outcomes like high student loan default rates is the loss of federal financial aid eligibility, there are no real incentives for higher performance.

Solution: Congress can use reconciliation to create a simple but effective accountability system by prohibiting undergraduate or certificate programs from receiving federal student aid if most of the program’s former students are unable to earn a salary higher than a typical high school graduate. It can also prohibit graduate programs from receiving federal student loans if most of the program’s former students are unable to earn more than a typical bachelor’s degree graduate. This reform is included in Senators Bill Cassidy’s (R-LA) and John Cornyn’s (R-TX) Streamlining Accountability and Value in Education (SAVE) for Students Act. Another approach would be to expand the existing Gainful Employment regulation, which sets performance requirements for some programs, to all programs and institutions.

10-YEAR SAVINGS: Likely between \$5 billion and \$20 billion ([derived from CBO estimates](#)).¹

IV. Repeal Limitation on Recapture of ACA Exchange Subsidy Overpayments

Background: The Affordable Care Act of 2010 (ACA) established the advanced premium tax credit (APTC) to subsidize the purchase of health insurance. The APTC is a refundable, *advanceable* tax credit for individuals who enroll in a health insurance plan through a marketplace and is intended to help with the insurance cost for those between 100-400% of the federal poverty level. APTCs are available on a sliding scale using projected household income to determine eligibility, and payments are made directly to the health insurance company and reduce the out-of-pocket cost of the taxpayer's premiums. Because the credit is advanceable and determined at a time when the most recent tax return is two years prior to the year of eligibility, the amount is based on the individual's best estimate of their future income.

Problem: If a taxpayer's estimated income differs from actual income such that the taxpayers received a larger APTC than actual income would have justified, the taxpayer must repay a portion of the excess subsidy, but the amount of the repayment amount is limited by statute. This means that some taxpayers end up receiving a [larger subsidy](#) than their current year income makes them eligible for.

Solution: Eliminate the limit on repayment of excess APTCs so that beneficiaries receive only the subsidy amount to which their actual incomes entitle them.

10-YEAR SAVINGS: Outside estimates range from \$47 billion ([Penn Wharton Budget Model \(PWBM\)](#)) to \$96 billion ([Tax Foundation and Bipartisan Policy Center \(BPC\)](#)).

V. Repeal IRA Expansion of Electric Vehicle (EV) Tax Credit

Background: Before the Inflation Reduction Act (IRA), the electric vehicle (EV) tax credit offered a maximum credit of \$7,500 per electric vehicle, targeted to vehicles made by new manufacturers, and with a per-manufacturer limit. The IRA made several changes to EV credits, including removing the per-manufacturer limit and introducing credits for used EVs and for commercial EVs. It also introduced requirements that final assembly of electric vehicles must occur in North America and that significant portions of critical minerals and battery components must be extracted, produced, or manufactured in North America or in a country with whom we have a free-trade agreement.

Problem: While the initial cost estimate for the EV credits was approximately [\\$12.3 billion](#), subsequent savings estimates have far [exceeded](#) that amount, in part due to expanded tailpipe emissions requirements that are expected to push people to buy electric cars. Recent research suggests that while IRA subsidies have advanced vehicle electrification and limited foreign competition, 75% of the EV subsidies claimed under the IRA have gone to consumers who would have bought an electric vehicle anyway. The researchers estimate that the government spends [\\$32,000](#) for each additional EV sold.

Additionally, a loophole allows dealers to apply the subsidy to leases of foreign-made electric vehicles.

Solution: Repeal the IRA's modifications to EV credits.

10-YEAR SAVINGS: \$100 billion ([Joint Committee on Taxation 2023](#)).

VI. Eliminate Interest Rate Arbitrage in the Thrift Savings Plan G Fund

Background: The G Fund is an investment vehicle available through the Thrift Savings Plan (TSP), the defined contribution plan for Federal employees. G Fund investors benefit from receiving a medium-term Treasury bond rate of return on what is essentially a short-term security, meaning the return includes a risk premium for a risk that investors do not actually bear.

Problem: During times when the yield curve is normal, this leads to an investment that is inappropriately high-return and low-risk—in effect an interest rate subsidy by federal taxpayers to federal employees.

Solution: Base the G Fund yield on a short-term T-bill rate, which reflects the risk profile.

10-YEAR SAVINGS: \$47 billion ([House Budget Committee](#)).²

Health Care

VII. Advance Comprehensive Site-Neutral Payment Reforms

Background: Right now, patients and taxpayers are charged billions of dollars more simply because of where they receive care. Medicare currently pays [two to four times more](#) for a given service provided in a hospital outpatient department than they do when that same service is delivered in a physician's office. Hospitals have been buying up physician practices and rebranding them as hospital outpatient departments to bill for the same services at the higher hospital rate—even when the doctor remains the same.

Congress took initial steps to address this payment differential in the Bipartisan Budget Act (BBA) of 2015, which implemented the lower “site-neutral” payment rates in Medicare for services provided at *new* off-campus hospital-owned outpatient departments built after the BBA's enactment. However, most off-campus services delivered at “grandfathered” hospital-owned outpatient departments that existed before 2015 continue to be paid at the higher hospital rate. Moreover, on-campus services also continue to be paid a higher hospital rate even when those services are being provided safely and effectively in a lower-cost physician office setting.

Problem: Paying higher prices for the same services depending on the site of care increases spending for taxpayers and Medicare beneficiaries. This payment differential also creates a financial incentive for further consolidation as hospitals buy physician practices to charge higher prices for the same services. Increased hospital consolidation stifles competition, reduces choice, and drives up prices including in the commercial insurance market. Over time, care has shifted from lower-cost physician offices to higher-cost hospital outpatient departments, even for less-complex services like office visits or MRIs.

Solutions: Congress could enact comprehensive site-neutral payment reform by equalizing payments for a specific set of low-complexity, routine services across settings (including on-campus facilities). That reform would require Medicare to pay a site-neutral rate for certain services based on the lowest-cost

setting where they are most commonly performed, whether a hospital outpatient department, ambulatory surgical center, or physician’s office. Alternatively, a less comprehensive solution would be to eliminate the grandfathering exemption for off-campus hospital-owned outpatient departments created prior to the 2015 BBA. The Medicare Payment Advisory Commission (MedPAC) has identified a number of potential services that could be included in such a policy. President Trump included similar policies in his [FY21 budget](#), and Senators Cassidy and Hassan developed a bipartisan legislative [framework](#) for comprehensive site-neutral payment reforms in late 2024.

10-YEAR SAVINGS: \$157 billion ([CBO](#)). The savings achieved by this policy can be dialed by paying for a more or less expansive set of services on a site-neutral basis. Eliminating the grandfathering exemption alone saves about \$30-40 billion ([Committee for a Responsible Federal Budget \(CRFB\)](#), [CBO](#)). Site-neutral payment would also reduce out-of-pocket costs for Medicare beneficiaries.

VIII. Reduce the Payment Benchmark for Medicaid State Directed Payments

Background: Medicaid is an important safety-net program that provides coverage to roughly 80 million Americans. The federal government and states split the cost of the program, but many states use financing gimmicks to increase federal spending and increase Medicaid payments to powerful provider interests. States that use Medicaid managed care plans are generally not permitted to specify the amount or how contracted providers are paid, unless directing the payment furthers the state’s overall Medicaid program goals and objectives (*e.g.*, value-based payments)—payments made under this exception are called “state-directed payments.” CMS finalized a rule in 2024 that articulated its long-standing policy that state-directed payments to hospitals and nursing homes could be paid at average commercial rates. Only a few states have approved state-directed payment at this level, though many states are considering similar approaches since the rule was finalized.

Problem: Allowing the Medicaid program to pay average commercial rates to hospitals and nursing homes increases Medicaid program costs and puts upward pressure on commercial prices in states. A significant body of research has found that commercial hospital rates are on average over twice what Medicare would pay for the same service. Commercial rates often exceed Medicaid and Medicare rates because many providers have consolidated market power that allows them to set prices without competition. Additionally, average commercial rates are higher than equivalent Medicaid allowable payments made in fee-for-service, which are limited to the Medicare rate. We anticipate the impact on the number of people with health insurance coverage to be minimal.

Solution: Align payment parameters in Medicaid fee-for-service and managed care and lower the benchmark for state directed payments to what Medicare would pay.

10-YEAR SAVINGS: Up to \$120 billion ([CBO](#)).

IX. Extend Drug Price Inflation Penalties to Commercial Plans

Background: Prescription drug manufacturers pay a penalty when a drug's price increases faster than the rate of inflation in both Medicare and Medicaid. These penalties slow the growth of both list prices (*i.e.*, the sticker price for a drug before discounts) and net drug prices (*i.e.*, prices health plans pay for drugs after rebates) over time. The copayments that consumers pay in Medicare Part D and in many commercial plans are based on "list" prices. Health plans pay net prices for brand-name drugs and effect plan premiums and overall spending on prescription drugs.

Problem: Brand-name drug list and net prices have grown much faster than inflation for Medicare and commercial plans. This has raised health care spending for the taxpayer and also increases beneficiary out-of-pocket costs, which impedes access and adherence to needed medications. While Medicare now has an inflation penalty that discourages excessive drug price growth, commercial plans do not.

Solution: Extend the drug price inflation penalty to commercial plans in order to reduce health care costs for families and employers.

10-YEAR SAVINGS: About \$40 billion (derived from several [CBO publications](#) on inflation penalties).³ These are savings to the federal budget and are adjustable depending on the base year set to begin the penalty. Savings for employers and families would be much greater.

X. Modify Risk Adjustment Payments to Medicare Advantage Insurers

Background: Medicare Advantage (MA) is an alternative to traditional Medicare (TM) run by private insurance companies that represents [more than half](#) of Medicare enrollment. The Medicare program pays MA insurers a risk-adjusted, set amount to pay for their enrollees' care. Enrollee risk scores are based on recorded diagnoses that insurers submit for their enrollees, and insurers receive higher payments for enrollees with higher risk scores. This creates strong financial incentives for MA insurers to make their patients appear sicker than they actually are relative to similar beneficiaries in traditional Medicare. Health risk assessments and chart reviews are two tactics that MA insurers use to add diagnosis codes. They are a major driver of upcoding and often [result](#) in additional reported diagnoses for which patients receive no follow-up care.

Problem: While the MA program was created with the intention of delivering efficiencies and cost-savings to the Medicare program, it has never produced savings relative to TM and in fact costs the program substantially [more per enrollee](#) than TM, contributing to Medicare's fiscal [challenges](#) and threatening its solvency. Upcoding is a major driver of overpayments to MA insurers.

MedPAC estimates that upcoding will result in about [\\$40 billion](#) in excess payments to MA insurers in 2025. Numerous [lawsuits](#), [audits](#), and [investigations](#) have documented abusive and fraudulent billing practices by MA insurers. In some cases, insurers are coding [diagnoses](#) for which a beneficiary receives no treatment.

The billions in overpayments to MA insurers each year due to upcoding increase Medicare spending and threaten the solvency of the Medicare trust fund. They also increase Medicare premiums for all beneficiaries including beneficiaries in traditional Medicare who are not even enrolled in MA plans.

Solutions: Fully account for upcoding in MA by increasing the statutory minimum coding intensity adjustment that reduces payments to MA plans based on the coding differential between MA and TM. This policy should be implemented in a way that accounts for coding differences across MA plans, as some MA insurers code much more aggressively than others. Additionally, exclude health risk assessments and chart reviews as sources of diagnoses and use two years of diagnostic data for MA risk adjustment.

10-YEAR SAVINGS: Increasing the coding intensity adjustment could reduce Medicare spending by up to \$1 trillion ([CBO](#)). The coding intensity adjustment can be dialed to achieve a specific level of savings. Improving risk adjustment by excluding information from HRAs and chart reviews and using two years of data would save \$124 billion ([CBO](#)).

Top Ten Tax Loophole Closers

I. Apply the State and Local Tax Deduction (SALT) Cap to Businesses

Background: The SALT cap was one of the largest base-broadening provisions in the TCJA. When preparing their income tax returns, individual taxpayers may choose to take the standard deduction—a flat dollar amount—or to itemize and deduct certain expenses, such as state and local property taxes, and either income or sales taxes from their federal taxable income, reducing their federal tax burden. The TCJA capped the SALT deduction at \$10,000 per tax return. For more background information on the SALT deduction, see the [Bipartisan Policy Center’s SALT explainer](#).

An unlimited SALT deduction [incentivizes](#) state and local governments to raise taxes because their own residents only bear a portion of the burden, with federal taxpayers bearing the remainder. For example: if a state raises income taxes by \$100, an unlimited SALT deduction means that an individual in the 37% federal bracket would only pay a net tax increase of \$63—with federal taxpayers providing the other \$37 through higher federal tax rates. Eliminating or capping the SALT deduction allows lower rates for everyone, while ensuring that voters in jurisdictions that raise taxes bear 100% of the burden of those tax increases.

Before the TCJA, the SALT deduction was the fifth-largest deduction, costing the government \$69 billion in 2017 alone—and if the cap is allowed to expire, [\\$139 billion](#) in 2026 alone. The SALT deduction also favors high-income taxpayers, with [94%](#) of the benefit going to households making over \$200,000 per year.

Interactions with other TCJA provisions: The TCJA also doubled the standard deduction, which limited the number of people who itemize their taxes—in turn, limiting the impact of the SALT deduction cap on middle-income taxpayers. The individual Alternative Minimum Tax (AMT) limits the deductions taxpayers can take, as does the “Pease” limit. The TCJA temporarily suspended the Pease limit and shielded taxpayers earning less than \$1 million from the AMT, thus blunting the impact of the SALT cap. For more on these interactions, see the Tax Foundation’s [blog](#) on the impact of repealing the SALT cap.

Problems:

- The SALT cap currently applies only to individuals, and not C corporations, which continue to enjoy unlimited SALT deductions. Because the income of pass-through businesses (such as partnerships and S corporations) is taxed in the hands of the owner, individual business owners are often subject to the SALT cap even though the C corporations with which they compete are not.
- Additionally, numerous states have adopted workarounds to defeat the purpose of the cap. These [workarounds](#) allow individual owners of pass-through entities to avoid the cap, leading to inconsistent application of the cap across the country and significant erosion of the federal tax base.

Solutions: Extend the SALT cap to C corporations and close the loophole for state workarounds for pass-through businesses.

10-YEAR SAVINGS: Estimates range from \$610 billion for extending the cap to corporations and ending state workarounds ([Tax Foundation and BPC](#)) to \$823 billion just for extending the cap to C corporations ([PWBM](#)). Note that much of the revenue comes from capping property taxes—limiting the cap to state corporate income taxes likely would raise roughly \$200 billion.

II. Repeal Employee Retention Tax Credit

Background: Enacted as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Employee Retention Tax Credit (ERTC) is a pandemic-era tax credit designed to help businesses remain open and their staff employed during the height of the COVID-19 outbreak and subsequent economic recession. The credit was expanded in 2020 and again in early 2021, allowing employers to claim up to \$28,000 per retained employee for wages paid through July 2021. Businesses can claim the credit retroactively by filing amended returns within three years of their original filing, meaning wages paid through July 2021 can be claimed until April 2025.

Problem: Since the COVID-19 pandemic, the credit has become a target for fraud, leading to the IRS issuing a moratorium on processing claims. As a result of this fraud, the cost of the ERTC has far surpassed initial projections; the original credit was estimated to cost \$55 billion, but private estimates suggest the tab could exceed [\\$550 billion](#). The House-passed, bipartisan Tax Relief for American Families and Workers Act (TRAFWA), which failed to overcome a filibuster in the Senate, included the credit's repeal and increased penalties for fraudulent claims.

Solution: Expand the statute of limitations for the IRS to pursue fraudulent or erroneous ERTC claims and prohibit new claims after January 2024.

10-YEAR SAVINGS: \$77 billion ([PWBM](#)).

III. Repeal Tax Deduction for Round-Tripping

Background: TCJA effectively blocked many of the avenues that corporations used to shift money overseas and avoid U.S. taxes. Before 2017, companies created complex tax arrangements to artificially manipulate profit location. The evidence shows that this is more difficult for taxpayers today in part because the TCJA imposed the world's first foreign minimum tax—the Global Intangible Low Taxed Income (GILTI) tax—at a rate of 10.5% (half of the 21% U.S. corporate tax rate) on the foreign subsidiaries of U.S. companies. This reduced rate was low enough to allow American companies to remain competitive in foreign markets, but high enough to discourage the most aggressive tax haven schemes.

Multinational corporations, however, can still avoid tax on U.S. sales by employing a round-tripping strategy, whereby a U.S. company transfers intellectual property (IP) to its foreign subsidiary in a tax haven. This foreign affiliate holds the IP, which the multinational uses to manufacture goods outside the United States that are then sold back into the U.S. market. In effect, the IP's value has "round-tripped" from the U.S. to another country and then returned to the U.S. as revenue from sales. This strategy allows the multinational to shift profits to lower-tax jurisdictions and only pay the lower GILTI rate rather than the full 21% corporate rate, even though the multinational is a U.S. company selling to the U.S. market.

The U.S. pharmaceutical industry—which relies heavily on round-tripping structures—previously argued against closing this loophole on the grounds that it would put them at a competitive disadvantage with foreign pharma companies. However, the facts have changed: a recent [study](#) finds that, while U.S. and foreign pharmaceutical firms faced nearly identical effective tax rates of 24% before 2018, U.S. pharmaceutical firms have since seen their effective tax rates drop below 18% as those of their foreign competitors have "stay[ed] almost constant." This means closing the round-tripping loophole would no longer put U.S. pharma at a disadvantage.

Problem: Round-tripping creates an uneven playing field between Main Street businesses that must pay the full U.S. tax rate on their profits from sales to U.S customers and multinational corporations with round-tripping structures, which pay the lower GILTI rate (as low as 10.5% in some cases).

Solution: Limit the lower rate for GILTI to the portion of such income derived from serving foreign markets, thus taxing profits “round-tripped” back into the United States at the full 21% corporate rate.

10-YEAR SAVINGS: \$69 billion ([PWBM](#)).

IV. Tax University Endowment Investment Income at Same Rate as Corporations

Background: The TCJA imposed a new tax on certain private nonprofit colleges and universities. Institutions enrolling at least 500 students that have endowment assets exceeding \$500,000 per student (other than those assets used directly in carrying out the institution’s exempt purpose) pay a tax of 1.4% on their endowments’ net investment income.

Problem: Endowment excise tax collections are equivalent to about [0.3%](#) of endowment spending of all (private and public) institutions with billion-dollar endowments.⁴

According to the 2023 NACUBO-Commonfund Study of Endowments, the market value of US college and university endowments has nearly doubled over the past decade, from \$447.5 billion in 2013 to \$836.6 billion in 2023. The average size of university endowments more than doubled, from \$539.8 million in 2013 to \$1.22 billion in 2023. The latest NACUBO data shows that the average 10-year return on the investments of both public and private endowments was 7.2%—yet endowments are only spending an average of 4.4% of their annual assets toward operations and student subsidies.

Rather than draw from their endowments to fund expansion and infrastructure projects, many of the largest universities are using municipal bonds, borrowing at interest rates less than 5%. Researchers have determined that “universities have increasingly used debt as a tool to cater to student demand for increasing amenity quality, with no evidence of spillovers to education quality.”

Solution: For the elite institutions subject to the university endowment net investment income tax, set the tax rate equal to the corporate tax rate (currently 21%). This proposal mirrors the Endowment Tax Fairness Act recently introduced by Reps. Troy Nehls (R-TX) and Lauren Boebert (R-CO). In addition, the list of institutions subject to this tax in a given taxable year should be made public.

10-YEAR SAVINGS: \$70 billion ([Tax Foundation](#)).

V. Reduce Tax Preference for Stock Buybacks Over Dividends

Background: Corporations distribute income to shareholders through either dividends or stock buybacks, with stock buybacks offering a more favorable tax treatment compared to dividends. This has created a distortion in which corporate distribution decisions are made for tax reasons rather than economic reasons. Buybacks have grown rapidly since the early 1980s, when the Securities and Exchange Commission made open market repurchases easier. The IRA has since imposed a 1% excise tax on buybacks, but buybacks remain tax-advantaged compared to dividends.

The Penn Wharton Budget Model estimates that a stock buyback excise tax rate of [4.6%](#) would achieve tax neutrality between buybacks and dividends, indicating room for an increase without discriminating against buybacks relative to dividends.

Problems: Dividends are taxed immediately in the hands of shareholders, whereas shareholders can avoid immediate taxes on buybacks by not selling their shares, allowing them to defer and potentially reduce taxes by timing sales strategically—and possibly even achieve a full tax exemption by holding until death and receiving a full step-up in basis.

In addition, the trend among publicly traded corporations to transfer profits to shareholders through buybacks (which typically result in capital gain) instead of dividends (which typically result in dividend treatment) has the potential to erode the U.S. tax base. Whereas foreign shareholders' dividend income is generally subject to a 30% withholding tax, foreign shareholders' capital gains are not subject to federal income tax.

Solution: Increase the excise tax to 2% or 4%.

10-YEAR SAVINGS: Increasing the rate to 2% yields \$88 billion, while raising it to a 4% rate yields \$246 billion ([PWBM](#)).

VI. Restore the Original Intent of the Section 199A Deduction

Background: During TCJA negotiations in 2017, Congress sought to provide pass-through business owners with tax relief such that their business income would only be taxed at 80% of the ordinary statutory tax rates imposed by the individual rate structure. To do so, it added a new deduction for pass-through businesses under Code Section 199A, which allows individual business owners to deduct 20% of their qualified business income (QBI) from their taxable income.

Problem: The deduction first applies to income in the top bracket—then when that is exhausted, to income in the second-highest bracket, and so on (rather than the deduction being distributed evenly among income in the different brackets). Therefore, the result for some business owners is a tax reduction that *exceeds* the 20% intended by Congress.

Solution: Eliminate the unintended excess benefit—and achieve the 20% marginal tax rate reduction Congress intended back in 2017—by replacing the deduction with a separate rate structure for QBI, where rates on QBI are 80% of the ordinary rates. (For example, the top QBI rate would be 29.6% instead of 37%, and the bottom QBI rate would be 8% instead of 10%.) The preferential rate structure would be subject to limitations for taxpayers with income above certain thresholds, mirroring the existing Section 199A “guardrails.”

10-YEAR SAVINGS: \$82 billion ([PWBM](#)). Note that this proposal is not a revenue raiser per se, but rather a modest reduction in the cost of making Section 199A permanent.

VII. Impose Excise Tax on Buy-Borrow-Die Transactions

Background: Taxation of capital gains only occurs after a realization event, permitting owners of assets to defer their tax liability by holding them indefinitely. In addition, the rule providing for the step-up of an asset’s basis to fair market value at the time of death can convert this deferral into a permanent exemption. Increasingly, wealthy individuals are taking advantage of these features of the tax code by borrowing against their unrealized gains and thus monetizing those gains so that the gains can be used for consumption without triggering a taxable event. The “Buy, Borrow, Die” strategy involves buying assets such as stocks that appreciate in value, borrowing against the appreciation at a low interest rate, and eventually passing the assets down to heirs free of any income tax.

Problem: This tax avoidance strategy violates principles of horizontal equity by favoring taxpayers with substantial accumulated unrealized gains over taxpayers who buy and sell appreciated assets more frequently. In so doing, it encourages a “lock-in effect” whereby investors hold onto assets much longer than they would otherwise, thus allocating capital not to its most productive uses but rather to its most tax-efficient uses. In addition, it manipulates the realization requirement to achieve a result similar to realization (access to cash) without triggering a tax obligation.

Solution: An excise tax on loan proceeds secured by appreciated securities (securities-backed lines of credit, or SBLOCs) and received by the taxpayer for personal use and consumption would be a solution that specifically targets this practice and avoids the pitfalls of broader proposals. Several categories of borrowing could be exempt from the excise tax, including trade or business debt, investment debt (including margin trading), passive activity debt, personal home mortgage debt, and student loan debt.

10-YEAR SAVINGS: According to published BPC/Tax Foundation [analysis](#), a 1% excise tax rate on BPC’s version of the proposal yields \$93 billion.

VIII. Repeal or Limit Qualified Small Business Stock Exemption

Background: The exclusion of gains on Qualified Small Business Stock (QSBS) permits early-stage venture capital firms and angel investors in high-tech startups—as well as those startups’ founders and early employees—to avoid paying federal income tax on the capital gains from the sale of early-issued shares held for at least five years. The total amount of excluded gain is limited to \$10 million or 10 times the basis in the stock, whichever is greater.

Problem: No compelling evidence exists that the policy has increased the flow of equity capital to eligible small firms. Instead, it has served as a windfall to investors in corporations that already have a large market value and easy access to capital, primarily in the technology sector. In addition, taxpayers have figured out how to game the rules to multiply the gains they are able to exclude—for example, by “stacking” share ownership among multiple family members to circumvent the \$10 million/10 times basis limitation on the exclusion.

SOLUTIONS AND 10-YEAR SAVINGS: Repealing the exclusion entirely would save \$81 billion ([Yale Budget Lab](#)). Modifying the exclusion to require a 7-year holding period for the full 100% exclusion, a 6-year holding period for a 75% exclusion, and a 5-year holding period for a 50% exclusion would save \$9 billion ([Yale Budget Lab](#)).

IX. Limit Mortgage Interest Deduction

Background: The Mortgage Interest Deduction (MID) grants homeowners the ability to deduct mortgage interest paid on either their first or second residence. The TCJA limited the interest deduction to the first \$750,000 in principal value, down from \$1 million. Evidence suggests that the 2017 limitation has not translated to reduced mortgage participation. In addition, due in part to the TCJA’s increase in the standard deduction, the limitation had [little impact](#) on middle-income homeowners: “the benefits of the deduction continue to primarily flow to higher-earning, itemizing taxpayers.” The [Tax Foundation](#) finds little evidence that limiting the MID would reduce homeownership rates.

Problem: Increased demand spurred by the MID can also lead to increased housing costs, thus making the dream of homeownership *less* affordable for first-time homebuyers such as young families. An overly generous MID also diverts capital from productive uses such as entrepreneurship to owner-occupied housing, which reduces long-run economic growth.

Solution: Further reduce TCJA’s limit of \$750,000 to \$500,000 for new mortgages, as the House-passed version of the TCJA did in 2017.

10-YEAR SAVINGS: \$130 billion ([CRFB](#)).

X. Repeal Head of Household Filing Status (and Increase Child Tax Credit)

Background: When filing tax returns, individuals must indicate their filing status, such as married, single, or head of household (HoH), which determines which tax bracket thresholds they use to calculate their tax liability. Unmarried individuals typically file as either single or HoH. Filing as HoH provides certain tax advantages that are unavailable to those filing as single, including a larger standard deduction, lower tax rates applied to a greater portion of income, and eligibility for certain tax preferences at higher income levels. Unmarried individuals can qualify for HoH filing status if they pay the majority of the household costs and live with a qualifying person for more than half the year.

Problems: HoH filing status is one of many adjustments in the tax code for parents—including the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). This alternative filing status adds unnecessary complexity to tax filing for parents. In addition, high-income households accrue [larger benefits](#) from this filing status. Finally, HoH filing status [embeds](#) a marriage penalty in the tax code and fails to account for multiple children.

Solution: Eliminate the HoH filing status and channel some of the savings into improvements to the CTC, such as the provisions of the House-passed Tax Relief for American Families and Workers Act of 2024. This trade-off would protect low-income households from seeing a net tax increase.

10-YEAR SAVINGS: \$346 billion ([BPC and Tax Foundation](#)), most of which would be re-allocated to an enhanced CTC.

Conclusion

Combining these savings proposals with extensions of pro-growth tax policies represents a pathway toward a stronger and more sustainable economic framework that benefits all Americans. By eliminating waste, closing loopholes, and ensuring that fiscal policies are both equitable and effective, these proposals provide a blueprint for securing long-term economic growth and stability.

Several other organizations have introduced their own recommendations for offsets, offering valuable perspectives and innovative approaches to secure the necessary savings to fully pay for TCJA permanence. We strongly encourage a robust exchange of ideas as policymakers proceed with their deliberations.

Endnotes

- 1 CBO estimates current Gainful Employment rule to save \$9 billion over 10 years. Given this only applies to a subsection of programs, applying this savings across all programs could save somewhere in that range in additional savings.
- 2 The document originated with the House Committee on the Budget. The savings might change under the new CBO baseline, which projects a different yield curve for Treasury debt.
- 3 On August 5, 2022, CBO estimated the inflation penalty that included both Medicare and the commercial sector. The savings to Medicare were \$52 billion and the increase in revenues were \$38 billion, which resulted in a total of \$100 billion reduction in deficits. When the commercial sector inflation penalty was removed, CBO estimated on September 7, 2022 that the savings to Medicare was \$56 billion and the increase in revenues (with no commercial rebate) was just \$6.8 billion, which results in a \$60 billion reduction in deficits. We subtracted these two scores to get a \$40 billion savings from the commercial inflation penalty as a standalone policy.
- 4 U.S. and Canadian 2023 NCSE Participating Institutions Listed by Fiscal Year 2023 Endowment Market Value, Change in Market Value from FY22 to FY23, and FY23 Endowment Market Values Per Full-time Equivalent Student

