



Tax News & Views

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Shutdown threat grows amid partisan clash over federal funding

With appropriations for the federal government set to lapse in less than two weeks, Congress this week saw some action, but not much progress, toward preventing a partial government shutdown at the end of the month. The House of Representatives passed a Republican leadership-drafted continuing resolution (CR) – titled Continuing Appropriations and Extensions Act, 2026, [text](#) – by a vote of 217-212. The measure would fund the federal government at current levels through November 21 and would include provisions for enhanced lawmaker security and fulfill the White House’s request for increased security for other federal officials’ protection.

Although several Republican lawmakers expressed skepticism or opposition earlier in the week, Speaker Mike Johnson (R-La.) ultimately secured enough support to pass the bill, despite having a narrow margin for dissent. Adding momentum to the effort, President Trump

weighed in, urging House Republicans to support a “clean” CR, framing it as a necessary move to prevent a government shutdown and to unify the party against Democratic opposition.

Notably absent from the text of the CR was any extension of the premium tax credit enhancements, a priority for many Democratic lawmakers in both the House and Senate. Originally enacted under the Affordable Care Act ([P.L. 111-148](#)), the credit helps qualifying individuals and families to afford health coverage obtained through the Health Insurance Marketplace, also known as the Exchanges. These subsidies were later expanded through the American Rescue Plan Act ([P.L. 117-2](#)) and the Inflation Reduction Act ([P.L. 117-169](#)) to broaden eligibility and increase the subsidy benefit. These enhancements are currently set to expire for tax years beginning after December 31, 2025. (For prior coverage, see [Tax News & Views](#), Vol. 26, No. 37, Sept. 12, 2025.)

Democrats counter with their own proposal

In response to the House Republican leadership-drafted CR, Democrats introduced their own short-term funding proposal – the Continuing Appropriations and Extensions and Other Matters Act, 2026 ([text](#)), which would fund the government through October 31. This measure includes a permanent extension of the premium tax credit enhancements and reverses Medicaid cuts enacted under the law commonly referred to as the One Big Beautiful Bill Act (OBBBA, [P.L. 119-21](#)). While not expected to pass on its own, Democrats hope the bill serves to facilitate further negotiations in the broader debate over government funding and health care policy.

It is worth noting that the nonpartisan Congressional Budget Office (CBO) recently [estimated](#) that permanently extending the expanded premium tax credit would increase the federal deficit by approximately \$350 billion over the 2026-2035 period, while also expanding health insurance coverage to an estimated 3.8 million additional people in 2035.

The Senate and an uncertain path forward

With less than two weeks before federal funding expires, the Senate has already rejected both parties’ proposals to keep the government open. On September 19, the Senate held “side-by-side” votes on competing short-term funding proposals – one introduced and drafted by the Democrats and the other being the House-passed Republican CR. Both measures fell short of the required 60-vote threshold. Further complicating the path to a deal, both chambers of Congress are scheduled to be in recess during the week of September 22, significantly narrowing the window for negotiations ahead of the September 30 funding deadline. As such, the time available to strike a deal is even shorter than it appears. That said, the coming days will be critical in determining whether Congress can reach a compromise – or if the government will once again face a funding lapse.

With the Senate now forced to respond to the failed votes, attention has turned to how lawmakers will proceed. Passage of annual appropriations legislation requires at least 60 votes – beyond the Republican majority of 53 – making bipartisan support essential. With that in mind, Senate Majority Leader John Thune (R-S.D.) has called the measure a “clean CR” and has repeatedly noted that Democrats have traditionally supported these types of measures in the past.

“I’m hopeful that they will again, come to their senses and there will be some Democrats at least who will give us the 60 votes that are necessary to keep the government open,” Thune told reporters earlier in the week.

Amid rising tensions, Republican leaders – particularly Speaker Johnson and Leader Thune – have sought to draw a firm line, insisting that negotiations over extending the enhanced premium tax credit must be part of a longer-term budget deal – and not added to a short-term CR.

The other side of the aisle: Meanwhile, Senate Democrats have voiced opposition to the House-passed CR, citing its failure to address health care priorities. Senate Minority Leader Chuck Schumer (D-N.Y.) warned of a “cliff on the ACA credits,” predicting a “sharp spike” in health care costs if the enhancements to the credit are not extended.

Schumer argued that the Democratic-backed proposal offers a more responsible and comprehensive approach than the Republican-measure, telling reporters that “[w]e are confident that when the American people contrast these two proposals, they’re going to side with us.”

This marks a shift from earlier this year. In March, Schumer frustrated many Democrats by speaking out against a Republican-drafted spending measure to prevent a government shutdown before ultimately supporting it. Now, Democratic leadership appears more unified. Both Schumer and House Minority Leader Hakeem Jeffries (D-N.Y.) issued a joint statement signaling alignment ([statement](#)) in opposition

of the Republican spending bill. However, with both Democratic and Republican proposals having failed, Democrats – like their GOP counterparts – may now need to reassess their position.

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Taxwriters probe community benefit practices of tax-exempt hospitals

The House Ways and Means Oversight Subcommittee held a hearing on September 16 and examined how tax-exempt hospitals meet the community benefit standard – particularly how they allocate resources to serve public needs and justify their tax-exempt status.

To qualify for tax-exempt status under section 501(c)(3), hospitals must not only meet the general requirements of that section, they must also meet a community benefit standard by promoting the health care needs of a broad class of individuals that the hospital serves based on all relevant factors, including providing charity care, operating an emergency room open to all (regardless of ability to pay), and reinvesting surplus funds into facility improvements, medical education and research.

As lawmakers reviewed these obligations, they explored whether current practices and reporting adequately reflect the value tax-exempt hospitals provide to their communities.

Community benefit or not?

Many members highlighted the contributions of tax-exempt hospitals in their districts, citing services such as professional education, charity care, and free health care screenings. These remarks came from both Republican and Democratic taxwriters, including Reps. Nicole Malliotakis (R-N.Y.), Max Miller (R-Ohio), Judy Chu (D-Calif.) and Thomas Suozzi (D-N.Y.). Rep. Suozzi aligned himself with Rep. Malliotakis – his fellow New York colleague – echoing her commendation of nonprofit hospitals in her district, while also extending that praise to nonprofit hospitals in his own district and in the state of New York.

However, while acknowledging that tax-exempt hospitals have an obligation to provide charitable benefits to their communities in exchange for favorable tax treatment, some taxwriters questioned whether those benefits are commensurate with the scale of the exemptions received. For example, House Ways and Means Committee Chairman Jason Smith (R-La.) maintained that, based on data from 2020-2022, more than half of such hospitals received more in tax benefits than they returned to their communities in charitable services.

Witness William Hild, executive director of Consumer Research, suggested this imbalance may stem from hospitals drifting away from their core mission of health care. He cited the growing involvement in what he considered to be unrelated areas – such as real estate; Diversity, Equity, and Inclusion (DEI) and other social initiatives – referring to it as “mission creep.”

Offering a contrasting view, Rep. Chu emphasized the value of tax-exempt hospitals, stating they deliver approximately \$10 in community benefits for every \$1 received in federal tax advantages. She noted that these nonprofit hospitals often provide a disproportionate share of essential but financially unsustainable services – such as burn units and trauma centers – citing industry data to support her claim.

Tax exemption rules

As lawmakers examined the responsibilities of tax-exempt hospitals, several raised concerns about the adequacy and clarity of existing rules and regulations – particularly the standards used to determine the community benefit.

Rep. Beth Van Duyne (R-Texas) questioned the sufficiency of current IRS guidelines, describing them as “vague” and “limited,” with specific reference to the community benefit standard, and asked whether the standard should be revised. Witness Hild said that hospitals should be held “accountable,” emphasizing the need for a clear connection between hospital activities and direct outcomes.

Van Duyne added that “[w]hen Congress delegates broad authority without sufficient oversight, agencies like the IRS can create policies that foster confusion, unfairness and added bureaucracies in our health care system.” She emphasized that it is now Congress’ “responsibility to

make sure those standards are clear, enforceable, and aligned with the needs of the patients and the community.” (The rules governing the community benefit standard are described in Rev. Ruls. [69-545](#) and [83-157](#).)

During the hearing, Rep. Rudy Yakym (R-Ind.) raised questions about the adequacy of current reporting requirements – particularly how hospitals document their community benefit activities. He referenced [Form 990](#) and [Schedule H](#) which are key tools used by tax-exempt hospitals to report this information, and questioned whether these filings sufficiently ensure compliance with the community benefit standard.

Dr. Christopher Whaley, PhD, associate director at The Center of Advancing Health Policy through Research at Brown University, expressed concern that – as to Schedule H – the requirements for hospitals are insufficient. He noted that many tax-exempt hospitals are part of larger health systems and often are reported at the system level, making it difficult to assess the community benefits provided by individual hospitals. To improve reporting, Whaley called for including a line item breakdown of detailed spending on Schedule H to better capture and communicate community benefit activities.

Adding to the discussion on oversight and compliance, Rep. Suzan DelBene (D-Wash.) emphasized the importance of ensuring that tax-exempt hospitals meet their legal obligations. She referenced the Affordable Care Act’s ([P.L. 111-148](#)) requirement that the IRS audit every tax-exempt hospital at least once every three years to verify they are providing sufficient community benefit. In that context, she pointed out that, despite concerns about whether hospitals are meeting their tax-exempt obligations, Republican lawmakers have continued to “chip away” funding for the agency – undermining the agency’s ability to carry out these audits.

Ways and Means committee advances bipartisan tax administration and Tax Court reforms

This week, the House Ways and Means Committee unanimously approved two tax-related bills during a September 17 markup – one focused on IRS penalties and the other addressing equitable tolling for certain Tax Court filings. In addition to these bills, the panel approved seven additional bills related to health care and Social Security.

During the markup, Democrats took the opportunity to raise concerns about what they viewed as the harmful effects of the law commonly referred to as the One Big Beautiful Bill Act (OBBBA, [P.L. 119-21](#)). They also criticized ongoing Republican efforts to weaken the IRS, arguing that the two bills currently before the committee would do little to counteract the agency’s proposed funding cuts or resolve the broader uncertainty around its operations.

(For additional information on the bills under consideration, see the committee’s markup [page](#).)

IRS supervisory approval requirements: Rep. Glenn Grothman (R-Wis.) introduced one of the tax bills – the Fair and Accountable IRS Reviews Act ([H.R. 5346](#)) – which would clarify the timeliness of supervisory approval for penalties under section 6751(b)(1). Under the proposed bill, such approval would be considered timely only if obtained in writing before any written communication about the penalty is sent to the taxpayer. The approval must come from the immediate supervisor of the person proposing the penalty or another higher-level supervisory person designated by the Secretary.

“Taxpayers deserve fair treatment and strong safeguards against unjust penalties,” [said](#) Grothman “Right now, IRS agents can approve penalties brought forth by employees they have had little to no interaction with, which begs the question of whether taxpayers are receiving appropriate reviews of their cases.”

“My bill restores accountability by requiring an agent’s direct supervisor review and approve any penalty before it is assessed. This simple safeguard will help prevent unnecessary or unfair fines and protect hardworking Americans from bureaucratic overreach,” he added.

The proposal also defines the term “immediate supervisor” for purposes of section 6751(b) to be the person to whom the IRS employee making the determination reports.

The bill was approved by a unanimous vote of 44-0.

Tax Court reforms: Republican Rep. Nathaniel Moran of Texas, along with lead Democratic cosponsor Terri Sewell of Alabama, introduced the other tax-related bill considered at the markup – the Tax Court Improvement Act ([H.R. 5349](#)). The bill would grant the Tax Court

jurisdiction to toll the period of time for filing a petition contesting a notice of deficiency in cases where the Court determines that equitable tolling is warranted. Under the proposal, when a deficiency petition is filed beyond the deadline and none of the other statutory exceptions apply, the Tax Court could consider a motion for equitable tolling, regardless of the US Court of Appeals to which its decision is appealable.

The bill would also address several additional matters, including the Tax Court's ability to issue subpoenas, the expanded jurisdiction of special trial judges, and the introduction of certain ethical safeguards.

Moran noted that the bill would address what he considered to be "outdated procedural rules" that limits the court's ability to serve the taxpayer. He said the bill would "improve access to justice, reduce delays, increase transparency and the public trust."

Sewell noted that the Tax Court has a "real world impact on everyday Americans," adding that "these improvements to the Tax Court will have a tangible impact on the thousands of taxpayers and small businesses that utilize the Tax Court every year."

The bill was approved by a unanimous vote of 40-0.

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Treasury and IRS issue proposed guidance on OBBBA's "no tax on tips" provision

Fulfilling a key campaign promise from President Trump, the Treasury Department and the IRS released their initial guidance ([REG-110032-25](#)) covering the "No Tax on Tips" provision, issued under the legislation commonly referred to as the One Big Beautiful Bill Act (OBBBA, [P.L. 119-21](#)). The proposed regulations identify occupations that customarily and regularly received tips on or before December 31, 2024, and define "qualified tips" for purposes of the income tax deduction. These proposed regulations affect individuals who receive tips as part of their occupation. (For prior coverage, see [Tax News & Views](#), Vol. 26, No. 36, Sept. 5, 2025.)

The list of occupations that receive tips would be organized according to the new categorization system created by Treasury and the IRS – specific occupations that receive tips are each assigned a three-digit code called a "Treasury Tipped Occupation Code." The general categories include:

- 01. 100s – Beverage and Food Service
- 02. 200s – Entertainment and Events
- 03. 300s – Hospitality and Guest Services
- 04. 400s – Home Services
- 05. 500s – Personal Services
- 06. 600s – Personal Appearance and Wellness
- 07. 700s – Recreation and Instruction
- 08. 800s – Transportation and Delivery

A range of roles are included in these categories – such as bartenders, lobby attendants, housekeepers, home electricians, and tutors – reflecting the diversity of tipped professions covered under the proposed regulations.

For taxable years beginning after December 31, 2024 and before January 1, 2029, employees and self-employed individuals may deduct qualified tips up to \$25,000 from their gross income when calculating their federal income tax liability, with the deduction phasing out for taxpayers with modified adjusted gross income exceeding \$150,000 (\$300,000 for joint filers). These regulations are proposed to apply for taxable years beginning after December 31, 2024.

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OBBBA: Tax planning considerations for M&A transactions

This edition of M&A Tax Talk examines the law commonly known as the One Big Beautiful Bill Act (OBBBA, [P.L. 119-21](#)) – a sweeping legislative package designed, in large part, to extend the expiring (or already expired) provisions of the 2017 Tax Cuts and Jobs Act (TCJA, [P.L.115-97](#)) and deliver additional tax relief for individuals and businesses. Buyers and sellers in M&A transactions should consider the significant changes to US federal income tax law. Although the OBBBA is expected to provide considerable tax benefits for many taxpayers, the various changes increase the complexity for participants in M&A transactions.

Details on the tax planning considerations for M&A transactions are available in this [article](#), authored by Deloitte Tax LLP specialists.

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A note on our publication schedule

The House and Senate will be out of session the week of September 22 as lawmakers adjourn for a congressional recess. As we go to press, congressional leaders are pursuing strategies to reach a spending agreement to keep the federal government open when the fiscal year ends on midnight, September 30. We will publish details on any budget agreement as events warrant. Otherwise, barring any significant developments on the tax policy front, the next edition of *Tax News & Views* will be published the week of September 29 when Congress returns to Capitol Hill.

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