

1. Heading

H.B. No

Session: 119th Congress, 2025-2026

Sponsor:

An Act relating to the regulation of tax loopholes

2. The Title

An act relating to establishing new policies to promote equal tax-paying across demographics in the United States.

3. Enacting Clause

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES AND THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED.

Section 1. Short title:

This Act may be cited as the “Ending Tax Loopholes Act.”

Section2. Purpose/Findings:

WHEREAS, tax provisions allow individuals and corporations to legally reduce or avoid tax liability, resulting in substantial revenue losses that undermine equitable taxation; AND

WHEREAS, the IRS estimates approximately \$696 billion in revenue is lost annually through the tax gap, including both legal avoidance strategies and illegal noncompliance, reducing funding available for essential public services; AND

WHEREAS, lost revenue limits investments in critical public goods, including education, healthcare, and infrastructure, forcing governments to either reduce funding for these services or shift the tax burden onto wage earners and consumers; AND

WHEREAS, large profitable corporations have increasingly utilized offshore tax havens, accounting mechanisms, and statutory carve-outs to significantly reduce effective tax rates despite substantial domestic profits; AND

WHEREAS, the majority of corporate tax benefits disproportionately benefit the highest income earners, worsening income and racial inequality within the United States; AND

WHEREAS, declining audit rates and enforcement capacity have weakened compliance, as complex high-asset partnerships expanded while audit rates fell dramatically over the past decade, allowing sophisticated avoidance strategies to persist; AND

WHEREAS, strengthening transparency requirements, enforcement mechanisms, and statutory safeguards against abusive tax avoidance promotes fairness, restores confidence in the tax system, and ensures that corporations and high-income taxpayers contribute proportionally to the economic systems from which they benefit; NOW BE IT THEREFORE

Section 3. Definitions:

Abusive tax avoidance: Schemes or transactions that manipulate tax laws to generate substantial tax benefits without any meaningful change in the taxpayer's economic position or net worth.

Tax Gap: The difference between the total amount of taxes legally owed to the government and the actual amount paid voluntarily and on time.

Audit: An official examination of an individual's or organization's financial records and tax returns by tax authorities (such as the IRS) to ensure accuracy and compliance with tax laws.

Allocated: Distributed for a particular purpose.

Disproportionately: To an extent that is too large or too small in comparison with something else.

Entities: Lawfully recognized organizations such as a corporation, LLC, or partnership.

Section 4. Substantive Action:

Section 1. Enhanced Audit Requirements for High-Income Taxpayers

(a) Mandatory Audit Minimum.

The Internal Revenue Service shall conduct annual audits of not fewer than 5 percent of taxpayers who report annual income exceeding \$10,000,000.

(b) Purpose of Enforcement.

The audit requirement established under this section shall address declining audit rates and improve enforcement among high-income taxpayers.

The Internal Revenue Service shall prioritize audits of taxpayers reporting annual income exceeding \$10 million through enhanced risk-based enforcement, including:

1. Increased review of complex partnership structures,
2. Offshore transactions,
3. And identified abusive tax avoidance arrangements.

40% of the revenue recovered under this act shall contribute to the general fund of the United States Treasury. It is the sense of Congress that increased revenues generated through enhanced tax enforcement should prioritize investments in

1. Healthcare access,

2. Infrastructure development,
3. And educational opportunities for underserved communities.

Section 2. Allocation of Recovered Revenue

(a) Distribution of Funds.

Revenue recovered under this Act shall be allocated as follows:

1. Forty percent shall be allocated to healthcare programs.
2. Thirty percent shall be allocated to infrastructure development.
3. Thirty percent shall be allocated to education initiatives.

(b) Priority Allocation.

Funds distributed pursuant to this section shall prioritize underserved communities disproportionately affected by regressive tax policies.

Section 3. Mandatory Financial Disclosure Requirements

(a) Disclosure Requirement.

Any entity possessing assets exceeding \$10,000,000 in value shall disclose to the Internal Revenue Service detailed ownership structures, income allocations, and participation in tax avoidance transactions.

(b) Penalty for Noncompliance.

Failure to comply with disclosure requirements shall result in civil fines not exceeding \$100,000.

Section 5. Enforcement/Administration:

To be enforced by the United States Department of the Treasury.

6. Punishments

(a) Imposition of Civil Penalties.

Any taxpayer determined by the Secretary of the Treasury to have participated in an abusive tax avoidance transaction shall be subject to civil penalties.

(b) Repayment Requirement.

Such a taxpayer will be legally obligated to repay an amount equal to 25 percent of the taxes avoided, in addition to all applicable accrued interest.

(c) Additional Monetary Penalties.

The Secretary of the Treasury may impose additional monetary penalties as appropriate based on the severity or frequency of violations.

(d) Maximum Fines.

1. Individuals shall be subject to fines not exceeding \$500,000.
2. Corporations or business entities shall be subject to fines not exceeding \$5,000,000.

5. Analysis of research

A pattern that can be identified is that major tax reforms tend to occur after major economic crises, such as World War II. Each reform was part of a cycle: higher taxes increased loopholes, which led to legislative reform, people and corporate bodies adapted, and new loopholes emerged. Despite reforms such as the Tax Reform Act of 1986, loopholes persist and continue to

emerge. Tax holes are a systemic problem, not a one-time failure. Addressing them will require persistent reinforcement of reforms in order to deconstruct these recurring failures.

The scale of tax expenditures and the tax gap demonstrates that loopholes significantly constrain the federal government, forcing it to be highly strategic about whether to reduce public services or shift the tax burden onto wage earners and consumers. According to the IRS, wealthy taxpayers heavily rely on attorneys and accountants to develop tax avoidance strategies. This practice has resulted in billions of dollars lost in federal revenue annually. This trend has persisted for so long, in part because the IRS has been underfunded. Although filings from passthrough businesses with assets exceeding \$10 million rose by 70% between 2010 and 2019, audit rates for these partnerships declined dramatically from 3.8% to just 0.1% during the same period. This imbalance between growing complexity and diminishing enforcement has made it easier for high income tax payers to evade tax liability, contributing to the \$160 billion dollars in unpaid taxes attributed to the 1 percent annually. Economists estimate that noncompliance, such as legal loopholes and tax evasion, costs billions in lost revenue. Federal loopholes affect all states simultaneously, and state taxes often mirror federal definitions. This creates a mirror effect: revenue losses at the federal level lead to reduced funding of state programs.

6. Bipartisan Appeal

The Democratic Party will most likely support allocating recovered revenue to public services, which aligns with democratic policy platforms focused on redistributing public investment and social equality.

The Republican Party will most likely raise concerns in three main areas: the expansion of IRS power, discouragement of investment and entrepreneurship, and the risk of enforcement or regulatory overreach. They might argue that directing recovered revenue toward underserved

communities is redistributive rather than neutral. Republicans might also find an issue with the term "abusive tax avoidance" and think it's too vague or attempt to deflect.

7. procedural/administrative provisions

Severability Clause: If any provisions in this Act are found unconstitutional, the rest of the law remains in effect.

8. Summary/Digest

A bill to promote fairness in the tax system, ensure that corporations contribute to public investments, and even out the tax playing field across all demographics.

9. Arguments

Arguments in support

- Closing loopholes allows the government to reinvest recovered revenue into public goods that support economic productivity. Research from the Organization for Economic Co-operation and Development demonstrates that investments in infrastructure, education, and research development contribute directly to long term economic growth by improving labor productivity and innovation capacity. Rather than disappearing from the economy, recovered revenue can therefore function as a multiplier when directed toward public investment.
- Corporate tax breaks and tax avoidance mainly benefit the wealthiest Americans and foreign investors. According to ITEP, the top 1 percent receive 29 percent of the benefits, and the top 4 percent receive another 29 percent. Only 2 percent of benefits go to the poorest fifth. Overall, this worsens tax inequality in the U.S.

- Corporate tax breaks worsen racial inequality in the U.S. white Americans as a group disproportionately receive a share of the benefits to U.S households when corporations pay less in taxes. Black and Hispanic households each receive just 1 percent, even though they make up more than 12 percent and 9 percent of the population.
- Without a strong corporate income tax, the wealthiest Americans get to escape contributing to the infrastructure, legal system, and society that makes their wealth possible. Billionaires benefit significantly from public investments funded by taxpayers, including infrastructure, technology development, and legal systems.

10. Sources

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