

.....
(Original Signature of Member)

119TH CONGRESS
2D SESSION

H. R. _____

To amend the Internal Revenue Code of 1986 to impose an excise tax
on certain indebtedness, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Ms. FRIEDMAN introduced the following bill; which was referred to the
Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to impose
an excise tax on certain indebtedness, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Pay Your Taxes Avoid-
5 ed by Borrowing Act of 2026” or the “Pay Your TAB
6 Act of 2026”.

1 **SEC. 2. IMPOSITION OF EXCISE TAX ON CERTAIN INDEBT-**
2 **EDNESS.**

3 (a) IN GENERAL.—Chapter 36 of the Internal Rev-
4 enue Code of 1986 is amended by adding at the end the
5 following new subchapter:

6 **“Subchapter E—Certain Indebtedness**

“Sec. 4491. Imposition of tax.

7 **“SEC. 4491. IMPOSITION OF TAX.**

8 “(a) IN GENERAL.—There is hereby imposed on the
9 issuance, after December 31, 2026, of any covered loan
10 a tax equal to 23.8 percent of the amount of such loan.
11 The tax imposed under the preceding sentence shall be
12 paid by the borrower.

13 “(b) APPLICATION TO COVERED LOANS OUT-
14 STANDING ON JULY 1, 2027.—

15 “(1) IN GENERAL.—In the case of any covered
16 loan issued before January 1, 2027, and outstanding
17 as of the close of June 30, 2027, $\frac{1}{3}$ of the out-
18 standing amount of such covered loan shall be treat-
19 ed for purposes of subsection (a) as a covered loan
20 issued in such amount on July 1 of each of 2027,
21 2028, and 2029.

22 “(2) REPAYMENTS.—The amount of any por-
23 tion of a covered loan described in paragraph (1)
24 that would (but for this paragraph) be included in
25 the amount treated as a covered loan issued on July

1 1 of 2028 or 2029 shall not be included for purposes
2 of paragraph (1) in—

3 “(A) the amount treated as a covered loan
4 issued on July 1, 2028, if such portion is repaid
5 before July 1, 2028, and

6 “(B) the amount treated as a covered loan
7 issued on July 1, 2029, if such portion is repaid
8 before July 1, 2029.

9 For purposes of the preceding sentence, repayments
10 shall be allocated first with respect to the amount
11 described in subparagraph (A), and then with re-
12 spect to the amount described in subparagraph (B).

13 “(c) LIMITATION.—A covered loan shall be taken into
14 account under subsections (a) and (b) only to the extent
15 that the aggregate amount of covered loans held by the
16 taxpayer (determined after taking into account such loan)
17 exceeds \$1,000,000. For purposes of the preceding sen-
18 tence, persons related to each other (within the meaning
19 of sections 267(b) and 707(b)) shall be treated as one per-
20 son, and the limitation imposed under the preceding sen-
21 tence shall be allocated among such persons in such man-
22 ner as the Secretary may provide.

23 “(d) RECOGNITION OF OFFSETTING CAPITAL LOSS
24 UPON DISPOSITION.—

1 “(1) IN GENERAL.—If the taxpayer (before
2 death) disposes of any capital asset used to secure
3 a covered loan with respect to which tax was im-
4 posed on the taxpayer under subsection (a) or (b),
5 such taxpayer shall recognize, for purposes of sub-
6 title A, a long-term capital loss equal to the amount
7 of the covered loan with respect to which such tax
8 was imposed.

9 “(2) PARTIAL DISPOSITIONS.—If the disposition
10 referred to in paragraph (1) does not constitute the
11 disposition of all of the capital assets which secured
12 the covered loan, the long-term capital loss recog-
13 nized by the taxpayer under such paragraph shall
14 bear the same ratio to the amount of such loss (de-
15 termined without regard to this paragraph) as the
16 assets so disposed of bear to all such assets.

17 “(e) DEFINITIONS.—For purposes of this section—

18 “(1) COVERED LOAN.—

19 “(A) IN GENERAL.—Except as provided in
20 subparagraph (B), the term ‘covered loan’
21 means—

22 “(i) any indebtedness, and

23 “(ii) any line of credit.

24 “(B) EXCEPTIONS.—

1 “(i) IN GENERAL.—The term ‘covered
2 loan’ shall not include—

3 “(I) home acquisition indebted-
4 ness,

5 “(II) home equity indebtedness,

6 “(III) vehicle acquisition indebt-
7 edness,

8 “(IV) a qualified education loan
9 (as defined in section 221(d)),

10 “(V) a qualified margin loan, or

11 “(VI) indebtedness incurred for
12 the purpose of carrying on a trade or
13 business (other than indebtedness in-
14 curred for the purpose of making a
15 distribution).

16 “(ii) HOME ACQUISITION INDEBTED-
17 NESS.—The term ‘home acquisition indebt-
18 edness’ means any indebtedness that—

19 “(I) is incurred in acquiring, con-
20 structing, or substantially improving
21 the taxpayer’s principal residence (as
22 such term is used in section 121), and

23 “(II) is secured by such resi-
24 dence.

1 “(iii) HOME EQUITY INDEBTED-
2 NESS.—The term ‘home equity indebted-
3 ness’ means any indebtedness (other than
4 home acquisition indebtedness) that is se-
5 cured by the taxpayer’s principal residence
6 (as such term is used in section 121) to
7 the extent that the aggregate amount of
8 such indebtedness does not exceed
9 \$3,000,000.

10 “(iv) VEHICLE ACQUISITION INDEBT-
11 EDNESS.—The term ‘vehicle acquisition in-
12 debtedness’ means any indebtedness, to the
13 extent that the aggregate amount of such
14 indebtedness does not exceed \$100,000,
15 that—

16 “(I) is incurred in acquiring an
17 applicable passenger vehicle (as de-
18 fined in section 163(h)(4)(D) (without
19 regard to clause (i) and the material
20 following clause (vi) thereof)) of the
21 taxpayer, and

22 “(II) is secured by such applica-
23 ble passenger vehicle.

24 “(v) QUALIFIED MARGIN LOAN.—

1 “(I) IN GENERAL.—The term
2 ‘qualified margin loan’ means any in-
3 debtedness extended by a broker (as
4 defined in section 6045(c)) to the tax-
5 payer with respect to an account of
6 the taxpayer—

7 “(aa) that is governed by an
8 agreement between the taxpayer
9 and such broker prohibiting any
10 withdrawal, transfer, or use of
11 funds by the taxpayer for any
12 purpose other than trading secu-
13 rities, or

14 “(bb) from which the tax-
15 payer makes withdrawals of
16 funds during the taxable year
17 that—

18 “(AA) are less than 10
19 percent of the average ag-
20 gregate balance of all in-
21 debtedness extended by such
22 broker to such taxpayer with
23 respect to such account dur-
24 ing the taxable year, and

1 “(BB) are used for the
2 purpose of trading securi-
3 ties.

4 “(II) CERTAIN LOANS NOT
5 QUALIFIED.—If the aggregate indebt-
6 edness described in subclause (I) ex-
7 ceeds 50 percent of the balance of the
8 account referred to in subclause (I)
9 for a period in excess of 90 days dur-
10 ing the taxable year, such indebted-
11 ness shall not be treated as a qualified
12 margin loan.

13 “(C) SPECIAL RULES.—

14 “(i) INCREASES IN INDEBTEDNESS.—
15 Any increase in an amount of indebtedness
16 (or line of credit) shall be treated as a sep-
17 arate covered loan issued on the date of
18 such increase.

19 “(ii) LINES OF CREDIT.—The amount
20 of any line of credit is the maximum
21 amount of indebtedness which may be in-
22 curred under such line of credit (and any
23 such indebtedness shall not separately be
24 taken into account under this section).

1 “(2) CAPITAL ASSET.—The term ‘capital asset’
2 has the meaning given such term in section 1221(a).

3 “(f) INFLATION ADJUSTMENT.—In the case of a tax-
4 able year beginning after December 31, 2027, the dollar
5 amounts in subsections (c) and (e)(1)(B)(iii) shall each
6 be increased by an amount equal to—

7 “(1) such dollar amount, multiplied by

8 “(2) the cost-of-living adjustment determined
9 under section 1(f)(3) for the calendar year in which
10 the taxable year begins, determined by substituting
11 ‘2026’ for ‘2016’ in subparagraph (A)(ii) thereof.

12 “(g) REGULATIONS.—The Secretary shall issue such
13 regulations or other guidance as may be necessary or ap-
14 propriate to carry out the purposes of this section, includ-
15 ing regulations or other guidance to prevent evasion and
16 avoidance of liability under this section.”.

17 (b) REPORTING.—

18 (1) IN GENERAL.—Subpart B of part III of
19 subchapter A of chapter 61 of such Code is amended
20 by adding at the end the following new section:

21 **“SEC. 6050BB. RETURNS RELATING TO CERTAIN INDEBTED-**
22 **NESS.**

23 “(a) IN GENERAL.—Any person who issues a covered
24 loan (as defined in section 4491(e)) after December 31,
25 2026 shall make the return described in subsection (b)

1 with respect to each borrower to whom the aggregate
2 amount of covered loans issued by such person (deter-
3 mined after taking into account such loan) exceeds the
4 dollar amount in effect under section 4491(c).

5 “(b) FORM AND MANNER OF RETURNS.—A return
6 is described in this subsection if such return—

7 “(1) is in such form as the Secretary may pre-
8 scribe, and

9 “(2) contains—

10 “(A) the name and address of the borrower
11 referred to in subsection (a),

12 “(B) the aggregate amount of covered
13 loans issued to such borrower by the person
14 making such return during the calendar year,
15 and

16 “(C) such other information as the Sec-
17 retary may prescribe.

18 “(c) STATEMENTS TO BE FURNISHED TO INDIVID-
19 UALS WITH RESPECT TO WHOM INFORMATION IS RE-
20 QUIRED.—Every person required to make a return under
21 subsection (a) shall furnish to each individual whose name
22 is required to be set forth in such return a written state-
23 ment showing—

1 “(1) the name, address, and phone number of
2 the information contact of the person required to
3 make such return, and

4 “(2) the information described in subsection
5 (b)(2)(B) with respect to such individual (and such
6 information described in subsection (b)(2)(C) with
7 respect to such individual as the Secretary may pro-
8 vide for purposes of this subsection).

9 The written statement required under the preceding sen-
10 tence shall be furnished on or before January 31 of the
11 year following the calendar year for which the return
12 under subsection (a) was required to be made.

13 “(d) REGULATIONS.—The Secretary shall issue such
14 regulations or other guidance as may be necessary or ap-
15 propriate to carry out the purposes of this section, includ-
16 ing regulations or other guidance to prevent the duplicate
17 reporting of information under this section.”.

18 (2) PENALTIES.—Section 6724(d) of such Code
19 is amended—

20 (A) in paragraph (1)(B), by striking “or”
21 at the end of clause (xxviii), by adding “or” at
22 the end of clause (xxix), and by adding at the
23 end the following new clause:

1 “(xxx) section 6050BB(a) (relating to
2 returns relating to certain indebtedness),”,
3 and

4 (B) in paragraph (2), by striking “or” at
5 the end of subparagraph (NN), by striking the
6 period at the end of subparagraph (OO) and in-
7 serting “, or”, and by inserting after subpara-
8 graph (OO) the following new subparagraph:

9 “(PP) section 6050BB(c) (relating to
10 statements relating to certain indebtedness).”.

11 (c) CLERICAL AMENDMENTS.—

12 (1) The table of subchapters for chapter 36 of
13 such Code is amended by adding at the end the fol-
14 lowing new item:

“SUBCHAPTER E—CERTAIN INDEBTEDNESS”.

15 (2) The table of sections for subpart B of part
16 III of subchapter A of chapter 61 of such Code is
17 amended by adding at the end the following new
18 item:

“Sec. 6050BB. Returns relating to certain indebtedness.”.

19 (d) SEVERABILITY.—If any provision of this section
20 (or any portion of any amendment made by this section)
21 or the application of such provision or portion to any per-
22 son or circumstance is held to be unconstitutional, the re-
23 mainder of this section (and amendments made by this
24 section), and the application of such section and amend-

1 ments to any other person or circumstance, shall not be
2 affected.

3 (e) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years ending after De-
5 cember 31, 2026.