

119TH CONGRESS
2D SESSION

S. _____

To amend the Internal Revenue Code of 1986 to equalize treatment of capital gains and earned income.

IN THE SENATE OF THE UNITED STATES

Mr. MARKEY (for himself, Mr. SANDERS, Mr. MERKLEY, and Mr. BOOKER) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to equalize treatment of capital gains and earned income.

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 “Equal Tax Act”.

5 **SEC. 2. PREFERENTIAL RATES FOR DIVIDENDS AND CAP-**

6 **ITAL GAINS LIMITED TO INCOMES OF**

7 **\$1,000,000 OR LESS.**

8 (a) IN GENERAL.—Section 1(h) of the Internal Rev-
9 enue Code of 1986 is amended by inserting “on so much
10 of such gain as does not cause the taxable income of the

1 taxpayer to exceed \$1,000,000 (computed after taking
2 into account all other taxable income of the taxpayer)”
3 after “the tax imposed by this section for such taxable
4 year”.

5 (b) TREATMENT OF QUALIFYING FAMILY FARM OR
6 BUSINESS.—Section 1(h) of such Code, as amended by
7 subsection (a), is further amended by inserting “and with-
8 out regard to gain realized from the transfer by gift or
9 bequest of a qualifying family farm or business described
10 in section 139M(e)” after “all other taxable income of the
11 taxpayer”.

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

15 **SEC. 3. DEEMED REALIZATION OF CAPITAL GAINS AT TIME**
16 **OF GIFT OR DEATH.**

17 (a) TREATMENT AS SALE.—

18 (1) IN GENERAL.—Part IV of subchapter P of
19 chapter 1 of the Internal Revenue Code of 1986 is
20 amended by adding at the end the following new sec-
21 tion:

1 **“SEC. 1261. GAINS FROM CERTAIN PROPERTY TRANS-**
2 **FERRED BY GIFT OR UPON DEATH.**

3 “(a) IN GENERAL.—Any property which is trans-
4 ferred by gift or at death shall be treated as sold for its
5 fair market value on the date of such gift or death.

6 “(b) EXCEPTIONS.—

7 “(1) SPOUSE OR SURVIVING SPOUSE.—This sec-
8 tion shall not apply to a transfer of property to the
9 spouse or surviving spouse of the transferor (or to
10 a qualified spousal trust).

11 “(2) CERTAIN TANGIBLE PERSONAL PROP-
12 erty.—In the case of tangible personal property,
13 this section shall only apply to the following:

14 “(A) Property held in connection with a
15 trade or business.

16 “(B) Property held for investment.

17 “(C) Collectibles (as defined in section
18 408(m) (determined without regard to para-
19 graph (3) thereof)).

20 “(3) CHARITABLE CONTRIBUTIONS.—This sec-
21 tion shall not apply to any transfer to an organiza-
22 tion described in section 170(c).

23 “(c) SPECIAL RULES FOR TRUSTS.—

24 “(1) CERTAIN GRANTOR TRUSTS.—In the case
25 of any property which—

1 “(A) is held in a trust of which the grantor
2 or another person is treated as the owner under
3 subpart E of part I of subchapter J of chapter
4 1, and

5 “(B) is includible in the gross estate of the
6 grantor or such other person under chapter 11,
7 such property shall be treated as transferred under
8 subsection (a) when the grantor or such other per-
9 son ceases to be treated as the owner of such prop-
10 erty, or such property ceases to be includible in the
11 gross estate of the grantor or such other person (in-
12 cluding by reason of the death of the grantor or
13 such other person, or the distribution of such prop-
14 erty to a person other than the grantor or such
15 other person).

16 “(2) OTHER TRUSTS.—In the case of any prop-
17 erty held in trust and not described in paragraph
18 (1), such property shall be treated as transferred
19 under subsection (a) upon the transfer of such prop-
20 erty to a trust.

21 “(3) TRANSFERS FROM AND MODIFICATIONS OF
22 TRUSTS.—The Secretary may by regulation pre-
23 scribe such rules to treat the modification of the
24 terms of a trust or the transfer or distribution of
25 trust assets (including to another trust) as a trans-

1 fer described in subsection (a) as are necessary or
2 appropriate to prevent the avoidance of this section.

3 “(4) GENERATION-SKIPPING TRUSTS.—At the
4 end of each 30-year period for which any property
5 is continuously held in trust (other than property de-
6 scribed in paragraph (1)), such property shall be
7 treated as transferred pursuant to subsection (a).

8 “(5) QUALIFYING SPOUSAL TRUST.—

9 “(A) IN GENERAL.—The property of a
10 qualifying spousal trust shall be treated as
11 transferred under subsection (a)—

12 “(i) upon the death of the spousal
13 beneficiary,

14 “(ii) upon the distribution of such
15 property from such trust to any person
16 other than the spousal beneficiary, or

17 “(iii) at such time such property
18 ceases to be held by a qualifying spousal
19 trust.

20 “(B) QUALIFYING SPOUSAL TRUST.—For
21 purposes of this section, a trust is a qualifying
22 spousal trust if—

23 “(i) the sole beneficiary of such trust
24 is the spouse, or surviving spouse of the
25 transferor, or

1 “(ii) such spouse or surviving spouse
2 is the sole life tenant, or sole income bene-
3 ficiary, of such trust.

4 “(d) EXCLUSION OF CERTAIN GIFTS.—In the case
5 of gifts (other than gifts of future interests in property)
6 made to any person during the taxable year, so much of
7 the dollar amount of such gifts to such person as does
8 not exceed the amount in effect for the calendar year
9 under section 2503(b) in which the taxable year begins
10 shall not be taken into account under subsection (a) for
11 such taxable year. Where there has been a transfer to any
12 person of a present interest in property, the possibility
13 that such interest may be diminished by the exercise of
14 a power shall be disregarded in applying this subsection,
15 if no part of such interest will at any time pass to any
16 other person.

17 “(e) REGULATIONS.—The Secretary shall prescribe
18 such regulations as may be necessary to prevent the avoid-
19 ance of the purposes of this section.”.

20 (2) CLERICAL AMENDMENT.—The table of sec-
21 tions for part IV of subchapter P of chapter 1 of
22 such Code is amended by adding at the end the fol-
23 lowing new item:

“Sec. 1261. Gains from certain property transferred by gift or upon death.”.

1 (b) COORDINATION OF RELATED PARTY LOSS
2 RULES.—Section 267 of such Code is amended by adding
3 at the end the following new subsection:

4 “(h) PROPERTY TREATED AS SOLD AT DEATH.—
5 Subsection (a)(1) shall not apply to any property that is
6 transferred at death and treated as sold under section
7 1261.”.

8 (c) TREATMENT OF BASIS FOR GIFTS AND BE-
9 QUESTS TO WHICH TAX APPLIES.—

10 (1) ELIMINATION OF CARRYOVER BASIS FOR
11 GIFTS.—Section 1015(a) of such Code is amended—

12 (A) by striking “If the property” and in-
13 serting the following:

14 “(1) GIFTS BEFORE JANUARY 1, 2027.—If the
15 property”;

16 (B) by inserting “, and before January 1,
17 2027” after “after December 31, 1920”; and

18 (C) by adding at the end the following new
19 paragraph:

20 “(2) GIFTS AFTER DECEMBER 31, 2026.—If the
21 property was acquired by gift after December 31,
22 2026, the basis shall be the fair market value of
23 such property at the time of the gift.”.

24 (2) RULES FOR TRANSFERS BETWEEN
25 SPOUSES.—

1 (A) IN GENERAL.—Section 1041(b) of
2 such Code is amended to read as follows:

3 “(b) TRANSFEREE HAS TRANSFEROR’S BASIS.—In
4 the case of any transfer of property described in sub-
5 section (a), the basis of the transferee in the property shall
6 be the adjusted basis of the transferor.”.

7 (B) TRANSFERS AT DEATH.—Section
8 1041(a) of such Code is amended by inserting
9 “(including at death)” after “transfer of prop-
10 erty”.

11 (C) CONFORMING AMENDMENTS.—

12 (i) Section 1014 of such Code is
13 amended by adding at the end the fol-
14 lowing new subsection:

15 “(g) PROPERTY ACQUIRED FROM DECEDENT
16 SPOUSE.—In the case of property which passes from the
17 decedent to (or in trust for the benefit of) the decedent’s
18 surviving spouse in a transfer described in section
19 1041(a)(1), the basis of such property in the hands of the
20 transferee shall be determined under section 1041(b) and
21 not this section.”.

22 (ii) Section 1015(e) of such Code is
23 amended by striking “1041(b)(2)” and in-
24 serting “1041(b)”.

1 (3) BASIS MUST BE CONSISTENT WITH GAINS
2 RECOGNIZED IN DEEMED REALIZATION.—

3 (A) PROPERTY ACQUIRED FROM DECE-
4 DENT.—Section 1014 of such Code, as amend-
5 ed by the preceding provisions of this Act, is
6 amended by adding at the end the following
7 new subsection:

8 “(h) BASIS MUST BE CONSISTENT WITH GAINS
9 RECOGNIZED IN DEEMED REALIZATION.—The basis of
10 any property to which subsection (a) applies shall not ex-
11 ceed the amount for which the property was treated as
12 sold under section 1261.”.

13 (B) PROPERTY ACQUIRED BY GIFT.—Sec-
14 tion 1015 of such Code is amended by adding
15 at the end the following new subsection:

16 “(f) BASIS MUST BE CONSISTENT WITH GAINS REC-
17 OGNIZED IN DEEMED REALIZATION.—The basis of any
18 property to which subsection (a)(2) applies shall not ex-
19 ceed the amount for which the property was treated as
20 sold under section 1261.”.

21 (d) CONFORMING AMENDMENTS.—

22 (1) Section 7477(a) of such Code is amended
23 by striking “chapter 12” and inserting “chapter 1 or
24 12”.

1 (2) Section 7517(a) of such Code is amended
2 by striking “chapter 11” and inserting “chapter 1,
3 11”.

4 (e) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to transfers by gift, or at death
6 by decedents dying, after December 31, 2026.

7 **SEC. 4. EXCLUSION OF CERTAIN AMOUNTS OF REALIZED**
8 **CAPITAL GAIN.**

9 (a) IN GENERAL.—Part III of subchapter B of chap-
10 ter 1 of the Internal Revenue Code of 1986 is amended
11 by inserting before section 140 the following new section:

12 **“SEC. 139M. EXCLUSION OF GAIN FROM TRANSFERS OF AP-**
13 **PRECIATED ASSETS AT DEATH.**

14 “(a) IN GENERAL.—Gross income shall not include—

15 “(1) so much of the net capital gain for the
16 taxable year from transfers at death to which
17 1261(a) applies as does not exceed \$1,000,000, and

18 “(2) in the case of property that is a qualifying
19 family farm or business that meets the certification
20 requirement of subsection (d), 50 percent of so
21 much of any gain from a transfer described in para-
22 graph (1) as exceeds \$1,000,000.

23 “(b) INFLATION ADJUSTMENT.—

24 “(1) IN GENERAL.—In the case of any taxable
25 year beginning after 2027, the \$1,000,000 amounts

1 in subsection (a) shall be increased by an amount
2 equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for the calendar
6 year in which the taxable year begins, deter-
7 mined by substituting in subparagraph (A)(ii)
8 thereof ‘calendar year 2026’ for ‘calendar year
9 2016’.

10 “(2) ROUNDING.—If the dollar amount in sub-
11 section (a), after being increased under paragraph
12 (1), is not a multiple of \$10,000, such amount shall
13 be rounded to the next lowest multiple of \$10,000.

14 “(c) DEFINITIONS.—For purposes of this section—

15 “(1) QUALIFYING FAMILY FARM OR BUSI-
16 NESS.—The term ‘qualifying family farm or busi-
17 ness’ means real property located in the United
18 States if during periods aggregating 3 years or more
19 of the 5-year period ending on the date of the be-
20 quest of such real property, such real property was
21 used as a farm for farming purposes or a family
22 business.

23 “(2) OTHER DEFINITIONS.—The terms ‘farm’
24 and ‘farming purposes’, and ‘material participation’
25 have the respective meanings given such terms by

1 paragraphs (4) and (5) of section 2032A(e), respec-
2 tively.

3 “(d) USE CERTIFICATION AS FARM FOR FARMING
4 PURPOSES OR FAMILY BUSINESS.—The certification re-
5 quirement of this subsection is a certification that the use
6 of the qualifying family farm or business referred to in
7 subsection (a) will be as a farm for farming purposes or
8 family business (as the case may be) for not less than the
9 120-month period beginning on the date of the bequest
10 referred to in subsection (a).

11 “(e) SPECIAL RULES.—For purposes of this section,
12 the following rules shall apply:

13 “(1) Rules similar to the rules of subsections
14 (e) and (f) of section 121.

15 “(2) Rules similar to the rules of paragraphs
16 (4) and (5) of section 2032A(b) and paragraph (3)
17 of section 2032A(e).

18 “(f) TREATMENT OF DISPOSITION OR CHANGE IN
19 USE OF PROPERTY.—

20 “(1) IN GENERAL.—If, as of the close of any
21 taxable year, there is a recapture event with respect
22 to any qualifying family farm or business trans-
23 ferred to the taxpayer in a bequest described in sub-
24 section (a), then the tax of the taxpayer under this

1 chapter for such taxable year shall be increased by
2 an amount equal to the product of—

3 “(A) the amount determined by dividing—

4 “(i) the amount of gain excluded from
5 gross income of the taxpayer under sub-
6 section (a)(2) on the date such property
7 was transferred to the taxpayer, over

8 “(ii) 120, and

9 “(B) the number of full months remaining
10 in the 120-month term described in subsection
11 (d) as of the date of such recapture event.

12 “(2) RECAPTURE EVENT DEFINED.—For pur-
13 poses of this subsection, the term ‘recapture event’
14 means—

15 “(A) CESSATION OF OPERATION.—The
16 cessation of the operation of any property the
17 sale or exchange of which to the taxpayer is de-
18 scribed in subsection (a) as a qualifying family
19 farm or business.

20 “(B) CHANGE IN OWNERSHIP.—

21 “(i) IN GENERAL.—Except as pro-
22 vided in clause (ii), the disposition of a
23 taxpayer’s interest in any property the sale
24 or exchange of which to the taxpayer is de-
25 scribed in subsection (a).

1 “(ii) AGREEMENT TO ASSUME RECAP-
2 TURE LIABILITY.—Clause (i) shall not
3 apply if the person acquiring such interest
4 in the property agrees in writing to assume
5 the recapture liability of the person dis-
6 posing of such interest in effect imme-
7 diately before such disposition. In the
8 event of such an assumption, the person
9 acquiring the interest in the property shall
10 be treated as the taxpayer for purposes of
11 assessing any recapture liability (computed
12 as if there had been no change in owner-
13 ship).

14 “(3) SPECIAL RULES.—

15 “(A) NO CREDITS AGAINST TAX.—Any in-
16 crease in tax under this subsection shall not be
17 treated as a tax imposed by this chapter for
18 purposes of determining the amount of any
19 credit under subpart A, B, or D of part IV of
20 subchapter A.

21 “(B) NO RECAPTURE BY REASON OF
22 HARDSHIP.—The increase in tax under this
23 subsection shall not apply to any disposition of
24 property or cessation of the operation of any
25 property as a farm for farming purposes by rea-

1 son of any hardship as determined by the Sec-
2 retary.”.

3 (b) CLERICAL AMENDMENT.—The table of sections
4 for part III of subchapter B of chapter 1 of such Code
5 is amended by inserting before the item relating to section
6 140 the following new item:

“Sec. 139M. Exclusion of gain from transfers of appreciated assets at death.”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to transfers at death by decedents
9 dying after December 31, 2026, in taxable years beginning
10 after such date.

11 **SEC. 5. INFORMATION REPORTING OF CERTAIN GIFTS.**

12 (a) IN GENERAL.—Subpart B of part III of sub-
13 chapter A of chapter 61 of the Internal Revenue Code of
14 1986 is amended by adding at the end the following new
15 section:

16 **“SEC. 6050BB. RETURNS RELATING TO CERTAIN GIFTS AND**
17 **BEQUESTS.**

18 “(a) IN GENERAL.—In the case of an applicable
19 transfer, the individual making such gift, or the executor
20 in the case of a transfer at death, shall furnish to the
21 Secretary the following information:

22 “(1) The name and taxpayer identification
23 number of the person to whom such transfer was
24 made.

25 “(2) A description of the property transferred.

1 “(3) The fair market value of the property
2 transferred and the basis of such property to the
3 transferee.

4 “(b) APPLICABLE TRANSFER.—

5 “(1) IN GENERAL.—For purposes of this sec-
6 tion, the term ‘applicable transfer’ means—

7 “(A) any gift (other than a covered secu-
8 rity (as defined in section 6045(g)(3))) which is
9 taken into account under section 1261, and

10 “(B) so much of any transfer at death
11 (other than such a covered security) which is so
12 taken into account under section 1261 and the
13 gain from which is includible in gross income
14 for the taxable year of such transfer.

15 “(2) DE MINIMIS.—

16 “(A) GIFTS.—For gifts exceeding the limi-
17 tation for such year under section 2503(b) and
18 not taken into account under section 1261, see
19 subsection (d) thereof.

20 “(B) TRANSFERS AT DEATH.—For amount
21 of gain excluded from gross income in case of
22 a transfer at death, see section 139M(a).

23 “(c) STATEMENTS TO BE FURNISHED TO PERSONS
24 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—

25 Every person required to make a return under subsection

1 (a) shall furnish to each person whose name is required
2 to set forth in such return a written statement showing
3 the information described in subsection (a).

4 “(d) TIMING.—The returns and statements required
5 under this section shall be furnished at such time and in
6 such form and manner as the Secretary shall by regulation
7 prescribe.”.

8 (b) CLERICAL AMENDMENT.—The table of sections
9 for subpart B of part III of subchapter A of chapter 61
10 of such Code is amended by adding at the end the fol-
11 lowing new item:

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

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to transfers after December 31,
14 2026, in taxable years beginning after such date.

15 **SEC. 6. EXTENSION OF TIME FOR PAYMENT OF TAX.**

16 (a) EXTENSION OF TIME.—

17 (1) IN GENERAL.—Subchapter B of chapter 62
18 of the Internal Revenue Code of 1986 is amended by
19 adding at the end the following new section:

20 **“SEC. 6168. EXTENSION OF TIME FOR PAYMENT OF CAP-**
21 **ITAL GAINS ON CERTAIN ASSETS REALIZED**
22 **BY REASON OF DEATH.**

23 “(a) 5-YEAR INSTALLMENT PAYMENT.—

24 “(1) IN GENERAL.—In the case of any gain
25 with respect to eligible property that is recognized

1 under section 1261 by reason of the death of the
2 taxpayer, the taxpayer may elect to pay part or all
3 of tax imposed on such gain in 2 or more (but not
4 exceeding 5) equal installments.

5 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—

6 If an election is made under paragraph (1), the first
7 installment shall be paid not later than the date on
8 which the tax for the taxable year in which the gain
9 described in paragraph (1) occurs is due, and each
10 succeeding installment shall be paid on or before the
11 date which is 1 year after the date prescribed by this
12 paragraph for payment of the preceding installment.

13 “(b) ELIGIBLE CAPITAL ASSET.—For purposes of
14 this section, the term ‘eligible property’ means any prop-
15 erty other than personal property of a type which is ac-
16 tively traded (within the meaning of section 1092(d)(1)).

17 “(c) PORTION OF TAX ELIGIBLE.—The amount of
18 tax to which this section applies shall not exceed the excess
19 of—

20 “(1) the tax computed under chapter 1 (deter-
21 mined after application of section 1261), over

22 “(2) the tax computed under chapter 1 (deter-
23 mined without regard to section 1261).

24 “(d) ELECTION.—Any election under subsection (a)
25 shall be made not later than the time prescribed by section

1 6072 for filing the return of tax imposed under chapter
2 1 (including extensions thereof), and shall be made in such
3 manner as the Secretary shall by regulations prescribe. If
4 an election under subsection (a) is made, the provisions
5 of this subtitle shall apply as though the Secretary were
6 extending the time for payment of the tax.

7 “(e) PRORATION OF DEFICIENCY TO INSTALL-
8 MENTS.—If an election is made under subsection (a) to
9 pay any part of the tax imposed under chapter 1 in install-
10 ments and a deficiency has been assessed, the deficiency
11 shall (subject to the limitation provided by subsection
12 (a)(2)) be prorated to the installments payable under sub-
13 section (a). The part of the deficiency so prorated to any
14 installment the date for payment of which has not arrived
15 shall be collected at the same time as, and as a part of,
16 such installment. The part of the deficiency so prorated
17 to any installment the date for payment of which has ar-
18 rived shall be paid upon notice and demand from the Sec-
19 retary. This subsection shall not apply if the deficiency
20 is due to negligence, to intentional disregard of rules and
21 regulations, or to fraud with intent to evade tax.

22 “(f) TIME FOR PAYMENT OF INTEREST.—If the time
23 for payment of any amount of tax has been extended
24 under this section, interest payable under section 6601 on

1 any unpaid portion shall be paid annually at the same time
2 as, and as part of, each installment payment of the tax.

3 “(g) REGULATIONS.—The Secretary shall prescribe
4 such regulations as may be necessary to the application
5 of this section.

6 “(h) CROSS-REFERENCES.—

7 “(1) SECURITY.—For authority of the Sec-
8 retary to require security in the case of an extension
9 under this section, see section 6165.

10 “(2) INTEREST.—For provisions relating to in-
11 terest on tax payable in installments under this sec-
12 tion, see subsection (k) of section 6601.”.

13 (2) COORDINATION WITH TRANSFEREE LIABIL-
14 ITY.—Section 6109 of such Code is amended by re-
15 designating subsections (g), (h), and (i) as sub-
16 sections (h), (i), and (j), respectively, and by insert-
17 ing after subsection (f) the following new subsection:

18 “(g) PERIOD OF ASSESSMENT IN CASE OF EXTEN-
19 SION OF TIME FOR PAYMENT OF TAX UNDER SECTION
20 1261.—For purposes of subsection (e), the period of limi-
21 tation for assessment against the transferor of any tax im-
22 posed under section 1261 the payment of which is ex-
23 tended under section 6168 shall not be treated as expiring
24 earlier than the due date for the last payment under (a)(2)
25 of such section.”.

1 (3) CLERICAL AMENDMENT.—The table of sec-
2 tions for subpart B of chapter 62 of such Code is
3 amended by adding at the end the following new
4 item:

“Sec. 6168. Extension of time for payment of capital gains on certain assets
realized by reason of death.”.

5 (b) INTEREST.—Section 6601 of such Code is amend-
6 ed by redesignating subsection (k) as subsection (l) and
7 by inserting after subsection (j) the following new sub-
8 section:

9 “(k) SPECIAL RATE FOR TAX EXTENDED UNDER
10 SECTION 6168.—If the time for payment of an amount
11 of tax imposed by section 1261 is extended as provided
12 in section 6168, in lieu of the annual rate provided by
13 subsection (a), interest shall be paid at a rate equal to
14 45 percent of the annual rate provided by subsection (a).
15 For purposes of this subsection, the amount of any defi-
16 ciency which is prorated to installments payable under sec-
17 tion 6168 shall be treated as an amount of tax payable
18 in installments under such section.”.

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

1 **SEC. 7. LIMITATION ON USE OF LIKE-KIND EXCHANGES TO**
2 **AVOID TAX ON REAL ESTATE GAINS.**

3 (a) **LIMITATION ON NONRECOGNITION OF GAIN.—**
4 Section 1031(a) of the Internal Revenue Code of 1986 is
5 amended by adding at the end the following new para-
6 graph:

7 “(4) **LIMITATIONS.—**

8 “(A) **ANNUAL LIMITATION.—**The amount
9 of gain excluded from recognition under para-
10 graph (1) with respect to any property of the
11 taxpayer during the taxable year which is not
12 qualified property shall not exceed \$500,000.

13 “(B) **AGGREGATE LIMITATION.—**The ag-
14 gregate amount of gain excluded from recogni-
15 tion under subparagraph (A) by the taxpayer
16 for all taxable years shall not exceed
17 \$1,000,000.

18 “(C) **QUALIFIED PROPERTY.—**For pur-
19 poses of this paragraph, the term ‘qualified
20 property’ means property—

21 “(i) which is used for farming pur-
22 poses, or

23 “(ii) which is exchanged for property
24 that will serve the same specific purpose.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to exchanges of real property after
3 December 31, 2026.

4 **SEC. 8. LIMITATION ON DEDUCTION FOR QUALIFIED BUSI-**
5 **NESS INCOME.**

6 (a) IN GENERAL.—Section 199A(a)(2) of the Inter-
7 nal Revenue Code of 1986 is amended—

8 (1) in subparagraph (A), by striking “the tax-
9 able income of the taxpayer for the taxable year”
10 and inserting “so much of the taxable income of the
11 taxpayer for the taxable year as does not exceed
12 \$1,000,000”, and

13 (2) in subparagraph (B), by striking “the net
14 capital gain (as defined in section 1(h)) of the tax-
15 payer for such taxable year” and inserting “all in-
16 come of the taxpayer for such taxable year other
17 than qualified business income”.

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