SCWA Legislative & Regulatory Update

January 5, 2026

Congressional Update

Happy New Year!

Congress returns to Washington this week with a January 30 funding deadline looming. The House will remain in session for three weeks before a recess the week of January 26, while the Senate meets for two weeks, recesses the week of January 19, and returns for the final week of the month.

The stopgap funding law enacted in November covered three FY 2026 appropriations bills. Lawmakers must pass the remaining nine spending bills or approve another continuing resolution by the end of January to avoid a shutdown. Before the holiday recess, House and Senate Appropriations Committee leaders agreed on topline funding levels for those bills, though specific figures were not released. The framework reportedly aligns more closely with bipartisan Senate proposals and is below current continuing resolution levels, setting up potential opposition from conservative House Republicans.

In the Senate, progress on a five-bill appropriations package has stalled after Democratic holds were placed in response to the administration's plan to dismantle the National Center for Atmospheric Research. In the House, appropriators released a bipartisan three-bill minibus that leadership hopes to bring to the floor this week and that could serve as a vehicle for short-term funding.

Before recessing, the House passed a Republican healthcare bill largely along party lines that is not expected to advance in the Senate. Separately, several Republican moderates joined Democrats in signing a discharge petition to force a vote on extending expired ACA enhanced premium tax credits, a move that could influence bipartisan discussions in the Senate.

The OECD announced changes to its Pillar 2 global minimum tax framework that would exempt U.S. multinational companies from certain provisions, addressing concerns raised by U.S. officials and congressional Republicans.

Meanwhile, Rep. Marjorie Taylor Greene's resignation reduces the House Republican majority to two votes.
This week, the House is expected to consider legislation limiting the Department of Energy's authority over energy efficiency standards, along with possible votes on discharge petitions, veto overrides, and appropriations measures. The Senate will focus on confirming administration nominees and may consider a War Powers resolution related to U.S. military action in Venezuela.

IRS Sets 2026 Business Standard Mileage Rate at 72.5 Cents Per Mile, up 2.5 cents

The Internal Revenue Service announced that the optional standard mileage rate for business use of automobiles will increase by 2.5 cents in 2026, while the mileage rate for vehicles used for medical purposes will decrease by half a cent, reflecting updated cost data and annual inflation adjustments.

Optional standard mileage rates are used to calculate the deductible costs of operating vehicles for business, charitable, and medical purposes. Additionally, the optional standard mileage rate may be used to calculate the deductible costs of operating vehicles for moving purposes for certain active-duty members of the Armed Forces, and now, under the One, Big, Beautiful Bill, certain members of the intelligence community.

Beginning Jan. 1, 2026, the standard mileage rates for the use of a car, van, pickup or panel truck will be:

- 72.5 cents per mile driven for business use, up 2.5 cents from 2025.
- 20.5 cents per mile driven for medical purposes, down a half cent from 2025.
- 20.5 cents per mile driven for moving purposes for certain active-duty members of the Armed Forces (and now certain members of the intelligence community), reduced by a half cent from last year.
- 14 cents per mile driven in service of charitable organizations, equal to the rate in 2025.

The rates apply to fully-electric and hybrid automobiles, as well as gasoline and diesel-powered vehicles.

While the mileage rate for charitable use is set by statute, the mileage rate for business use is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes, meanwhile, is based on only the variable costs from the annual study.

Under the law, taxpayers cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses, except for certain educator expenses. However, deductions for expenses that are deductible in determining adjusted gross income remain allowable, such as for certain members of a reserve component of the Armed Forces, certain state and local government officials, certain performing artists, and eligible educators. Alternatively, eligible educators may claim an itemized deduction for certain unreimbursed employee travel expenses. In addition, only taxpayers who are members of the military on active duty or certain members of the intelligence community may claim a deduction for moving expenses incurred while relocating under orders to a permanent change of station.

Use of the standard mileage rates is optional. Taxpayers may instead choose to calculate the actual costs of using their vehicle.
Taxpayers using the standard mileage rate for a vehicle they own and use for business must choose to use the rate in the first year the automobile is available for business use. Then, in later years, they can choose to use the standard mileage rate or actual expenses.

For a leased vehicle, taxpayers using the standard mileage rate must employ that method for the entire lease period, including renewals.

Notice-2026-10 PDF contains the optional 2026 standard mileage rates, as well as the maximum automobile cost used to calculate mileage reimbursement allowances under a fixed-and variable rate plan. The notice also provides the maximum fair market value of employer-provided automobiles first made available to employees for personal use in 2026 for which employers may calculate mileage allowances using a cents-per-mile valuation rule or the fleet-average-valuation rule.

IRS Updates Frequently Asked Questions on Changes to the Limitation on the Deduction for Business Interest Expense

The Internal Revenue Service updated frequently asked questions in Fact Sheet 2025-09 PDF regarding changes to the limitation on the deduction for business interest expense (Section 163(j)) under the OBBB.
For tax years beginning after December 31, 2024, OBBB amended Section 163(j) by:

- Allowing taxpayers to add back deductions for depreciation, amortization, or depletion when calculating Adjusted Taxable Income.
- Expanding the definition of floor plan financing interest to treat, as a motor vehicle, any trailer or camper designed to provide temporary living quarters for recreational, camping or seasonal use and designed to be towed by, or affixed to, a motor vehicle.

For tax years beginning after December 31, 2025, OBBB amended Section 163(j) by:

- Clarifying that business interest expense subject to Section 163(j) includes any interest incurred and capitalized during the tax year, except for interest capitalized under Sections 263(g) and 263A(f).

Excluding a U.S. shareholder's controlled foreign corporation income inclusion items under Sections 951(a), 951A(a) and 78, and associated deductions, from the computation of Adjusted Taxable Income.

Treasury, IRS Provide Guidance on the New Deduction for Car Loan Interest Under the OBBB

The Department of the Treasury and the Internal Revenue Service provided guidance on the “No Tax on Car Loan Interest” provision enacted under the One, Big, Beautiful Bill.

The proposed regulations issued today relate to a new deduction for interest paid on vehicle loans incurred after Dec. 31, 2024, to purchase new made-in-America vehicles for personal use. This new tax benefit applies to both taxpayers who take the standard deduction and those who itemize deductions.
Who can take a deduction for interest on car loans
To help taxpayers take advantage of this new tax benefit, today's guidance addresses important eligibility criteria, including:

- Providing rules relating to new vehicles eligible for the deduction, including for determining if the final assembly of a vehicle occurred in the United States;
- Providing rules for determining which vehicle loans qualify and the amount of interest paid on a loan that may be deductible;
- Providing rules for determining if a new vehicle is purchased for personal use; and

- Identifying taxpayers who can take the deduction and clarifying the $10,000 annual deduction limit.

What lenders need to know
The IRS previously announced transition guidance for certain lenders and other taxpayers receiving interest for vehicle loans in 2025. In general, those persons must file information returns with the IRS to report interest received during the tax year and other information related to the loan. These information returns enable taxpayers to claim the benefits of the vehicle loan interest deduction. To help lenders implement these information reporting requirements, the proposed regulations clarify:

- Which lenders and other interest recipients are required to report and the time and manner for this reporting; and
- What information must be included on the form provided to the IRS and to taxpayers.

More information
Treasury and IRS invite comments from the public on these proposed regulations by Feb. 2, 2026. Comments can be submitted through Regulations.gov and instructions can be found in the proposed regulations.

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