TTAA Legislative & Regulatory Update

July 13, 2026

Following the sudden passing of South Carolina Senator Lindsey Graham, Congress returned to Washington today with a limited legislative calendar before the August recess and a number of major issues still awaiting action. The House is scheduled to be in session for just eight legislative days before recessing on July 23, while the Senate is expected to remain in session through August 7, giving senators approximately 20 legislative days before their break.

South Carolina Gov. Henry McMaster will hold a press conference this afternoon to announce whom he is appointing to serve the remainder of Sen. Lindsey Graham's term after the Republican senator's death Saturday. President Donald Trump said he recommended that McMaster, a Republican, appoint Graham's sister, Darline Graham Nordone, to fill the rest of his term, which ends in early January.

The House returns after procedural disputes prevented lawmakers from advancing several pieces of legislation before the July 4 recess. Those disagreements stalled consideration of the Fiscal Year (FY) 2027 National Defense Authorization Act (NDAA) and led House leadership to cancel scheduled floor votes before sending members home early. As Congress resumes its work, House leaders are expected to continue discussions on how to move forward with the annual defense authorization bill while addressing broader legislative priorities.

This week's House agenda includes consideration of the FY 2027 National Security-Foreign Operations appropriations bill, legislation that would make daylight saving time permanent, a Department of Veterans Affairs reform measure, and legislation related to merchant category codes used by credit card companies for firearm retailers. The House is also expected to consider more than 20 additional bills under suspension of the rules, covering issues including aviation security, campaign finance, Treasury operations, and banking.

The Senate plans to begin work on its version of the FY 2027 National Defense Authorization Act while continuing to focus on confirming executive branch nominees. Debate over the defense bill could extend throughout the work period as lawmakers consider military funding priorities and other national security issues.

Congress is also expected to continue discussions regarding supplemental appropriations for Fiscal Year 2026. The Administration has requested approximately $67 billion in additional funding to support ongoing military operations. House leadership continues to work toward advancing a budget resolution that would begin the reconciliation process, with the goal of considering broader budget legislation later this year. Negotiations over the scope and timing of that package remain ongoing.

The Senate Intelligence Committee is scheduled to consider the nomination of Jay Clayton to serve as Director of National Intelligence. Senate leaders also hope to make progress on extending Section 702 of the Foreign Intelligence Surveillance Act (FISA), an intelligence authority that is set to require congressional action.

Annual appropriations work for Fiscal Year 2027 also remains a priority in both chambers. Progress has been slower than anticipated as procedural delays in the House and scheduling challenges in the Senate have limited movement on spending bills. Congressional leaders continue working to advance appropriations legislation before the end of the fiscal year.

The Senate also returns with a change in its membership following the passing of Senator Lindsey Graham (R-SC). The chamber now consists of 52 Republicans and 47 Democrats, with one vacancy to be filled under South Carolina law. Governor Henry McMaster is expected to appoint an interim senator until a special election is held, and committee assignments may be adjusted in the coming weeks.

With only a handful of legislative days remaining before the August recess, lawmakers face a full agenda that includes annual appropriations bills, defense authorization legislation, executive nominations, and budget negotiations. The pace of progress over the next several weeks will help determine what issues Congress is able to address before members return to their states and districts for the August work period.

IRS Simplifies Penalty Relief, Introduces Automatic Process for Eligible Taxpayers
The Internal Revenue Service announced a new automatic process to provide penalty relief for taxpayers with a history of filing and paying on time, reducing the need for them to request assistance.

The new Automatic Exemption from Penalty will replace the long-standing First Time Abate administrative relief and is designed to simplify the process and reduce burden for those with a timely compliance history.

"Automatic Exemption from Penalty reflects the IRS' commitment to making the payment of taxes owed simpler and more consistent," said IRS Chief Executive Officer Frank J. Bisignano. "By automatically applying penalty relief, the IRS recognizes that taxpayers who historically pay on time should not have to make a formal request for relief that is routinely granted."

New automatic penalty relief begins in summer 2026

The new Automatic Exemption from Penalty, or AEP, is a systemic administrative relief program expected to begin this summer. AEP applies to eligible original returns beginning with tax year 2025 and 2026 quarterly returns, as well as future tax periods. Taxpayers qualify if they have a history of timely filing the return and paying any tax due in the three prior years (or 12 consecutive quarters for quarterly returns). When taxpayers qualify, penalties are not assessed during processing for:

- Failure to file.
- Failure to pay.
- Failure to deposit.

Taxpayers do not need to take action to receive this relief. If eligible, the IRS will apply AEP and issue a notice confirming that the relief was granted.

Not all returns are eligible for AEP. For example, information returns and returns that are filed only in response to specific transactions or infrequent events (such as Form 706, U.S. Estate Tax Return or Form 709 Gift Tax Return) generally are not eligible.

First Time Abate phased out

First Time Abate has been the most common form of administrative penalty relief, allowing eligible taxpayers with a history of timely compliance to request the removal of certain penalties.

The IRS will begin phasing out First Time Abate and transitioning to AEP during the summer of 2026. During this transition, some qualifying taxpayers may still receive penalty notices for eligible tax year 2025 and 2026 quarterly returns. Taxpayers who believe they qualify may contact the IRS to request First Time Abate.

AEP provides relief automatically and will replace First Time Abate for eligible returns with original due dates on or after Jan. 1, 2027. Please visit Administrative penalty relief for more information.

What to expect

Taxpayers who do not qualify for AEP may still request penalty relief based on reasonable cause. The IRS will review those requests and notify taxpayers of the outcome. See Penalty relief for reasonable cause for more information.
While AEP prevents the assessment of certain penalties, taxpayers must still pay any tax and interest due, as well as any penalties not eligible for relief.

Supporting fairness and voluntary compliance

The IRS is making this change to promote fairness and consistency in the application of penalty relief while encouraging voluntary compliance.
By automatically recognizing taxpayers with a strong compliance history, AEP reduces taxpayer burden and ensures penalty relief is applied fairly and equitably to all taxpayers, thereby observing their Taxpayer Rights.

For more information about penalty relief eligibility and requirements, visit IRS.gov.

Chuck Space, TTAA Executive Director
Texas Tire & Automotive Association