T. Rowe Price

Market Update: The Section 899 "revenge tax"

June 2025

Section 899

Section 899—a foreign tax provision in the One Big Beautiful Bill Act making its way through the U.S. Congress—has spooked some investors and added uncertainty to an already clouded market outlook.

What we know

- Intended to discourage "unfair foreign taxes," the proposed Section 899 would impose a new tax on individuals and entities from nations whose tax policies are deemed to be discriminatory toward U.S. companies.
- Under the Senate's version of the bill, Section 899's effective date would be delayed to January 2027, at which point the new tax would begin at 5% before gradually increasing to 15%.
- The tax is not expected to apply to portfolio interest payments, which include U.S. Treasury payments, or to capital gains. The Senate version of the bill includes clarifying language to emphasize this point.
- However, the tax is expected to apply to dividends and corporate profits.

What we think

- The Section 899 tax is very likely to feature in the upcoming reconciliation bill, as both the House and Senate have included it in their versions of the legislation, albeit with differing details.
- Similar to the Trump administration's approach of levying high initial tariff levels, Section 899 may serve as a negotiation tool to incentivize other nations to lower taxes paid by U.S. companies on foreign sales—most notably digital services taxes.
- While implementation of the tax could raise additional revenue to help reduce the budget deficit, we believe its primary objective is to create a more level playing field for U.S. companies operating abroad.
- Companies and investors from countries most at risk of the tax are those that have imposed global minimum taxes and other taxes, such as digital services taxes, that target U.S. technology firms.

Investment Implications

- It is difficult to specify direct impacts of Section 899 at this stage. However, if enacted, the tax would likely discourage investment into the U.S., driving equity investors to international markets and weighing on the U.S. dollar.
- The exemption of interest income from Treasury holdings is notable due to concerns among some investors that the tax might deter foreign ownership of U.S. government debt, especially as U.S. fiscal spending is placing upward pressure on yields.
- U.S. companies that pay higher dividends—including utilities, financial firms, and real estate investment trusts—could be most vulnerable to the tax, as could companies that are not domiciled in the U.S. but source significant revenues from U.S. operations.
- Ultimately, Section 899 could lead to further changes in U.S. market composition, with technology continuing to gain a greater share of market capitalization.
- If implemented, the tax could materially change the earnings outlook for certain companies. But it will be important to evaluate its impacts on a company-by-company basis rather than making broad assumptions.

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