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One Big Beautiful Bill Enacted—Tax Implications

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Background

On July 3, 2025, Congress passed the "One Big Beautiful Bill Act" (**OBBBA**). The final version was different from the one previously passed in the House on May 22, 2025 and was subject to multiple revisions and updates while circulating in the Senate. On July 4, 2025, the OBBBA was signed into law by President Trump.

The OBBBA's core changes and modifications of tax law entail enhancing and making permanent some provisions promulgated by the Tax Cuts and Jobs Act (**TCJA**) of 2017 that were set to expire after this year and establishing termination and phaseout dates for many of the energy tax credits promulgated by the Inflation Reduction Act (**IRA**) of 2022. The OBBBA also includes various incentives aimed at individual taxpayers, including an above-the-line deduction for tips and certain overtime. Business and investment incentives include an expansion of bonus depreciation, opportunity zones and qualified small business stock, as well as incentives for select manufacturing. At the same time, the OBBBA removed or limited other incentives (such as those relating to renewable energy), expanded (or made permanent) various limitations on deductions and increased taxes on certain foreign income. Many of the changes become effective this year and for taxable years beginning after December 31, 2025.

Summary of Key Provisions

Extension or Permanence of TCJA Provisions for Individuals

- *Lower marginal tax rates and increased standard deduction made permanent*. The TCJA lowered marginal individual tax rates for taxable years from 2018 through 2025, with the highest rate dropping from 39.6 percent to 37 percent. The TCJA also doubled the standard deductions amounts from previous levels. Both of these changes were set to expire beginning for the 2026 tax year. The OBBBA makes the individual tax rates and higher standard deduction permanent. The OBBBA also provides senior citizens with a new, temporary deduction of $6,000 beginning in 2025, but which will expire in 2028, and is subject to a phaseout at certain income levels.

- *Limitations on itemized deductions permanently removed (but modified)*. The TCJA eliminated the overall limit on some itemized deductions (such as medical and dental expenses, charitable contributions, casualty and theft losses, and gambling losses). The OBBBA makes this elimination permanent but replaces it with a limitation on the value of those itemized deductions equal to 35 cents on the dollar. As a result, taxpayers at the highest marginal tax rate will be penalized.

- *Deduction for qualified business income made permanent (but modified)*. The TCJA enacted Section 199A, which provides owners of pass-through companies and sole proprietors a 20% deduction (to lower the rate) for business-related income, subject to certain wage limits and exceptions. Section 199A was set to expire at the end of 2025. Under the OBBBA, Section 199A is made permanent, but the determination of combined qualified business income has been modified to include a limitation on the "phase-in amount" equal to the excess (if any) of the taxable income of the taxpayer for the taxable year over the threshold amount plus $75,000 for single filers and $150,000 for joint filers (an increase from $50,000 for single filers and $100,000 for joint filers).

- *Miscellaneous itemized deductions permanently disallowed*. The TCJA temporarily eliminated (through 2025) the deduction for miscellaneous itemized deductions (e.g., investment management fees and unreimbursed employee expenses). Pre-TCJA, individuals (and certain other noncorporate taxpayers) could deduct such amounts only to the extent they exceeded 2% of the taxpayer's adjusted gross income, and additional limitations applied. Under the OBBBA, the disallowance of miscellaneous itemized deductions for such taxpayers is made permanent.

- *Excess business losses*. The TCJA introduced (and the IRA extended) a new limitation for noncorporate taxpayers from 2021 through 2028, disallowing deductions for excess business losses (**EBLs**). A taxpayer's EBL generally is the amount by which a taxpayer's aggregate trade or business deductions or losses exceed its gross trade or business income or gain. The ability to use EBLs to offset nonbusiness income is limited to an annual threshold amount indexed for inflation. Under the OBBBA, the limitation on deduction of EBLs is made permanent.

- *Cap on state and local tax (**SALT**) deductions made permanent (but modified)*. The TCJA limited a taxpayer's ability to deduct state and local income, sales and property taxes to $10,000, which cap was set to expire at the end of 2025. The OBBBA makes the SALT cap permanent but raises the cap from $10,000 to $40,000 through 2029, with a reversion to $10,000 for tax years beginning after 2029. The OBBBA also phases out the SALT deduction (in any event, never resulting in a SALT cap less than $10,000) for taxpayers at certain income brackets, starting at $500,000 and increasing slightly annually for any tax year before 2030.

- *Lifetime exclusion amount for federal estate and gift tax increased permanently*. The OBBBA, effective for persons becoming deceased in 2026, increased the basic lifetime exclusion for federal estate and gift tax to $15,000,000 per person, which amount will be indexed to inflation in years after 2026. This means that in 2026 an individual can transfer $15,000,000 (increased from $13,990,000 in 2025) free of any federal estate, gift or GST taxes either during their lifetime or at death (a combined $30,000,000 for married couples, increased from $27,980,000 in 2025). Without this change, the basic exclusion would have decreased in 2026 to approximately $7,200,000.

Extension or Permanence of TCJA Provisions for Businesses

- *Restoration of bonus depreciation*. Under the TCJA, taxpayers could take advantage of so-called "bonus depreciation," which permitted taxpayers to take an immediate deduction for the cost of certain assets. Under the TCJA, for most types of property, 100% of such costs were deductible through 2022, and the deduction phased down thereafter (e.g., 80% of such costs were deductible in 2023 and 60% in 2024). Under OBBBA, the 100% bonus depreciation provision is made permanent for qualified property acquired and placed in service after January 19, 2025.

- *Research and development (**R&D**) expenditures may again be expensed*. Under the TCJA, beginning in 2022, all costs related to research and development had to be amortized over five years (or fifteen years for costs attributable to research conducted outside the United States, Puerto Rico or U.S. possessions). Prior to the TCJA, businesses could deduct the total amount of R&D expenditures as an expense in the taxable year incurred. Under the OBBBA, full expensing for domestic R&D expenses are made permanent for taxable years beginning after December 31, 2024. Further, taxpayers may accelerate unamortized R&D balances as of December 31, 2024 over one or two years.

- *Qualified opportunity zone program made permanent*: The OBBBA makes permanent the TCJA's opportunity zone (**OZ**) program and provides for new, rolling 10-year designations of "low-income communities" beginning in July 2026 (effective for January 1, 2027) and every 10 years going forward. The OBBBA will likely reduce the number of communities qualifying as OZs by lowering the median household income threshold to 70% (from 80%) and not allowing census tracts that are contiguous to low-income communities to be automatically eligible, but rather requiring such tracts to independently qualify. The OBBBA eliminates the 15% basis step-up for qualified opportunity fund (**QOF**) interests held for at least seven years (retaining only the 10% step-up basis for investments held for at least five years) but provides a new 30% basis step-up for investments in rural QOFs after five years. For QOF investments held for 10 years or more, all post-investment gains on those investments continue to be excluded from taxable income, but for investments held for 30 years or longer, post-investment gains excluded from income would be measured as of the date that is 30 years following the investment. The OBBBA also adds new reporting requirements for QOFs and their underlying businesses.

- *Business interest expense permanently tied to EBITDA.* The TCJA limited a business's deduction for business interest to the sum of (1) business interest income, (2) 30% of adjusted taxable income (ATI) and (3) floor plan financing interest. For tax years beginning after 2021, the starting point for the ATI was effectively earnings before income taxes (rather than earnings before income taxes without regard to deductions for depreciation, amortization or depletion (EBITDA)), which made the interest deduction limitation more restrictive. For taxable years beginning after December 31, 2024, the OBBBA provides that ATI is computed by reference to EBIDTA. Further, for taxable years beginning after December 31, 2025, the OBBBA provides that certain capitalized interest will not be treated as business interest expense for purposes of the business interest deduction and provides a new ordering rule for such deduction allocated first to business interest which would otherwise be capitalized and the remainder, if any, to deductible business interest.

- *Deduction for compensation paid to covered employees*. The TCJA limited a public company's deduction for compensation of a "covered employee" (generally the CEO, CFO and next three highest-paid officers) to $1 million per covered employee for taxable years beginning after December 31, 2017. The American Rescue Plan of 2021 (**ARPA**) then expanded the definition of a "covered employee" for taxable years beginning after December 31, 2026 to include the five-highest compensated employees after the five officers included in accordance with the TCJA. The OBBBA has clarified that for taxable years beginning after December 31, 2026, for a publicly held corporation that is a member of a controlled group, the limitations promulgated by the TCJA and ARPA will apply to the entire controlled group when evaluating which officers and employees constitute a "covered employee."

- *International tax changes*. The OBBBA modifies many international tax rules implemented by the TCJA that apply to certain U.S. shareholders of controlled foreign corporations (**CFCs**), including the following:

  - With respect to inclusions by U.S. shareholders of "global intangible low-taxed income" (**GILTI**) earned by a CFC, the OBBBA permanently fixes the deduction a *corporate* U.S. shareholder may take against GILTI inclusions at 40%. Corporate U.S. shareholders had been allowed a 50% deduction, but this was slated to be reduced to 37.5% in 2026. The OBBBA also eliminates the deduction from GILTI for 10% of a shareholder's deemed return on foreign investments. Finally, the OBBBA redesignates GILTI as "Net CFC Tested Income."

  - With respect to inclusions by U.S. shareholder of "foreign-derived intangible income" (**FDII**) earned by a CFC, the OBBBA permanently fixes the deduction a *corporate* U.S. shareholder may take against FDII inclusions at 33.34%. Corporate U.S. shareholders had been allowed a 37.5% deduction, but this was slated to be reduced to 21.875% in 2026. Finally, the OBBBA redesignates FDII as "foreign-derived deduction eligible income."

  - Prior to its being repealed by the TCJA, Section 958(b)(4) had prohibited "downward attribution" (i.e., treating a U.S. person as owning stock owned by a non-U.S. person) for purposes of determining U.S. shareholder and CFC status. The TCJA's repeal of Section 958(b)(4) resulted in increased compliance burdens as a result of expanding the number of entities subject to the CFC rules. The OBBBA restores Section 958(b)(4), effective for tax years of foreign corporations beginning after December 31, 2025.

Further, with respect to the base erosion and anti-abuse tax (**BEAT**) implemented by the TCJA, the OBBBA permanently fixes the BEAT rate at 10.5%. The BEAT rate had been 10%, but this was slated to increase to 12.5% in 2026.

- *Higher taxes for college endowments*. The TCJA subjected some universities to a 1.4% tax on the net investment income from their endowments. Under OBBBA, the endowment excise tax will increase on a sliding scale from 1.4% to as much as 8% for institutions with a per-student endowment in excess of $2,000,000. The OBBBA exempts schools with fewer than 3,000 students from the increased tax rates.

Non-TCJA-related provisions

- *Changes to qualified small business stock (**QSBS**) regime*. Subject to a number of qualifications, Section 1202 allows noncorporate founders and investors to exclude a percentage of the gain recognized on the sale of QSBS held more than five years, capped at the greater of $10 million or 10 times the basis of the initial investment. The OBBBA expands the exclusion by allowing holders of QSBS issued after July 4, 2025 to qualify for the exclusion earlier, allowing for a 50% exclusion for QSBS held for three years, a 75% exclusion for QSBS held for four years and a 100% exclusion for QSBS held for five years. Further, for QSBS issued after July 4, 2025, the amount of gain that may be excluded from tax is the greater of $15 million (indexed for inflation) or 10 times the basis of the initial investment. Finally, the OBBBA expands the universe of companies whose stock can qualify as QSBS by raising the aggregate gross asset threshold test $50 million to $75 million, which is also indexed for inflation.

- *Clarification of disguised sales*. The OBBBA revised Section 707(a)(2) (which addresses "disguised sales" of property or "disguised payments" for services between a partner and a partnership and rules for disguised sales of property between partners in a partnership) to confirm that the provision is self-executing even in the absence of applicable Treasury regulations. Some had argued that, because no final regulations had been issued with respect to disguised payments or "disguised sales" of partnership interests, Section 707(a)(2) did not currently apply to these sorts of transactions.

- *Changes to energy credits under the IRA and otherwise*. Many energy tax credits enacted by the IRA will, under the OBBBA, terminate on an accelerated basis.

  - The previously-owned clean vehicle, clean new vehicle and qualified commercial clean vehicle credits are eliminated for vehicles acquired after September 30, 2025.

  - The energy efficient home improvement credit and the residential clean energy credit are terminated for property placed in service after December 31, 2025, while the energy efficient commercial buildings deduction and the new energy efficient home credit generally terminate after June 20, 2026.

  - The clean hydrogen production credit will terminate in 2028, and the advanced manufacturing production credit for applicable critical minerals (other than metallurgical coal) will generally phase out from 2031 through 2033.

  - The timeline for completing projects eligible for the clean-energy production tax credit (**PTC**) and investment tax credit (**ITC**) would be significantly tightened; the PTC and ITC would only remain available to a project that is placed in service before January 1, 2028, and the construction of such project begins after the 12-month anniversary of the OBBBA.

  - The OBBBA also establishes various restrictions and ineligibility criteria for the energy tax credits that will remain intact after this year.

- *Taxable REIT subsidiary limitation*. The OBBBA modifies the REIT asset test by increasing the limitation on ownership of securities of taxable REIT subsidiaries from 20% to 25%, effective for taxable years beginning after December 31, 2025.

- *Incentives for certain manufacturing facilities*. Under the OBBBA, certain businesses will be able to deduct 100 percent of the adjusted basis of "qualified production property," which generally means new nonresidential property used for manufacturing or refining (with a number of exclusions). In order to qualify, a taxpayer must begin construction of the relevant property after January 19, 2025, and the property must be placed in service by January 1, 2031.

- *Section 179 expensing limitation increased*. The OBBBA increased the Section 179 expensing provision limitation to $2.5 million, reduced by the amount by which the cost of the relevant Section 179 property placed in service during the tax year exceeds $4,000,000 (the foregoing dollar amounts are indexed to inflation). This provision applies to property placed in service in taxable years beginning after December 31, 2024.

- *International tax changes*. Effective for tax years of foreign corporations beginning after December 31, 2025, the OBBBA:

  - makes permanent the look-through rule for related CFCs, which generally provides that dividends, interest, rents, and royalties received or accrued by a CFC from another related CFC are not treated as subpart F income to the recipient CFC to the extent those payments are attributable to income of the payor CFC that is neither subpart F income nor effectively connected income.

  - provides for new Section 951B, which permits so-called "foreign controlled U.S. shareholders" to be taxed on subpart F and GILTI from a CFC based on downward attribution from a common foreign parent. A "foreign controlled U.S. shareholder" is a U.S. person that would be a U.S. shareholder if the definition of U.S. shareholder applied with a threshold of more than 50% (rather than 10% or more).

  - provides for pro rata inclusions of subpart F income based on actual stock ownership during the CFC's income generating period. Under current law, only those US shareholders of a CFC that were US shareholders as of the last day of the taxable year were required to pick up such inclusions. The OBBBA modifies this rule to pick up all shareholders during the year.

- *New excise tax on certain remittance transfers*. The OBBBA imposes a new 1% excise tax on any remittance transfer for which the sender provides cash, a money order, a cashier's check, or any other similar physical instrument to the remittance transfer provider. The excise tax does not apply to (i) cryptocurrency or stablecoin transfers, (ii) transfers where the funds are withdrawn from an account held at a financial institution that is subject to Bank Secrecy OBBBA reporting, or (iii) transfers funded by a debit or credit card issued in the United States (although prepaid card reloads and transfers made from such cards as taxable remittances are subject to the tax). The 1% excise tax is imposed on the sender of the remittance, but there is secondary liability on the institution servicing the fund transfer. This excise tax is applicable to transfers made after December 31, 2025.
- *Above-the-line deduction for tips, overtime and car loan interest*. The OBBBA includes provisions providing for an above-the-line deduction for tips, overtime pay and car loan interest. These provisions will apply only to those in certain income tax brackets and are subject to other limitations.

Provisions not included in the OBBBA

Preenactment versions of the OBBBA had contained a proposed "revenge" tax on residents and government entities of "offending foreign countries" that imposed "unfair foreign taxes" on certain U.S. persons and entities. The "revenge" tax was dropped from the OBBBA prior to enactment because, on June 26, 2025, the U.S. Treasury Department reached an agreement with the United States' G7 partners pursuant to which those countries will exclude U.S.-parented groups from the OECD's income inclusion undertaxed profits rules (i.e., Pillar Two).

The OBBBA also did not include (i) any reduction in the corporate income tax rate, (ii) any provision that would have changed the tax treatment or tax rate applicable to "carried interests," or (iii) any provision that would have altered the current favorable tax treatment for pass-through entity taxes enacted by a number of states as a workaround to the SALT limitation discussed above.

If you have any questions about this article, please contact Tom Geraghty at tgeraghty@vedderprice.com, Megan L. Jones at mljones@vedderprice.com, Alexander Madias at amadias@vedderprice.com or any other Vedder Price attorney with whom you have worked.