Client Memorandum

July 8, 2025

Update on the Enactment of the One Big Beautiful Bill Act

On July 4, 2025, President Trump signed into law the "One Big Beautiful Bill Act" (the "Act").[1] The Act delivers on several of President Trump's campaign promises, extends and modifies key provisions of the Tax Cuts and Jobs Act of 2017 ("TCJA") that have expired or were set to expire at the end of 2025, significantly revises international tax rules, and curtails or accelerates the phase-out of many clean energy incentives introduced under the Inflation Reduction Act of 2022 ("IRA").

Earlier iterations of the Act included some novel taxes, including a regime that would have imposed additional withholding taxes on investors from certain countries with "unfair" tax regimes at increasing rates over time, an excise tax on litigation funding, and a targeted regime to eliminate passthrough entity tax (PTET) deductions for state and local taxes (basically eliminating a SALT deduction work around). *The final version of the Act does not include any of these provisions.*

For multinational companies and private equity portfolio companies, taken together, the extenders and changes (including changes to Section 163(j),[2] R&E expensing and international tax provisions) will likely require meaningful updates to tax modeling and planning on a going-forward basis. Taxpayers may wish to review their structures and projections in light of these changes.

Importantly, the Act does not change current tax law with respect to carried interest for investment fund managers, who will continue to be taxed under the current regime (including Section 1061).

I. Business Tax Provisions

- *Research & Experimentation (R&E) Expenditures.* The Act permanently restores the immediate deduction for domestic R&E expenditures for tax years beginning after 2024. This reverses the TCJA's requirement (in effect since 2022) to capitalize and amortize such costs over five years. Alternatively, taxpayers may elect to capitalize and amortize domestic R&E costs over a period of not less than 60 months. Foreign R&E expenditures must continue to be capitalized and amortized over 15 years.

- *Interest Expense Limitation – Section 163(j).* The Act retains the 30% cap on the deductibility of business interest expense but redefines "adjusted taxable income" (ATI) to be calculated in a manner similar to EBITDA beginning in 2025, rather than in a manner similar to EBIT. Notably, Subpart F, GILTI (now "net CFC tested income," as discussed below), and related Section 78 gross-up amounts are excluded from ATI and certain interest income previously required to be capitalized is now included in the Section 163(j) limitation calculation. These changes may be favorable for many taxpayers, but the interaction with international provisions and interest capitalization provisions warrants careful modeling.

- *Bonus Depreciation – Section 168(k).* The Act makes permanent 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025. For these purposes, qualified property is generally depreciable property that

[1] The official title of the Act is "An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14."

[2] All Section references herein are in the U.S. Internal Revenue Code of 1986, as amended.

has a recovery period of 20 years or less, computer software, water utility property, a qualified film, television or theatrical production.

- *New Depreciation for Qualified Production Property*. The Act introduces an elective 100% depreciation deduction for "qualified production property"—depreciable nonresidential real property used as an integral part of a qualified production activity—placed in service after the effective date. A qualified production activity means the manufacturing, production or refining of a "qualified product" (generally any tangible personal property, with some limitations).

- *Qualified Business Income Deduction – Section 199A*. The 20% deduction for qualified business income from pass-through entities is made permanent.

- *Excess Business Loss Limitation*. The limitation on excess business losses for noncorporate taxpayers is made permanent. Disallowed losses are carried forward as net operating losses (NOLs), consistent with current law.

- *Opportunity Zones*. The Act renews and enhances the Opportunity Zone regime, making it permanent and providing for designation of new zones every ten years. Tax benefits for investments in Qualified Opportunity Funds (QOFs) are extended for investments made after December 31, 2026, with special beneficial rules for rural opportunity zones.

- *Other Business Provisions*.

  - *REIT TRS Test*. The percentage limitation on a REIT's assets that may consist of securities of taxable REIT subsidiaries is increased from 20% to 25%.

  - *Clarifying Change to Disguised Sale Rules*. The Act clarifies Section 707(a)(2) to make it self-executing, eliminating uncertainty as to whether the section applies in the absence of applicable Treasury regulations.

II. Individual Income Tax Provisions

- *Tax Rates*. The Act makes permanent the TCJA individual rate schedules, including the top marginal rate of 37%. These rates were previously scheduled to sunset after 2025.

- *State and Local Tax (SALT) Deduction*. The SALT deduction cap is increased from $10,000 to $40,000 for tax year 2025 and $40,400 for tax year 2026, with annual inflation adjustments thereafter through 2029. The cap reverts to $10,000 in 2030. The higher cap is phased out for taxpayers with income above $500,000. Notably, the Act does not include the proposed limitations on pass-through entity tax (PTET) deductions, preserving the SALT workaround for partnerships and S corporations.

- *Deductions for Tips, Overtime, Car Loan Interest and Seniors*. For taxable years 2025 through 2028, the Act allows for a deduction of up to $25,000 for qualified tips and $12,500 for qualified overtime compensation. In addition, for taxable years 2025 through 2028, the Act provides a deduction of up to $10,000 for qualified passenger vehicle loan interest (that would otherwise be nondeductible personal interest).The Act temporarily adds a $6,000 senior deduction for qualified individuals who are aged 65 and older for tax years 2025 through 2028. All of these deductions are phased out for taxpayers with higher incomes.

- *Estate/Gift Tax Exemption*. The estate and lifetime gift tax exemption is increased to $15 million per individual ($30 million for married couples), indexed for inflation.

- *Other Deductions and Limitations*.

  - The Act permanently eliminates miscellaneous itemized deductions (other than with respect to certain educator expenses).

  - For taxpayers itemizing deductions, the deduction for charitable contributions is generally limited to charitable contributions exceeding 0.5% of "adjusted gross income," with a carryforward of the disallowed deductions for years in which the 0.5% threshold is exceeded.

- The so-called "Pease" limitation on deductions under old law is replaced with a new rule reducing the value of itemized deductions for taxpayers with income taxed at the 37% marginal rate by 2/37 of the lesser of the amount of the deductions claimed and the amount of income taxed at the 37% marginal rate.

III. International Tax Provisions

- *Elimination of "Last Day Rule."* Starting in 2026, U.S. shareholders of controlled foreign corporations (CFCs) will be required to include their pro rata share of subpart F, GILTI and Section 956 income if they own CFC stock on any day during a CFC's taxable year, not just the last day.

- *GILTI and FDII Modifications*. The Act renames GILTI as "net CFC tested income" (NCTI) and FDII as "foreign-derived deduction eligible income" (FDDEI). The effective tax rate for both NCTI and FDDEI (after taking into account foreign tax credits) is increased to 14% (from 13.125%). The net deemed tangible income return concept (QBAI) is eliminated for both NCTI and FDDEI.

- *Foreign Tax Credits*. The foreign tax credit "haircut" is reduced from 20% to 10%, allowing taxpayers to credit up to 90% of foreign taxes paid on NCTI. For purposes of the NCTI foreign tax credit limitation, only the Section 250 deduction and deductions directly allocable to NCTI are taken into account. Interest and R&E expenses are no longer allocable to NCTI.

- *Base Erosion and Anti-Abuse Tax (BEAT)*. The BEAT rate is set at 10.5% going forward (down from the scheduled 12.5% rate for 2026 and beyond), and the favored status of the R&D credit used for determining BEAT liability is continued.

- *Other CFC-Related Changes*.

  - The look-through rule of Section 954(c)(6) is made permanent.

  - The Act reinstates Section 958(b)(4), preventing "downward attribution" of stock ownership from foreign persons to U.S. persons for purposes of determining whether a foreign corporation is a CFC, reversing a controversial (and possibly unintended) TCJA change. New Section 951B provides for limited downward attribution in certain cases and thereby still requires certain foreign controlled U.S. entities to include any NCTI and subpart F income attributable to certain foreign corporations that such U.S. entities directly or indirectly own.

IV. Clean Energy Credits

The Act accelerates the phase-out of or outright eliminates many clean energy credits enacted under the IRA, including credits for wind, solar and other renewable energy projects, but maintains the credit transferability regime for credits that remain available (other than transfers of certain types of credits which may not be transferred to "specified foreign entities"). The Act also imposes new restrictions on credits involving "prohibited foreign entities."

V. Additional Provisions

- *Qualified Small Business Stock (QSBS)*. The Act expands the QSBS gain exclusion by increasing the per-issuer cap from $10 million to $15 million (indexed for inflation) and allowing for a 50% exclusion for stock held for at least three years at the time of disposition, and 75% for stock held for at least four years (retaining the existing 100% exclusion for stock held for at least five years at the time of disposition). This expansion applies only to QSBS originally acquired by the taxpayer after July 4, 2025. The Act also increases the gross asset cap that applies in determining whether a corporation is a qualified small business from $50 million to $75 million.

- *College Endowment Excise Tax*. The excise tax on net investment income of private college and university endowments is increased and made progressive, with rates ranging from 1.4% to 8% depending on the ratio of endowment assets to students. This is less onerous than the 21% top rate proposed in earlier drafts.

We are available to discuss the implications of the Act in greater detail.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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