

Significant Tax Changes Result From The One Big Beautiful Bill

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PRACTICES Tax

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (the “Act”). Among other changes, the Act (i) extends indefinitely many of the individual and business tax provisions originally enacted under the 2017 Tax Cuts and Jobs Act (“TCJA”), (ii) introduces new reforms, (iii) modifies international tax rules, and (iv) adjusts or repeals several energy-related tax incentives from the 2022 Inflation Reduction Act (“IRA”).

This alert provides a summary of key tax provisions in the Act.

Key Rate Changes

Individual Tax Rates are Continued, and the Standard Deduction is Expanded.

The Act keeps the current individual tax rates and the higher standard deduction amounts first introduced by the TCJA, which under current law were set to expire after 2025. The standard deduction is increased by \$750 for single filers (\$1,500 for married joint filers), with these higher amounts indexed for inflation.

Key Business Tax Provisions

100% Bonus Depreciation is Restored.

The Act permits 100% bonus depreciation for qualified business property (e.g., equipment, machinery, leasehold improvements, and nonresidential improvements) acquired and placed in service after January 19, 2025. Under the TCJA, bonus depreciation was set at 40% and 20% rates for 2025 and 2026, respectively, and was zero thereafter. This accelerated deduction alternative allows businesses to immediately expense the full cost of eligible property, providing a significant incentive for capital investment.

Limitation on Business Interest Deduction is Relaxed.

For tax years beginning after 2024, the limitation on the deductibility of business interest expense is changed to 30% of EBIT rather than EBITDA (i.e., effectively limiting the deduction to earnings before only interest and taxes, rather than also depreciation, and amortization).

20% Deduction for Qualified Business Income is Continued.

The Act continues the Section 199A 20% deduction for qualified business income (QBI) available to noncorporate taxpayers, which was set to expire after 2025. The Act also relaxes the income-based phaseout and introduces other taxpayer-favorable modifications.

Excess Business Loss Limitation is Continued.

The limitation on excess business losses for noncorporate taxpayers, which was set to expire after 2025 is continued. Disallowed losses become net operating losses available in future years.

Partnership “Disguised Sales” Rules are Clarified.

The Act “clarifies” that Section 707(a)(2), which provides for the recharacterization of certain transactions between one or more partners and a partnership (including recharacterization of certain transactions as so-called “disguised sales of partnership interests”), applies even in the absence of regulations.

Qualified Small Business Stock (QSBS) Incentives are Expanded.

The gross asset value cap for QSBS issuers is increased from \$50 million to \$75 million, with an inflation adjustment. The per-issuer cap on excluded gain is raised to \$15 million, and the holding period for partial exclusions is shortened (50% exclusion after three years, 75% after four years, and 100% after five years).

Section 179 Expensing is Enhanced.

The Act increases (i) the maximum amount a taxpayer may expense under Section 179 to \$2.5 million and (ii) the phase-out threshold to \$4 million. Both the cap and the phase-out threshold are indexed for inflation for tax years beginning after 2025. These changes apply to property placed in service in taxable years beginning after 2024.

Deductibility of Domestic Research and Experimental Expenditures is Improved.

The Act restores the ability to immediately deduct domestic research and experimental (R&E) expenditures paid or incurred after 2024. Small businesses (those with revenue under \$30 million) can apply this change retroactively to expenditures after 2021 and other taxpayers may elect to accelerate deductions for amounts capitalized in 2022-2024.

Semiconductor Manufacturing Investment Tax Credit is Increased.

The investment tax credit for eligible semiconductor manufacturing facilities is increased from 25% to 35% for property placed in service after 2025.

International Tax Provisions

GILTI Rules are Revised.

The Global Intangible Low-Taxed Income (GILTI) regime is renamed "Net CFC Tested Income" (NCTI). The Act (i) decreases the previous 50% GILTI deduction to 40% of NCTI, (ii) increases the NCTI deemed paid credit to 90% (previously 80% of GILTI), resulting in an overall increase in the effective NCTI tax rate to 14%, (iii) eliminates the GILTI deduction for a deemed 10-percent return on qualifying business assets, and (iv) limits the allocation and apportionment of certain deductions (including all interest and research and experimental expenditures) to NCTI for foreign tax credit limitation purposes.

FDII/FDDEI Deductions are Reduced.

The Act decreases the previous 37.5% FDII Foreign-Derived Intangible Income deduction to 33.34% on the renamed Foreign-Derived Deduction Eligible Income" (FDDEI), resulting in an increase in the effective tax rate to 14%.

Base Erosion and Anti-Abuse Tax (BEAT) Rate is Set.

The BEAT rate is set at 10.5% for tax years beginning after 2025.

Limitation on Downward Attribution is Restored.

The Act restores the limitation on downward attribution of stock ownership from foreign persons, addressing compliance burdens for foreign-controlled U.S. subsidiaries.

Key Individual Tax Provisions

State and Local Tax (SALT) Deduction Cap is Increased.

The cap on the deduction for state and local taxes is increased from \$10,000 to \$40,000 for tax years 2025 through 2029, with a phased 1% increase each year. The higher cap is subject to a phasedown for higher-income households, with a reduction in the applicable cap by 30% of the excess (if any) of a taxpayer's modified adjusted gross income over \$500,000 (\$250,000 in the case of a married individual filing separately), with the applicable income threshold increasing by 1% each year through 2029. The cap will not be reduced below \$10,000 for any taxpayer in tax years 2025 through 2029 and reverts to \$10,000 for all taxpayers in 2030 (\$5,000 for married separate filers).

SALT Cap Workaround is Not Changed.

The Act does not include limitations on state pass-through entity tax (PTET) deductions, which were proposed in the House version of the bill.

Temporary Deductions for Tips, Overtime, and Car Loan Interest are Instituted.

The Act introduces, for 2025 through 2028, above-the-line deductions for tip income (up to \$25,000) and overtime pay (up to \$12,500), with phaseouts at higher income levels. Additionally, for 2025 through 2028, a deduction of up to \$10,000 is allowed for interest on car loans for vehicles assembled in the U.S., also subject to income-based phaseouts.

Estate Tax Exclusion is Increased.

The estate tax basic exclusion amount, which was set to decline from \$13.99 million in 2025 to approximately \$7 million in 2026, is increased to \$15 million for 2026, and further adjusted for inflation annually.

Real Estate and Community Development Provisions

REIT Rules are Changed.

For tax years beginning after 2025, the Act restores the threshold for real estate investment trusts (REITs) to hold assets through taxable subsidiaries to 25% (from 20%) of total assets.

Carried Interest Treatment is Not Changed.

Despite continued attempts to change the treatment of carried interest, the Act did not change the treatment.

Opportunity Zones are Renewed and Enhanced.

The Opportunity Zone (OZ) program is permanently renewed, with a re-identification of

qualifying OZs every 10 years and new reporting requirements. A rural OZ program is introduced, offering larger permanent exclusions for investments in rural areas.

Special Rule for Developers is Enacted.

The Act allows developers to use the completed contract method of accounting, which will allow the deferral of some phantom income.

Like-Kind Exchange Rules are Not Changed.

Despite continued calls for a change in the rules applicable to Section 1031 like-kind exchanges, the Act did not change these rules.

Other Notable Provisions and Omissions

Retaliatory Tax (Proposed Section 899) is Not Enacted.

The House-proposed new Section 899, which would have imposed higher tax rates on persons and entities associated with countries that impose “unfair foreign taxes” was not included in the final version of the Act.

Excise Tax on Litigation Financing is Not Added.

Proposals to tax income from litigation financing arrangements were not included in the final Act.

Excise Tax on University Endowments is Modified.

The endowment excise tax is modified to include new graduated rates (4% and 8%) based on endowment size, with an exemption for institutions with fewer than 3,000 students.

Potential Impact and Considerations

The Act’s tax provisions are poised to have far-reaching effects on individuals, businesses, and investors. By continuing the TCJA’s lower rates and business incentives, the Act provides long-term certainty and planning opportunities. International tax changes may require multinational businesses to reassess their structures and compliance strategies.

As with any major tax legislation, further regulatory guidance and clarifications are expected in the coming months. For more information or to discuss how the Act may impact your business, please contact one of the individuals listed below.