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New tax bill signed into law

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On July 4, 2025, the President signed into law a significant tax-reform package, known as the One Big Beautiful Bill Act. This update describes key provisions of the new law.

New tax legislation (formally entitled "An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14.," but commonly known as the One Big Beautiful Bill Act or OBBBA) was introduced in the House on May 16, and initially passed the House on May 22 (we discussed the House version here). The Senate approved an amended version of the OBBBA on July 1. The revised version then returned to the House and was passed in final form on July 3. President Trump signed the OBBBA into law on July 4.

The OBBBA, as enacted, extends or makes permanent various tax provisions that were originally enacted in the 2017 Tax Cuts and Jobs Act (the TCJA) and were set to expire at the end of this year. The OBBBA includes new provisions that limit the application of downward attribution rules for controlled foreign corporations (CFCs) in certain contexts, change the global intangible low-taxed income (GILTI) tax base and the foreign-derived intangible income (FDII) tax base (and rename these provisions NCTI and FDDEI, respectively), and change various rules related to foreign tax credits. In addition, the OBBBA includes a new excise tax on certain remittance transfers. The OBBBA does not include various provisions that were included in the original House version of the bill. Most notably, the House version contained a proposed section 899 (dubbed the revenge tax) that would have increased certain tax rates on taxpayers in countries that impose "unfair foreign taxes," but the Senate removed this provision following an agreement between the U.S. Treasury and the G7. The House version also included provisions that would have eliminated the economic benefit of "pass-through entity taxes" (PTET), but these provisions were not included in the final version.

Key tax proposals relating to business deductions and expenses

- Modification to limits on business interest deduction (the 163(j) Limitation)
  - **Prior law:**
    - Business interest deductions were generally limited to 30% of a taxpayer's adjusted taxable income (ATI).
      - Before 2022, ATI was calculated by *excluding* depreciation and amortization deductions (i.e., it was similar to EBITDA).
      - Starting in 2022, ATI was calculated by *taking into account* depreciation and amortization deductions (i.e., similar to EBIT).
    - Interest capitalization provisions (both elective and mandatory) applied before the 163(j) Limitation. This presented a planning opportunity, as interest expense that was capitalized into the basis of assets was not subject to the 163(j) Limitation.
  - **OBBBA:**

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  - Permanently increases the 163(j) Limitation by:
    - Excluding depreciation and amortization deductions from the calculation of ATI (i.e., ATI is again similar to EBITDA), and
    - Excluding subpart F income and GILTI (and the associated gross-ups) from the calculation of ATI.
  - However, now the 163(j) Limitation applies *before* the interest capitalization rules are applied, which will close the tax planning opportunities referenced above.
  - This change will apply to taxable years beginning after December 31, 2024.

- Restoration of 100% bonus depreciation
  - **Prior law:** "Bonus depreciation" would have been phased out for property placed in service after December 31, 2026 (December 31, 2027 for certain longer production period property).
  - **OBBBA:** Restores bonus depreciation by permitting taxpayers to immediately deduct 100% of the cost of qualified property acquired after January 19, 2025.

- Domestic research or experimental expenditures
  - **Prior law:** Domestic research and experimental expenses were amortized over five years.
  - **OBBBA:**
    - For domestic research and experimental expenses, taxpayers are allowed to either (i) deduct these expenses currently or (ii) capitalize and recover these expenses over a period of no less than 60 months.
      - This change will apply to amounts paid or incurred in taxable years beginning after December 31, 2024.
      - Eligible small businesses may apply this change retroactively to taxable years beginning after December 31, 2021.
    - Taxpayers that capitalized domestic research and experimental expenses after December 31, 2021, and before January 1, 2025 may elect to deduct their unamortized amounts over a one- or two-year period.

- Flooring corporate charitable contribution deductions
  - **Prior law:** Corporate taxpayers' deductions for charitable contributions were subject to a 10% ceiling.
  - **OBBBA:**
    - Imposes a 1% floor on these deductions.
      - Any disallowed deductions either below the 1% floor or above the 10% ceiling will be subject to carryforward rules.
    - Adds a 0.5% floor on the deductions for individuals who elect to itemize.
    - This change will apply to taxable years beginning after December 31, 2025.

Key tax proposals relating to international business

- Permanent extension of look-through rule for CFCs
  - **Prior law:** For tax years beginning before January 1, 2026, dividends, interest, rents and royalties received or accrued from a related CFC were not Subpart F income to the extent attributable or allocable to income of the related CFC that was neither Subpart F income nor effectively connected income. This is commonly known as the "CFC look-through rule."
  - **OBBBA:** Makes the CFC look-through rule permanent. This change applies to taxable years of foreign corporations beginning after December 31, 2025.

- Modification of downward attribution rules in determining CFC status

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- **Prior law:**
  - In determining whether a U.S. person was a U.S. shareholder with respect to a foreign corporation, the constructive ownership rules of section 318(a) were applied, with various modifications.
  - Section 318(a) includes a "downward attribution" rule under which if a person owns 50% or more (by value) of a corporation, that corporation is considered to own all the stock owned by that person.
  - Before the TCJA was enacted, downward attribution was not applied if the result would have been to cause a U.S. person to be considered to own stock that was, in fact, owned by a foreign person.
  - The TCJA eliminated this "no downward attribution" rule; once the TCJA went into effect, a single U.S. subsidiary in a foreign-parented group could be considered to own all its foreign sister subsidiaries' stock as a result of downward attribution, causing all of those foreign sister subsidiaries to be CFCs.
- **OBBBA:**
  - Generally restores the pre-TCJA limitation on the downward attribution rules, meaning that a single U.S. subsidiary in a foreign parented group will not cause all the foreign sister subsidiaries to be CFCs.
  - However, the downward attribution rules still apply in certain cases. More specifically, the Subpart F and GILTI inclusion rules apply to a "foreign controlled United States shareholder" (FCUSS) of a "foreign controlled foreign corporation" (FCFC).
    - An FCUSS is a U.S. person that would be a U.S. shareholder with respect to a foreign corporation if the downward attribution rules still applied, and the shareholder is treated as owning at least 50% of the foreign corporation
    - An FCFC is a foreign corporation, other than a CFC, more than 50% of which is owned by a FCUSS (determined by applying the downward attribution rule).
  - As a result of these changes, the universe of U.S. taxpayers who would need to take into account Subpart F and GILTI income from "downward attribution CFCs" is significantly reduced compared to prior law, and is generally more narrowly confined to address the particular type of tax planning that Congress suggested it was trying to curtail in the TCJA.
  - This change will apply to taxable years of foreign corporations beginning after December 31, 2025.

– Changes to CFC pro rata share rules

- **Prior law:** A U.S. shareholder holding shares in a CFC on the last day of the CFC's taxable year must include in income its pro rata share of the CFC's Subpart F and section 956 income, determined based on the amount of the CFC's income that would have been distributed to such U.S. shareholder with respect to its stock, and reduced by certain amounts of distributions received by any other person with respect to such stock. Similar rules apply to GILTI.
- **OBBBA:**
  - Every person that is a U.S. shareholder of a CFC at any time during the CFC's taxable year, not just those holding shares on the last day of the taxable year, must include in income its pro rata share of the CFC's Subpart F and GILTI income.
  - CFC section 956 inclusions would still apply only to U.S. shareholders holding shares on the last day of the CFC's taxable year.
  - This change will apply to taxable years of foreign corporations beginning after December 31, 2025.

– Modification to GILTI (renamed NCTI)

- **Prior law:**
  - Domestic corporations paid an effective tax rate on GILTI of 10.5% (the regular corporate income tax rate of 21%, with a 50% deduction). This effective rate was scheduled to increase to 13.125% (21% corporate tax rate, with a reduced 37.5% deduction) after December 31, 2025.

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    - Domestic corporations could credit 80% of the foreign taxes paid on their GILTI. As a result, assuming full creditability, no incremental GILTI tax applied as long as the foreign tax rate was at least 13.125% (scheduled to increase to 16.406% after December 31, 2025).
    - A U.S. shareholder's GILTI inclusion was reduced by 10% of the sum of the shareholder's pro rata share of the qualified business asset investment (QBAI) of each of its CFCs.
  - **OBBBA:**
    - Renames GILTI "net CFC tested income" (NCTI).
    - Permanently sets the effective rate at 12.6% (21% corporate tax rate, with a 40% deduction.)
    - Domestic corporations may credit 90% of the foreign taxes paid on their NCTI. As a result, assuming full creditability, no incremental NCTI tax will apply as long as the foreign tax rate is at least 14%.
    - Eliminates QBAI from the computation of NCTI.
    - This change will apply to taxable years beginning after December 31, 2025.

- Modification to FDII (renamed FDDEI)
  - **Prior law:**
    - Domestic corporations paid an effective tax rate on FDII of 13.125% (the regular corporate income tax rate of 21%, with a 37.5% deduction). This effective tax rate was scheduled to increase to 16.406% (21% corporate tax rate, with a reduced 21.875% deduction) after December 31, 2025.
    - A domestic corporation's FDII was reduced by 10% of the sum of the corporation's QBAI.
  - **OBBBA:**
    - Renames FDII "foreign-derived deduction eligible income" (FDDEI).
    - Permanently sets the effective rate at 14% (21% corporate tax rate, with a 33.34% deduction). This is equal to the effective rate on GILTI.
    - Eliminates QBAI from the computation of FDDEI.
    - This change will apply to taxable years beginning after December 31, 2025.

- Modification of base erosion and anti-abuse tax (BEAT)
  - **Prior law:** The BEAT rate was 10% and was scheduled to increase to 12.5% for taxable years beginning after December 31, 2025.
  - **OBBBA:** Permanently increases the BEAT rate to 10.5%. This change will apply to taxable years beginning after December 31, 2025.
- Repeal of one-month deferral for taxable year of certain specified foreign corporations
  - **Prior law:** Certain specified foreign corporations were required to use the taxable year of their majority U.S. shareholder. However, a specified foreign corporation could elect to begin its taxable year one month earlier than its majority U.S. shareholder.
  - **OBBBA:** Repeals the election for taxable years beginning after November 30, 2025, and provides a transition rule.
- Modification of foreign tax credit rules
  - **Prior law:** For purposes of calculating the foreign tax credit limitation:
    - Income from the sale or exchange of inventory produced in the United States was treated as U.S.-source income.
    - Taxpayers were generally required to allocate a portion of the group's expenses (including interest expense) to foreign source income.
  - **OBBBA:** For purposes of calculating the foreign tax credit limitation:

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  - If a U.S. person maintains an office or fixed place of business in a foreign country, income from the sale or exchange of inventory produced in the United States, to the extent attributable to such foreign office or fixed place of business, is treated as foreign-source income, but only up to 50% of the taxable income from the sale or exchange of such inventory.
  - No interest expense or research and experimental expenditures are allocated or apportioned to GILTI (now called NCTI) and other deductions are allocated and apportioned to NCTI only to the extent they are directly allocable to that income. This increases the amount of NCTI in the NCTI basket, thereby potentially increasing the NCTI foreign tax credit limitation.
  - This change will apply to taxable years beginning after December 31, 2025.

Key tax proposals relating to partnerships

- Amendments to the provision governing partnership disguised sales of property and disguised payments for services
  - **Prior law:** The provision was seemingly effective only to the extent regulations were issued.
  - **OBBBA:** Revises the provision so that it is expressly effective except as provided in regulations, without clarifying what types of partnership arrangements the changes are intended to capture. This change will apply to services performed and property transferred after July 4, 2025.
- Retention of qualified business income deduction under TCJA
  - **Prior law:** Noncorporate taxpayers who held interests in certain partnerships and other pass-through entities (including real estate investment trusts (REITs)) were allowed a 20% deduction for domestic business profits (the section 199A deduction). This deduction was set to expire after December 31, 2025.
  - **OBBBA:** Makes the section 199A deduction permanent with the same rate of 20%. This change will apply to taxable years beginning after December 31, 2025.
- Changes to excess business loss calculation
  - **Prior law:** In the case of a noncorporate taxpayer, no deduction is allowed for an excess business loss for taxable years beginning before January 1, 2029.
  - **OBBBA:**
    - Makes the disallowance for excess business losses permanent.
    - Makes certain adjustments to the computation of a taxpayer's "excess business losses." This change will apply to taxable years beginning after December 31, 2025.

Key tax proposals relating to individuals

- New excise tax on certain remittance transfers
  - **OBBBA:**
    - Imposes a remittance tax of 1% payable by the sender of cash and cash equivalents to recipients outside the United States.
    - Transfer provider must collect the remittance tax and has secondary liability if the tax is not collected.
    - There are exceptions for transfers funded with a U.S. debit or credit card or from an account held with certain financial institutions.
    - This change will apply to transfers made after December 31, 2025.
- Permanent increase in estate and gift tax exemption

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  - **Prior law:** The estate and gift tax exemption for 2025 was $13.99 million per individual (i.e., inflation-adjusted from $10 million). This exemption was set to expire after December 31, 2025, and to revert to an inflation-adjusted $5 million per individual that was in effect before 2018. For reference, the inflation-adjusted exemption would have been $7 million in 2025.
  - **OBBBA:** Permanently increased the estate and gift tax exemption to $15 million per individual, with inflation adjustment after 2025. This change will apply to estates of decedents dying and gifts made after December 31, 2025.

- Retention of individual income tax rates under TCJA
  - **Prior law:** The top marginal individual income tax rate was 37%, but this rate was set to expire after December 31, 2025, and to revert to the top marginal rate of 39.6% that was in effect before 2018.
  - **OBBBA:** Makes the 37% top marginal rate permanent. This change will apply to taxable years beginning after December 31, 2025.

- Extension of state and local tax (SALT) deduction cap
  - **Prior law:** State and local taxes were deductible against an individual's federal income tax liability, but this deduction was capped at $10,000. The cap was set to expire after December 31, 2025.
  - **OBBBA:**
    - Increases the cap to $40,000 for 2025, with annual increase by 1% per year through 2029.
    - The cap is reduced to $10,000 for those with income above $600,000 (with annual 1% increases to this income threshold).
    - Beginning 2030, the cap for all taxpayers is reduced to $10,000 permanently.
    - This change will apply to taxable years beginning after December 31, 2024.

- New limitation on itemized deductions
  - **Prior law:** Before 2018, the so-called "Pease limitation" capped or phased out some itemized deductions for individuals whose income met certain thresholds. The Pease limitation was eliminated starting in 2018 but was set to return after December 31, 2025.
  - **OBBBA:** Permanently eliminates the Pease limitation and replaces it with a new limitation that will result in a small reduction in the value of itemized deductions for individuals in the top 37% marginal bracket. This change will apply to taxable years beginning after December 31, 2025.

- Modifications to qualified small business stock (QSBS) exclusions
  - **Prior law:**
    - QSBS was generally defined as stock of a U.S. corporation that had no more than $50 million in gross assets at the time the stock was issued.
    - A taxpayer that acquired QSBS after September 27, 2010 and held it for more than five years was eligible to exclude 100% of any gain realized. Taxpayers that acquired QSBS before September 27, 2010 were eligible for a reduced exclusion.
    - However, the QSBS exclusion was capped (on a per-issuer basis) at the greater of $10 million (adjusted for inflation) and 10 times the taxpayer's basis in the stock.
  - **OBBBA:**
    - Modifies the rules for qualifying as QSBS such that stock issued when the corporation's gross assets do not exceed $75 million (indexed for inflation beginning in 2027) now qualifies.
    - Introduces three brackets: 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.
    - Increases the limit on the QSBS exclusion to the greater of $15 million (indexed for inflation beginning in 2027) and 10 times the taxpayer's basis in the stock.

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- These changes will apply to taxable years beginning after July 4, 2025.

Key tax proposals relating to renewable energy tax credits

- Restrictions on solar and wind tax credits
  - **Prior law:** Owners of qualifying solar and wind electricity generation facilities (as well as other clean electricity generation facilities) were entitled to claim production tax credits under Section 45Y or investment tax credits under Section 48E, with credits beginning to phase out for facilities beginning construction after the later of 2033 and the year U.S. greenhouse gas emissions from electricity production fell below a specified threshold.
  - **OBBBA:** Terminates Section 45Y and Section 48E credits for solar and wind facilities placed in service after December 31, 2027 if construction of the facility begins after July 4, 2026. Does not generally terminate credits for energy storage technology placed in service at solar and wind facilities or for other clean electricity facilities, but deletes the emissions target extender from the phase-out date, so that projects beginning construction after 2033 will be subject to the phase-out rules regardless of greenhouse gas emissions rates. Generally does not affect eligibility for legacy Section 45 or Section 48 credits for solar and wind projects that began construction before 2025.
- Restrictions on "prohibited foreign entities"
  - **Prior law:** Most renewable energy tax credits were not restricted based on relationships with foreign entities. (Clean vehicle tax credits were subject to limitation if they contained batteries manufactured by or critical minerals processed by a foreign entity of concern.)
  - **OBBBA:**
    - Limits the availability of certain renewable energy tax credits for "specified foreign entities," which include entities with specified ownership or lender relationships with entities or individuals in China, Russia, North Korea or Iran, and "foreign-influenced entities," which have certain contractual relationships with specified foreign entities that cede "effective control" to those entities.
    - Restricts availability of certain renewable energy tax credits for entities deemed to receive "material assistance" from specified foreign entities or foreign-influenced entities, determined by reference to the percentage of product and component costs attributable to those entities.
- Executive order related to "beginning construction" of renewable energy projects
  - Longstanding IRS guidance has provided that projects may be considered to "begin construction" for various effective date purposes either by satisfying a minimum cost safe harbor test or by beginning physical work of a significant nature.
  - On July 7, 2025, President Trump released an Executive Order directing the Treasury to take actions within 45 days of enactment of the OBBBA to "strictly enforce" termination of the Section 45Y and Section 48E tax credits for wind and solar facilities, including by issuing "new and revised guidance as the Secretary of the Treasury deems appropriate" to "prevent the artificial acceleration or manipulation of eligibility" and by "restricting the use of broad safe harbors unless a substantial portion of a subject facility has been built."

Key tax proposals relating to specialized industries

- Tiered excise tax on investment income of private colleges and universities
  - **Prior law:** Private colleges and universities' investment income was subject to an excise tax of 1.4%.
  - **OBBBA:** Creates a tiered system with three rate brackets ranging from 1.4% to 8% based on the size of the institution's endowment (determined on a per-student basis). This change will apply to taxable years beginning after December 31, 2025.
- Taxable REIT subsidiary test

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- **Prior law:** The maximum amount of assets that taxable REIT subsidiaries may represent for purposes of the REIT asset test was 20% of the REIT's assets.
- **OBBBA:** Increased the percentage to 25% of the REIT's assets. This change will apply to taxable years beginning after December 31, 2025.

Key provisions that were included in the House version but omitted from the final version

– Section 899 "revenge tax"

- The House version included a "revenge tax" under proposed section 899 that would have imposed higher tax rates on residents of foreign countries that impose undertaxed profits rule, digital services taxes or various other taxes viewed as unfair. The provision was modified in an earlier draft of the Senate version of the bill, before being dropped from the version that was enacted last week.

– Elimination of PTET deductions

- Individuals who own businesses may receive the economic benefit of a deduction for state and local taxes imposed on income earned through a partnerships or S corporation under various states' PTET regimes, notwithstanding the SALT deduction cap (discussed above).
- The House included provisions that would have denied the benefit of these deductions for state and local income, real property, personal property and general sales taxes to partners (and S corporation shareholders) in partnerships (and S corporations) that are not entitled to the qualified business income deduction under section 199A. This would have effectively repealed PTET for partnerships (and S corporations) conducting specified service trades or businesses.
- These provisions were not included in the version that was enacted last week, thus leaving intact PTET regimes.

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