One Big Beautiful Bill *Webinar*

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Overview

- On July 4, President Trump signed into law the One Big Beautiful Bill Act (“Bill”)

Business Tax

Restoration/expansion of bonus depreciation

- For "qualified property" acquired on or after Jan. 20, 2025:
  - The Bill restores, permanently, the 100% bonus depreciation initially allowed under the TCJA.
- Without the Bill, the bonus depreciation rates would have been:
  - 40% in 2025,
  - 20% in 2026, and
  - 0% in 2027 and beyond.
- In general, "qualified property" is tangible personal property with a recovery period of 20 years or less, and also certain qualified improvement property for real estate purposes (*any improvement made to the interior portion of an existing nonresidential building, provided the improvement was placed in service after the building itself was first placed in service*).

Restoration/expansion of bonus depreciation

- The Bill also allows new 100% bonus depreciation for "qualified production property," the construction of which began after Dec. 31, 2024, and which is placed in service before Jan. 1, 2034.
- In general, "qualified production property" is nonresidential real property used in the manufacturing, production or refining of tangible personal property.

Expansion of business interest deduction

- For purposes of determining a taxpayer’s allowable business interest expense deduction under Section 163(j), the Bill reinstates a more generous definition of "adjusted taxable income" (ATI).
- Under the Bill, a taxpayer’s ATI is computed without regard to the deductions for depreciation, amortization, and depletion.
- This increases the taxpayer’s ATI and thus also increases the taxpayer’s business interest expense deduction under Section 163(j).
- This more favorable method of computing ATI applied initially under the TCJA but expired at the end of 2021.
- The Bill’s provision applies in 2025 and all future tax years.

New Section 199A qualified business income (QBI) provisions

- The Bill makes permanent the special 20% Section 199A QBI deduction that was first enacted under the TCJA.
- Without the Bill, the QBI deduction would have expired at the end of 2025.
- Under Section 199A, generally there are limitations on the QBI deductions based on the amount of W-2 wages paid by a taxpayer and for certain "specified service trades or businesses."
- Under pre-Bill law, these limitations were phased in completely for taxpayers having taxable income $50,000 ($100,000 for joint filers) greater than specified threshold amounts.
- Under the Bill, these limitations will phase in completely for taxpayers having taxable income $75,000 ($150,000 for joint filers) greater than the specified threshold amounts.

Restoration of deductibility of domestic research and experimental (R&E) expenditures:

- Under the Bill, a taxpayer is entitled to deduct domestic R&E expenditures immediately.
- Under the TCJA, the immediate deductibility of R&E expenses expired at the end of 2021 and had been replaced by rules that allowed five-year amortization of domestic R&E expenses.
- In general, the favorable rule under the Bill applies beginning in 2025.
- However, a small business taxpayer with average annual gross receipts of $31 million or less will generally be permitted to apply the Bill's favorable rule retroactively to 2022 and all subsequent years;
- All taxpayers that made domestic R&E expenditures in years 2022-2024 will be permitted to elect to accelerate the remaining deductions for those expenditures over a one- or two-year period beginning in 2025.

Expansion of disallowance of excess business losses

- Under the TCJA, the special limitation on the deductibility of excess (generally over $500,000) business losses of non-corporate taxpayers under Section 461(l) was scheduled to expire at the end of 2028.
- The Bill, however, makes this limitation permanent. Under the Bill, an excess business loss that is disallowed in a particular year is treated as a net operating loss, rather than an excess business loss, in the next year.
- This particular treatment of excess business losses is identical to the pertinent TCJA provisions.

Expansion of benefits under Section 1202 qualified small business stock (QSBS) rules

- Under the Bill, the exclusion for gain from the sale of QSBS is enhanced in several important respects:
  - Prior to the Bill, there was no gain exclusion under Section 1202 unless otherwise qualifying stock was held for at least five years. Under the Bill, a 50% gain exclusion applies to stock held for more than three years, and a 75% gain exclusion applies to stock held for more than four years.
  - Under the Bill, the per-issuer gain exclusion cap under Section 1202 increases from $10 million to $15 million (adjusted annually for inflation in 2027 and thereafter).

Expansion of benefits under Section 1202 qualified small business stock (QSBS) rules

- Under pre-Bill requirements under Section 1202, a corporation is eligible to issue QSBS if it has gross assets exceeding $50 million.
- The Bill increases this threshold amount to $75 million (adjusted annually for inflation in 2027 and thereafter).
- In general, these Section 1202 enhancements apply only to stock issued after the enactment of the Bill.

Opportunity zones (OZs)

- The existing favorable treatment of gains from investments in qualified opportunity zones will become permanent.
- Under the Bill, new OZs will be determined on July 1, 2026 and will take effect on Jan. 1, 2027.
- This same process will take place every ten years.
- As under prior law:
  - gains invested in a qualified opportunity fund (QOF) are deferred for five years (assuming no sales prior to year five)
  - gains invested in a QOF receive a 10% basis step-up at year five
  - all gains are excluded after a ten-year hold period is met.
- These provisions continue to apply, but, under the Bill, a taxpayer—in order to be eligible for the full gain exclusion—must dispose of his/her QOF investment within 30 years after making the investment.

Employee retention credits (ERCs)

- Under the Bill, the IRS is not allowed to issue a refund with respect to an ERC claim made for the third quarter of 2021 unless the taxpayer filed the claim on or before Jan. 31, 2024.
- The Bill also provides an extended period within which the IRS may challenge an ERC refund claim.
- Under the new provision, the IRS may assess a deficiency at any time within six years after a particular refund claim is filed.
- Finally, the Bill imposes enhanced penalties on certain promoters of ERC refund claims.

Energy
Tax Credits

Earlier phase-outs, including for wind and solar projects

- The Bill accelerates phase-outs for certain tax credits, including with respect to wind and solar projects.
- To be eligible for the investment tax credit (ITC) under Section 48E or the production tax credit (PTC) under Section 45Y, wind and solar energy projects now have to be placed in service by Dec. 31, 2027; however, wind and solar projects that begin construction within 12 months of enactment of the Bill do not have to beat the Dec. 31, 2027 deadline.
- The phase-out timetable for other (i.e., non-wind/non-solar) projects and facilities that qualify for the Section 48E ITC or the Section 45Y PTC was not changed by the Bill.
- The Bill accelerates the phase-outs of certain other tax credits, including the clean hydrogen production credit under Section 45V, which will sunset for hydrogen projects for which construction has not begun before Jan. 1, 2028.

Termination of certain tax credits

- The Bill eliminates various tax credits, including:
  - the Section 45V clean hydrogen PTC (for projects beginning construction after Dec. 31, 2027);
  - the Section 30C alternative fuel vehicle refueling property credit (for projects that are placed in service after June 30, 2026);
  - the Section 30D clean vehicle credit (effective after Sept. 30, 2025); and
  - the Section 45W qualified commercial clean vehicles credit (effective after Sept. 30, 2025).

New foreign entity rules

- The Bill places new restrictions on several tax credits related to certain foreign entities.
- For tax years beginning after July 4, 2025, various tax credits (including the Section 45Y PTC, the Section 48E ITC, the Section 45Q carbon sequestration credit, the Section 45U zero-emission nuclear production credit, the Section 45X advanced manufacturing credit, and the Section 45Z clean fuel production credit) cannot be claimed by a taxpayer that is a specified foreign entity (SFE) or "foreign-influenced entity" (as defined in the Bill).
- In addition, certain types of energy projects beginning construction after Dec. 31, 2025 are subject to new rules with respect to material assistance received from SFEs or foreign-influenced entities.

New foreign entity rules

- For example, no PTC under Section 45Y or ITC under Section 48E is allowed for a facility or project that begins construction after Dec. 31, 2025 if construction includes material assistance from an SFE or foreign-influenced entity.
- Material assistance is defined as, with respect to any qualified facility or energy storage technology, having a "material assistance cost ratio" that is less than a designated threshold percentage for the year in which construction begins.
- The term "material assistance cost ratio" is defined as the percentage of the total direct costs to the taxpayer attributable to all manufactured products that are incorporated into a facility or energy storage technology that relate to manufactured products or components that are mined, produced, or manufactured by a person other than the SFE or foreign-influenced entity.
- Additionally, the Bill generally prohibits transfers of tax credits to SFEs and foreign-influenced entities.

Estate & Gift Tax

Gift, estate, and GST tax

- The bill increases the exemption amount for gift, estate, and generation-skipping transfer tax to $15 million for an individual ($30 million for a married couple), and indexes it annually for inflation.
- This change permanently extends the historically high exemption amount set by the TCJA.

Trump accounts

- The law creates "Trump accounts," which are individual retirement accounts for minors and a pilot program where the government will contribute $1,000 to this account for each child with a valid Social Security number born between Dec. 1, 2025 and Dec. 31, 2028.
- The earnings grow tax deferred.
- Each year, the account may receive up to $5,000 in contributions (increasing annually for inflation).
- Contributions to the accounts are not tax deductible by the donor.

Trump accounts

- Contributions made by the government, made by a rollover from one Trump account to another, or made by a nonprofit entity to a qualified class of beneficiaries are excluded from the $5,000 contribution limit.
- An employer may contribute up to $2,500 to its employees' children's Trump accounts, but those contributions count towards the $5,000 contribution limit.
- The account must be invested in a stock index fund. No distributions may be made before the child turns 18.

Exempt Organizations

Expanded application of tax on excess compensation

- This tax is no longer limited in its application to a tax-exempt organization's five most highly compensated current and former employees in a tax year.
- Effective for tax years beginning after Dec. 31, 2025, any employee of an applicable tax-exempt organization that receives remuneration of more than $1 million can result in the tax being imposed on that tax-exempt organization.

Excise tax on net investment income of private colleges and universities is modified

- The Bill eliminates the flat 1.4% tax rate on such institutions having assets with an aggregate fair market value of at least $500,000 per student and replaces the tax rate with a three-level graduated structure.
- The first level continues the 1.4% rate on institutions with endowments between $500,000 and $750,000 per student.
- The second level applies to those with endowments over $750,000 to $2,000,000 per student and imposes the excise tax at a rate of 4%.
- For institutions with an endowment of over $2,000,000 per student, the excise tax rate is 8%.
- The other significant change for this tax is that it will only apply to institutions with at least 3,000 tuition paying students in the prior tax year, up from the prior threshold of 500 tuition paying students.
- There are also some modifications to the way net investment income is determined and to the reporting of student attendees on an institution’s annual tax return. These changes are effective for tax years beginning after Dec. 31, 2025.

Equating spaceports with airports for tax exempt facilities bonds

- The Bill treats ground leases for spaceport facilities in the same manner as ground leases for airports.
- Although state or local bonds that are federally guaranteed are generally not tax exempt, the existing exceptions to that rule now include one for spaceports that is to apply when a U.S. government agency is paying rent, fees or charges for the use of a spaceport.

Changes to education savings plans

- Popularly known as Section 529 plans, the expenses that qualify as higher education expenses for elementary or secondary public, private or religious schools are expanded from the existing tuition, fees, books, supplies and equipment to specifically include curriculum and curricular materials, books or instructional materials, online education materials and certain tutoring and education classes outside of the home, fees for specified tests, and others.

Charitable deduction changes

- For C corporations, charitable contributions are allowed as a deduction only to the extent that total contributions exceed 1% of the corporation's taxable income and do not exceed 10% of the corporation's taxable income.
- For the 90% of individuals who do not itemize deductions, the COVID era included the establishment of a short-term provision allowing a deduction for certain charitable contributions.
- The Bill makes this provision permanent and increases the deduction amount to $1,000 for individuals and $2,000 for joint filers.
- For those taxpayers who do itemize deductions, a 0.5% floor is imposed, meaning that contributions are reduced by 0.5% of the contribution base for that year before any of the contributions are deducted.
- Further, the Bill makes permanent the increase in the limitation on cash contributions to public charities from 50% to 60% of a taxpayer's contribution base.

Individual Income Tax

Extension of favorable individual income tax rates

- Under the Bill, the TCJA's top marginal income tax rate of 37% becomes permanent (replacing the 39.6% rate that would have applied in 2026 without the Bill).

Limitation on itemized deductions

- The Bill permanently removes the overall limitation on itemized deductions (known as the Pease limitation) but replaces it with a new limitation that effectively caps the benefit of an itemized deduction at 35% (even if a taxpayer's highest marginal income tax rate exceeds 35%).

State and local tax deduction limitation (SALT cap)

- In general, the Bill retained the SALT cap under the TCJA, but the Bill increases the maximum SALT deduction to $40,000.
- This "cap" amount increases by 1% each year beginning in 2026 but reverts to $10,000 in 2030.
- Also, the cap amount is reduced for taxpayers having "modified adjusted gross income" (MAGI) over $500,000 ($250,000, for married taxpayers filing separately), although the cap will not fall below $10,000 ($5,000 for married taxpayers filing separately).
- Early versions of the Bill would have eliminated state law SALT cap workarounds that have been referred to as “pass-through entity tax” regimes.
- The final version of the Bill, however, does not limit or otherwise address these workarounds.

Enhanced standard deduction/personal exemption elimination

- Under the Bill, the TCJA's larger standard deduction is now permanent ($31,500 in 2025 for married filing joint taxpayers and $15,750 for most other filers).

Individual alternative minimum tax (AMT)

- The Bill retains the TCJA's increased AMT exemption amounts (e.g., $137,000 for married couples filing jointly; $88,100 for single filers).
- This exemption amount is now phased out for taxpayers having income over certain amounts ($1,000,000 for married couples filing jointly; $500,000 for single filers), which amounts are down slightly from similar amounts included in the TCJA.

Miscellaneous itemized deductions

- Under the Bill, the TCJA's elimination of miscellaneous itemized deductions is now permanent.

No tax on certain tips (temporary)

- The Bill allows a deduction of up to $25,000 annually for qualified tips received by an individual in an occupation that customarily and regularly receives tips.
- The deduction applies for both employees and independent contractors.
- The deduction is an "above-the-line" deduction and thus is not treated as an itemized deduction.
- The deduction begins to phase out when the taxpayer’s MAGI exceeds certain threshold amounts ($300,000 for married couples filing jointly; $150,000 for most other returns).
- The special tip deduction applies from 2025 through 2028.

No tax on certain overtime pay (temporary)

- The Bill allows an "above-the-line" deduction of up to $12,500 annually ($25,000 in the case of married couples filing jointly) for "qualified overtime compensation" received by an individual.
- The deduction begins to phase out when the taxpayer’s MAGI exceeds certain threshold amounts ($300,000 for married couples filing jointly; $150,000 for most other returns).
- The amount of "qualified overtime compensation" is determined under standards set forth in Section 7 of the Fair Labor Standards Act of 1938.
- The special overtime deduction applies from 2025 through 2028.

International Tax

Global intangible low-taxed income (GILTI)

- The TCJA introduced the GILTI rules under Section 951A, subjecting the U.S. shareholders of controlled foreign corporations (CFCs) to a minimum income tax on the undistributed foreign earnings of the CFC. The GILTI formula as implemented by the TCJA was expressed as: GILTI = (NET CFC Tested Income) – (Net Deemed Tangible Income Return).
- The "net deemed tangible income return" was an offset equal to 10% of the CFCs tangible assets, with certain limitations. A special deduction equal to 50% of the total GILTI tax liability, and a foreign tax credit (FTC) "haircut" equal to 20% of that amount, resulted in an effective tax rate on GILTI of 10.5%.

Global intangible low-taxed income (GILTI)

- The Bill eliminates the "net deemed tangible income return" from the prior GILTI calculation beginning in 2026 and renames GILTI as the "Net CFC Tested Income" regime.
- Additionally, the special deduction is reduced to 40% and the FTC "haircut" is reduced to 10%, raising the effective tax rate paid by U.S. shareholders on their Net CFC Tested Income from 10.5% to 12.6% beginning in 2026.

Foreign-derived intangible income (FDII)

- The foreign-derived intangible income rules provide for a reduced rate of tax on certain types of corporate income – specifically income that is considered generated from (a) intangible sources (including certain services), and (b) generated from sources outside the U.S. The FDII rules provided for a complex formula used to calculate the taxpayer's "Deemed Intangible Income," and allowed the taxpayer to deduct 37.5% of the calculated DII amount, resulting in an effective tax rate of 13.1% on deemed foreign intangible income.
- The Bill streamlines the calculation for applicable income, renames FDII as the "Foreign Derived Deduction Eligible Income" regime, and increases the effective tax rate paid on qualified deemed foreign intangible income from 13.1% to 14% beginning in 2026.

Base erosion and anti-abuse tax (BEAT)

- The TCJA introduced the Base Erosion and Anti-Abuse Tax, aimed at preventing excessive reduction of domestic tax liabilities through the use of related party payments to foreign affiliates.
- The BEAT applies to multinational corporations with (a) gross receipts of $500 million or more (the gross receipts test), and (b) deductions for payments to related foreign corporations in excess of 3% of total deductions (the BEAT Threshold). If applicable, BEAT imposes an effective tax rate of 10% on the taxpayer's "base erosion minimum tax amount."
- The Bill reduces the BEAT Threshold to 2% and permanently increases the BEAT effective rate to 10.5% beginning in 2026.

Extension of look-thru rules for CFCs

- The "Look-Thru Rules" apply to U.S.-parented corporate groups that include CFCs with a parent-subsidiary relationship and the CFC-subsidiary makes payments of dividends, interest, or royalties to the CFC-parent.
- The Look-Thru Rules allow these types of payments to be exempt from immediate inclusion in the U.S. Parent's Subpart F income if the CFC-subsidiary generated amounts out of which the payments are made would not otherwise be Subpart F income.
- This beneficial rule was set to expire after 2025, but is made permanent by the Bill.

Restoration of limitation on downward attribution of stock

- The Bill restores Section 984(b)(4), which was removed from the tax code by the TCJA, and which prevents the downward attribution from foreign persons to U.S. persons for purposes of determining whether the U.S. person is the owner of CFC stock.
- The restoration of this rule means, for example, that a U.S. corporation that is wholly owned by a foreign corporation will not be treated as owning the stock of the foreign parent's wholly owned foreign subsidiary.

Q&A

Closing Remarks

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