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ONE BIG BEAUTIFUL BILL (OBBB): KEY TAX CHANGES IN 2025

On July 4, 2025, President Donald Trump signed into law H.R. 1 of the 119th Congress. From its earliest days, President Trump branded H.R. 1 as the "One Big Beautiful Bill," his signature tax and spending reduction legislation. What was once the bill's casual moniker eventually became its official short title in Congress, and the name is adopted here as "OBBB" for brevity's sake. While beauty is in the eye of the beholder, at 870 pages, the bill is clearly quite big. It covers broad areas of taxation affecting individuals, businesses, and international transactions.

How OBBB Builds on the 2017 Tax Cuts and Jobs Act

This is President Trump's second piece of historic tax legislation. The first was the Tax Cuts and Jobs Act ("TCJA"), which he signed into law in December 2017. The TCJA included a permanent reduction of the corporate income tax from 35% to 21%, and a number of temporary tax cuts and tax benefit increases for individuals and other business structures. It also fundamentally changed the way many international structures and transactions are taxed. In many respects, the OBBB simply makes permanent the otherwise temporary tax laws introduced by the TCJA that were scheduled to expire. But the OBBB also introduces several new temporary tax provisions that appear experimental and have only a few years to gain footing and potentially a permanent place in American tax law.

As with any tax law, the OBBB can be dizzying in its complexity and difficult to pierce due to its technicalities and jargon. As professional tax advisors, we have reviewed this new tax law and here endeavor to refine, simplify, and clarify the most important points that are likely to affect individuals and businesses in the United States.

This broad overview is meant to offer a basic understanding of the OBBB's tax provisions and to inspire conversations and questions about how this bill may impact you, your taxes, your family, your business, your retirement, and your estate planning going forward. And, as always, we welcome these conversations and will work with you to answer your questions. **Please contact us if you would like to discuss any tax provisions mentioned here or any other aspect of tax planning and compliance.**

Individual Tax Changes: What's Now Permanent

First, in the area of taxation on individuals, the OBBB makes permanent and otherwise extends numerous provisions of the TCJA of 2017 that were expected to expire at the end of 2025. Specifically, the OBBB:

- **Income Tax Rates:** Makes permanent the individual income tax rate schedule established by the TCJA. The individual income tax rates range from 10% to 37% of ordinary income and range from 10% to 20% (plus 3.8% Affordable Care Surtax) for long-term capital gains. Without the OBBB, the tax rates would have increased with the top marginal rate returning to its 2017 level of 39.6%.
- **Standard Deduction:** Permanently establishes the increased standard deduction for individuals with a base of $15,750 for singles, $31,500 for married filing jointly, and $23,625 for heads of household, each of which will adjust with inflation.
- **Charitable Contributions with Standard Deduction:** Taxpayers using the standard deduction may also deduct an additional $1,000 for singles and $2,000 for married filing jointly for charitable contributions.
- **Personal Exemptions:** The OBBB also effectively repeals the personal exemptions that the TCJA temporarily suspended.
- **Itemized Deductions Modifications:** Modifies some itemized deductions, such as:
    - **State and local taxes** are now deductible up to $40,000, which is an increase from the $10,000 cap created by the TCJA. The new cap starts to phase down when a taxpayer's adjusted gross income exceeds $500,000, but the phase-down cap never falls below the TCJA's original $10,000 cap. The newly increased state and local deduction cap is also set to return to a $10,000 level in 2030.
    - **Mortgage interest** remains deductible, but the TCJA's cap of $750,000 of loan principal is now permanent.
    - **Charitable contributions** are now deductible only to the extent they exceed 0.5% of the taxpayer's adjusted gross income.
    - The **2% miscellaneous itemized deductions**, which the TCJA suspended, are now permanently disallowed. Similarly, casualty and theft losses are also permanently disallowed, except for federally declared disaster areas.
- **Child and Dependent Credits:**
    - Permanently increases the child tax credit to $2,200, which adjusts with inflation, and deems that fully $1,700 of this credit is now refundable. Taxpayers will need to submit a valid Social Security Number for the child whose credit is being claimed.
    - The OBBB also increases the amount of the child and dependent care tax credit from 35% to 50% of qualifying expenses, but the credit phases down as taxpayer income increases.
- **Estate and Gift Tax Exemption:** Permanently increases the estate and gift tax exemption to $15 million per individual starting in 2026, with the exemption amount indexing with inflation.
- **Alternative Minimum Tax (AMT):** Permanently increases the alternative minimum tax exemption to $500,000 for singles and $1,000,000 for married filing jointly, the exemption level first set in 2018, and increases the exemption with inflation. The bracket creep of the alternative minimum tax, which was its defining and most troubling characteristic before 2018, is now likely permanently mitigated.

New Individual Tax Deductions (2025–2028 Only)

The OBBB introduced several new provisions for individuals that appear intended to follow through with some of President Trump's campaign promises. These new provisions share a common link in the fact that they all have a very limited timeline–only effective in tax years 2025 through 2028. Specifically, the OBBB:

- **Overtime Pay Deduction:** Exempts overtime pay up to $12,500 received by a single taxpayer, and up to $25,000 for married filing jointly, in excess of their regular rate of pay, as defined under the Fair Labor Standards Act. This above-the-line deduction phases out beginning at $150,000 of modified adjusted gross income for singles and $300,000 for married filing jointly.
- **Tip Income Deduction:** Exempts tip compensation up to $25,000 per individual in occupations where tipping is customary. This above-the-line deduction phases out beginning at $150,000 of modified adjusted gross income for singles and $300,000 for married filing jointly.
- **Auto Loan Interest Deduction:** Allows a deduction for auto loan interest up to $10,000 per year on qualified passenger vehicle loans. The vehicle securing the loan must have been assembled in the United States and purchased new. This deduction phases out for taxpayers with modified adjusted gross income over $100,000 for singles and $200,000 for married filing jointly.
- **Senior Deduction:** Provides individuals aged 65 and over with an additional $6,000 above-the-line deduction. This deduction phases out for individuals with modified adjusted gross income above $75,000 for singles and $150,000 for married filing jointly. This is indirectly a deduction for individuals receiving Social Security retirement benefits.

Investment and Savings Changes: Opportunity Zones, QSBS, and More

Next, the OBBB also changes taxes and incentives around investments in several areas. Specifically, the OBBB:

- **Qualified Small Business Stock (QSBS):** Increases the exclusion for qualified small business stock under IRC § 1202, which allows taxpayers to exclude from income a portion of capital gain realized on the sale of certain small business stock. Under the OBBB, stock acquired after enactment is eligible for a 50% exclusion if held for three years, 75% exclusion if held for four years, and a 100% exclusion if held for five or more years. Additionally, the exclusion caps have been effectively raised by 50%.
- **Opportunity Zones:** Makes the opportunity zone program permanent. This program allows taxpayers to defer and reduce capital gains by investing in designated economically distressed areas through qualified opportunity funds. However, the current designations will sunset at the end of 2026, triggering an inclusion event for the deferred gains. A new round of designations will begin in 2026. Also, the definition of eligible "low-income communities" is now narrower. The new rules also provide an additional basis step up for investments in rural opportunity zones.
- **Trump Accounts for Minors:** Establishes new tax-preferred "Trump accounts" for minors. These accounts are a type of qualified savings fund that allow annual contributions of up to $5,000 per child under age 18, with qualified distributions commencing at age 18. Contributions may be made by individuals, governments, or charitable organizations and are excluded from the income of the beneficiary. A $1,000 tax credit is available when a Trump account is opened for children born between 2025 and 2028.
- **Clean Energy Credits:** Terminates a wide range of clean energy tax incentives, including credits for electric vehicles, alternative fuel infrastructure, residential and commercial energy efficiency, and certain renewable energy production and investment. Most of these credits expire between the end of 2025 and mid-2026.

Business Tax Provisions: What's Staying and What's New

The OBBB also changes business taxes in several ways. Specifically, the OBBB:

- **Pass-Through Deduction:** Makes permanent the 20% deduction for qualified business income ("QBI") of pass-through business structures. This deduction was initially introduced as part of the TCJA to narrow the gap between the corporate income tax rate of 21% and the tax rate of individual taxpayers holding investments in pass-through businesses. The OBBB did not substantially simplify the computation of the QBI deduction, which remains especially dense and complex.
- **Interest Deductibility:** Permanently modifies the adjusted taxable income formula used in determining the deductibility of business interest. The newly relaxed formula is now computed using Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and not the more limited EBIT. This relaxation of the formula is now available for tax years beginning after 2024.
- **Bonus Depreciation:** Permanently reinstates 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025. Prior to enactment, the bonus allowance was 40% and 20% for qualifying property in 2025 and 2026, respectively.
- **New 100% Depreciation for QPP:** In addition to bonus depreciation, another elective 100% depreciation allowance is added for qualified production property (QPP) placed in service through 2030. QPP covers newly constructed and certain existing non-residential real estate used for manufacturing, production, or refining of certain tangible personal property in the US. This new depreciation allowance generally applies to property (1) the construction of which begins after January 19, 2025, and before January 1, 2029, or (2) the acquisition of which occurs after January 19, 2025, although in both cases, there are additional requirements that must be met.
- **R&D Deduction:** Restores the ability to permanently deduct research and development expenditures paid or incurred after December 31, 2024. This benefit only applies to domestic expenses. Small businesses, defined as those with average annual revenue of $31 million or less over the prior three years, may apply this change retroactively to expenditures incurred after December 31, 2021. Other businesses may accelerate remaining unamortized amounts. Expenditures incurred outside the United States continue to require capitalization and amortization over a 15-year period.

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International Tax Impacts: GILTI, FDII, BEAT, and Beyond

The OBBB also impacts international transactions that involve or impact American businesses. Specifically, the OBBB:

- Alters both the **Global Intangible Low-Taxed Income ("GILTI")** and **Foreign-Derived Intangible income ("FDII")** provisions.
  - The GILTI deduction is made permanent but reduced from the current 50% rate to a 40% rate. Effectively, a U.S. corporate tax rate of 12.6% applies to GILTI inclusions. The deemed paid credit for associated foreign taxes is increased from 80% to 90%. Thus, a foreign tax rate of at least 14% should be adequate to fully offset a GILTI inclusion. Limitations on the GILTI foreign tax credit are loosened such that essentially only directly allocable expenses must be considered. Notably, interest expense and R&E expenses are not allocated to GILTI inclusions when determining the foreign tax credit limitation.
  - A U.S. shareholder's GILTI inclusion has historically considered a controlled foreign corporation's ("CFC") tested income reduced by a formulaic deemed tangible income return, specifically 10% of the CFC's qualified business asset investment. This deemed tangible income return concept has been eliminated, thereby increasing the newly renamed CFC tested income inclusions for affected U.S. shareholders.
  - The Foreign-Derived Intangible Income ("FDII") deduction is made permanent but reduced from the current rate of 37.5% to 33.34%, meaning that an effective U.S. tax rate of 14% will apply to qualified income.
  - The FDII calculation has historically reduced eligible income by a deemed return on tangible assets, similar to the concept described above for GILTI. The adjustment to consider a return on tangible assets has been likewise eliminated for the FDII calculation. As a result, the FDII benefit may increase for U.S. taxpayers with capital intensive operations. FDII is renamed Foreign-Derived Deduction Eligible Income.
- **CFC Look-Through Rule:** The controlled foreign corporation ("CFC") look-through rule is now permanent. U.S. shareholders of CFCs that earn passive income such as dividends, interest, rents and royalties generally must include such income on their U.S. tax returns. The look-through rule exempts this income when received from a related CFC, but was set to expire at the end of 2025. The intercompany transactions covered by the look-through rule are common in multinational groups with many CFCs. Making this look-through rule permanent avoids the need for operational restructurings in such groups to avoid negative tax consequences for U.S. shareholders.
- **BEAT:** Increases the Base Erosion Anti-Abuse Tax ("BEAT") to 10.5% permanently (from 10%), but continues to allow the use of certain credits without increasing the BEAT. Corporations with average annual gross receipts (three-year look-back) of $500M and a base erosion percentage of at least 3% (i.e., base erosion tax benefits as a percentage of deductible expenses) are subject to this tax. The BEAT is an additional tax computed as 10.5% of modified taxable income to the extent it exceeds a taxpayer's regular tax liability. Modified taxable income is computed excluding certain payments to related foreign parties (e.g., interest and royalties).
- **Remittance Tax:** Creates a new remittance tax on payments leaving the United States. Beginning in 2026, a 1% tax will be imposed on non-commercial payments sent abroad. Its application is restricted to cash payments and there is no exemption or credit for U.S. citizens.

Next Steps and Tax Planning Considerations

The OBBB touches nearly every major area of U.S. tax law. While some changes simplify previously temporary measures, others introduce new layers of complexity, especially those with expiration dates or income-based phaseouts.

Contact Our Tax Team

If you would like more information about the tax changes introduced by the One Big Beautiful Bill, please contact:

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