

2025 One Big Beautiful Bill Act Tax Law Changes

On July 4, 2025, President Trump signed the One Big, Beautiful Bill Act (OBBBA), a reconciliation bill that passed the Senate on July 1 by a vote of 51-50 and passed the House on July 3 by a vote of 218-214. In addition to making permanent most of the TCJA changes that were scheduled to sunset at the end of the year, OBBBA also includes a new \$40,000 SALT cap and a wide array of new and enhanced tax breaks. The new law repeals most of the clean energy tax credits enacted by the Inflation Reduction Act of 2022.

A. Summary of Key Provisions

Key Tax Provisions Affecting Individuals

SALT Limitation. OBBBA increases the SALT cap to \$40,000 for 2025. The amount is increased to \$40,400 for 2026 and then indexed for inflation annually before reverting to the current \$10,000 limit in 2030. The cap is reduced (but not below \$10,000) by 30 percent of the excess of the taxpayer's MAGI over \$500,000. The phaseout threshold is indexed in the same manner as the cap after 2025.

Individual Tax Rates and Standard Deduction. OBBBA makes the TCJA individual tax rates permanent and provides for an extra year of inflation adjustments for the 10-, 12-, and 22-percent brackets. OBBBA also makes TCJA enhanced standard deduction permanent and further enhances it by increasing the amounts for the 2025 tax year to \$15,750 for single filers, \$23,625 for heads of household, and \$31,500 for married filing jointly (so, an across-the-board increase of 5 percent). These amounts will be the new base for inflation indexing for years after 2025.

Estate and Gift Tax Exemption. BBBA permanently extends TCJA's estate and lifetime gift tax exemption and increases the exemption amount to \$15 million in 2026.

Enhancements to 529 Plans. For tax years beginning after December 31, 2025, OBBBA increases the annual limit on distributions from 529 savings plans from \$10,000 to \$20,000. It also allows distributions to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary public, private, or religious school, including: curriculum and curricular materials; books or other instructional materials; online educational materials; tutoring or educational classes outside the home; certain testing fees; fees for dual enrollment in an institution of higher education; and certain educational therapies for students with disabilities.

Charitable Contribution Deduction. For tax years after December 31, 2025, OBBBA reinstates and enhances Code Sec. 170(p), which provided a charitable contribution deduction for non-itemizers. The provision creates a permanent deduction of up to \$1,000 in cash contributions for single filers (\$2,000 for married filing jointly). For individuals who elect to itemize, OBBBA imposes a new 0.5-percent AGI floor on charitable contributions.

Child Tax Credit. OBBBA permanently increases the child tax credit to \$2,200 per child beginning in 2025 and indexes it for inflation.

Adoption Credit. OBBBA makes the adoption tax credit partially refundable up to \$5,000 (indexed for inflation) beginning in 2025.

Student Loan Discharges. OBBBA includes both bad news and good news for student loan discharges. The bad news is that it allows a Biden era provision allowing all student loan discharges (regardless of the reason) to be excluded from income to expire at the end of 2025. The good news is that it permanently extends a narrower TCJA provision allowing exclusion from income of student loan discharges resulting from the individual's death or permanent disability.

Deduction for Tip Income (No Tax on Tips). OBBBA creates a new above-the-line deduction of up to \$25,000 for qualified tips received by an individual in an occupation which customarily and regularly receives tips during a given tax year. The deduction is allowed for both employees and independent contractors. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction is allowed for the 2025-2028 tax years.

Deduction for Overtime Pay (No Tax on Overtime). OBBBA creates a new above-the-line deduction for up to \$12,500 (\$25,000 in the case of a joint return) for "qualified overtime compensation" (defined as overtime compensation paid to an individual under Section 7 of the Fair Labor Standards Act). The deduction begins to phase out when the taxpayer's MAGI exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction is allowed for the 2025-2028 tax years.

Temporary Senior Deduction (No Tax on Social Security). OBBBA adds a deduction for all individuals who have attained age 65 before the end of the tax year. The deduction amount is \$6,000 per individual. The senior deduction begins to phase out when the taxpayer's MAGI exceeds \$75,000 (\$150,000 in the case of a joint return). The deduction is allowed for the 2025-2028 tax years.

Deduction for Car Loan Interest. OBBBA creates a new deduction of up to \$10,000 of "qualified passenger vehicle loan interest," defined as interest paid on debt incurred after December 31, 2024 for the purchase of a new "applicable passenger vehicle" assembled in the U.S. The deduction is allowed for tax years 2025 through 2028 and begins to phase out when the taxpayer's MAGI exceeds \$100,000 (\$200,000 in the case of a joint return).

Deduction for Mortgage Insurance Premiums. Beginning in 2026, OBBBA permanently restores the deduction for mortgage insurance premiums (previously available from 2018 through 2021) by treating such premiums as interest on acquisition indebtedness. As before, the deduction is phased out for taxpayers with adjusted gross income above \$100,000 (\$50,000 for married filing separately).

Health Savings Account Enhancements. For plan years beginning after December 31, 2024, OBBBA permanently extends the safe harbor providing that a health plan will not fail to be treated as a high deductible health plan (HDHP) because of not having a deductible for telehealth services. Beginning in 2026, OBBBA allows - (1) individuals with HDHPs to also enroll in direct primary care arrangements and allows HSA funds to be used to pay for DPC services (up to \$150 per month for individuals or \$300 per month for family arrangements); and (2) for all bronze and catastrophic health insurance plans on the Exchange to be eligible plans for the purpose of making HSA contributions.

Trump Accounts. OBBBA creates Trump accounts, a new type of tax-exempt savings account administered by banks and other financial institutions. Starting January 1, 2026, parents of any child under age 8 may open a Trump account for their child. Aggregate contributions are limited to \$5,000 annually, but the limit does not apply to contributions from tax-exempt entities such as private foundations. Beginning at age 18, account holders may access up to 50 percent of funds for a limited set of purposes, including higher education. At age 25, the 50 percent limitation is lifted. At age 30, account holders have access to their full balance for any purpose. Under a pilot program, for

U.S. citizens born between January 1, 2024, and December 31, 2028, the federal government will contribute \$1,000 per child into every eligible account.

Termination of Clean Energy Credits. OBBBA terminates the new clean vehicle credit and the previously-owned clean vehicle credit for vehicles acquired after September 30, 2025. It also terminates the energy efficient home improvement credit and residential clean energy credit at year's end.

New Limit on Gambling Losses. Beginning in 2026, OBBBA further limits the term "losses from wagering transactions" in Code Sec. 165 to 90 percent of the amount of such losses. Any deduction for gambling losses remains limited to the amount of gambling winnings.

Key Tax Provisions Affecting Businesses

Qualified Business Income Deduction. OBBBA permanently extends the qualified business income deduction (QBI) under Code Sec. 199A at the current 20 percent rate and increases the deduction limit phase-in range from \$50,000 to \$75,000 for non-joint returns and \$100,000 to \$150,000 for joint returns. In addition, OBBBA introduces a new, inflation-adjusted, minimum deduction of \$400 for taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which the taxpayer materially participates.

Bonus Depreciation. OBBBA permanently extends the additional first-year depreciation deduction. The allowance is increased to 100 percent for property acquired and placed in service on or after January 19, 2025, as well as for specified plants planted or grafted on or after January 19, 2025.

Section 179 Expensing. OBBBA increases the maximum amount a taxpayer may expense under Code Sec. 179 to \$2.5 million, reduced by the amount by which the cost of qualifying property exceeds \$4 million. The \$2.5 million and \$4 million amounts are adjusted for inflation for tax years beginning after 2025. The change applies to property placed in service in tax years beginning after December 31, 2024.

Research or Experimental Expenses Deduction. OBBBA allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after December 31, 2024. Additionally, small business taxpayers with average annual gross receipts of \$31 million or less generally may apply this change retroactively to tax years beginning after December 31, 2021. Furthermore, all taxpayers that made domestic research or experimental expenditures after December 31, 2021, and before January 1, 2025, may elect to accelerate the remaining deductions for such expenditures over a one-year period or a two-year period.

Special Depreciation Allowance for Qualified Production Property. OBBBA allows taxpayers an additional first-year depreciation deduction equal to 100 percent of the adjusted basis of "qualified production property." Qualified production property is essentially nonresidential real property in the United States (or any possession) used for manufacturing and placed in service after July 4, 2025 and before January 1, 2031.

Modification of Limit on Business Interest. OBBBA increases the cap on the deductibility of business interest expense for tax years beginning after December 31, 2024. Specifically, "adjusted taxable income" is calculated in a way that corresponds with the financial accounting concept of earnings before interest, taxes, depreciation and amortization (EBITDA).

Increased Threshold for Forms 1099-MISC and 1099-NEC. For payments made after December 31, 2025, OBBBA increases the threshold for reporting payments on Forms 1099-MISC and 1099-NEC for services performed by independent contractors from \$600 to \$2,000.

Repeal of Revision to De Minimis Rules for Form 1099-K. OBBBA modifies requirements for third-party settlement organizations to eliminate their reporting requirement for payees unless they have earned more than \$20,000 on more than 200 separate transactions in an applicable tax period.

Capital Gains from the Sale of Certain Farmland Property. For tax years beginning after July 4, 2025, OBBBA adds a new provision that allows capital gains from the sale or exchange of qualified farmland property to a qualified farmer (i.e., an individual who is actively engaged in farming) to be paid in four equal annual installments, beginning on the original due date of the tax return for the tax year in which the sale or exchange occurred.

Limit on Excess Business Losses of Noncorporate Taxpayers. OBBBA makes permanent the excess business loss limitation for noncorporate taxpayers under Code Sec. 461(l).

1 Percent Floor for Corporate Charitable Contributions. For tax years beginning after December 31, 2025, OBBBA allows a deduction for corporate charitable contributions only to the extent that the aggregate of corporate charitable contributions exceeds one percent of taxable income.

Expansion of Qualified Small Business Stock Gain Exclusion. OBBBA modifies the qualified small business stock (QSBS) gain exclusion by providing a tiered gain exclusion for QSBS acquired after July 4, 2025. The provision allows a 50 percent exclusion after three years, 75 percent after four years and 100 percent after five years.

Enhancement of Employer-Provided Child Tax Credit. OBBBA permanently increases the employer-provided childcare credit and creates a separate credit amount for qualified small businesses. Specifically, the provision increases the maximum credit from \$150,000 to \$500,000 (\$600,000 for small businesses) and the percentage of qualified childcare expenses covered from 25 percent to 40 percent (50 percent for small businesses).

Termination of Clean Energy Credits. OBBBA terminates an array of business-related clean energy tax credits enacted by the Inflation Reduction Act of 2022. The popular commercial clean vehicle credit now expires for vehicles acquired after September 30, 2025. See the section titled "Termination and Restrictions on Clean Energy Credits" below for a full list of the tax credits repealed and effective termination dates.

B. In-Depth Explanation

I. Provisions Affecting Individuals

State and Local Tax Deduction (SALT)

OBBBA temporarily increases the Code Sec. 164(b)(6) limit on the deduction for state and local taxes (SALT cap) from \$10,000 to \$40,000 for 2025, and \$40,400 for 2026. After 2026 and before 2030, the SALT cap is increased by 101 percent of the amount in effect for the previous year. After 2029, the SALT cap reverts to \$10,000.

Under OBBBA, the SALT cap is reduced (but not below \$10,000) by 30 percent by the excess of the taxpayer's modified adjusted gross income (AGI) over \$500,000 for

2025, and \$505,000 for 2026. After 2026, the SALT cap phaseout threshold is increased by 101 percent over the dollar amount in effect for the previous year.

Observation: OBBBA does not contain any of the restrictions on SALT cap workarounds that were provided in the House bill. Nor did it make the increase in the SALT cap permanent as the House bill had.

TCJA Tax Brackets and Rates Made Permanent

OBBBA makes permanent the modified federal income tax bracket schedule and lower tax rates created by the Tax Cuts and Jobs Act (TCJA). The rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. OBBBA also adds an additional year of inflation adjustment to the 10 percent, 12 percent and 22 percent brackets, resulting in bracket thresholds that are larger than they would otherwise be absent this additional year of inflation.

Increased Standard Deduction Made Permanent

OBBBA makes permanent the nearly doubled standard deduction created by the Tax Cuts and Jobs Act. Additionally, for tax years beginning after 2025, OBBBA increases the standard deduction to \$15,750 for single filers, \$23,625 for heads of household and \$31,500 for married individuals filing jointly. These enhanced amounts will be the base for future annual inflation adjustments.

Extension and Enhancement of Increased Estate and Gift Tax Exemption Amounts

OBBBA permanently extends TCJA's estate and lifetime gift tax exemption, increases the exemption amount to \$15 million in 2026 and indexes the exemption amount for inflation thereafter.

Enhancements to Section 529 Plans

For tax years beginning after December 31, 2025, OBBBA increases the annual limit on distributions from 529 savings plans from \$10,000 to \$20,000. It also allows distributions to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary public, private, or religious school, including:

- curriculum and curricular materials;
- books or other instructional materials;

- online educational materials;
- tutoring or educational classes outside the home;
- certain testing fees;
- fees for dual enrollment in an institution of higher education; and
- certain educational therapies for students with disabilities.

Postsecondary Credentialing Expenses. OBBBA allows tax-exempt distributions from 529 savings plans, made after July 4, 2025, to be used for additional qualified higher education expenses, including "qualified postsecondary credentialing expenses" in connection with "recognized postsecondary credential programs" and "recognized postsecondary credentials".

Deduction for Qualified Residence Interest

OBBBA permanently extends TCJA's limitation on the deduction for qualified residence interest to the first \$750,000 in home mortgage acquisition debt along with the rule excluding interest on home equity indebtedness from the definition of qualified residence interest.

Beginning with the 2026 tax year, OBBBA also permanently restores the deduction for mortgage insurance premiums (previously available from 2018 through 2021) by treating such premiums as interest on acquisition indebtedness. As before, the deduction is phased out for taxpayers with adjusted gross income above \$100,000 (\$50,000 for married filing separately).

Termination of Miscellaneous Itemized Deductions Other Than Educator Expenses

OBBBA makes permanent the temporary suspension of miscellaneous itemized deductions and removes unreimbursed employee expenses for eligible educators from the list of miscellaneous itemized deductions. An eligible educator is an individual who is a kindergarten through grade 12 teacher, instructor, counselor, interscholastic sports administrator or coach, principal or aide in a school for at least 900 hours during a school year. Unreimbursed employee expenses for eligible educators include expenses such as books, supplies, computer equipment and supplementary materials used by eligible educators as part of instructional activity.

Limit on Benefit of Itemized Deductions

OBBBA permanently repeals the "Pease limitation" under Code Sec. 68 which would have imposed an overall limitation on itemized deductions for certain taxpayers after December 21, 2025. OBBBA replaces the Pease limitation with a new overall

limitation on the tax benefit of itemized deductions. This provision caps the value of each dollar of otherwise allowable itemized deductions at \$0.35, in most cases, and applies only to taxpayers in the highest individual income tax bracket. This new limitation is effective for tax years beginning after December 31, 2025.

Extension and Modification on Gambling Loss Limits

For tax years beginning after December 31, 2025, OBBBA replaces TCJA's temporary rule (expiring at the end of the year) limiting wagering losses with a stricter one. TCJA amended Code Sec. 165 to clarify that "losses from wagering transactions" include any deduction otherwise allowable under the Code incurred in carrying on any such transactions. This rule was designed to prevent professional gamblers from using travel expenses, tournament fees, and other such expenses to generate losses from their gambling businesses (a subject of numerous court cases with conflicting holdings). OBBBA not only makes the rule permanent, but it also adds a new permanent rule further limiting "losses from wagering transactions" to 90 percent of the amount of such losses (not to exceed gains from such transactions).

Extension and Modification of Exclusion for Student Loans Discharges

TCJA included a temporary provision (scheduled to expire at the end of 2025) allowing for the exclusion from income of student loans discharged because of the individual's death or permanent disability. In another temporary provision, also set to expire at the end of 2025, the American Rescue Plan Act (ARPA) broadened the exclusion to apply to all student loan discharges, regardless of the reason. OBBBA allows the more generous ARPA provision to expire on December 31, 2025, and permanently extends the narrower TCJA provision.

OBBBA also adds a requirement that the taxpayer provide a work-eligible SSN in order to claim such an exclusion. This provision applies to discharges after December 31, 2025.

Enhanced Deduction for Seniors

OBBBA also provides a temporary enhanced deduction of \$6,000 for taxpayers who have attained age 65 (and for joint returns, the taxpayer's spouse if such spouse has attained age 65) before the close of the tax year (i.e., the senior deduction). These amounts are treated as personal exemptions under Code Sec. 151(d)(5). The senior deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$75,000 (\$150,000 in the case of a joint return). No senior deduction is allowed unless the qualified individual includes his or her social security number

(SSN) on the tax return for the tax year (and if the qualified individual is married, such tax return must also include the SSN of such individual's spouse).

The enhanced deduction for seniors is allowed for tax years 2025 through 2028.

Deduction for Tip Income

OBBBA provides a deduction of up to \$25,000 for qualified tips received by an individual in an occupation which customarily and regularly receives tips during a given tax year. The deduction is allowed for both employees receiving a W-2 and independent contractors receiving a 1099-K, 1099-NEC or reported by the taxpayer on Form 4317, Social Security and Medicare Tax On Unreported Tip Income. The deduction is allowed for both itemizers and non-itemizers.

The deduction for tip income begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). Qualified tips are defined as any cash tip received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary of the Treasury. The list of those occupations is to be published by the Secretary of the Treasury within 90 days of enactment. In order to be considered a qualified tip, the tip amount must be paid voluntarily, is not subject to negotiation and is determined by the payor. Furthermore, qualified tips do not include any amount received in the course of a specified service trade or business. No tip deduction is allowed unless the individual receiving the tips includes his or her SSN on the tax return for the tax year (and if the individual is married, such tax return must also include the SSN of such individual's spouse). The deduction is allowed from tax years 2025 through 2028.

Deduction for Overtime

OBBBA provides a deduction of up to \$12,500 (\$25,000 in the case of a joint return) for qualified overtime compensation received by an individual during a given tax year. The deduction is allowed for both itemizers and non-itemizers. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). Qualified overtime compensation is defined as overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate (as used in such section) at which such individual is employed.

Overtime deductions are only allowed for qualified overtime compensation if the total amount of qualified overtime compensation is reported separately on the Form W-2. No overtime deduction is allowed unless the individual receiving the qualified

overtime compensation includes his or her SSN on the tax return for the tax year (and if the individual is married, such tax return must also include the SSN of such individual's spouse). The deduction is allowed from tax years 2025 through 2028.

Deduction for Car Loan Interest

OBBBA provides a deduction of up to \$10,000 for qualified passenger vehicle loan interest during a given tax year. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of a joint return). Qualified passenger vehicle loan interest means any interest that is paid or accrued during the tax year on indebtedness incurred by the taxpayer after December 31, 2024 for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use. The deduction is allowed for tax years 2025 through 2028.

An applicable passenger vehicle means any vehicle (1) the original use of which commences with the taxpayer; (2) which is manufactured primarily for use on public streets, roads and highways; (3) which has at least two wheels; (4) which is a car, minivan, van, sport utility vehicle, pickup truck or motorcycle; (5) which is treated as a motor vehicle for purposes of title II of the Clean Air Act; and (6) the final assembly of which occurs in the U.S. For purposes of the final assembly requirement, final assembly is the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

Credit for Contributions to Scholarship Granting Organizations

OBBBA creates a new income tax credit for charitable contributions made to scholarship granting organizations, tax-exempt organizations that provide scholarships to elementary and secondary school students. The credit allowed to a taxpayer for a tax year may not exceed \$1,700, reduced by the amount allowed as a credit on any state tax return. The provision also creates a new exclusion from income for scholarships for qualified elementary or secondary education expenses of eligible students. The provision is effective for tax years beginning after December 31, 2026.

Trump Accounts and Contribution Pilot Program

OBBBA establishes Trump accounts, a new kind of savings account designed to build financial security for the next generation. The accounts are administered by a bank or

similar financial institution and the overall program is overseen by the Department of Treasury.

Starting January 1, 2026, parents of any child under the age of eight years old may open a Trump account for their child. These accounts are eligible to receive contributions from parents, relatives, and other taxable entities as well as non-profit and government entities facilitated by the Treasury Department. To be eligible to open an account, the child must be a U.S. citizen and at least one parent must provide their SSN. The SSN provided must be considered work-eligible in order to open an account. Trump account funds must be invested in a diversified fund that tracks an established index of U.S. equities.

Contributions: Taxable entities may contribute up to \$5,000 annually of after-tax dollars to a Trump account. The \$5,000 contribution limit is indexed for inflation. Contributions provided to Trump accounts from tax-exempt entities, such as private foundations, are not subject to the \$5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group (i.e. all children in a state, specific school district or educational institution, etc.). Employers can contribute up to \$2,500 to an employee's Trump account, and the employer's contribution is not included in the employee's gross income. No additional contributions of any kind shall be made to Trump accounts after the beneficiary has attained age 18.

Distributions: Trump account holders may not take distributions until age 18. Between age 18 and age 25, account holders may access up to 50 percent of funds for higher education, training programs, small business loans, or first-time home purchases. At age 25, account holders may withdraw any amount up to the full balance of the account for these limited purposes. At age 30, account holders have access to the full balance of the account for any purpose. Distributions taken for qualified purposes are taxed as long-term capital gains, while distributions for any other purposes are taxed as ordinary income.

Pilot Program: For U.S. citizens born between January 1, 2024, and December 31, 2028, the federal government will contribute \$1,000 per child into every eligible account. For newborns, Trump accounts may be opened by parents or guardians. To be eligible to open an account and receive the \$1,000 contributions, the child must be a U.S. citizen at birth and both parents must provide their SSNs. The SSNs provided must be considered work eligible in order to claim the credit. If the Secretary of Treasury determines that an eligible individual does not have an account opened for them by the first tax return where the child is claimed as a qualifying child, the Secretary shall establish an account on the child's behalf, taking into account, to the extent possible, the parents' preferred custodian and investment fund. Parents will be provided the option to opt out of the account.

Extension of Increased Child Tax Credit

OBBBA permanently increases the child tax credit to \$2,200 per child beginning in tax year 2025 (up from \$2,000 per child under the TCJA). Absent this change, the amount would have been reduced to \$1,000 per child after 2025. The new amount is permanently indexed for inflation beginning in 2026. OBBBA also makes permanent the refundable child tax credit of \$1,400, adjusted for inflation (\$1,700 in 2025), as well as TCJA's increased income phaseout threshold amounts of \$200,000 (\$400,000 in the case of a joint return). The \$500 nonrefundable credit for each dependent of the taxpayer other than a qualifying child is also made permanent.

Further, the requirement that the child's SSN be provided for purposes of claiming the credit is made permanent and expanded upon to require the taxpayer's SSN and, for joint filers, at least one of the spouse's SSNs, in order to claim the credit. The SSNs provided must be considered work-eligible in order to claim the credit.

Enhancement of Other Child-Related Credits and Exclusions

Adoption Tax Credit. OBBBA makes the adoption tax credit partially refundable up to \$5,000 (indexed for inflation) beginning in tax years starting after December 31, 2024. The refundable portion of the credit cannot be carried forward. OBBBA gives Indian tribal governments the same ability as state governments to determine whether a child has special needs for the purposes of the adoption tax credit.

Dependent Care Assistance Program. OBBBA increases the exclusion for employer-provided dependent care assistance from the current limit of up to \$5,000 annually (\$2,500 for MFS) to up to \$7,500 annually (\$3,750 for MFS), effective for tax years beginning after December 31, 2025. The House bill did not contain this provision.

Child and Dependent Care Credit. OBBBA increases the maximum child and dependent care credit rate to 50 percent (currently 35 percent), reduced by one percentage point, but not below 35 percent, for each \$2,000 or fraction thereof by which the taxpayer's AGI exceeds \$15,000. For AGIs between \$43,001 and \$75,000 (\$86,001 and \$150,000, respectively, in the case of a joint return), the credit rate is 35 percent. This credit rate is further phased down to 20 percent for AGIs between \$75,001 and \$105,000 (\$150,001 and \$210,000, respectively, in the case of a joint return). This provision is effective for tax years after December 31, 2025. The House bill did not contain this provision.

Health Savings Account (HSA) Enhancements

Treatment of Direct Primary Care Service Arrangements. For months beginning after December 31, 2025, OBBBA allows individuals with HDHPs to also enroll in direct primary care (DPC) arrangements (and maintain their HSA) and allows HSA funds to be used to pay for DPC services. HSA distributions for DPC services cannot exceed \$150 per month for individuals or \$300 per month for family arrangements, adjusted annually for inflation.

Allowance of Bronze and Catastrophic Plans in Connection with HSAs. For months beginning after December 31, 2025, OBBBA allows all bronze and catastrophic health insurance plans on the Exchange to be eligible plans for the purpose of making HSA contributions.

Safe Harbor for Absence of Deductible for Telehealth. For plan years beginning after December 31, 2024, OBBBA permanently extends the safe harbor in Code. Sec. 223(c)(2)(E) providing that a health plan will not fail to be treated as a high deductible health plan (HDHP) by reason of failing to have a deductible for telehealth and other remote care services.

Charitable Contribution Deduction

Charitable Contribution Deduction for Non-Itemizers. For tax years after December 31, 2025, OBBBA reinstates and enhances Code Sec. 170(p), which provided a charitable contribution deduction for non-itemizers for the one year it was in effect (2021). The provision creates a permanent deduction of up to \$1,000 for single filers (\$2,000 for married filing jointly). Eligible contributions must be made in cash to an organization described in section 170(b)(1)(A). Such an organization cannot be an organization described in section 509(a)(3) and the contribution cannot be for a donor advised fund.

0.5 Floor for Individuals Who Elect to Itemize. For tax years after December 31, 2025, OBBBA imposes a 0.5-percent floor on charitable contributions for taxpayers who elect to itemize. Specifically, the amount of an individual's charitable contributions for a tax year is reduced by 0.5 percent of the taxpayer's contribution base for the tax year (AGI without regard to any NOL carryback). Additionally, the provision would permanently extend the increased contribution limitation for cash gifts made to qualified charities.

Casualty Loss Deduction

OBBBA extends the rule allowing taxpayers to claim disaster-related personal casualty losses without having to itemize through July 4, 2025 (the provision had ended on February 10, 2025 under prior law).

OBBA permanently extends the TCJA provision limiting itemized deductions for personal casualty losses to losses resulting from federally declared disasters. But for tax years beginning after December 31, 2025, OBBA expands the definition of deductible personal casualty losses to include certain state declared disasters (mayor declared in the case of the District of Columbia). For this purpose, "states" include U.S. territories.

Other Provisions Affecting Individuals

OBBBA makes many additional tax changes that will affect individuals -

- permanently extends the termination of personal exemptions (notwithstanding the creation of a new personal exemption for seniors, discussed elsewhere); permanently extends TCJA's increased AMT exemption and phaseout thresholds;
- permanently repeals the qualified bicycle commuting reimbursement exclusion and provides an additional year of inflation adjustment for other qualified transportation fringe benefits;
- permanently extends the provision including ABLE account contributions made by the account's designated beneficiary as eligible contributions for purposes of the saver's credit;
- permanently extends tax-free rollovers from Section 529 plans to ABLE accounts;
- permanently extends the increased limit on contributions to ABLE accounts and provides an additional year of inflation adjustment for the base amount of the contribution limit;
- permanently extends the listing of the Sinai Peninsula and other areas as qualified hazard duty areas;
- permanently extends the exclusion for employer payments of student loans and provides an inflation adjustment of the maximum exclusion for tax years beginning after 2026;
- permanently repeals the exclusion for qualified moving expenses reimbursement and the deduction for moving expenses for taxpayers other than active-duty members of the Armed Forces and members of the Intelligence Community; and
- establishes a task force on replacing the IRS Direct File program with a public-private partnership between the IRS and private sector tax preparation services.

II. Provisions Affecting Businesses

Deduction for Qualified Business Income

OBBBA permanently extends the deduction for qualified business income (QBI) under Code Sec. 199A.

For tax years beginning after December 31, 2025, OBBBA also expands the deduction limit phase-in range by increasing the \$50,000 (non-joint returns) and \$100,000 (joint returns) amounts to \$75,000 and \$150,000, respectively. Additionally, OBBBA introduces a new, inflation-adjusted, minimum deduction of \$400 for taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which the taxpayer materially participates.

Bonus Depreciation and Section 179 Expensing

Bonus Depreciation. OBBBA permanently extends and modifies the additional first-year depreciation deduction. The allowance is increased to 100 percent for property acquired and placed in service on or after January 19, 2025, as well as for specified plants planted or grafted on or after January 19, 2025.

Section 179 Expensing. OBBBA increases the maximum amount a taxpayer may expense under Code Sec. 179 to \$2.5 million, reduced by the amount by which the cost of qualifying property exceeds \$4 million. The \$2.5 million and \$4 million amounts are adjusted for inflation for tax years beginning after 2025. This provision applies to property placed in service in tax years beginning after December 31, 2024.

Full Expensing of Domestic Research and Experimental Expenditures

OBBBA creates new Code Sec. 174A, which allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after December 31, 2024. Research or experimental expenditures attributable to research that is conducted outside the United States must continue to be capitalized and amortized over 15 years under Code Sec. 174.

OBBBA provides a transition rule allowing small business taxpayers with average annual gross receipts of \$31 million or less generally may apply this change retroactively to tax years beginning after December 31, 2021. Under the rule, all taxpayers that made domestic research or experimental expenditures after December 31, 2021, and before January 1, 2025, may elect to accelerate the remaining deductions for such expenditures over a one-year period or a two-year period.

This provision includes rules to coordinate the immediate deductibility of domestic research or experimental expenditures with the research credit, rules clarifying the treatment of foreign research or experimental expenditures and other coordinating changes.

Modification of Limit on Business Interest

OBBBA increases the cap on the deductibility of business interest expense for tax years beginning after December 31, 2024. Specifically, it provides that "adjusted taxable income" is computed without taking into account deductions for depreciation, amortization or depletion. As a result, "adjusted taxable income" corresponds with the financial accounting concept of earnings before interest, taxes, depreciation and amortization (EBITDA).

This provision also permanently modifies the definition of "motor vehicle" to include certain trailers and campers designed to be towed by or affixed to a motor vehicle. This change allows interest on floor plan financing for such trailers and campers to be deducted.

Special Depreciation Allowance for Qualified Production Property

OBBBA allows taxpayers an additional first-year depreciation deduction equal to 100 percent of the adjusted basis of "qualified production property." Qualified production property is nonresidential real property (1) which is used by the taxpayer as an integral part of a qualified production activity, (2) which is placed in service in the United States or any possession of the United States, (3) the original use of which commences with the taxpayer, (4) the construction, reconstruction or erection of which by the taxpayer begins after January 19, 2025, and before January 1, 2029 and (5) is placed in service after July 4, 2025 and before January 1, 2031, except in cases of Acts of God in which case the Treasury Secretary can extend the date by up to two years.

"Qualified production property" does not include the portion of any nonresidential real property used for offices, administrative services, lodging, parking, sales activities, software development or engineering activities, or other functions unrelated to manufacturing, production or refining of tangible personal property. "Qualified production property" also does not include any property to which the alternative depreciation system applies, or any food or beverage prepared in the same building as a retail establishment in which such property is sold.

A "qualified production activity" is the manufacturing, production or refining of a qualified product. Such activities of the taxpayer must result in a substantial transformation of the property comprising the product.

This provision also provides a special acquisition rule that allows a taxpayer to claim the qualified production property deduction for nonresidential real property (1) which is acquired by the taxpayer after January 19, 2025, and before January 1, 2029, (2) which was not used in a qualified production activity (without regard to the substantial transformation rule) at any time during the period beginning on January 1, 2021, and ending on May 12, 2025, (3) which was not used by the taxpayer or a related party at any time prior to such acquisition, (4) which is used by the taxpayer as an integral part of a qualified production activity, (5) which is placed in service in the United States or any possession of the United States, and (6) is placed in service after July 4, 2025 and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date by up to two years.

Recapture rules apply in certain cases where, during the 10-year period after qualified production property is placed in service, the use of the property changes.

This provision is effective for property placed in service after July 4, 2025.

Enhancement of Employer-Provided Child Tax Credit

OBBBA permanently increases the employer-provided child care credit, creates a separate credit amount for qualified small businesses and indexes the maximum credit amounts for inflation.

Specifically, this provision increases the maximum credit from \$150,000 to \$500,000 and the percentage of qualified child care expenses covered from 25 percent to 40 percent. Therefore, a business must spend at least \$1.25 million on child care related expenses to receive the full credit. Additionally, Code Sec. 45F is further strengthened for small businesses by increasing the maximum credit to \$600,000 and the percent of qualified child care expenses covered to 50 percent. Therefore, a small business must spend at least \$1.2 million on child care related expenses to receive the full credit. An eligible small business is one that meets the gross receipts test (\$31 million for 2025) based on the 5-year period (rather than 3-year period) preceding the tax year.

Additionally, OBBBA allows small businesses to pool their resources to provide childcare to their employees and for businesses to use a third-party intermediary to facilitate childcare services on their behalf.

Extension and Enhancement of Paid Family Leave and Medical Leave Credit

OBBBA extends the paid family and medical leave credit permanently and makes three modifications:

- It modifies the credit to allow it to be claimed for an applicable percentage of premiums paid or incurred by an eligible employer during a tax year for insurance policies that provide paid family and medical leave for qualifying employees.
- It makes the credit available in all states.
- It lowers the minimum employee work requirement from 1-year to 6-months.

The provision applies to tax years beginning after December 31, 2025.

Permanent Renewal and Enhancement of Opportunity Zones

OBBBA establishes a permanent opportunity zone (OZ) policy that builds off of the original OZ structure. The provision creates rolling, ten-year OZ designations beginning on January 1, 2027. This provision maintains the OZ designation process from the TCJA and strengthens the eligibility requirements by updating the definition of a Low-Income Community (LIC) and eliminating the ability for contiguous tracts that are not LICs to be designated as OZs.

The definition of "low-income community" is narrowed to census tracts that have a poverty rate of at least 20 percent or a median family income that does not exceed 70 percent of the area median income. Additionally, a guardrail is added to ensure that the term "low-income community" does not include any census tract where the median family income is 125 percent or greater of the area median family income.

The provision preserves the taxpayer benefits from the TCJA but allows investors to receive incremental reduction in gain starting on the first anniversary of investment. In the seventh year of the designation window, investors will be required to realize their initial gains reduced by any step-up in basis. For each year that an investor is invested in the fund, their basis will be increased according to the following schedule: (1) one percent for years 1-3, (2) two percent for years 4-5, and (3) 3 percent for year 6.

Additionally, the provision establishes a type of Qualified Opportunity Fund (QOF) that invests solely in rural areas. Investment in these "qualified rural opportunity funds" will receive triple the step-up in basis. Additionally, a special rule is created that lowers the "substantial improvement" threshold of existing structures from 100 percent to 50 percent in rural areas. Lastly, this provision adds reporting requirements

for the OZ program and provides funding to the IRS Service to carry out the reporting requirements.

The first round of OZs available under the permanent policy will begin on January 1, 2027.

1 Percent Floor on Charitable Contributions Made by Corporations

OBBBA allows a deduction for corporate charitable contributions only to the extent that the aggregate of corporate charitable contributions exceeds one percent of a taxpayer's taxable income (the "one-percent floor") and does not exceed 10 percent of the taxpayer's taxable income (the "10-percent limit"). This provision applies for tax years beginning after December 31, 2025.

Expansion of Qualified Small Business Stock Gain Exclusion

OBBBA modifies the qualified small business stock (QSBS) gain exclusion by providing a tiered gain exclusion for QSBS acquired after July 4, 2025. In particular, the provision allows a 50 percent exclusion after three years, 75 percent after four years and 100 percent after five years. Also, the proposal increases the per-issuer dollar cap to \$15 million for post-enactment shares, indexed to inflation beginning in 2027. For stock issued after the applicable date, the corporate-level aggregate-asset ceiling is increased to \$75 million, indexed to inflation beginning in 2027. The provision is generally effective for stock issued or acquired, and to tax years commencing, on or after July 4, 2025.

Increased Threshold for Forms 1099-MISC and 1099-NEC

For payments made after December 31, 2025, OBBBA increases the threshold for reporting payments on Forms 1099-MISC and 1099-NEC by a business for services performed by independent contractors from \$600 to \$2,000. The threshold amount is indexed for inflation beginning after December 31, 2026.

Repeal of Revision to De Minimis Rules for Third Party Network Transactions

OBBBA modifies requirements for third-party settlement organizations to eliminate their reporting requirement with respect to the transactions of their participating payees unless they have earned more than \$20,000 on more than 200 separate transactions in an applicable tax period. This reverses the lower reporting threshold of \$600 with no minimum on the number of transactions that was enacted in 2021 but was delayed by the IRS.

Treatment of Certain Qualified Sound Recording Productions

OBBBA expands the special expensing rules for qualified film, television and live theatrical productions under Code Sec. 181 to include aggregate qualified sound recording production costs of up to \$150,000 per tax year. A qualified sound recording production is a sound recording (as defined in 17 U.S.C. Sec. 101) produced and recorded in the United States. Like qualified film and television productions or qualified live theatrical productions, the Code Sec. 181 deduction only applies to qualified sound recordings that commence before January 1, 2026.

The provision also expands the definition of qualified property eligible for bonus depreciation to include qualified sound recording productions. A qualified sound recording production is placed in service at the time of initial release or broadcast.

This provision applies to productions commencing in tax years ending after July 4, 2025.

Exclusion of Interest on Loans Secured by Rural or Agricultural Real Property

OBBBA permanently allows banks and insurance companies to exclude from gross income 25 percent of interest income derived from qualified real estate loans. Qualified real estate loans are the following types of original loans made after July 4, 2025 to a person other than a specified foreign entity: (1) loans secured by domestic real property that is substantially used to produce agricultural products (e.g. farms and ranches) or a leasehold mortgage on such property; (2) loans secured by domestic real property that is substantially used in the trade or business of fishing or seafood processing or a leasehold mortgage on such property; and (3) loans secured by any domestic aquaculture facility or a leasehold mortgage on such facility.

This provision treats qualified real estate loans as tax-exempt obligations for purposes of disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry such loans.

This provision applies to original debt incurred in tax years ending after July 4, 2025.

Treatment of Capital Gains from the Sale of Certain Farmland Property

OBBBA includes a new provision that allows capital gains from the sale or exchange of qualified farmland property to a qualified farmer to be paid in four equal annual installments, beginning on the unextended due date of the tax return for the tax year in which the sale or exchange occurred. "Qualified farmland property" generally means real property located in the United States which has been used by the taxpayer as a farm for farming purposes or leased by the taxpayer to a qualified farmer for farming

purposes during substantially all of the 10-year period ending on the date of the sale or exchange. "Qualified farmer" means any individual who is actively engaged in farming (within the meaning of subsections 4 (b) and (c) of section 1001 of the Food Security Act of 1986).

The provision is effective for sales or exchanges in tax years beginning after July 4, 2025.

Modification and Extension of Limit on Excess Business Losses of Noncorporate Taxpayers

OBBBA makes the excess business loss limitation for noncorporate taxpayers under Code Sec. 461(l), which was set to expire after December 31, 2025, permanent. The provision also provides that excess business losses disallowed in tax years beginning after December 31, 2024, are taken into account in determining a taxpayer's excess business losses in subsequent tax years. New rules are introduced to govern the treatment of excess business losses upon the termination of an estate or trust. The provision also subjects excess business loss carryovers to the tax attribute reduction rules applicable to cancellation of debt income under Code Sec. 108 and carryover of tax attributes in Code Sec. 1398.

Treatment of Payments from Partnerships to Partners for Property or Services

Under current law, Code Sec. 707(a)(2) applies to certain payments from a partnership to a partner only as prescribed by Treasury regulations. OBBBA clarifies the statute, revising "under regulations prescribed" with "except as provided." The provision applies prospectively to services performed and property transferred after July 4, 2025, with no inference as to the treatment of prior transactions.

Enforcement Provisions With Respect to COVID-Related Employee Retention Credits

OBBBA provides that, in addition to paid tax return preparers, a COVID-ERTC promoter is required to comply with due diligence requirements with respect to a taxpayer's eligibility for (or the amount of) an ERTC and applies a \$1,000 penalty for each failure to comply. This provision also extends the penalty for excessive refund claims to employment tax refund claims.

Additionally, this provision bars the IRS from issuing any additional unpaid claims under Code Sec. 3134, unless a claim for a credit or refund was filed on or before January 31, 2024. Additionally, it coordinates and extends limitations periods for certain corrective action by the IRS for credits or refunds under Code Sec. 3134.

Intangible Drilling and Development Costs Taken Into Account for Purposes of Computing Adjusted Financial Statement Income

OBBBA requires adjusted financial statement income (AFSI) for purposes of the corporate alternative minimum tax to be (1) reduced by any deduction allowed for expenses under Code Sec. 263(c) with respect to property described therein to the extent of the amount allowed as deductions in computing taxable income for the year, and (2) adjusted to disregard any amount of depletion expense that is taken into account on the taxpayer's applicable financial statement with respect to the intangible drilling and development costs of such property. This provision is effective for tax years beginning after December 31, 2025.

Income from Hydrogen Storage, Carbon Capture, Advanced Nuclear, Hydropower, and Geothermal Energy Added to Qualifying Income of Certain Publicly Traded Partnerships

OBBBA provides that, after December 31, 2025, activities that can be categorized as qualifying income in order for publicly traded partnerships to be treated as partnerships for tax purposes is expanded to include the transportation or storage of liquified hydrogen or compressed hydrogen, production of electricity from hydropower, generation of electricity or capture of carbon dioxide at a direct air capture or carbon capture facility, generation of electricity from an advanced nuclear facility, production of electricity or thermal energy from geothermal deposits or hydropower, and operation of property to produce, distribute or use energy from a geothermal deposit or property that uses the ground or ground water as a thermal energy source or thermal energy sink.

Other Provisions Affecting Businesses and Nonprofits

OBBBA makes several additional tax changes that will affect businesses and nonprofits -

- increases the rate of the investment tax credit for qualified investments in advanced manufacturing facilities from 25 percent to 35 percent, effective for property placed in service after December 31, 2025;
- provides that spaceports are treated like airports under the exempt facility bond rules, effective for obligations issued after July 4, 2025;
- maintains the current exemptions from the deduction limitation for business meals and adds food or beverage provided on fishing vessels or fish processing facilities to the exemption;

- permanently increases the low-income housing credit state allocation ceiling by 12 percent and lowers the bond-financing threshold to 25 percent for projects financed by bonds starting in 2026;
- permanently extends the new markets tax credit, previously set to expire at the end of 2025;
- provides an exception to the percentage of completion method of accounting for certain residential construction contracts, effective for contracts entered into in tax years beginning after July 4, 2025;
- adds provisions regarding nonprofit community development activities in remote Native villages and adjusts the charitable deduction for expenses incurred in support of Native Alaskan subsistence whaling;
- restores the taxable REIT subsidiary asset test in Code Sec. 856; creates new rules regarding the deduction disallowance for employee remuneration paid by publicly traded corporations that are members of a controlled group;
- modifies the excise tax on the investment income of certain private colleges and universities;
- expands application of the excise tax on excess compensation paid to certain highly compensated employees by tax-exempt organizations;
- permanently increases the limitation on cover over of tax on distilled spirits;
- reduces the tax on the transfer of firearms; and
- add a new provision allowing payments to certain persons who dye fuel.

III. Termination and Restrictions on Clean Energy Credits

Clean Energy Provisions Repealed by Accelerated Sunsetting

OBBBA repealed most of the clean energy provisions enacted by the Inflation Reduction Act of 2022 by simply moving up their expiration dates (most were scheduled to expire at the end of 2032 or 2034) without making other changes. Here's a list of the provisions repealed by accelerated sunsetting:

- The Code Sec. 25E previously owned clean vehicle credit is terminated for vehicles acquired after September 30, 2025.
- The Code Sec. 30D clean vehicle credit is terminated for vehicles acquired after September 30, 2025.
- The Code Sec. 45W qualified commercial clean vehicle credit is terminated for vehicles acquired after September 30, 2025.
- The Code Sec. 30C alternative fuel vehicle refueling property credit is terminated for property placed in service after June 30, 2026.
- The Code Sec. 25C energy efficient home improvement credit for property placed in service after December 31, 2025.

- The Code Sec. 25D residential clean energy credit is terminated with respect to any expenditures made after December 31, 2025.
- The Code Sec. 179D energy efficient commercial buildings deduction is terminated for property the construction of which begins after June 30, 2026.
- The Code Sec. 45L new energy efficient home credit is terminated for homes acquired after June 30, 2026.
- The Code Sec. 168(e)(3)(B)(vi) special five-year cost recovery period for certain energy property (as defined in Code Sec. 48(e)) is terminated for property the construction of which begins after December 31, 2024.
- The Code Sec. 45V clean hydrogen production credit is terminated for facilities the construction of which begins on or after January 1, 2028.

Termination and Restrictions on Clean Electricity Production Credit

OBBBA generally terminates the Code Sec. 45Y clean electricity production credit for wind or solar facilities placed in service after December 31, 2027. However, this deadline does not apply to wind and solar facilities that begin construction within 12 months after the date of enactment (i.e., July 4, 2026). For other facilities, the existing phaseout timeline provided in Code Sec. 45Y(d) (75 percent in 2034, 50 percent in 2035, and zero thereafter) applies. The Act also disallows the credit for wind and solar property if the taxpayer rents or leases such property to a third party. The Act restricts access to the credit for prohibited foreign entities (PFEs) and contains numerous rules to calculate material assistance from a PFE, including safe-harbor tables to rely on in determining the total costs attributable to a PFE.

Termination and Restrictions on Clean Electricity Investment Credit

OBBBA generally terminates the Code Sec. 48E clean electricity investment credit for wind and solar projects placed in service after December 31, 2027. However, this deadline does not apply to wind and solar facilities that begin construction within 12 months after the date of enactment (i.e., July 4, 2026). For other facilities, the Act does not change the existing phaseout timeline in Code Sec. 48E(e) (75 percent in 2034, 50 percent in 2035, and zero thereafter). The Act also disallows the credit for wind and solar property that is rented or leased to a third party. In addition, the Act restricts access to the credit for facilities that receive material assistance from prohibited foreign entities.

Phaseout and Restrictions on Advanced Manufacturing Production Credit

OBBBA generally phases out the Code Sec. 45X advanced manufacturing production credit for producing critical minerals beginning in 2031, with 75 percent of the credit

allowed in 2031, 50 percent allowed in 2032, 25 percent in 2033, and no credit beginning in 2034. The Act also terminates the credit for wind components produced and sold after December 31, 2027. For all eligible components, the provision strikes a rule that deemed eligible components that have been integrated into another eligible component to have been sold to an unrelated party, applicable to components sold during tax years after December 31, 2026. Restrictions relating to prohibited foreign entities are also provided.

Restriction on the Extension of Advanced Energy Project Credit Program

OBBBA provides that any funds that are allocated to a certified advanced energy project under Code Sec. 48C and returned to the Treasury Secretary after the project's certification is revoked may not be reissued to another project. The House bill did not contain this provision.

Extension and Modification of Clean Fuel Production Credit

OBBBA extends the Code Sec. 45Z clean fuel production credit through December 31, 2029. The Act also limits the credit to fuels made from feedstocks produced in the United States, Canada, or Mexico, and makes certain other modifications. The House bill contained a similar provision but would have extended this credit through 2031.

Restrictions on Carbon Oxide Sequestration Credit

OBBBA conforms the credit values under Code Sec. 45Q for captured carbon oxide that is disposed of in secure geological storage and that which is utilized first and then sequestered, effected for equipment placed in service after December 31, 2022. The Act also restricts access to this credit for certain prohibited foreign entities. The House bill contained a similar provision.

Modification of Zero-Emission Nuclear Power Production Credit

OBBBA modifies the Code Sec. 45U zero-emission nuclear power production credit by imposing restrictions with respect to certain prohibited foreign entities, effective for tax years beginning after July 4, 2025. The House bill would have terminated this credit for tax years beginning after December 31, 2031.

IV. International Tax Provisions

Foreign Tax Credit Modifications

OBBBA modifies the rules in Code Sec. 904(b) on the allocation and apportionment of deductions in the global intangible low-taxed income (GILTI) category for purposes of determining the foreign tax credit (FTC). The Act also modifies the rules in Code Sec. 960(d)(1), regarding the GILTI inclusion in gross income for domestic corporations, to increase the allowance from 80 percent to 90 percent. The Act provides that solely for purposes of the FTC limitation, if a U.S. person maintains an office or other fixed place of business in a foreign country, the portion of taxable income from the sale or exchange outside the United States of inventory property produced in the United States and which is attributable to such office or other fixed place of business is treated as foreign-source taxable income. However, the amount treated as foreign-source income cannot exceed 50 percent of the total taxable income from the sale or exchange of the inventory property. The House bill did not contain these provisions.

Foreign-Derived Deduction Eligible Income and Net CFC Tested Income

OBBBA decreases the Code Sec. 250 deduction percentage for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) tax years beginning after December 31, 2025, to 33.34 percent for FDII and 40 percent for GILTI, resulting in an effective tax rate of 14 percent for both FDII and GILTI. The Act also modifies the definition of foreign-derived deduction eligible income and eliminates the both the deemed tangible income return currently used in determining a domestic corporation's FDII and net deemed tangible income return currently used in determining a U.S. shareholder's GILTI inclusion. The House bill contained similar provisions.

Base Erosion Minimum Tax

OBBBA modifies the Code Sec. 59A base erosion minimum tax by increasing the base erosion minimum tax amount from 10 percent to 10.5 percent of modified taxable income over adjusted regular tax liability, effective for tax years beginning after December 31, 2025. The House bill contained a similar provision.

Business Interest Limitation

OBBBA amends Code Sec. 163(j) to provide that the business interest limitation is calculated prior to the application of any interest capitalization provision, defined as any provision under which interest is (1) required to be charged to capital account or

(2) may be deducted or charged to capital account. Any interest which is capitalized under Code Sec. 263(g) or Code Sec. 263A(f) is not treated as business interest for purposes of Code Sec. 163(j). The amount of business interest allowed after taking into account the limitation is applied first to amounts which would be capitalized and the remainder, if any, to amounts which would be deducted. No portion of any business interest carried forward is treated as business interest to which an interest capitalization provision applies. The Act also excludes Subpart F and GILTI inclusions and the associated Code Sec. 78 gross-up amounts, as well as amounts determined under Code Sec. 956, for a taxpayer's adjusted taxable income. The House bill did not contain these provisions.

Other International Tax Reforms

OBBBA includes other international tax reforms, including: (1) permanent extension of the Code Sec. 954(c)(6) look-through rule for related controlled foreign corporations, (2) repeal of the Code Sec. 898(c) election for 1-month deferral in determination of tax year of specified foreign corporations, (3) restoration of the Code Sec. 958(b) limitation on downward attribution of stock ownership in applying constructive ownership rules, and (4) modifications to the pro rata share rules in Code Sec. 951(a).