Highlights

- Passage Follows Flurry of Activity in Senate and House
- Most TCJA Individual Provisions Made Permanent
- Senate Bill Permanently Extends Business Expensing
- New Provisions Eliminate Taxes on Tip and Overtime Income
- Temporary Increase in SALT Cap
- Early Termination of Green Energy Credits

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Tax Briefing | One Big Beautiful Bill Act

President Signs Massive Reconciliation Bill

On July 4, President Trump signed the One Big Beautiful Bill Act into law. This followed July 1 passage in the Senate and July 3 passage in the House. Enactment follows days of frantic activity in Congress, with day-long debates, record-setting voting sessions, and many deals to secure passage in the closely divided House and Senate.

COMMENT. *One of the final changes to the bill before passage was to strip the name of the Act due to Senate reconciliation rules, so the official name is not the One Big Beautiful Bill Act. This has been done for other recent reconciliation bills, such as the Inflation Reduction Act of 2022 and the Tax Cuts and Jobs Act of 2017.*

The Act includes a number of tax changes, including permanent and limited modification of many soon-to-expire tax provisions, new provisions promised by President Trump during his 2024 campaign, elimination or modification of most green energy provisions, and dozens of other changes affecting individuals and businesses. There are many differences outside the tax provisions that have been subject to disagreement within the GOP majority, though the dissenting voices seem to have accepted those changes in order to get the bill across the finish line.

Upon its passage, the majority of the provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) included expiration dates in order to satisfy budgetary requirements. Lower individual rate brackets, higher standard deductions, the elimination of the personal exemption, the cap on the deduction of state and local taxes (SALT), changes to the alternative minimum tax and many other provisions are all set to expire at the end of 2025. Without legislation, the federal tax system would have largely reverted back to the rules applicable in 2017.

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Throughout the 2024 campaign, Trump, as well as many GOP lawmakers, proposed making these soon-to-expire provisions a permanent part of the tax code. The Act does just that, but it comes at a high price tag (some estimates have it at $5 trillion over ten years). Much of this cost is balanced by reduced outlays in many government programs not related to taxation, and by the elimination of many of the "green" tax provisions from the Inflation Reduction Act.

COMMENT. *This CCH Tax Briefing is not intended to comprehensively cover all provisions proposed in the approximately 400-page tax portion of the Act, but rather the highlights. See CCH® AnswerConnect for complete coverage of the One Big Beautiful Bill Act.*

EXTENDED INDIVIDUAL PROVISIONS

Individual Extenders

Many of the provisions of the TCJA applicable to individuals are among those scheduled to expire at the end of 2025. These include:

- 10, 12, 22, 24, 32, 35 and 37 percent brackets applicable since 2018;
- Elimination of personal exemptions;
- Increased alternative minimum tax exemption and threshold amounts;
- Lower limitation on the deduction of mortgage interest;
- Limitation on the casualty loss deduction;
- Termination of the miscellaneous itemized deduction; and
- Allowance of rollovers from qualified tuition programs to ABLE accounts.

The Act makes all of these provisions permanent, but does make some modifications. The Act permanently treats mortgage insurance premiums as qualified residence interest for which a deduction could be claimed and allows for unreimbursed educator expenses to be deducted as a miscellaneous itemized deduction. The Act also removes the last seven years of inflation adjustments from the AMT exemption phase-out threshold for joint filers, reverting the threshold to the 2018 amount.

COMMENT. *Between 2008 and 2021, mortgage insurance premiums could be treated as qualified residence interest and deducted my homeowners. Also, under current law, teachers are allowed an above-the-line deduction for classroom expenses of up to $300 for 2024 and 2025, but the Act expands that beyond the dollar limitation.*

Also, the Act does permanently eliminate the personal exemption amount, but provides a $6,000 deduction amount for seniors age 65 and older after 2024 and before 2029. This deduction would phase out for individuals whose modified adjusted gross income exceeds $75,000 ($150,000 for joint filers).

COMMENT. *A similar provision was in the House-passed version of the bill, but was instead an expansion of the standard deduction, and capped at $4,000.*

Standard Deduction

The TCJA nearly doubled the standard deduction for tax years beginning after 2017. For 2025 (prior to the Act), the inflation adjusted amounts were $30,000 for joint filers, $22,500 for heads of households, and $15,000 for single taxpayers and married taxpayers filing separately. These higher amounts were set to expire after 2025.

The Act increases the amount of the standard deduction for tax years beginning in 2025 and subject to inflation thereafter. Under the Act, the standard deduction amounts for 2025 are $31,500 for joint filers $23,625 for heads of households, and $15,750 for single taxpayers and married taxpayers filing separately.

COMMENT. *In the bill passed by the House, the amounts would have been temporarily increased for tax years 2025 through 2028 by $2,000, $1,500, and $1,000 respectively. The bill originally proposed by the Senate also increased the deduction by the same amounts, but made them permanent and subject to inflation. The lower amounts ultimately passed reflect an attempt to lower the cost of the provision.*

SALT Deduction

One of the most controversial provisions of the TCJA was the imposition of a $10,000 cap on the deduction for state and local taxes. Before the ink was dry on the 2017 legislation, lawmakers in higher tax states on both sides of the aisle (the so-called "SALT Caucus") were introducing legislation intended to increase or outright repeal the cap.

The Act increases the cap to $40,000 for 2025, with a one percent increase in the cap each year through 2029 before returning to the $10,000 limit in 2030. The cap is reduced by 30% of the amount by which the taxpayer's modified adjusted gross income exceeds a threshold amount. That threshold amount is generally $500,000 for 2025, with a one percent increase each year through 2029.

COMMENT. *This had proven to be one of the stickier points for legislators in their negotiations in both the House and Senate. Members of the SALT Caucus were still outwardly unhappy with the $40,000 limit agreed to in the House bill, but ultimately decided to vote in favor of it. The initial Senate proposal made no increase in the cap, but was eventually increased to match the House bill. In the days leading up to passage in the Senate, members of the SALT Caucus have accepted this final framework.*

Child Tax Credit

The TCJA increased the amount of the child tax credit from $1,000 to $2,000 for tax years 2018 through 2025, as well as nearly quadrupling the phaseout thresholds to $400,000 for joint filers and $200,000 for other filers.

The Act permanently increases the base amount of the credit to $2,200, subject to annual inflation increases. The post-2017 base amount of the refundable portion of the child tax credit (the "additional child tax credit") remains at $1,400, and continues to be adjusted for inflation ($1,700 for 2025). The Act requires the taxpayer claiming the credit, the taxpayer's spouse (if married), and the child for whom the credit is claimed to have Social Security numbers.

Estate Taxes

The estate tax basic exclusion amount, which the TCJA doubled for decedents dying through 2025 (inflation adjusted to $13.99 million in 2025) would revert back to 2017 amounts if the TCJA is allowed to expire.

Under the Act, the basic exclusion amount is increased again to a base amount of $15 million for decedents dying in 2026, adjusted for inflation thereafter.

COMMENT. *The $15 million amount is probably not far off from where inflation would have taken the exclusion amount for 2026 if the TCJA was not scheduled to expire.*

NEW INDIVIDUAL PROVISIONS

No Tax on Tips

One of the big talking points for President Trump during the campaign was the elimination of tax on tip income. Historically, tip income was not subject to tax until the early 1980's when legislation passed during the Reagan administration treated it like regular income.

The Act does not provide an exclusion from income for tips, but rather provides a deduction from income for amounts received as tips. Under the Act, taxpayers are not required to itemize deductions to claim the deduction, but a Social Security number is required to claim the deduction. The deduction is capped at $25,000, and the deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 for joint filers). The deduction is not allowed for tax years beginning after 2028.

The Act also extends the employer credit for Social Security taxes on employee cash tips to the beauty service industry (the credit currently only applies to the food and beverage industry).

No Tax on Overtime

During his campaign, President Trump also proposed making overtime compensation tax free. Under the Act, taxpayers are able to claim a deduction for the amount of overtime pay received as required under section 7 of the Fair Labor standards Act of 1938. Like the deduction for tip income, taxpayers do not have to itemize deductions to claim the deduction, but are required to provide a Social Security number. The deduction is capped at $12,500 ($25,000 for joint filers), and the deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 for joint filers). The deduction is not allowed for tax years beginning after 2028.

> **COMMENT.** *The Act does not provide extensive rules for the application of this provision, leaving the rules of application up to Treasury Regulations.*

Social Security Income

During his campaign, President Trump also proposed making Social Security income tax free. However, at no point has the Senate bill, nor the version that passed the House, included a provision to eliminate the tax on or provide a deduction for Social Security income.

> **COMMENT.** *It is possible that the special personal exemption available for seniors is intended to accomplish the same goal as making Social Security income tax-free.*

Itemized Deduction Limitation

Prior to the TCJA, the itemized deduction limitation was subject to a phaseout at higher incomes (the "Pease" limitation). The Act includes a return of the limitation on itemized deductions for taxpayers in the 37 percent income tax bracket, effective after 2025.

Automobile Loan Interest

Previously, interest on an individual's automobile loan was treated as nondeductible personal interest. The Act includes a deduction of up to $10,000 for interest paid on an automobile loan in 2025 through 2028 for a car purchased after 2024. The deduction is available for both itemizers and non-itemizers.

Trump Accounts

The Act also includes provisions for the creation of tax-favored accounts for newborn children, called "Trump Accounts." The accounts are seeded with $1,000 for newborn children. From a tax standpoint, they operate under rules similar to those applicable to individual retirement accounts, but are available to children.

Additional Provisions

The Act also includes:

- A tax credit for contributions to scholarship-granting organizations;
- An expansion of 529 programs to include elementary, secondary, and home schooling expenses; and
- The resurrection of the COVID-era allowance of a charitable contribution deduction for non-itemizers.

BUSINESS PROVISIONS

Bonus Depreciation

The TCJA provided for 100 percent expensing of certain business property through 2022, with a 20 percent stepdown each year after before reaching 0 percent in 2027 (currently set at 40% in 2025). The Act makes 100 percent bonus depreciation permanent for property acquired after January 19, 2025.

Research and Experimental Expenditures

Under prior law, taxpayers are required to amortize research and experimental expenditures. Prior to 2022, a direct expense election was available.

The Act permanently reinstates the deduction for domestic research and experimental expenditure costs incurred after 2024. Taxpayers can elect whether to deduct or amortize the expenditures, though the requirement to amortize under prior law is suspended while the deduction is available. Additionally, small businesses with average annual gross receipts of $31 million or less would be able to elect to claim the deduction retroactively to 2022.

Qualified Business Income Deduction

The TCJA's qualified business income deduction under Code Sec. 199A is set to expire for tax years beginning after 2025.

Under the Act, the qualified business income deduction is made permanent. Additional changes expand qualification for the deduction.

Additional Provisions

The Act also includes:

- An increase in the 179 deduction limitations after 2024
- An exclusion of interest received by qualified lenders secured by rural or agricultural real property
- Modifications to the low-income housing credit.

International Extensions

The Act makes permanent many international and foreign-related provisions under the TCJA, including the:

- Deduction for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI); and
- Base erosion minimum tax amount.

However, the Act changes the FDII rate to 33.34 percent (currently 37.5 percent) and the GILTI rate to 40 percent (currently 50 percent) after 2025.

COMMENT. *Under TCJA, these rates were scheduled to drop to 21.875 percent and 37.5 percent, respectively, after 2025. So this actually represents a tax increase for 2026 and beyond.*

The Act also changes the base erosion minimum tax amount to 10.5 percent from its current 10 percent rate after 2025.

COMMENT. *Under TCJA, this rate was scheduled to increase to 12.5 percent after 2025, so this represents a tax decrease for 2026 and beyond.*

The Act also makes changes to the treatment of "tested" CFC income and the foreign tax credit.

GREEN ENERGY TERMINATIONS

The Inflation Reduction Act of 2022 created dozens of new tax credits intended to promote the manufacture and adoption of alternative energy sources. The elimination of these credits by the One Big Beautiful Bill Act is a key method of paying for many of the new taxpayer-friendly provisions. However, the timing of the termination had been another sticking point throughout negotiations, and as the Senate amended its bill, House leaders were pleading for changes to be included to look more like the House bill.

The major difference between the two chambers largely centered on when credits for "clean" energy producers will be eliminated. The House took the approach that for producers that have already invested in construction costs, the credits should be terminated in 2026 or later. The Senate initially took a much more aggressive approach, with some credits terminating immediately but nearly all terminating before the end of 2025.

Ultimately, the Senate relented and included a longer run-out for energy producers to claim credits, in some cases allowing for construction to begin in 2026.

Where the Senate Act did agree with the House was on the termination of many credits applicable to the consumer side of green energy. Under the Act, the affected credits include the following (termination generally after 2025):

- Previously owned clean vehicle credit;
- Clean vehicle credit;
- Qualified commercial clean vehicle credit;
- Alternative fuel refueling property credit;
- Energy efficient home improvement credit;
- Residential clean energy credit; and
- New energy efficient home credit.

IRS PROCEDURAL PROVISIONS

Perhaps the most widely applicable operations provision of the Act is the termination of the IRS Direct File program. The Act requires the termination of the program within 30 days after passage and appropriates funding for the IRS to research a public-private partnership to replace the current "free file" program.

The Act includes specified penalties for fraudulent promoters of retention credit schemes, but at a much lower limit of $1,000 per failure to comply with due diligence requirements (though without a cumulative limit). The Act also includes the termination of the Direct File program.

COMMENT. *The version of the bill that was passed by the House included the provision imposing the penalty on ERC promoters with much higher penalty amounts. However, in a subsequent vote on a recissions bill on June 11, a rule adopted in passage struck that provision from the House-passed bill. It isn't clear how that recissions bill will impact this provision.*

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