

One Big Beautiful Bill Act

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On May 22, 2025, the House of Representatives passed the “One Big Beautiful Bill Act” (the “Bill”) by a one vote margin. Set forth below is a summary description of some of the provisions of the Bill.

Individual Provisions:

- **Individual Tax Rates:** The rates put in place pursuant to the 2017 individual tax cuts would have expired after the 2025 tax year. The Bill permanently extends the rates and brackets put in place by the 2017 individual tax cuts.
- **Itemized Deductions:** For some high-income earners, the Bill limits the value of itemized deductions by reducing the benefit to the amount that would have been realized by a taxpayer at a lower marginal rate.
- **SALT - PTET:** The 2017 tax legislation imposed a \$10,000 cap with respect to deductions for state and local taxes (“SALT”). Many states enacted legislation that allowed partnerships and S corporations to elect to pay tax at the entity level (the “Pass-through Entity Tax” (“PTET”)). In IRS Notice 2020-75, the IRS generally allowed taxpayers to reduce their federal taxable income with respect to the PTET paid by their partnerships and S corporations. The Bill proposes to disallow the PTET - SALT cap workaround for most service provider pass-through entities. The Bill would, in general, simultaneously raise the SALT deduction cap to \$40,000, but the increased SALT deduction cap would be phased out for individuals with modified adjusted gross income of \$500,000 or more. For married individuals filing a separate return, the cap would be \$20,000, and the phaseout would begin at \$250,000 of modified adjusted gross income.
- **Tip Income:** The Bill temporarily makes tip income deductible for taxable years 2025 through 2028 for individuals employed in industries in which tipping is customary, but the deduction is subject to various limitations, including a limitation for highly compensated employees.
- **Overtime Income:** The Bill creates a new deduction for “qualified overtime compensation” for 2025 through 2028.
- **Deduction of Auto Loan Interest:** The Bill temporarily makes auto loan interest deductible with respect to autos with final assembly in the United States, for taxable years 2025 through 2028. The deduction is limited to \$10,000 and is phased out for taxpayers with income above specified threshold amounts.
- **Estate and Gift Tax:** The Bill adopts a permanent (and inflation-adjusted) exemption of \$15 million per person beginning in 2026.

Business Provisions:

- **Bonus Depreciation:** The Bill temporarily restores 100% bonus depreciation for qualified property

acquired on or after January 20, 2025 and before January 1, 2030.

- **Business Interest Deduction Limitation:** The Bill temporarily reinstates the EBITDA-based limitation on business net interest deductions from 2025 through 2029.
- **Executive Compensation:** The Bill tightens rules with respect to the Section 162(m) limitation for executive compensation.
- **Qualified Business Income Deduction:** The Bill makes the Section 199A pass-through deduction permanent, and it increases the deduction percentage from 20% to 23%.
- **Research and Development Expensing:** The Bill temporarily restores immediate expensing for domestic research and development expenditures from 2025 to 2029.
- **Energy Credits:** The Bill phases out many energy tax credits.
- **Global Intangible Low-Tax Income (“GILTI”), Foreign-Derived Intangible Income (“FDII”), and Base Erosion and Anti-Abuse Tax (“BEAT”):** Prior law would have significantly changed current law rates for BEAT and current law deduction rates for GILTI and FDII. The Bill replaces those changes with more modest changes.
- **Qualified Opportunity Zones:** The Bill would extend and modify the Qualified Opportunity Zone program, which was originally created in 2017. Under the Bill, there would be new investment incentives, new reporting requirements, and new eligibility criteria for opportunity zones, with a greater emphasis on rural areas.
- **Endowment Tax:** The tax on the net investment income of certain educational institutions would be modified by the implementation of a graduated rate structure based upon “student adjusted endowment,” with rates on some institutions potentially reaching 21%.

The Senate is expected to make significant changes to the Bill. Tax attorneys at Kelley Drye are closely monitoring the Bill and will provide updates to reflect new developments.