

# What's in the Newly Enacted One Big Beautiful Bill Act

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On July 4, 2025, President Trump signed into law the "One Big Beautiful Bill Act" (the "2025 Act"). The Act makes permanent some provisions originally enacted in 2017 as part of the Tax Cuts and Jobs Act (the "2017 Act"), modifies some of those provisions, and introduces new provisions. Below, we have summarized just a few of the provisions that may be of interest:

## Individual Provisions:

- **Individual Tax Rate Cuts Made Permanent:** The rates put in place pursuant to the 2017 Act would have expired after the 2025 tax year. The 2025 Act permanently extends the rates and brackets put in place by the 2017 Act.
- **Itemized Deductions Remain Limited:** For some high-income earners, the 2025 Act limits the value of itemized deductions by reducing the benefit to the amount that would have been realized by a taxpayer with a lower marginal rate.
- **SALT Cap Raised and PTET Survives:** The 2017 Act imposed a \$10,000 cap on deductions for state and local taxes ("SALT"). In response, many states enacted legislation that allowed partnerships and S corporations to elect to pay tax at the entity level (the "Pass-through Entity Tax" or "PTET"), and 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, thereby effectively authorizing a workaround of the \$10,000 cap. The 2025 Act raises the SALT deduction cap to \$40,000 (\$20,000 for married individuals filing separately), but a phase-out of the increased SALT deduction cap begins when an individual's modified adjusted gross income reaches a \$500,000 threshold (\$250,000 for married individuals filing separately). The cap and phase-out threshold increase incrementally each year, but the cap permanently reverts to \$10,000 beginning with the 2030 tax year. The House version of the bill would have effectively blocked use of the PTET workaround, but the 2025 Act ultimately did not include this proposal, so until 2030, taxpayers may potentially benefit from both the increased cap and the PTET workaround.
- **Individual Charitable Deduction Floor Created:** In general, beginning in 2026, individuals claiming itemized deductions will only be allowed to claim charitable contributions as deductions to the extent the aggregate of such contributions exceeds 0.5% of the individual's adjusted gross income. Taxpayers that are potentially subject to this floor may wish to consider making in 2025 contributions that they were otherwise planning to make in 2026.
- **No Tax on Some Tips:** The 2025 Act temporarily makes up to \$25,000 of tip income deductible for taxable years 2025 through 2028 for individuals employed in certain industries for which tipping is customary, but the deduction is subject to various limitations, including a phase-out beginning when an individual's modified adjusted gross income exceeds \$150,000 (\$300,000 for a joint return).

- **No Tax on Some Overtime:** The 2025 Act creates a new deduction, of up to \$12,500 (\$25,000 for a joint return), for “qualified overtime compensation” for 2025 through 2028. The deduction is subject to various limitations, including a narrow definition of qualified overtime compensation and a phase-out beginning when an individual’s modified adjusted gross income exceeds \$150,000 (\$300,000 for a joint return).

- **Deduction of Some Auto Loan Interest:** The Act temporarily makes auto loan interest deductible with respect to certain automobiles 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 modified adjusted gross income exceeding \$100,000 (\$200,000 for a joint return).

- **Estate and Gift Tax Exemption:** The 2025 Act adopts a permanent (and inflation-adjusted) exemption of \$15 million per person beginning in 2026.

#### Business Provisions:

- **Qualified Small Business Stock Exemption Expanded:** The 2025 Act increases the flexibility of the qualified small business stock exemption by allowing some benefits for stock held for less than the normally required five years. For stock acquired after the effective date of the 2025 Act, there is now a 50% exclusion from gross income for the sale of qualified small business stock held for at least three years and a 75% exclusion from gross income for the sale of qualified small business stock held for at least four years. The 2025 Act also increases the per issuer limit to \$15 million and increases the gross asset limit to \$75 million.

- **Bonus Depreciation Made Permanent:** The House proposal would have restored 100% bonus depreciation for qualified property, but only temporarily. The 2025 Act makes the restoration permanent.

- **Depreciation Allowance for Qualified Production Property:** The 2025 Act also provides for an elective 100% depreciation allowance for “qualified production property.” Qualified production property includes new U.S. nonresidential real property that is used by the taxpayer as an integral part of a “qualified production activity,” that is placed in service after January 19, 2025 and before 2031, and that meets certain other requirements. A qualified production activity is the manufacturing, production or refining of certain tangible personal property if there has been a substantial transformation of the property comprising the property.

- **Business Interest Deduction Limitation Adjusted:** The House proposal would have reinstated the EBITDA-based limitation on business net interest deductions from 2025 through 2029. The final version of the 2025 Act also reinstates the EBITDA-based limitation, but makes it permanent.

- **Executive Compensation Limitation Tightened:** The Act tightens rules with respect to the Section 162(m) deduction limitation for executive compensation.

- **Qualified Business Income Deduction Made Permanent:** The House proposal would have made the Section 199A pass-through deduction permanent and would have increased the deduction percentage from 20% to 23%. The 2025 Act makes the deduction permanent, but keeps the deduction percentage at 20%.

- **Research and Development Expensing Restored:** The 2025 Act permanently restores immediate expensing for qualifying domestic research and experimental expenditures. The House proposal would have restored expensing for such expenditures only from 2025 to 2029.

- **Energy Credits Phased Out or Eliminated:** The 2025 Act eliminates or phases out many energy tax credits.

- **Section 899 Abandoned:** The House proposal would have created a new Internal Revenue Code Section 899, which would have increased taxes on individuals and companies in countries that impose “unfair foreign taxes” on U.S. persons. As a result of an agreement with G-7 members, Section 899 was dropped from the final version of the 2025 Act.

- **Global Intangible Low-Tax Income (“GILTI”), Foreign-Derived Intangible Income (“FDII”), and Base Erosion and Anti-Abuse Tax (“BEAT”) Changed:** The 2025 Act changes the effective rates for these taxes, changes the name of “global intangible low-taxed income” to “net CFC tested income,” and changes the name of “foreign-derived intangible income” to “foreign-derived deduction eligible income.”

- **Qualified Opportunity Zones Modified:** The 2025 Act modifies the Qualified Opportunity Zone program, which was originally created in 2017.

- **Endowment Tax Modified:** Under the House proposal, the tax on the net investment income of certain educational institutions would have been modified by the implementation of a graduated rate structure based upon “student adjusted endowment,” with rates on some institutions potentially reaching 21%. The 2025 Act adopts a more modest top rate of 8%.

- **Corporate Charitable Deduction Floor Created:** In general, beginning in 2026, corporations will only be allowed to claim charitable contributions as deductions to the extent the aggregate of such contributions exceeds 1% of their taxable income (and does not exceed 10% of their taxable income).

These are only a few of the tax laws changes appearing in the 2025 Act. If you would like more information on any of these changes, or would like information on changes that are not discussed above, please reach out to a member of Kelley Drye’s tax department.