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Tax Highlights of the One Big Beautiful Bill Act

Client Alert | July 4, 2025

This update summarizes significant amendments made to the Internal Revenue Code by the Act that, among other changes, extend certain material tax provisions enacted in the Tax Cuts and Jobs Act of 2017 and limit provisions enacted in the Inflation Reduction Act of 2022. On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (the OBBBA or the Act),[1] which enacts sweeping changes to numerous areas of U.S. federal income tax law. The text of the Act can be found here. This alert summarizes certain significant amendments made to the Internal Revenue Code by the OBBBA that, among other changes, extend and modify certain material tax provisions enacted in the Tax Cuts and Jobs Act of 2017 (the TCJA) and introduce new limitations on certain energy-related tax incentives enacted in the Inflation Reduction Act of 2022 (the IRA).[2] **GENERAL BUSINESS TAX PROVISIONS** **1. *Full Expensing of Eligible Property (Section 168(k))*** The OBBBA permanently reinstates elective expensing (*i.e.*, 100-percent bonus depreciation) for eligible business property acquired after January 19, 2025. Full expensing had been added by the TCJA, subject to a phase down that started in 2023 and expiration after 2026.[3] **2. *Full Expensing of Domestic Research and Experimental Expenditures (Section 174A)*** The Act also permanently reinstates elective expensing for qualifying domestic research and experimental expenditures with respect to amounts paid or incurred after December 31, 2024. The TCJA had required any such expenditures to be capitalized and amortized over a five-year period for taxable years beginning after December 31, 2021. For certain small businesses, the Act makes the above amendment retroactive (by taxpayer election) to amounts paid or incurred after December 31, 2021, and, for other taxpayers, the Act provides an election to deduct amounts capitalized in 2022-2024 (and unamortized) either in the first taxable year beginning after December 31, 2024 or ratably over the first two taxable years beginning after December 31, 2024. **3. *Relaxed Limitation on Deductibility of Business Interest (Section 163(j))*** The OBBBA relaxes the limitation on the deductibility of business interest by reverting to the limitation that was in effect between 2017 and 2022 (generally, 30 percent of EBITDA). The change is effective taxable years beginning after 2024. Unlike the TCJA, which introduced the cap (and its scheduled reduction to an EBIT-based cap in 2022), the OBBBA makes the more generous pre-2022 EBTIDA-based limit permanent. However, the OBBBA also introduces rules that extend the application of the deductibility cap to business interest that is required to be capitalized (among other changes that reduce the cap in certain circumstances). **4. *"Disguised Sales" of Property or Services (Section 707(a)(2))*** Section 707(a)(2) has been in the Code since 1984 and provides for the recharacterization of certain transactions between one or more partners and a partnership (including recharacterization of certain transactions as so-called "disguised sales of partnership interests"). As enacted in 1984, the provision applied "under regulations prescribed by the Secretary." Treasury and IRS have never issued final regulations contemplated by the 1984 statute. The OBBBA "clarifies" that section 707(a)(2) is self-executing upon enactment of the OBBBA and thus applies even in the absence of regulations.[4] **5. *Deduction for Qualified Business Income (Section 199A)*** The Act permanently extends the 20-percent deduction for qualified business income available to noncorporate taxpayers. Subject to limitations, the deduction generally is available with respect to business income (other than employee income or income from specified services) and certain passive income. The deduction was introduced in the TCJA and was scheduled to expire after 2025. The Act also relaxes the income-based phaseout of the deduction and includes other taxpayer-favorable changes. **6. *Excess Business***

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Josiah Bethards

Emily Risher Brooks

Michael Q. Cannon

Matt Donnelly

Pamela Lawrence Endreny

James Jennings

Kathryn A. Kelly

Nick Pai

Eric B. Sloan

Kamia Williams

Loss Limitation (Section 461(l)) The OBBBA makes permanent the limitation on excess business losses of noncorporate taxpayers. The provision was first introduced in the TCJA, under which it was to expire after 2028. The Act retains the "one and done" rule, which provides that the limitation applies only in the year in which the loss arises, with any disallowed loss becoming a net operating loss available in future years. **7. *Income Exclusion for Qualified Small Business Stock (QSBS) (Section 1202)*** The Act increases the gross asset value cap for QSBS issuers from $50 million to $75 million and introduces an inflation adjustment. In addition, the Act amends the formula for the per-issuer cap on the QSBS exclusion by increasing the dollar-based limit on excluded gain to $15 million (also now adjusted for inflation), up from $10 million under current law.[5] Finally, the Act shortens the holding period required to qualify for QSBS benefits by introducing a 50-percent exclusion for gain recognized if the stock is held for three years, and a 75-percent exclusion for gain recognized if the stock is held for four years. (The Act retains the 100-percent exclusion under current law if the stock is held for five years or more.) The changes to the gross asset value cap apply to QSBS issued after July 4, 2025, and the other changes apply to taxable years beginning after July 4, 2025. **8. *Semiconductor Manufacturing Investment Tax Credit (Section 48D)*** The OBBBA increases to 35 percent (from 25 percent) the investment tax credit for eligible investments in facilities the primary purpose of which is the manufacturing of semiconductors or semiconductor manufacturing equipment, effective for property placed in service after December 31, 2025. **INTERNATIONAL TAXATION** **1. *Changes to Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII) Regimes (Sections 904, 951A, 960, and 250)*** The Act makes several adjustments to the TCJA's GILTI regime for the taxation of controlled foreign corporations (CFCs), including revising its moniker (to "net CFC tested income" or NCTI) and raising the effective tax rate to 14 percent (up from 13.125 percent).[6] The Act also raises the effective tax rate under the TCJA's parallel FDII regime (restyled as "foreign-derived deduction eligible income" or FDDEI) to 14 percent (up from 13.125 percent).[7] The OBBBA also eliminates the GILTI deduction for a deemed 10-percent return on qualifying business assets and limits the allocation and apportionment of certain deductions (including all interest and research and experimental expenditures) to NCTI for foreign tax credit limitation purposes, alleviating an onerous feature of the former GILTI regime. The GILTI and FDII amendments are applicable to taxable years beginning after December 31, 2025. **2. *Other CFC-Related Provisions (Sections 951, 951B, 954, and 958)*** The Act restores a taxpayer-favorable rule repealed by TCJA that had triggered burdensome (and likely unintended) U.S. tax compliance obligations for foreign-controlled enterprises with U.S. subsidiaries.[8] The Act also modifies the rules that determine which U.S. shareholder includes a CFC's subpart F income and NCTI upon a mid-year transfer of the CFC's shares and makes permanent the oft-reenacted "CFC look-through" rule of section 954(c)(6). **3. *Base Erosion Anti-Abuse Tax (BEAT) Rate Modification (Section 59A)*** The OBBBA permanently sets the BEAT rate at 10.5 percent for taxable years beginning after December 31, 2025. The rate for the BEAT was 10 percent for 2025 and, under the TCJA, was slated to increase to 12.5 percent in 2026. **4. *Non-Enactment of Revenge Tax (Proposed Section 899)*** In recognition of the understanding reached by the U.S. and the Group of Seven, the Trump Administration and Congress did not enact proposed section 899, which would have imposed higher tax rates on persons and entities associated with countries that impose "unfair foreign taxes." See our prior alert on proposed section 899 here. **ENERGY** **1. *Wind and Solar Energy (Sections 45Y and 48E)*** Under the OBBBA, qualifying wind and solar projects that begin construction after July 4, 2026[9] must be placed in service by December 31, 2027 to qualify for investment tax credits (ITCs) or production tax credits (PTCs). Wind and solar projects that begin construction before July 4, 2026 presumably will be subject to the completion deadlines under current IRS guidance, under which a wind or solar project that begins construction in January 2026 could qualify for ITCs or PTCs if it is placed in service before December 31, 2030.

Update as of July 18, 2025: On July 7, 2025, President Trump issued an Executive Order that directs the Secretary of the Treasury to issue guidance by August 18, 2025 to "strictly enforce the termination of the [section 48E ITC and section 45Y PTC] for wind and solar facilities" and to "ensure that policies concerning the 'beginning of construction' are not circumvented." Both the scope of the Executive Order and the manner in which it will be implemented are unclear. We will publish a further alert once this guidance is issued. We published a subsequent alert on July 14, 2025 that focuses on the clean energy tax provisions in the Act. That July 14 alert can be found here.

The OBBBA also introduces a raft of new ITC and PTC eligibility requirements that target Chinese ownership or influence with respect to benefited projects and Chinese participation in supply chains.[10] Rules targeting Chinese ownership of or influence over ITC and PTC claimants (collectively, "Foreign Restrictions") apply to credits claimed for taxable years beginning after July 4, 2025, and rules targeting Chinese participation in supply chains apply to projects that begin construction in 2026 and after.[11] In addition, the new foreign-targeted restrictions are backed up by a new 10-year ITC recapture regime and increased penalties on claimants and suppliers.[12] **2. *Fuel Cell Energy and Hydrogen Production (Sections 48E and 45V)*** Qualifying fuel cell projects that begin construction after December 31, 2025 are now eligible for a new 30-percent ITC that exempts the projects from the IRA's prevailing wage and apprenticeship requirements and greenhouse gas emission requirements (but provides none of the bonus amounts made available under the IRA).[13] The Act also moves up the commencement-of-construction deadline for the IRA's 10-year credit for the production of clean hydrogen (a fuel cell feedstock) from January 1, 2033 to January 1, 2028. **3. *Nuclear Energy (Section 45Y)*** Nuclear facilities claiming the 10-year PTC are eligible for a new location-based "nuclear energy community" bonus credit starting in 2026, based on the facility site's satisfying a threshold amount of local employment in the nuclear industry.[14] **4. *Clean Fuels (Section 45Z)*** The OBBBA extends the clean fuel PTC by two years (from December 31, 2027 to December 31, 2029). The Act also partially relaxes the greenhouse gas emissions requirements under the clean fuel PTC for fuel produced and sold after 2025 and directs Treasury to confirm that (contrary to prior proposed guidance previewed by Treasury and the IRS) certain fuel sales to intermediaries qualify for the PTC.[15] In addition, for fuel produced after 2025, the Act eliminates the enhanced PTC rate for sustainable aviation fuel and introduces feedstock source requirements and a new cap on the credit.[16] **5. *Carbon Capture, Utilization, and Sequestration (Section 45Q)*** For equipment placed in service after July 4, 2025, the OBBBA increases the carbon capture, utilization, and sequestration credit for qualified carbon oxide that is "utilized" (*e.g.*, used in a commercial process) or used in enhanced oil or natural gas recovery to equal the credit rate for qualified carbon oxide that is stored in secure geological formations.[17] **6. *New Publicly Traded Partnerships (Section 7704)*** The Act expands the industries that can operate in publicly traded partnerships (without the partnership's being automatically classified as a corporation for tax purposes) by expanding the definition of "qualifying income" to include income derived from qualifying hydrogen storage and transportation; electricity production from qualifying nuclear, hydropower, and geothermal facilities; carbon capture facilities, including electricity production from qualifying facilities with sufficient carbon capture; and thermal energy from hydropower and geothermal facilities. The amendment is effective for taxable years beginning after December 31, 2025. **REAL ESTATE** **1. *Restoration of Taxable REIT Subsidiary Asset Test (Section 856)*** For purposes of the real estate investment trust (REIT) asset test, the Act restores the taxable REIT subsidiary threshold to 25 percent (from 20 percent) of a REIT's assets for taxable years beginning after December 31, 2025. The threshold was previously 25 percent for taxable years beginning before 2018. **2. *Opportunity Zones (OZs) (Sections 1400Z-1 and 1400Z-2)*** The OBBBA also permanently renews the TCJA's OZ regime, which provides for deferral and potential elimination of taxable gain recognized through 2026 to the extent proceeds are timely reinvested in designated OZs. As part of the permanent renewal of the program, the OBBBA provides for a re-identification of qualifying OZs every 10 years and modifies other requirements for OZ designation. The OBBBA also revises the deferral period to five years and caps the exclusion for future gains from the sale or exchange of an OZ investment held for at least 10 years to the gain that has accrued after 30 years.[18] In addition, the OBBBA introduces a rural OZ program that provides a larger permanent exclusion (30 percent for investments held for at least five years) than the regular OZ program (10 percent for such investments). The Act also adds new OZ reporting requirements and related penalties. The renewed OZ program (and related amendments) applies to investments made after December 31, 2026. **OTHER PROVISIONS** **1. *State and Local Tax Deduction (Section 164)*** The OBBBA raises the TCJA's cap on the deduction for state and local taxes from $10,000 to $40,000 for taxable years 2025 through 2029 (with that cap increasing by 1 percent each year),[19] then reverts to $10,000 in 2030. The OBBBA's increase in the cap over $10,000 for years 2025-2029 is subject to a phasedown for higher income households. Previous versions of the legislation included rules intended to eliminate state and local workarounds of the deductibility limit (including state and local passthrough entity tax, or "PTET," regimes), but these were not included in the final bill. **2. *Endowment Tax (Section 4968)*** The OBBBA adds two new graduated rates (4 percent and 8 percent) to the TCJA's 1.4-percent university endowment excise tax, with the graduated rates based on the size of the endowment (measured on a per student basis). The Act exempts institutions with fewer than 3,000 students from the tax (the TCJA threshold was 500) and expands the net investment income base of the tax but does not include an exemption for certain religiously affiliated institutions that appeared in earlier versions of the Act. The Act authorizes Treasury to promulgate guidance to prevent avoidance of the tax through the restructuring of endowment funds or other arrangements designed to reduce or eliminate the amount of net investment income or assets subject to the tax. The amendment is effective for taxable years beginning after December 31, 2025. **3. *No Excise Tax on or Special Rule for Litigation Financing*** Previous versions of the legislation included rules intended to tax income from litigation financing arrangement as ordinary income or subject that income to a meaningful excise tax. Those rules were not included in the Act. [1] The actual name for the Act is "an Act to provide for reconciliation pursuant to title II of H. Con. Res. 14." [2] Unless indicated otherwise, all "section" references are to the Internal Revenue Code of 1986, as amended (the "Code"), and all "Treas. Reg. §" are to the regulations promulgated by the U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) under the Code, in each case as in effect as of the date of this alert. The actual name for the Tax Cuts and Jobs Act of 2017 is "an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018," and the actual name for the Inflation Reduction Act of 2022 is "an Act to provide for reconciliation pursuant to title II of S. Con. Res. 14." [3] Absent the Act, only 40-percent bonus depreciation would have been available for property placed in service in 2025. [4] The Act states that the amendment is not intended to create any inference about the application of section 707(a)(2) in pre-OBBBA periods. [5] The per-issuer cap is the greater of the dollar-based limit (reduced for certain prior gains recognized) and 10 times the aggregate adjusted bases (at issuance) of QSBS issued by the corporation and disposed of by the taxpayer during the taxable year. [6] The Act permanently reduces the NCTI (f/k/a GILTI) deduction to 40 percent (from 50 percent) and increases the deemed-paid foreign tax for the NCTI inclusion to 90 percent (from 80 percent). [7] The Act permanently reduces the deduction for FDDEI (f/k/a FDII) to 33.3 percent (from 37.5 percent). [8] The restoration is accompanied by a new rule (section 951B) that more narrowly addresses Congress's concerns with foreign-controlled U.S. shareholders of CFCs. [9] The effective date is "the date which is 12 months after" July 4, 2025. [10] The rules also apply to Russia, Iran, and North Korea, but we understand that China is their principal focus. [11] The OBBBA did not include a controversial proposed excise tax included in prior versions of the legislation that would have applied to wind and solar facilities (regardless of whether ITCs or PTCs were claimed) that incorporated certain components sourced from prohibited foreign sources. [12] For other ITC recapture events, the five-year recapture period under current law continues to apply. [13] The Foreign Restrictions (discussed above) also apply to ITCs or PTCs for fuel cell projects on the same timeline as wind and solar projects. For descriptions of certain of those bonus amounts made available under the IRA, please see our prior client alerts here, here and here. [14] The Foreign Restrictions (discussed above) also apply to ITCs or PTCs for new nuclear projects on the same timeline as wind and solar projects. For nuclear facilities placed in service before the IRA and claiming the section 45U PTC, the ownership prohibition applies to taxable years beginning after July 4, 2025, and the influence prohibition applies to taxable years beginning after July 4, 2027. [15] Treasury and the IRS published a notice in January 2025 previewing proposed regulations that would not have allowed the clean fuel PTC for certain common intermediary sales. [16] The Foreign Restrictions (discussed above) also apply to clean fuel PTCs. The ownership prohibition applies to taxable years beginning after July 4, 2025, and the influence prohibition applies to taxable years beginning after July 4, 2027. [17] The Foreign Restrictions (discussed above) apply to carbon capture projects for taxable years beginning after July 4, 2025. [18] Under the TCJA, gain reinvested in an OZ could be deferred until December 31, 2026. A conforming amendment eliminates the incremental permanent exclusion for gain from OZ investments held for seven years. [19] $40,400 in 2026, $40,804 in 2027, $41,212 in 2028, and $41,624 in 2029.

The following Gibson Dunn lawyers prepared this update: Josiah J. Bethards, Emily Risher Brooks, Michael Q. Cannon, Anne Devereaux*, Matt Donnelly, Pamela Lawrence Endreny, James Jennings, Kathryn A. Kelly, Nick Pai, Eric B. Sloan, Kamia Williams, and Jason Zhang*.

Gibson Dunn lawyers are available to assist in addressing any questions you may have regarding this proposed legislation. To learn more about these issues or discuss how they might impact your business, please contact the Gibson Dunn lawyer with whom you usually work, the authors, or any member of the firm's Tax and Tax Controversy and Litigation practice groups: **Tax**: Dora Arash – Los Angeles (+1 213.229.7134, darash@gibsondunn.com) Sandy Bhogal – Co-Chair, London (+44 20 7071 4266, sbhogal@gibsondunn.com) Michael Q. Cannon – Dallas (+1 214.698.3232, mcannon@gibsondunn.com) Jérôme Delaurière – Paris (+33 (0) 1 56 43 13 00, jdelauriere@gibsondunn.com) Anne Devereaux* – Los Angeles (+1 213.229.7616, adevereaux@gibsondunn.com) Matt Donnelly – New York/Washington, D.C. (+1 212.351.5303, mjdonnelly@gibsondunn.com) Benjamin Fryer – London (+44 20 7071 4232, bfryer@gibsondunn.com) Evan M. Gusler – New York (+1 212.351.2445, egusler@gibsondunn.com) James Jennings – New York (+1 212.351.3967, jjennings@gibsondunn.com) Kathryn A. Kelly – New York (+1 212.351.3876, kkelly@gibsondunn.com) Brian W. Kniesly – New York (+1 212.351.2379, bkniesly@gibsondunn.com) Pamela Lawrence Endreny – Co-Chair, New York (+1 212.351.2474, pendreny@gibsondunn.com) Kate Long – New York (+1 212.351.3813, klong@gibsondunn.com) Gregory V. Nelson – Houston (+1 346.718.6750, gnelson@gibsondunn.com) Benjamin Rapp – Munich/Frankfurt (+49 89 189 33-290, brapp@gibsondunn.com) Jennifer Sabin – New York (+1 212.351.5208, jsabin@gibsondunn.com) Eric B. Sloan – Co-Chair, New York/Washington, D.C. (+1 212.351.2340, esloan@gibsondunn.com) Edward S. Wei – New York (+1 212.351.3925, ewei@gibsondunn.com) Lorna Wilson – Los Angeles (+1 213.229.7547, lwilson@gibsondunn.com) Daniel A. Zygielbaum – Washington, D.C. (+1 202.887.3768, dzygielbaum@gibsondunn.com) **Tax Controversy and Litigation**: Saul Mezei – Washington, D.C. (+1 202.955.8693, smezei@gibsondunn.com) Sanford W. Stark – Chair, Washington, D.C. (+1 202.887.3650, sstark@gibsondunn.com) C. Terrell Ussing – Washington, D.C. (+1 202.887.3612, tussing@gibsondunn.com) **Anne Devereaux, of counsel in the firm's Los Angeles office, is admitted to practice in Washington, D.C. Jason Zhang, an associate in New York, is not yet admitted to practice.*

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