Highlights

- House-Approved Bill Likely to Change in Senate
- Most TCJA Individual Provisions Made Permanent
- New Provisions Eliminate Taxes on Tip and Overtime Income
- Increase in SALT Cap
- Early Termination of Green Energy Credits

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Tax Briefing | One Big Beautiful Bill Act

House Passes Reconciliation Bill; Action Moves to Senate

Early in the morning on May 22, 2025, the House passed its version of the 2025 budget reconciliation bill by a vote of 215 to 214 (with one voting "present"). The enormous bill is meant to include all the party's and President Trump's legislative priorities. The text of the One Big Beautiful Bill Act includes approximately 400 pages of tax changes, including permanent extension and limited modification of many soon-to-expire tax provisions, new provisions promised by Trump during his 2024 campaign, elimination or modification of many green energy provisions, and many new provisions affecting individuals and businesses.

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. If Congress takes no action, then the federal tax system will largely revert back to the rules applicable in 2017.

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 proposed act would do 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.

Passage in the House follows weeks of negotiations among the various factions of the House GOP and meetings by the Ways and Means, Budget, and Rules Committees that

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stretched for hours. With a razor-thin majority in the House, the GOP could afford very few defectors, and thus had to appease many disparate views, with the SALT deduction, the speed of the termination of many green tax provisions, and the size and timing of cuts in nontax programs serving as major sticking points in the final days of negotiations. The bill will now move onto the Senate.

COMMENT. *As Congress recesses for the Memorial Day holiday, the status of the bill now enters a holding pattern. Since the bill is being passed under the reconciliation rules, the Senate GOP can pass the bill without any support from Democrats. However, many members of the Senate GOP have come out against the House version of the bill and have promised changes. If the Senate makes changes, it will have to go back to the House for approval, and it is not clear how many votes those Senate changes will cost in the House. The GOP has a self-imposed deadline of July 4 for passage of the legislation, but it isn't clear if that is a realistic goal. The bill includes an increase in the debt ceiling, which is estimated to be reached as early as mid-July. If this bill is the chosen vehicle for the debt ceiling increase, action must be taken during the summer.*

COMMENT. *This CCH Tax Briefing is not intended to comprehensively cover all provisions proposed in the nearly 400-page tax portion of the bill, but rather the highlights. It is not clear how many of these provisions will survive. At the time of publication, the final version of the approved bill had not yet been released.*

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 proposed legislation would make all these provisions permanent with little to no modification.

Standard Deduction

The TCJA nearly doubled the standard deduction for tax years beginning after 2017. For 2025, the inflation adjusted amounts are $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 are set to expire after 2025. The proposed bill would make those higher amounts permanent. For tax years 2025 through 2028, the amounts above would increase by $2,000, $1,500, and $1,000, respectively. In the case of seniors, an additional standard deduction of $4,000 would be available during those same years.

COMMENT. *Presumably, this $4,000 amount would be on top of the current additional deduction for the elderly.*

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 proposed bill, after extended negotiations between leadership and the SALT Caucus, would allow a $40,000 limit on the SALT deduction ($20,000 for married taxpayers filing separately) for 2025. The limitation would phase out for taxpayers with modified adjusted gross income in excess of $500,000 ($250,000 for married taxpayers filing separately). After 2025, these amounts increase by one percent each year through 2033, and then hold at the 2033 amount.

COMMENT. *This has proven to be one of the stickier points for legislators in their negotiations. Members of the SALT Caucus were still outwardly unhappy with the $40,000 limit agreed to in the bill, but ultimately decided to vote in favor of it.*

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 proposed bill would make those amounts permanent, as well as temporarily increasing the credit amount to $2,500 for tax years 2025 through 2028 and adjusting the $2,000 amount for inflation after 2028. The refundable portion of the child tax credit ("additional child tax credit") would be capped at $1,400 under the proposed text. The bill would also require 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.

COMMENT. *An increase in the child tax credit amount is a proposal that has enjoyed support on both sides of the aisle since the amount was temporarily increased to $3,000 for 2021.*

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) is increased again under the proposed bill, to a base amount of $15 million for decedents dying in 2026, adjusted for inflation thereafter. This amount would be permanent.

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 proposed bill does not provide an exclusion from income for tips, but rather provides a deduction from income for amounts received as tips. Under the proposal, taxpayers would not be required to itemize deductions to claim the deduction, but a Social Security number would be required to claim the deduction. The deduction would not be allowed for tax years beginning after 2028.

The bill would also extend 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 proposed bill, taxpayers would be 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 would not have to itemize deductions to claim the deduction, but would be required to provide a Social Security number. The deduction would not be allowed for tax years beginning after 2028.

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

Itemized Deduction Limitation

The proposed bill would include a return of the limitation on itemized deductions for taxpayers in the 37 percent income tax bracket, effective after 2025.

> **COMMENT.** *The old limitation on itemized deductions, known as the Pease limitation, was eliminated by TCJA.*

Automobile Loan Interest

The proposed bill 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 proposed bill 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 similarly to ABLE accounts, but are available more broadly to all children.

> **COMMENT.** *When the bill was originally proposed, these were known as MAGA accounts. The final bill approved by the House included the name change.*

Additional Provisions

The proposed bill 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 proposed bill would provide 100 percent bonus depreciation through 2029 for property acquired after January 19, 2025. The bill also proposes a special depreciation allowance for qualified production property used in agricultural or chemical production.

Research and Experimental Expenditures

The proposed bill would reinstate a deduction for domestic research and experimental expenditure costs incurred after 2024 through 2029. Taxpayers can elect whether to deduct or amortize the expenditures, though the requirement to amortize under current law is suspended while the deduction is available.

Qualified Business Income Deduction

The TCJA's qualified business income deduction under Code Sec. 199A would be made permanent under the proposed bill. Additionally, the amount of the deduction would be increased to 23 percent from the current 20 percent for tax years beginning after 2024. Additional changes are proposed modifying the limitations and qualification for the deduction.

Additional Provisions

The proposed bill also would provide:

- Renewal and enhancement of Opportunity Zones
- 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 proposed bill would make 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 bill would change the FDII rate to 36.5 percent (currently 37.5 percent) and the GILTI rate to 49.2 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 bill would also change the base erosion minimum tax amount to 10.1 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.*

GREEN ENERGY TERMINATIONS

The proposed legislation would offset some of the high cost of the permanent extension of TCJA provisions and elimination of taxes on tip and overtime income with the early termination of so-called "green energy credits." Many of these credits were created or enhanced by the Inflation Reduction Act of 2022. The affected credits would include the following (termination generally after 2025 unless noted):

- Previously owned clean vehicle credit;
- Clean vehicle credit (proposed termination generally after 2026);
- 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.

Additionally, many of the credits for clean energy production are either terminated or subject to accelerated phaseouts.

COMMENT. *Much of the news relating to the concerns of the budget-focused members of the House GOP was that they felt the original proposal was not aggressive enough in accelerating the termination of the energy credits. The final version of the bill does terminate these credits for clean energy production sooner than originally proposed. There does not appear to be any change to the termination of credits available to taxpayers for the purchase of energy efficient vehicles, appliances, etc.*

IRS PROCEDURAL PROVISIONS

The proposed legislation includes a number of provisions that impact IRS operations. The bill would mandate that the IRS implement the use of artificial intelligence in reducing and recouping improper tax payments. The bill would also impose a penalty up to $200,000 on promoters of fraudulent COVID-era employee retention credit schemes.

Perhaps the most widely applicable operations provision of the proposed bill is the termination of the IRS Direct File program. The bill 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.

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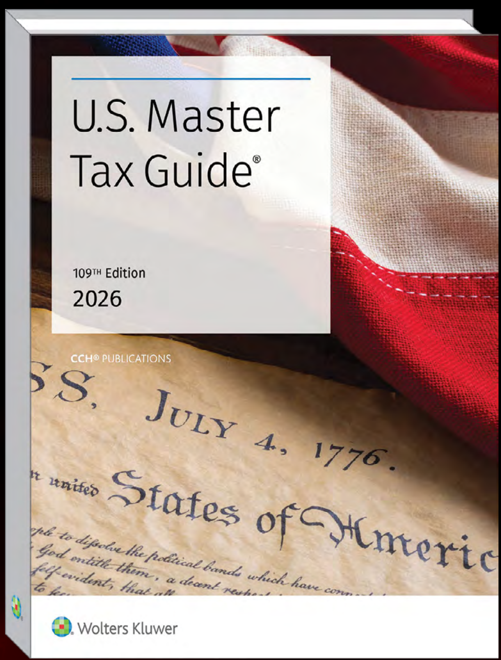

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