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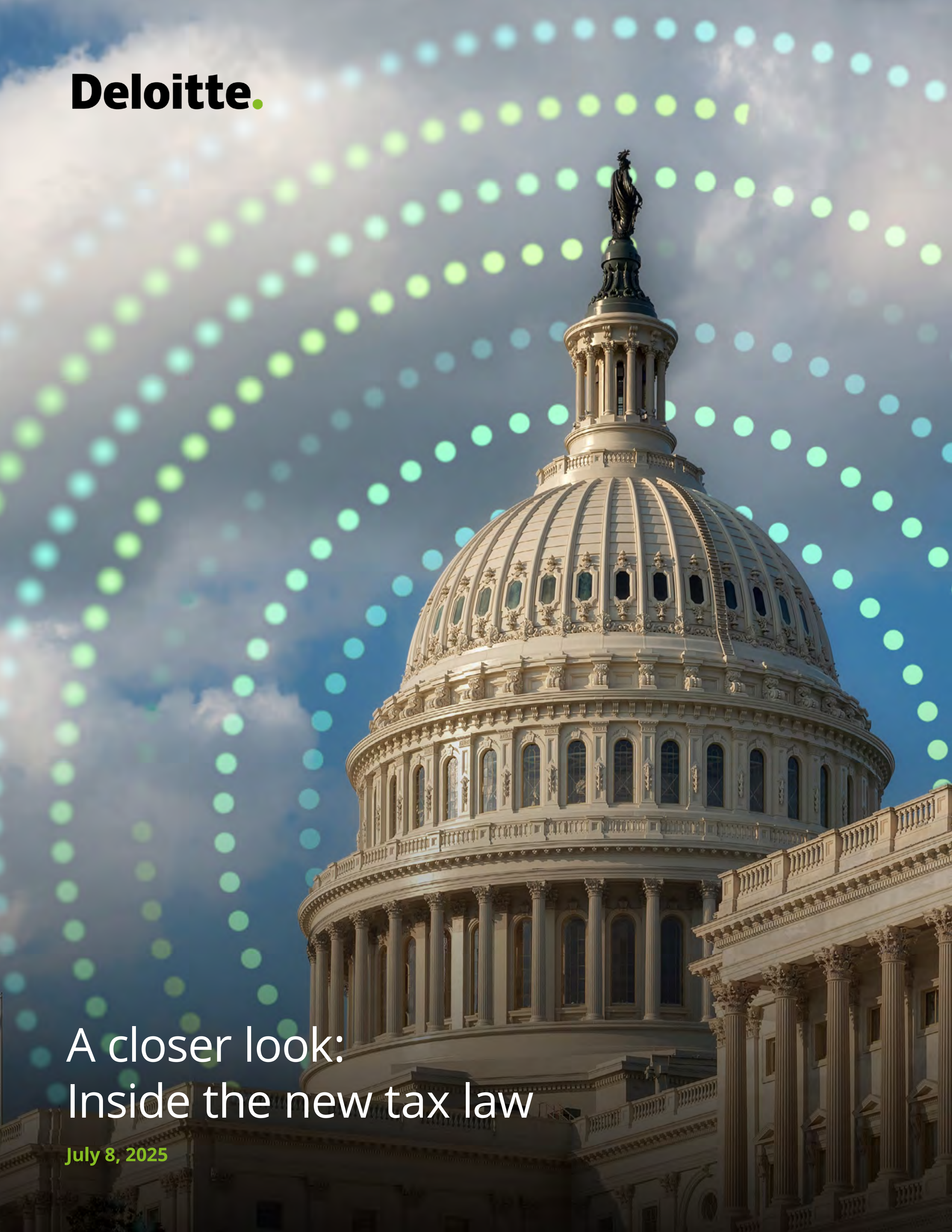

A closer look: Inside the new tax law

July 8, 2025

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Introduction

Congress has approved and President Donald Trump has signed into law the legislation formally titled "An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14" (the "Act") and commonly referred to as the One Big Beautiful Bill Act (OBBBA) (Link) a sweeping legislative package designed to extend the expiring provisions of the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) and deliver additional tax relief for individuals and businesses. Building on the foundation established by the TCJA, this law, which also provides funding for national security, border security, and immigration enforcement and promotes domestic energy production, among other priorities, also includes a number of revenue offsets to mitigate some of the costs. The tax portion of the package is estimated to reduce revenues, on net, by roughly $4.475 trillion for the 10 year budget window covering 2025 2034, according to a revenue estimate from the nonpartisan Joint Committee on Taxation (JCT) measured against a traditional current law baseline (JCX-35-25).

However, the legislation, when scored against the "current policy" revenue baseline utilized by Senate Republicans that is, a budget yardstick that assumes all expiring components of the TCJA will instead be continued in perpetuity after 2025and therefore enacting such policy has no impact on federal revenues was estimated by JCT to cut net revenues by a much smaller $715 billion over 10 years (JCX-34-25).

Of course, the OBBBA also includes significant changes to federal spending programs, particularly with respect to Medicaid and the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps. In addition, as noted the law also provides several hundred billion dollars in additional spending on defense and border security.

All told, the OBBBA's tax changes, combined with other non tax savings and spending provisions, are estimated by the Congressional Budget Office on a preliminary basis to increase deficits by about $3.4 trillion relative to a current law baseline and reduce deficits by roughly $400 billion when utilizing the current policy revenue baseline that was favored by the Senate GOP (Link). (Note though that the White House believes enactment will lead to substantially faster economic growth that would result in a more positive deficit outlook (Link).

The legislation was approved in the House of Representatives on July 3, 2025, after clearing the Senate on July 1, 2025. As expected, the floor votes in both chambers were a mostly partisan exercise. House and Senate Democrats remained in lockstep against the legislation, but despite a handful of defections, Republicans mustered enough votes from within their own ranks to ensure passage. *(The Republican staff of the Senate Finance Committee prepared a section by section summary of the tax provisions in the OBBBA as passed.)*

The president signed the measure into law on July 4, 2025.

Overview

The newly enacted law originated in the House before being amended by the Senate; the House subsequently gave its approval to the Senate's changes.

That outcome can be attributed to several factors chief among them is the use of budget reconciliation a process that enables certain legislation to pass the Senate with a simple majority, sidestepping the usual three fifths supermajority required to overcome procedural obstacles. However, this expedited process comes with significant trade offs, most notably the stringent requirements of the so called Byrd Rule. This, among other restrictions, bars reconciliation legislation from increasing the federal budget deficit outside the 10 year budget window and limits the inclusion of provisions that have no budgetary effect or only an incidental impact, making them vulnerable to removal. Both political parties have used the reconciliation process to pass major legislation on party line votes.

Another significant factor in play was the GOP's narrow margin of control in the Senate chamber a mere three seats in 2025 which left little room for error in securing final passage. The challenge was even greater in the House, where Republicans hold only a three seat majority and had to keep at least 217 of their 220 members unified to pass the bill.

TCJA at the center

The centerpiece of the bill is the extension of expiring and in some cases expired provisions of the 2017 TCJA. Many of the individual tax changes from that law, and some impacting businesses, were subject to sunsets, phase outs, or phase ins and most of those for individual taxpayers would have expired at the end of this year without action by Congress.

Those included lower marginal income tax rates, an expanded standard deduction, a larger child tax credit, and an expanded estate tax exemption. Also, expiring after this year was the $10,000 cap on State and Local Tax (SALT) deductions. For businesses, recent years have seen the loss of the ability to immediately expense R&D costs, a new, more restrictive calculation of the extent to which net interest expenses are deductible, and a phase down of bonus depreciation. Moreover, barring action by Congress, 2026 would have seen an increase in the tax rate applied to the Base Erosion and Anti Abuse Tax (BEAT) and a lower deduction for both the Global Intangible Low Tax Income (GILTI) and Foreign Derived Intangible Income (FDII) regimes.

In addition, the new law implements several of President Trump's campaign promises, including reducing the tax burden on tipped and overtime income, giving seniors a larger standard deduction to mitigate the impact of the taxation of Social Security benefits, and a new deduction for interest paid on loans used to purchase domestically made automobiles.

At the same time, the bill's net cost was reduced by the inclusion of some revenue raising provisions, including permanent extensions of many of the TCJA's expiring base broadeners; the creation of a new structure to limit state and local tax (SALT) deductions; a new excise tax on certain remittances; phase outs and restrictions on several clean energy tax incentives; and higher taxes on the investment income of certain university endowments.

Finally, the new law makes a variety of broadly applicable changes to the GILTI and FDII regimes. Many are taxpayer friendly, but they are paired with lower deduction amounts for GILTI and FDII, meaning the combined impact is likely very dependent on an individual company's facts and circumstances.

Next stop—the regulators

Attention will now turn to the rulemaking process, as numerous regulations will be required to implement the new law. While the bulk of the task will fall to the Treasury Department, the number of provisions that touch other agencies, like the changes to the Inflation Reduction Act (IRA, P.L. 117-169) and the new tax on remittances, likely mean there will be plenty of voices around the table trying to implement these sweeping changes to the tax code.

A deeper dive . . .

A closer look: Inside the new tax law offers a detailed discussion of the Act and makes observations on key provisions. The appendix to this publication includes a series of side by side comparisons showing how the Act's provisions align with those in the House and Senate bills and with the tax law as in effect generally in 2025 depending on the effective date of the relevant provision.

Business-related deductions, credits, and other provisions

The Act includes a broad array of measures affecting corporations and other business entities, including locking in a key set of business tax provisions. These include incentives designed to promote innovation-driven investment, such as a permanent and immediate deduction for domestic research and development costs. The legislation also locks in 100 percent expensing for equipment purchases and makes permanent the deduction of up to 20 percent for qualified business income.

Full expensing of domestic research and experimental expenditures: The Act adds new section 174A to permanently allow an immediate deduction of domestic research or experimental expenditures paid or incurred by the taxpayer during taxable years beginning after December 31, 2024. New section 174A would permit a taxpayer to elect to capitalize and amortize domestic research or experimental expenditures ratably over a period of no less than 60 months, beginning with the month in which the taxpayer first realizes benefits from the expenditures. The election must be made by no later than the due date of the taxpayer's federal income tax return (including extensions) and would apply to the tax year for which the election is made and all subsequent tax years unless the taxpayer receives consent to change to a different method or period. A conforming modification to section 59(e)(2)(B) allows a taxpayer to elect to capitalize and recover domestic research or experimental expenditures over 10 years beginning in the taxable year such expenditures are paid or incurred.

With respect to section 174(d) that continues to apply to specified research and experimental (SRE) expenditures for foreign research, the House bill would amend the rule such that there is no deduction or reduction to amounts realized with respect to the unamortized balance of the SRE expenditures on account of the disposition, retirement, or abandonment of property with respect to which SRE expenditures are paid or incurred. The amendments apply to property disposed, retired or abandoned after May 12, 2025.

The Act provides coordination between new section 174A and sections 41(d)(1)(A) and 280C(c), by requiring that a taxpayer reduce the amount of any domestic research or experimental expenditure deduction or capitalization by the section 41 credit claimed, or alternatively, elect to claim a reduced section 41 research credit.

The Act generally applies to amounts paid or incurred in taxable years beginning after December 31, 2024. The changes are treated as a change in method of accounting made on a cut-off basis for any research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2024.

The Act adds special transition rules that allow for small business taxpayers that meet the gross receipts test under section 448(c) for the first taxable year beginning after December 31, 2024, to retroactively elect to apply new section 174A for tax years beginning after December 31, 2021, by amending their tax returns or treating it as a change in method of accounting.

Another special transition rule allows all taxpayers that paid or incurred domestic research or experimental expenditures after December 31, 2021, and before January 1, 2025, to elect to deduct the remaining unamortized balance of the capitalized domestic research or experimental expenditures either over a one or two tax year period beginning after December 31, 2024.

Modification of limitation on business interest: The Act makes permanent the calculation of adjusted taxable income that corresponds with earnings before interest, taxes, depreciation, and amortization (EBITDA) for the purposes of calculating the deduction limits for net business interest expense. It also amends the floor plan financing exception to permanently expand the definition of "motor vehicle" to include any trailer or camper designed to provide temporary living accommodations for recreational, camping, or seasonal use, and designed to be towed by a motor vehicle. The changes apply to taxable years beginning after December 31, 2024.

The Act amends the definition of adjusted taxable income for purposes of the business interest limitation in section 163(j) to exclude NCTI (formerly GILTI), subpart F inclusions, section 78 gross-ups and certain related deductions attributable to such amounts. The change applies to taxable years beginning after December 31, 2025.

The Act adds a provision to section 163(j) to provide that the interest limitation applies to business interest regardless of whether the taxpayer would otherwise deduct such business interest or capitalize such business interest under an interest capitalization provision. The amount allowed as business interest expense after applying section 163(j)'s interest limitation provision would be applied first to the capitalized business interest. The provision does not, however, apply to interest capitalized under section 263(g) or 263A(f). The changes apply to taxable years beginning after December 31, 2025.

Full expensing for certain business property: Section 168(k) provides an additional first-year depreciation allowance (commonly referred to as "bonus depreciation") for qualified property, the deduction for which is equal to the applicable percentage of the qualified property's adjusted basis. For qualified property placed in service after September 27, 2017, and before January 1, 2023, or January 1, 2024, for property with longer production periods and plants bearing fruits and nuts ("specified plants"), the applicable percentage is equal to 100 percent, with a 20 percent phase down for each year thereafter.

Different from the House-passed bill that reinstated 100 percent bonus depreciation for qualified property acquired and placed in service after January 19, 2025, and before January 1, 2030 (or January 1, 2031, for property with longer production periods), the Act amends section 168(k) to permanently reinstate 100 percent bonus depreciation for qualified property acquired and placed in service after January 19, 2025.

It also amends section 168(k)(10) to provide a transitional election to apply 40 or 60 percent bonus depreciation on certain property placed in service during the first taxable year ending after January 19, 2025.

Special depreciation allowance for qualified production property: The Act is nearly the same as the House-passed bill and amends section 168 to add new section 168(n) that allows a taxpayer to elect to apply 100 percent bonus depreciation to qualified production property. New section 168(n)(2)(A) generally defines "qualified production property" as the portion of any nonresidential real property used by the taxpayer as an integral part of a qualified production activity, the original use of which commences with the taxpayer, the construction of such property begins after January 19, 2025, and before January 1, 2029, and is placed in service in the United States or any possession thereof before January 1, 2031—in contrast to the House-passed bill that required a placed in service date before January 1, 2033. In the case of property with respect to which a taxpayer is a lessor, property used by a lessee is not considered to be used by the taxpayer as part of a qualified production activity. Additionally, depreciation recapture rules apply if the property ceases to be used in a qualified production activity within 10 years of the date the qualified production property is placed in service by the taxpayer.

Section 168(k) provides bonus depreciation for qualified property acquired or self-constructed and placed in service after September 27, 2017, and before January 1, 2028, or January 1, 2029, for property with longer production periods and specified plants. Specifically, section 168(k)(2)(A) generally defines "qualified property" as MACRS property that has a recovery period of 20 years or less, computer software as defined in and depreciated under section 167(f)(1), water utility property as defined in section 168(e)(5), qualified film or television production as defined in section 181(d), and qualified live theatrical production as defined in section 181(e). Nonresidential real property is not qualified property for purposes of bonus depreciation because section 168(e)(2)(B) defines "nonresidential real property" as section 1250 property that is not residential rental property or property with a class life less than 27.5 years, has a recovery period of 39 years, and thus, is not qualified property for bonus depreciation.

Increased dollar limitations for expensing of certain depreciable business assets: The Act follows the Senate- and House-passed bills and amends sections 179(b)(1) and (2) to increase the dollar limitation to $2.5 million and the phaseout threshold to $4 million. These amounts are indexed for inflation in taxable years beginning after 2025 and would apply to property placed in service in taxable years beginning after December 31, 2024.

Limitation on excess business losses on non-corporate taxpayers: The Act makes the excess business loss limitation permanent for tax years beginning after December 31, 2026. Thus, under the Act, excess business losses continue to be carried forward as a net operating loss in the subsequent year. In contrast, the House-passed bill only allowed excess business losses to be carried forward against business income—a more limiting provision than that in the Act. Additionally, the Act reset the excess business loss limitation amounts to $250,000 ($500,000 for married taxpayers filing jointly), adjusted for inflation based on 2024 base amounts (rather than 2017), effective for tax years beginning after December 31, 2025.

Treatment of certain qualified sound recording productions: The Act is consistent with the Senate- and House-passed bills. It amends section 181 to expand the expensing rules for qualified film, television, and live theatrical productions to include qualified sound recording productions. The changes allow a taxpayer to elect to deduct up to $150,000 of the aggregate cost of any qualified sound recording production or the cumulative cost of all such qualified sound recording production in the taxable year incurred if such production commences before January 1, 2026. The changes provide that a qualified sound recording production is defined as a sound recording (as defined in 17 U.S.C. sec. 101) produced and recorded in the US.

Additionally, the Act modifies section 168(k) to include qualified sound recording productions as qualified property eligible for bonus depreciation. A qualified sound recording production is placed in service at the time of initial release or broadcast.

The changes apply to productions commencing in taxable years ending after the date of enactment.

Expansion of section 162(m) limits on deductions of certain executive compensation to controlled group: The Act closely follows the House-passed bill and provides that effective for taxable years beginning after December 31, 2025, in the case of a publicly held corporation that is a member of a controlled group, payments made by all members of the controlled group are aggregated to determine the deduction disallowance. Under the Act, payments to "specified covered employees" made by any member of the controlled group are aggregated and if the aggregate amount exceeds $1 million, then the deduction limitation for any amounts paid in excess of $1 million would be allocated pro rata to each member of the controlled group, based on the percentage of total compensation paid by each member of the controlled group.

A "specified covered employee" with respect to the controlled group means the principal executive officer, principal financial officer, and any "once covered, always covered" employees of the publicly held corporation member of the controlled group. In addition, a "specified covered employee," for taxable years beginning after December 31, 2026, includes any employee that is among the five highest compensated employees for the taxable year, taking into account all members of the controlled group. The controlled group is determined under sections 414(b), (c), (m), and (o), which generally set forth rules for treating entities as a single employer for employee benefit purposes.

Payments from partnerships to partners for property and services: The Act clarifies section 707(a)(2) and replaces "Under regulations prescribed by the Secretary" with "Except as provided by the Secretary" as the introduction to the section 707(a)(2) statute. Section 707(a)(2) currently provides that "[u]nder regulations prescribed by the Secretary," certain transactions between a partner and a partnership (or two or more partners) are treated as occurring between the partnership and a person who is not a partner (or two or more partners acting other than in their capacity as partners).

Increased Taxable REIT Subsidiary Asset Test Threshold: Under current law, a real estate investment trust ("REIT") may not own securities of one or more taxable REIT subsidiaries representing more than 20 percent of the REIT's assets at the end of each calendar quarter. The Act, which follows the Senate- and House-passed bills, increases that threshold to 25 percent and applies to taxable years beginning after December 31, 2025.

Extension of deduction for qualified business income and permanent enhancement: Under current law, section 199A generally provides for a potential deduction to an individual, estate, or trust of up to 20 percent of the qualified business income (QBI) from certain domestic trades or businesses operated as a sole proprietorship or through a partnership, S corporation, trust, or estate subject to certain limitations, as well as a deduction of up to 20 percent of the aggregate real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income (Combined QBI). The Combined QBI deduction cannot exceed 20 percent of taxable income less net capital gain. In addition, section 199A is available to certain patrons of all cooperatives, however, special rules are provided for specified agricultural or horticultural cooperatives and their patrons.

For taxpayers above certain taxable income thresholds, the section 199A deduction may be limited based on the W-2 wages and/or the unadjusted basis immediately after acquisition of qualified property (W-2 and Basis limitation). Above those taxable income thresholds, the deduction is phased out if the business is a specified services trade or business (SSTB). As originally enacted, section 199A applies to taxable years beginning after December 31, 2017, and is scheduled to expire for taxable years beginning after December 31, 2025.

The Act made several modifications to section 199A, which differ significantly from five major modifications made in the House-passed bill. The first modification makes permanent the up to 20 percent deduction for QBI (including the deduction for REIT dividends and qualified PTP income) and the deduction for income attributable to certain activities of specified agricultural or horticultural cooperatives. Notably, this modification is different from the up to 23 percent permanent deduction provided in the House version. The second modification expands the taxable income phase-in range from $100,000 to $150,000 for joint returns (in the case of non-joint returns from $50,000 to $75,000). The third modification provides a minimum deduction for active QBI. Specifically, in the case of an applicable taxpayer, as defined below, the amount of the minimum deduction is $400. An applicable taxpayer is a taxpayer who materially participates under section 469(h) and has aggregate QBI with respect to all active trades or businesses for the taxable year of at least $1000. The last modification is indexing for inflation. Notably, the House modification to include qualified BDC interest dividends in the Combined QBI amount was not included in the Act.

The modifications to section 199A, as discussed above, apply to taxable years beginning after December 31, 2025.

State Pass-Through Entity Taxes: In response to the SALT cap enacted as part of TCJA, a majority of states in the past few years have enacted Pass-through Entity Tax ("PTET") regimes that allow pass-through entities to elect to pay certain income taxes at the entity level while providing the entity owners a credit for their share of entity-level taxes paid or a deduction or exclusion for their share of income subject to the PTET on the owner's state personal income tax return.

The Treasury Department announced that it would respect PTET regimes in Notice 2020-75. Because the Act is silent on PTET, the viability of PTET is unchanged by its enactment, and therefore remains subject to any future Treasury guidance.

Exclusion of interest on loans secured by rural or agricultural real property: The Act is substantially the same as the House-passed bill, except that the House-passed bill would apply only to loans made prior to January 1, 2029, and the Act makes the following provision permanent. Under current law, interest income is included in gross income, however, the House-passed bill would exclude 25 percent of the interest received by a qualified lender on a qualified real estate loan from gross income. For this purpose, a qualified lender means (1) a bank or savings association the deposits of which are insured under the Federal Deposit Insurance Act, (2) any state or federally regulated insurance company, (3) any entity wholly owned by a banking company under section 8 of the International Banking Act of 1978 that is organized and has its principal place of business in the United States, (4) any entity wholly owned by a state insurance holding company that is organized and has its principal place of business in the United States, or (5) any federally chartered instrumentality of the United States established under section 8.1(a) of the Farm Credit Act of 1971.

A qualified real estate loan is any loan secured by rural or agricultural real estate or a leasehold mortgage on rural or agricultural real estate. The loan must be made to a person other than a specified foreign entity (as defined in section 7701(a)(51)) after the date that this provision is enacted. The exclusion from income would not apply to interest from a loan to the extent proceeds are used to refinance loans that existed prior to the enactment of this provision.

A qualified real estate loan is treated as a tax-exempt obligation for purposes of disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry such loan.

These amendments apply to taxable years ending after the date of enactment.

Income from Hydrogen Storage, Carbon Capture, Advanced Nuclear, Hydropower, and Geothermal Energy Added to Qualifying Income of Certain Publicly Traded Partnerships Treated as Corporations (7704(d)(1)(E)): The House-passed bill proposed to amend section 7704(d)(1)(E) to add income from transportation or storage of SAF, liquified or compressed hydrogen, or a certain qualified facility at which CO2 is captured to the list of qualifying sources of income of certain publicly traded partnerships treated as corporations. The Act retains the House-passed bill and extends the treatment of qualifying income to income derived from production of electricity from any advanced nuclear facility, production of electricity or thermal energy exclusively using geothermal energy or hydropower, and operation of geothermal energy or geothermal heat pump.

TCJA extension and backup withholding: When a payor makes a payment of a kind that would be reported on a Form 1099, they are generally required to obtain the US Taxpayer Identification Number (TIN) of the payee. If the payee does not provide their TIN, the payee is required to withhold a certain amount from the payment (backup withholding) under section 3406. The amount required to be withheld is the fourth lowest rate of tax under section 1(c). The TCJA modified this rate to 24 percent through calendar year 2025 in section 1(j). The Act extends the TCJA rates indefinitely, thereby cementing the 24 percent backup withholding rate past 2025.

Form 1099-K reporting and backup withholding thresholds: Reporting of payments on Form 1099-K is required for third-party settlement organizations (TPSOs) making payments of reportable payment transactions to participating payees (section 6050W). When originally enacted, no reporting was required by TPSOs on payments to participating payees if the payee had engaged in 200 or fewer transactions and received $20,000 or less in payments in a calendar year. The American Rescue Plan Act (ARPA, P.L. 117-2) lowered this threshold: reporting is currently required for payments made to participating payees in excess of $600, with no transaction threshold, though Treasury has administratively acted to slow the phase-in of those thresholds. The Act reverts the threshold from $600 back to the original threshold of $20,000 and 200 transactions, retroactively effective prior to the ARPA changes.

The Act also provides a corresponding backup withholding rule. When a TPSO has not received the TIN of the participating payee, it is only required to backup withhold once the amount of payments to the participating payee exceed $20,000 and 200 transactions. However, if the TPSO was required to backup withhold on the participating payee in the prior year, it would still be required to backup withhold in the current year if no TIN has been obtained. This rule is effective after December 31, 2024.

Form 1099-MISC/NEC reporting and backup withholding thresholds: Reporting of payments on Form 1099-MISC is required for payors making payment of a variety of fixed or determinable gains, profits, and income. (section 6041). Currently, no reporting is required where the aggregate of such payments in the calendar year is less than $600. The Act raised this threshold to only require reporting where aggregate payments are $2,000 or more for calendar year 2026. For years after 2026, the $2,000 threshold would rise with inflation, using the cost-of-living calculation in existing section 1(f)(3) rounded to the nearest $100.

Payments of compensation to persons who are not employees (e.g., independent contractors) are reported on Form 1099-NEC in the same manner as Form 1099-MISC (section 6041A). The reporting threshold similarly is $600. The Act codified the reporting threshold for such payments to reference the threshold in section 6041.

The Act provided a corresponding backup withholding rule. A payor would only be required to backup withhold on payments that would be reportable under sections 6041 and 6041A if the amount is equal to or greater than the $2,000 (plus inflation for years after 2026) threshold in section 6041.

Exception to percentage of completion method for certain residential construction contracts: Section 460(e) provides specific exceptions from the use of the percentage of completion method for certain construction contracts, including home construction contracts and contracts entered into by small business taxpayers. The Act expands the exception that currently applies to home construction contracts to cover any residential construction contracts. Section 460 generally provides that taxable income from long-term contracts is determined under the percentage of completion method.

Intangible drilling and development costs taken into account for purposes of computing adjusted financial statement income: Section 55(a) generally imposes a tax equal to the excess (if any) of (1) the tentative minimum tax for the taxable year, over (2) the regular tax for the taxable year plus the tax imposed by section 59A. In the case of an applicable corporation, the tentative minimum tax for the taxable year is the excess of (i) 15 percent of the adjusted financial statement income ("AFSI") for the taxable year (as determined under section 56A), over (ii) the corporate AMT foreign tax credit for the taxable year. Section 56A(a) generally provides that the term "adjusted financial statement income" means, with respect to any corporation for any taxable year, the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for such taxable year, adjusted as provided in this section. Section 56A(c) currently provides the general adjustments to AFSI. The Act's language includes an additional adjustment to AFSI for any deduction allowed for intangible drilling and development costs for oil and gas wells and geothermal wells under section 263(c) to the extent of the amount allowed as deductions in computing taxable income for the year. Correspondingly, the AFSI adjustment would disregard any amount of depletion expense that is taken into account on its applicable financial statement with respect to the intangible drilling and development costs of such property. The amendments apply to taxable years beginning after December 31, 2025.

Business-related meals: Section 274(n)(1) currently limits the amount of meal expenses allowed as a deduction to 50 percent of the amount of such expenses paid or incurred. Any amounts incurred and paid after December 31, 2025, are not deductible (section 274(o)). Under current law, expenses for food or beverages required by Federal law to be provided to crew members of a commercial vessel are excepted from the limitation under section 274(n)(1) and restriction under section 274(o). The Act permanently maintains the current laws and exceptions and adds meals provided on certain fishing boats and at certain fish processing facilities as another exception. The amendments apply to amounts paid or incurred after December 31, 2025.

Employee retention tax credits: The Act makes several changes to COVID-related employee retention tax credits (ERTC), including potential penalties applicable to ERTC promoters, disallowance of certain refunds claimed after January 31, 2024, and extension of the statute of limitations applicable to certain ERTC claims.

Further, under the Act, ERTC promoters are required to comply with certain due diligence requirements related to Q3-2021 ERTC claims and are subject to a penalty of $1,000 for each failure to comply. ERTC promoters include any person who provides aid, assistance, or advice related to ERTC claims who:

- Charges or receives fees based on the amount of ERTC claims and whose gross receipts from such aid, assistance, or advice exceeds 20 percent of gross receipts for the taxable year, or
- Whose aggregate gross receipts from such aid, assistance, or advice for the taxable year or preceding taxable:
    - Exceeds 50 percent of gross receipts for the taxable year, or
    - Exceeds $500,000 and exceeds 20 percent of gross receipts for the taxable year.

Certified professional employer organizations are not treated as ERTC promoters. Upon enactment, refunds claimed for Q3 2021 after January 31, 2024, would be disallowed.

Further, the assessment statute of limitations on ERTC claims for Q3 2021 are extended until six years from the later of:

- The date of filing of the original quarterly return,
- April 15th of the year following the end of the calendar year, and
- The date the ERTC claim was made.

Taxpayers are also allowed to file a refund claim for any amount attributable to a deduction for improperly claimed Q3 2021 ERTC wages until the end of the same six-year assessment statute.

Enhancement of employer-provided child-care credit: The Act follows the Senate- and House-passed proposed revisions to section 45F and applies to amounts paid or incurred after December 31, 2025. Under these changes, the credit amount determined under section 45F is increased to a maximum allowable credit of $500,000 instead of $150,000 ($600,000 in the case of an eligible small business), subject to an inflation adjustment.

Extension and enhancement of paid family and medical leave credit: The Act follows the Senate- and House-passed bills to section 45S and makes the credit permanent, applying enhancements to the credit for taxable years beginning after December 31, 2025. Under these enhancements, the credit amount determined under section 45S is equal to either the applicable percentage of the amount of wages paid to qualifying employees with respect to any period in which such employees are on family and medical leave, or if such employer has an insurance policy with regards to the provision of paid family and medical leave which is in force during the taxable year, the applicable percentage of the total premiums paid or incurred by such employer during the taxable year with respect to the policy. The employer can elect which amount to use. The other enhancements to section 45S in the new law include modifications to the aggregation rule, the treatment of benefits mandated or paid for by state or local governments, and section 280C.

Permanent enhancement of low-income housing tax credit: The Act follows the Senate-passed bill, which permanently increases the state housing credit ceiling for allocation of the 9 percent low-income housing tax credit ("LIHTC") by 12 percent for calendar years after 2025. It increases the availability of the 4 percent LIHTC for projects financed with tax-exempt private activity bonds by reducing the tax-exempt bond financing threshold from at least 50 percent of the aggregate basis of the building and land to 25 percent for tax-exempt private activity bonds issued beginning in 2026.

Permanent extension of the new markets tax credit: Under current law, section 45D provides a competitively awarded credit to taxpayers who make qualified equity investments in certified community development entities, which in turn use substantially all of the investment to make qualified low-income community investments in low-income communities or for the benefit of low-income persons. Low-income communities are designated by the Community Development Financial Institutions Fund (CDFI), a bureau within Treasury. The credit is claimed over a seven-year period, with 5 percent of the investment amount allowed as a credit in each of the first three years, and 6 percent in each of the following four years, totaling 39 percent of the investment. The Act permanently extends this credit and establishes an annual pool of $5 billion of tax credit allocation investment authority each calendar year beginning after December 31, 2025.

Enhancement of Advanced Manufacturing Investment Credit (48D): The Act increases the credit to 35 percent from 25 percent for property placed in service after December 31, 2025.

Permanent increase in limitation on cover over of tax on distilled spirits: Under current law, section 7652(f) imposes a limitation on the amount of excise tax imposed under section 5001 on distilled spirits that can be "covered over" (i.e., transferred) into the treasuries of Puerto Rico and the Virgin Islands. The amount to be transferred shall not exceed the lesser of $10.50 per proof gallon ($13.25 in the case of distilled spirits brought into the United States after June 30, 1999, and before January 1, 2022), or the tax imposed by section 5001(a) on each proof gallon, determined as if section 5001(c)(1) did not apply. The Act permanently increases the $10.50 per proof gallon limitation to $13.25 per proof gallon, effective for distilled spirits brought into the United States after December 31, 2025.

Litigation financing: The provision on litigation financing reform was not included as part of the Act, however, it was incorporated in the Finance Committee proposal which included provisions intended to prevent investors from financing litigations involving third parties and receiving a share of the litigation proceeds under a financing agreement or derivative contract as long-term capital gains (in the case of domestic investors) or as amounts exempt from withholding tax (in the case of foreign investors).

The provisions generally would have excluded litigation financing agreements from treatment as capital assets and exclude litigation financing proceeds from gross income for income tax purposes. Instead, the bill would impose on the litigation funder's realized gains on the financing an excise tax equal to the highest individual income tax rate plus 3.8 percent. The excise tax would be imposed at the entity level in the case of a partnership, S corporation or other pass-through entity that receives litigation proceeds pursuant to a litigation financing agreement. Parties to the litigation, or law firms affiliated with the litigation, who enter into litigation financing agreements would be required to withhold 50 percent of the excise tax rate from proceeds paid to the funders under the financing agreements. These provisions would not apply to loan agreements meeting certain requirements. These changes would have applied to taxable years beginning after December 31, 2025.

Spaceports treated like airports under exempt facility bond rules: The Act treats spaceports like airports under the exempt facility bond rules. It adds a special rule for the treatment of spaceport ground leases for land leased by a governmental unit from the US and defines "spaceport" as any facility located at or in close proximity to a launch site or re-entry site. The Act also provides an exception for spaceports from federally guaranteed bond prohibitions. Applies to obligations issued after the date of enactment of the bill.

Energy credits

The Act introduced major changes to federal energy policy aimed at reshaping the post-Inflation Reduction Act (IRA) landscape by significantly rolling back many clean energy provisions—not only to redirect policy priorities, but also as a means to raise revenue.

Restrictions Related to Prohibited Foreign Entities (Sections 48E, 45Y, 45X, 45Q, 45U, and 45Z): The Act codifies the beginning of construction rules by providing that rules similar to the rules provided in IRS Notices 2013-29, 2018-59 and any subsequent guidance as in effect on January 1, 2025, shall apply for purposes of the prohibited foreign entities restrictions. (For prior coverage of the Finance Committee proposal's restrictions related to prohibited foreign entities, see the Energy Credit section of *Tax News & Views*, Vol. 26, No. 26, June 18, 2025.)

Regarding the definition of "specified foreign entity," the Act provides the same definition as the Finance Committee proposal.

Regarding the definition of "foreign-influenced entity," the Act provides the following changes to the Finance Committee proposal:

- Provides a deadline, not later than December 31, 2026, by which the Secretary of Treasury shall issue guidance as is necessary to carry out the purposes of the definition of the term "foreign-influenced entity."
- Decreases the debt threshold from 40 percent to 15 percent, which provides that an entity is a foreign-influenced entity if at least 15 percent of debt of such entity is issued to one or more specified foreign entities.
- Payments made to a specified foreign entity pursuant to any intellectual property agreements entered into or modified on or after the enactment would be considered effective control. The Finance Committee's proposal would have disqualified such agreements entered into or modified on or after the introduction of the Senate-passed bill.
- Modifies the publicly traded entities exception by providing that the ownership/control part of the term "foreign-influenced entity" does not apply to any entity for which not less than 80 percent of the equity securities of such entity are owned directly or indirectly by an entity whose securities are regularly traded on a national securities exchange, system, or other markets that are determined to be adequate under section 1296(e)(1)(A)(ii). Such exchange or market cannot be incorporated or organized under the laws of a covered nation or have its principal place of business in a covered nation. The Act also specifies circumstances under which certain publicly traded companies are considered foreign-influenced entities or foreign-controlled entities.

Regarding the material assistance rule, the Act provides the following changes to the Finance Committee proposal:

- A different set of threshold percentages for energy storage technology (EST) for purposes of sections 48E and 45Y is provided, while the treatment of qualified facilities remains the same.

Begin construction	Finance Committee (qualified facility and EST)	Enacted legislation (qualified facility)	Enacted legislation (EST)
In 2026	40%	40%	55%
In 2027	45%	45%	60%
In 2028	50%	50%	65%
In 2029	55%	55%	70%
After 2029	60%	60%	75%

- The Act directs the Secretary of the Treasury, not later than December 31, 2027, to issue alternative threshold percentages for each of the applicable critical minerals under section 45X that is equal to or exceeds the otherwise provided threshold percentage based on domestic geographic availability, supply chain constraints, domestic processing capacity needs, and national security concerns.
- The Act clarifies that for qualified facility and energy storage technology, the material assistance cost ratio is computed by using taxpayer's total direct costs attributable to manufactured products (including components).
- The Act includes in the definition of "eligible component" any component that is identified by the Secretary of Treasury pursuant to regulations or guidance.
- The Act limits the availability of the existing-contract election to facilities that begin construction before August 1, 2025.

Termination and restrictions on clean electricity production credit: For facilities other than solar and wind facilities, the Act phases the credit out starting with facilities that begin construction in calendar year 2034 or later. The Act provides that solar and wind facilities that begin construction more than 12 months after the date of enactment must be placed in service before 2028 to qualify for the credit. However, solar and wind facilities that begin construction within 12 months after the date of enactment are not subject to this credit termination date (December 31, 2027). Instead these facilities must comply with the beginning of construction continuity rules. The Act also does not retain an exception for certain large projects located on federal land that had been provided in earlier versions of a Senate proposal. While the Act retains an earlier Senate proposal to deny section 45Y credit for certain wind and solar leasing arrangements, it exempts qualified solar electric property expenditures (as defined in section 25D(d)(2)) from credit denial. That means residential rooftop solar installations are exempted from the leasing prohibition.

The Act also expands the definition of an energy community under section 45(b)(11) only for advanced nuclear facilities. The expansion means that, with respect to an advanced nuclear facility, a metropolitan statistical area is considered an energy community if it has (or had after 2009) 0.17 percent or greater direct employment related to the advancement of nuclear power. Nuclear power-related employment includes jobs related to an advanced nuclear facility, advanced nuclear power research and development, nuclear fuel cycle research, development, or production, and the manufacturing or assembly of components used in an advanced nuclear facility.

The Act retains the exceptions to the phase-out for elective payment if domestic content requirements are not met.

Extension and modification of clean fuel production credit: The Act follows the Senate-passed bill and shortens the extension for the credit to apply to fuel produced and sold before December 31, 2029. The Senate-passed bill leaves intact transferability under section 6418 for fuel produced and sold between January 1, 2025, and December 31, 2029. The Senate-passed bill reverts to the House-passed bill's prohibition on foreign feedstocks, and provides that fuel sold after December 31, 2025, must be exclusively derived from a feedstock that was produced or grown in the United States, Mexico, or Canada. The Act has as a general prohibition on negative emissions rates for fuels produced and sold after December 31, 2025, which caps the 45Z credit at $1.00 per gallon/gallon equivalent and also eliminates the increased credit amount specific to sustainable aviation fuel (SAF).

The Act contains similar modifications to the determination of emissions rates for taxable years beginning after December 31, 2025, as were in the House-passed bill. The Act specifically directs the Secretary of Treasury to provide distinct emissions rates with respect to transportation fuel derived from animal manure, which may include dairy manure, swine manure, poultry manure, or any other sources as are determined appropriate by the Secretary. It also provides that despite the general prohibition on negative emissions rates, transportation fuels derived from animal manure may have an emissions rate that is less than zero.

The Act is the same as an earlier version in the Senate with respect to the modifications to the definition of the term "transportation fuel" to prevent double credits, and the amendment to section 45Z(f)(3) to provide the Secretary authority to prescribe additional related person rules for entities that are not already described in the provision.

The Act also eliminates the increased credit amount specific to SAF, effective for fuel produced after December 31, 2025, and adds a coordination provision to the section 6426(k) SAF blending credit. Under the Act, no credit under section 6426(k) will be permitted for any gallon of fuel for which a section 45Z credit is allowable, effective for fuel sold on or after the date of enactment, or for fuel sold or used before the date of enactment, but only to the extent that claims for the section 6426(k) credit have not been paid or allowed as of enactment. The bill also amends section 6426(k) to provide that the SAF blending credit shall not apply to any sale or use for any period after September 30, 2025.

The Act also extends the section 40A(b)(4) small agri-biodiesel producer credit to apply to fuel sold or used before December 31, 2026, increases the credit from 10 cents per gallon of qualified agri-biodiesel production to 20 cents per gallon, and provides a coordination provision that permits a taxpayer to claim both the section 40A(b)(4) credit and the section 45Z credit on the same gallons of fuel. It makes the small agri-biodiesel producer credit under section 40A(b)(4) transferable under section 6418 for fuel sold or used after June 30, 2025.

Finally, the Act contains the same restrictions as an earlier version of the text in the Senate related to prohibited foreign entities.

Termination of previously owned clean vehicles credit: The Act terminates the section 25E credit for those vehicles acquired after September 30, 2025; whereas the House-passed bill proposed to terminate the section 25E credit with respect to any vehicle acquired after December 31, 2025.

Termination of clean vehicle credit: The Act terminates the section 30D credit for vehicles acquired after September 30, 2025. Unlike the House-passed bill, the Act does not provide a manufacturer-specific sales limitation for taxable year 2026.

Modification and termination of qualified commercial clean vehicle credit: The Act terminates the credit with respect to any vehicle acquired after September 30, 2025. A colloquy between Ways and Means Chairman Jason Smith (R-Mo.) and Rep. Darin LaHood (R-Ill.) stated that "vehicles shall be treated as 'acquired' as of the date on which a written binding contract is entered into for the acquisition [of the vehicle] and a payment has been made." This colloquy, read into the Congressional Record, on July 2nd is interesting given the fact that the Senate-passed bill struck similar language from the House-passed bill. The House-passed bill established December 31, 2025, rather than September 30, 2025, as the acquisition date deadline for credit termination, and provided an exception for vehicles placed in service before January 1, 2033, allowing these vehicles to remain eligible for the credit provided they were acquired pursuant to a written binding contract entered into before May 12, 2025. Interested parties should be aware this is not binding on the courts or the regulators, so while the words may provide some indication of the intent of some key members, it is not necessarily something that could be relied on in future disputes.

Termination of alternative fuel vehicle refueling property credit: The Act terminates the credit for property placed in service after June 30, 2026, whereas the House-passed bill proposed to terminate the section 30C credit with respect to alternative fuel vehicle refueling property placed in service after December 31, 2025.

Termination of energy efficient home improvement credit: The Act follows the Senate- and House-passed bills terminating the credit for energy efficient home improvement property placed in service after December 31, 2025.

Termination of residential clean energy credit: The Act terminates the residential clean energy credit with respect to expenditures made after December 31, 2025.

Termination of energy efficient commercial buildings deduction: Under current law, section 179D allows a deduction for the cost of energy efficient commercial building property placed in service during the taxable year, subject to certain limitations. The section 179D deduction was made permanent by the Consolidated Appropriations Act of 2021 and was subsequently amended by the IRA. The Act terminates the deduction for property that begins construction after June 30, 2026, whereas the House-passed bill did not propose to amend section 179D.

Termination of new energy efficient home credit: The Act terminates the credit for energy efficient home improvement property placed in service after December 31, 2025.

Termination and restrictions on clean electricity investment credit: The Act follows the same phase-out and credit termination date rules that apply for section 45Y. For energy storage technology (EST) and facilities other than solar and wind facilities, the Act phases the credit out starting with EST and facilities that begin construction in calendar year 2034 or later. For solar and wind facilities that begin construction more than 12 months after the date of enactment, such facilities must be placed in service before 2028 to qualify for the credit. However, solar and wind facilities that begin construction within 12 months after the date of enactment are not subject to this credit termination date (December 31, 2027), instead these facilities must comply with the beginning of construction continuity rules. The Act exempts qualified solar electric property expenditures (as defined in section 25D(d)(2)) from credit denial. That means residential rooftop solar installations are exempted from the leasing prohibition.

The Act provides a special rule for fuel cell property the construction of which begins after 2025. Such fuel cell property is eligible for a credit rate of 30 percent without any increase or adjustment by any other provision of section 48E. Additionally, such fuel cell property is not subject to the zero greenhouse gas emissions requirement.

The Act contains the same language for domestic content rules as a proposal released by the Senate Finance Committee but expands it to also cover EST in addition to any qualified facility.

The Act also includes a new provision that reduces the 2 percent rate for certain energy property described in section 48(a)(2)(A)(ii) to zero percent. This would terminate the 2 percent base credit for any solar energy property and geothermal energy property for which construction begins after December 31, 2024. It also makes such property ineligible for any credit rate increases from satisfying the domestic content or energy community requirements.

Restriction on the extension of advanced energy project credit program: The Act amends section 48C by modifying language related to the period of issuance, which currently allows credit amounts allocated to projects that have their certification revoked to increase the total credit allocation limit of $10 billion and potentially be reallocated under the section 48C Program. It also prevents any credit already allocated from ever being reallocated by disallowing an increase to the credit allocation limit of $10 billion due to the revocation of a project's certification. Because the full $10 billion has been allocated to date, this amendment would prevent any future allocation rounds under section 48C.

Restrictions on carbon oxide sequestration credit: The Act increases the credit rate for the utilization of qualified carbon oxide to equal the rate for qualified carbon oxide that is disposed of in secure geological storage without prior utilization. Under the Act, the credit rate is increased for taxable years beginning after 2025 and the credit amount is adjusted for inflation for taxable years beginning after 2026. The amendment will apply to facilities or equipment placed in service after the date of enactment of the bill.

Phase-out and restrictions on zero-emission nuclear power production credit: The Act removes the requirement that was introduced in an earlier version in the Senate that would have restricted facilities from using certain imported nuclear fuel in taxable years beginning after 2027, and its related provisions. Under the Act, the section 45U credit will terminate for taxable years beginning after December 31, 2032 (same as current law), and remain subject to prohibited foreign entity restrictions introduced in the House-passed bill as further modified by the Senate-passed bill.

Termination of clean hydrogen production credit: Under current law, the section 45V credit is available beginning on January 1, 2023, for hydrogen produced during a 10-year period at a clean hydrogen production facility, the construction of which begins before January 1, 2033. The Act terminates the credit for hydrogen production facilities, the construction of which begins after December 31, 2027, whereas the House-passed bill would terminate the credit for clean hydrogen production facilities, the construction of which begins after December 31, 2025.

Termination of cost recovery for qualified clean energy facilities, property and technology: The Act removes the five-year property classification for any solar, wind or other renewable energy property described in section 48(a)(3)(A), effective for property for which construction begins after December 31, 2024.

Phase-out and restrictions on advanced manufacturing production credit: The Act retains the rule for the sale of integrated components provided under IRC section 45X(d)(4), but amends it to allow taxpayers to treat as having sold an eligible component to an unrelated person if (1) such component (i.e., "primary component'") is integrated, incorporated, or assembled into another eligible component (i.e., "secondary component") produced in the same manufacturing facility as the primary component; and (2) such secondary component is sold to an unrelated person. The Act also makes this rule apply only to secondary components where not less than 65 percent of the total direct material costs are paid or incurred (within the meaning of IRC section 461 and any regulations issued under IRC section 263A) by the taxpayer to produce such secondary component are attributable to primary components which are mined, produced, or manufactured in the US.

Further, the Act adds metallurgical coal as a critical mineral with a credit amount equal to 2.5 percent of the costs incurred by the taxpayer with respect to production of such mineral. Metallurgical coal must be suitable for use in the production of steel [within the meaning of the notice published by the Department of Energy entitled "Critical Material List; Addition of Metallurgical Coal Used for Steelmaking" (90 Fed. Reg. 22711 (May 29, 2025))], regardless of whether such production occurs inside or outside of the US.

The Act phases out the credit for critical minerals produced after 2030 and for wind energy components produced and sold after 2027. It terminates the credit for metallurgical coal produced after 2029. Additionally, the Act retains the Senate Finance Committee's proposed amendments to the definition of battery modules under IRC section 45X(c)(5)(B)(iii), with the addition of *"or any other essential energy collection equipment"* as examples of essential equipment needed for battery functionality. An analysis of the rules regarding prohibited foreign entities applicable to section 45X is provided in a separate section of this document.

Summary of modifications to section 6418 transferability: The Act does not repeal credits from qualification as "eligible credits" and, therefore, the elective transfer rules continue to apply to the respective credits. However, the Act adds new subsection (g) prohibiting an eligible taxpayer from transferring any portion of the credits determined under sections 45Q, 45U, 45X, 45Y, 45Z, and 48E to a specified foreign entity as defined in section 7701(a)(51)(B). The Act also makes the small agri-biodiesel producer credit under section 40A(b)(4) transferable under section 6418 for fuel sold or used after June 30, 2025. Various sections of the House-passed bill proposed to repeal certain credits from qualification as "eligible credits" and, therefore, the elective transfer under section 6418, with different effective dates.

International tax issues

The Act includes changes to several significant international tax provisions—namely GILTI and FDII—that build on the framework established by the TCJA. While the package introduces generally taxpayer-friendly modifications to GILTI and FDII, these are paired with reduced deduction rates, making it essential for multinational clients to model the net impact of the changes promptly.

Modification of the Global Intangible Low-Taxed Income ("GILTI") regime: The Act modifies the GILTI regime to remove the reduction to GILTI related to a taxpayer's qualified business asset investment ("QBAI"). As part of this change, the Act requires a taxpayer to include its net CFC tested income ("NCTI") (rather than GILTI).

The Act lowers the percentage deductions related to a taxpayer's NCTI inclusion and related section 78 gross-up to 40 percent for taxable years beginning after December 31, 2025. The current deduction related to GILTI is 50 percent and is scheduled to be reduced to 37.5 percent in 2026 under current law. When combined with the modifications to the foreign tax credit rules, discussed below, this will generally result in an effective tax rate related to NCTI of between 12.6 percent and 14 percent.

The Act reduces the haircut for foreign income taxes deemed paid with respect to a NCTI inclusion from 20 percent to 10 percent. Stated differently, foreign income taxes deemed paid with respect to a NCTI inclusion will be limited to 90 percent of the taxes attributable to such inclusion. In addition, the Act introduces a 10 percent disallowance for taxes that are paid (or deemed paid) with respect to distributions of NCTI previously taxed earnings and profits ("PTEP").

In general, these changes apply to taxable years of foreign corporations beginning after December 31, 2025. However, the disallowance of taxes paid (or deemed paid) with respect to distributions of NCTI PTEP applies to foreign income taxes paid (or deemed paid) with respect to any PTEP distribution related to a NCTI inclusion after June 28, 2025.

For foreign tax credit limitation purposes, the Act limits the deductions that are allocated and apportioned to a taxpayer's NCTI inclusion to (1) the section 250 deduction attributable to a NCTI inclusion (including any deduction allowed under section 164(a)(3) for taxes imposed on a NCTI inclusion), and (2) any other deductions to the extent they are directly allocable to a NCTI inclusion. The Act also specifies that no amount-of-interest expense or research and experimental expenditures is allocated and apportioned to a NCTI inclusion for foreign tax credit limitation purposes. Any deductions that would have been allocated and apportioned to a NTCI inclusion are instead allocated and apportioned to US-source income (i.e., they do not directly reduce the foreign tax credit limitation in other categories). These changes apply to taxable years beginning after December 31, 2025.

Other foreign tax credit modifications: The Act makes other changes to the foreign tax credit provisions. This includes (1) allocating and apportioning foreign income taxes attributable to certain base differences to the general category (rather than the foreign branch category), (2) treating certain dividends without adequate substantiation as passive category income (rather than section 951A category income), and (3) treating NCTI inclusions as subpart F inclusions for purposes of section 904(h) (rather than solely section 904(h)(1) as is the case under current law).

Finally, it eliminates the section 78 gross-up related to taxes deemed paid under section 960(b) on PTEP distributions.

These changes apply to taxable years beginning after December 31, 2025.

Modification of the Foreign-Derived Intangible Income ("FDII") deduction: The Act modifies the FDII regime to remove the impact of a corporation's QBAI, and generally allows a deduction of 33.34 percent of the corporation's entire foreign-derived deduction eligible income ("FDDEI") (rather than FDII). This will generally result in an effective tax rate related to FDDEI of 14 percent.

It excludes certain types of income from being treated as deduction eligible income ("DEI") or FDDEI. DEI (and FDDEI) would not include income or gain from the sale or disposition (or deemed sale or disposition) of intangible property as defined in section 367(d)(4) or any other property of a type subject to depreciation, amortization, or depletion by the seller. This includes income arising from transactions that are subject to section 367(d). These proposals would apply to sales or dispositions occurring after June 16, 2025.

It eliminates any allocation or apportionment of interest expense or research and experimental expenditures for purposes of computing DEI (and FDDEI).

Except as otherwise noted above, these changes apply to taxable years beginning after December 31, 2025.

Modification of the Base Erosion and Anti-Abuse Tax ("BEAT"): The Act increases the BEAT rate to 10.5 percent (11.5 percent for certain banks and securities dealers), up from the current 10 percent rate (11 percent for certain banks and securities dealers). If no congressional action had been taken, the rate would have risen to 12.5 percent (13.5 percent for certain banks and securities dealers) starting next year. Additionally, the Act repeals the scheduled 2026 changes in the treatment of certain tax credits.

These changes apply to taxable years beginning after December 31, 2025.

Permanent extension of look-thru rule for Controlled Foreign Corporations ("CFCs"): The Act permanently extends the CFC look-thru rule of section 954(c)(6).

Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules: The Act reinstates section 958(b)(4), the restriction on downward attribution of stock ownership from foreign persons to US persons when applying the constructive ownership rules of section 958(b). Additionally, it adds proposed section 951B, which results in downward attribution from a foreign person in specific situations. Pursuant to new section 951B, a foreign-controlled US shareholder ("FCUSS") of a foreign-controlled foreign corporation ("FCFC") is subject to CFC inclusion rules (e.g., subpart F, NCTI inclusions (currently known as GILTI)) as though the FCUSS were a US shareholder and the FCFC were a CFC.

An FCUSS is a US person who would be considered a US shareholder of a foreign corporation if such person owned more than 50 percent of the stock of such foreign corporation and downward attribution from foreign persons applies. A FCFC is a foreign corporation (other than a CFC) that is more than 50 percent owned by at least one FCUSS. Section 958(a) and section 958(b) (but excluding section 958(b)(4)) apply for purposes of determining whether this ownership threshold is met.

Regulatory authority is provided for treating a FCUSS or a FCFC as a US shareholder or as a CFC, respectively, for purposes of other provisions.

Except as otherwise noted above, these changes apply to taxable years of foreign corporations beginning after December 31, 2025.

Modifications to pro rata share rules: The Act amends section 951 and section 951A to require that every US shareholder of a CFC that owns stock in the corporation during its tax year ("CFC year") include its pro rata share of the CFC's subpart F income and include in its gross income its pro rata share for the CFC year. US shareholders that own stock on the last day of the CFC year when the corporation is a CFC must also include the section 956 amount for that year.

The pro rata share of subpart F income is based on the amount of income attributable to the stock owned by the US shareholder and the period of ownership during which it was a US shareholder while the corporation was a CFC. Comparable rules apply when for purposes of determining a US shareholder's NCTI inclusion. Regulatory authority is granted for the Secretary to issue guidance allowing taxpayers to elect (or requiring taxpayers to elect) to close the taxable year of a CFC upon a direct or indirect disposition of CFC stock.

These changes apply to taxable years of foreign corporations beginning after December 31, 2025. The Act includes a transition rule that eliminates certain reductions to a US shareholder's subpart F or GILTI inclusion for distributions to other persons made during the year under section 951(a)(2)(B) when certain conditions are met.

Repeal of election for one-month deferral in determination of taxable year of specified foreign corporations: The Act eliminates the option for specified foreign corporations to use a one-month deferral taxable year. Consequently, a corporation that previously used a one-month deferral year must align its taxable year with that of its majority US shareholder. This change is effective for taxable years of specified foreign corporations beginning after November 30, 2025, subject to a transition rule.

Modification of source rules for manufactured inventory sales through foreign offices or fixed places of business: The Act modifies the sourcing rules for sales of inventory manufactured by the taxpayer in the United States and sold through an office or fixed place of business in a foreign country. Specifically, up to 50 percent of such income will be treated as foreign-source income for purposes of the foreign tax credit limitation when the income is (1) from the sale or exchange outside the US of inventory property that is produced in the US and for use outside the US, and, (2) the sale or exchange is attributable to an office or other fixed place of business located outside the US maintained by the US person. This change applies to taxable years beginning after December 31, 2025.

Section 899 enforcement of remedies against unfair foreign taxes: The Senate-passed bill removed proposed section 899, which was intended to give the President tools to counter what some have characterized as “unfair foreign taxes.” The removal reflected the Treasury Department’s recent agreement with G7 countries, under which the OECD’s Pillar Two global minimum tax rules would generally not be applied to US companies. The Finance Committee proposal introduced a revised version of section 899, which included changes to the House-passed bill’s provision—with a delayed effective date and a lower cap on how much tax rates on covered companies and individuals could rise.

Proposed section 899 generally would have increased rates of tax imposed on foreign persons’ effectively connected income (ECI) and non-ECI FDAP income. Also increased would have been the rates of the branch profits tax (for purposes of section 884) and the tax imposed by section 4948(a). The rates would have been increased in up to three 5-percentage-point annual increments. The rate increases would have applied on top of the rate imposed by statute, as modified by an applicable tax treaty (if any).

The removal of section 899 prompted an international response, highlighting the broader implications of the Senate’s revisions to the US' international tax rules. The Canadian Department of Finance issued a statement underscoring a shared understanding among G7 countries regarding the treatment of US-parented multinational groups under the OECD’s global minimum tax framework. The statement emphasized that a “side-by-side” system - under which US-parented groups would be fully excluded from both the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR) with respect to their domestic and foreign profits - could preserve the progress made by jurisdictions in the Inclusive Framework in addressing base erosion and profit shifting. Finance Canada noted that such an approach would also “provide greater stability and certainty in the international tax system moving forward.”

Permanent renewal and enhancement of opportunity zones

The Act includes provisions making opportunity zones permanent with new Qualified Opportunity Zones (QOZ) designations on a rolling 10-year basis, while narrowing the range of census tracts eligible for designation as an opportunity zone. It also retains the same newly established “qualified rural opportunity fund” definition that incentivizes rural investment by increasing the permanent reduction in the amount of gain recognized to 30 percent, rather than 10 percent, while reducing the investment threshold (50 percent rather than 100 percent) necessary for satisfying the substantial improvement of existing buildings located in a rural area. The Act establishes a five-year holding period “cliff” for investments made in qualified opportunity funds to “earn” the 10 percent basis bump (30 percent for qualified rural opportunity zone fund investments). Surprisingly, the Act retains a host of reporting requirements considered by many to be subject to potential challenge as non-Byrd rule compliant as was the case when qualified opportunity zones were originally enacted as part of TCJA.

Individual deductions, credits, and other related provisions

The individual tax provisions in the TCJA that were set to expire at the end of 2025 are now extended indefinitely, with modifications - including the individual income tax rate brackets, with the top rate remaining at 37 percent. Additionally, reflecting President Trump's campaign promises, the Act introduces new provisions related to tipped and overtime pay, interest on car loans, and benefits for seniors.

Ordinary income tax rates for individuals: The TCJA made temporary changes to the ordinary income tax rates for individuals, estates and trusts, including a decrease in the top tax bracket from 39.6 percent to 37 percent. The Act makes these changes permanent. Thus, the top ordinary income tax bracket will continue to be 37 percent.

Under current law, the ordinary income tax brackets are subject to a cost-of-living adjustment to account for inflation. The House-passed bill would generally modify the indexing for inflation for bracket thresholds by providing one additional year of inflation in the cost-of-living adjustment. However, under the House bill, the dollar amount at which the 37 percent rate bracket begins and the 35 percent rate bracket ends would not be provided this additional year of inflation in the cost-of-living adjustment.

The Act, though, provides the additional year of inflation adjustment only to the 10 percent and 12 percent brackets, as well as the starting point for the 22 percent rate bracket.

Standard deductions: The House-passed bill would repeal the expiration of (and thus permanently extend) the temporary increases to the standard deduction amounts that were enacted under the TCJA. In addition, the House-passed bill would temporarily increase the amount of the standard deduction by $2,000 in the case of married individuals filing a joint return and a surviving spouse, $1,500 in the case of a head of household, and $1,000 in any other case for taxable years beginning after December 31, 2024, and before January 1, 2029. These temporary amounts are not indexed for inflation. The Finance Committee proposal would also repeal the expiration of the temporary increases to the standard deduction that were enacted under the TCJA. Additionally, it would permanently increase the standard deduction to $16,000 for a single filer, $24,000 in the case of a head of household and $32,000 for married individuals filing a joint return for taxable years beginning after 2025 and adjusted for inflation thereafter. The Act also permanently increases the standard deduction amounts, however, the amounts are slightly different from the Finance Committee proposal: $15,750 for a single filer, $23,625 in the case of a head of household and $31,500 for married individuals filing a joint return and a surviving spouse. The increases are effective for taxable years beginning after December 31, 2024 and adjusted for inflation thereafter.

Home mortgage interest: The Act follows the Senate- and House-passed bills and makes permanent two temporary restrictions on the deduction for home mortgage interest which were enacted under the TCJA. Specifically, the $750,000 ($375,000 in the case of a married individual filing separately) limitation on acquisition indebtedness is made permanent, as is the exclusion of interest on home equity indebtedness from the definition of qualified residence interest. It retains the existing $1 million limitation for acquisition indebtedness incurred before December 15, 2017, including the refinancing of such indebtedness provided that the refinanced indebtedness does not exceed the principal amount of the refinanced debt. Additionally, the Act also treats certain mortgage insurance premiums as qualified residence interest.

Qualified disaster losses: Personal casualty losses meeting the definition of Qualified Disaster Losses are afforded special taxpayer favorable treatment. Notably, taxpayers qualifying to use these special rules are not required to reduce their casualty loss deduction by 10 percent of their adjusted gross income. Under current law, these special rules only apply to a major disaster declared by the President before February 11, 2025, the incident period must have started before December 12, 2024, and such incident period must have ended by January 11, 2025.

The Act makes no material changes to the Senate- and House-passed bills and provides special rules related to qualified disaster losses to be extended as the applicable end dates coincide with the date the bill is signed into law. Certain disasters that occurred near the end of 2024 or the beginning of 2025 now appear to meet the definition of Qualified Disaster Losses.

Personal casualty losses: The Act makes permanent a temporary restriction enacted under the TCJA with respect to itemized deductions for personal casualty losses (i.e., losses of property not connected with a trade or business or a transaction entered into for profit, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft). Based upon this restriction, any personal casualty loss continues to be deductible only to the extent it is attributable to a Federally declared disaster.

The Act extends deductible personal casualty losses beyond Federally Declared Disasters to also include "State Declared Disasters" effective for taxable years beginning after December 31, 2025. "State declared disasters" are defined in part as any natural catastrophe, or any fire, flood, or explosion, which is determined by the Governor of such State and the Secretary as causing sufficient damage to warrant application of the personal casualty loss rules.

Miscellaneous itemized deduction: Under the TCJA, miscellaneous itemized deductions (e.g., investment expenses, certain legal fees, and unreimbursed employee business expenses) were temporarily repealed. The Act, along with the Senate- and House-passed bills, make the repeal of these deductions permanent.

In addition, the Act removes unreimbursed employee expenses for eligible educators from the list of miscellaneous itemized deductions; i.e., deductions of educator expenses are not permanently repealed.

Itemized deduction limitation: Before the TCJA, the amount of certain otherwise allowable itemized deductions of a high-income taxpayer, including charitable contributions, was subject to an itemized deduction phase-out (i.e., the so-called "Pease limitation"). The TCJA temporarily repealed the Pease limitation, which was made permanent by the Act.

The Act subjects SALT deductions to the same limitation as other allowable itemized deductions. It indicated that this provision caps the value of each dollar of otherwise allowable itemized deductions at $0.35, in most cases, and applies only to taxpayers in the highest individual income tax bracket. Additionally, the itemized limitation under the Act does not apply when determining the amount of the qualified business income deduction under section 199A.

Personal exemptions and senior deduction: The Act permanently extends the TCJA's temporary repeal of the deduction for personal exemptions other than a newly created temporary deduction for certain seniors. For tax years beginning after December 31, 2024, and ending before January 1, 2029, a $6,000 deduction is available for each qualified individual with respect to the taxpayer. A qualified individual means, the taxpayer, if the taxpayer has attained age 65 before the close of the taxable year and, in the case of a joint return, the taxpayer's spouse if such spouse has attained age 65 before the close of the taxable year. The senior deduction shall be phased out (but not below zero) by 6 percent of so much of the taxpayer's modified gross income as exceeds $75,000 ($150,000 in the case of a joint return). The Social Security number of the qualified individuals are required to be included on the tax return for the tax year to qualify for the deduction.

Section 1202 expansion of qualified small business stock gain exclusion: Generally, a taxpayer must hold Qualified Small Business Stock ("QSBS") for more than five years to qualify for the section 1202 exclusion from gross income. The exclusion is currently the greater of (1) $10 million, reduced by the aggregate amount of gain exempted in prior years, or (2) 10 times the aggregate adjusted basis of stock issued by such corporation that was disposed in the taxable year. Under section 1202(a), a taxpayer's applicable exclusion amount depends on the date the stock is issued. For example, the applicable percentage is 100 percent for stock issued after September 27, 2010. In addition, in order for the stock to qualify as QSBS, the company must meet a number of requirements, including being treated as a qualified small business, which includes a gross asset test.

The Act makes a number of modifications to section 1202. First, it modifies the applicable exclusion percentage creating a tiered gain exclusion amount, depending on the date the stock was issued. Additionally, regardless of the applicable exclusion percentage, an AMT adjustment would not apply to stock acquired subject to these modifications. Specifically, the tiered gain exclusion amounts are the following:

- The applicable percentage for stock held for more than three years but less than four years is 50 percent.
- The applicable percentage for stock held for more than four years but less than five years is 75 percent .
- The applicable percentage for stock held for more than five years is 100 percent.

In addition, it increases the eligible gain exclusion amount from $10 million to $15 million. Furthermore, the $15 million exclusion amount would be adjusted for inflation beginning in 2027. However, the increases do not apply to taxpayers who fully utilized the exclusion amount in a prior year.

It also increases the gross asset threshold from $50 million to $75 million, which would be adjusted for inflation.

Generally, the effective date for the above changes is date of enactment and such changes appear to be permanent. For example, the graduated exclusion percentages and increase to the eligible gain amount applies to stock acquired on or after the date this provision is enacted. For this purpose, the acquisition date is determined after the application of section 1223.

State and local tax deduction: The Act increases the cap on the SALT deduction to $40,000 but limits the increase to five years (2025-2029), after which the cap would permanently revert to $10,000 ($5,000 for married individuals filing separately). For that five-year period, the amounts of the increase as well as the phasedown provisions would follow the House bill. Specifically, for 2025 the cap would be increased to $40,000 and the phasedown would apply to modified adjusted gross incomes above $500,000, with each amount increasing by 1 percent through 2029, but not less than $10,000. In all cases, the applicable amounts are reduced by half for married individuals filing separately.

The Act contains no provisions relating to SALT imposed on passthrough entities. As such, the deductibility of SALT imposed on passthrough entities, including both PTET workaround taxes and historic non-workaround taxes such as the NYC UBT, would be unaffected by the legislation. Notably, however, the continued viability of PTET workaround tax regimes rests entirely on Notice 2020-75 and therefore remains subject to change by Treasury.

The SALT cap provisions in the Act apply to taxable years beginning after December 31, 2024. (More information about PTET is included in the Business provisions section above.)

Alternative minimum tax: The TCJA enacted temporary increases to the alternative minimum tax (AMT) exemption amounts for individuals, as well as temporary increases to the income thresholds at which those exemption amounts are phased out. The House-passed bill would repeal the expiration of (and thus permanently extend) those increased AMT exemptions and phase-out thresholds. It would base inflation adjustments of the exemption amounts and phase-out thresholds from 2025 rather than 2017. However, it would apparently cause the 2026 AMT exemption and phase-out threshold amounts to be equal to the original 2018 TCJA amounts, with no inflation adjustments for the intervening years.

The Finance Committee's tax proposal would also permanently extend the increased AMT exemptions and phase-out thresholds. Under the proposal, AMT exemptions would be inflation indexed from 2017, thus taking into account the inflation adjustments since the original 2018 TCJA amounts. However, the exemption phaseout thresholds under the Finance Committee proposal would in 2026 revert to 2018 levels of $500,000 ($1,000,000 in the case of a joint return), with those phaseout thresholds being indexed for inflation beginning in 2027.

The Act is substantially the same as the Finance Committee's proposal, aside from changing the phaseout rate to be equal to 50 percent (rather than 2 percent under current law) of Alternative Minimum Taxable Income (AMTI) that exceeds the phase-out threshold amounts.

Deduction for tip income: A new deduction is introduced for individuals (even those individuals who do not itemize) during tax years 2025 through 2028 who receive qualified tips in an occupation which traditionally and customarily received tips. A "qualified tip" is an amount that is paid voluntarily without any consequence in the event of nonpayment, is not the subject of negotiation, and is determined by the payor. Qualified tips do not include amounts received by the individual in the course of a specified service trade or business (as defined in section 199A(d)(2)) and exclude individuals who receive earned income in excess of the dollar amount in effect under section 414(q)(1)(B)(i), which would apparently permit an employee who is a 5 percent owner to qualify for the above-the-line deduction provided that the employee did not receive earned income in excess of the threshold. A work-eligible Social Security number is required in order to claim the deduction. Certain payors must include qualified tips in statements furnished to the Secretary.

Additionally, this provision expands the FICA tip tax credit for a portion of the employer-paid Social Security taxes for employee cash tips to include beauty service establishments. The credit applies to tips received in connection with providing beauty services to a customer or client if tipping employees who provide the service is customary. Beauty services include barbering and hair care, nail care, esthetics, and body and spa treatments. A list of "occupations traditionally receiving tips" would be published within 90 days of enactment.

The Act is substantively the same as the Finance Committee proposal outlined below except for the extension of tip credit to beauty service businesses like the House-passed bill. The Act limits the deduction to $25,000, reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's "modified adjusted gross income" exceeds $150,000 ($300,000 in the case of a joint return). For this purpose, modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, 933 (for US citizens or residents living abroad or bona fide residents of certain US possessions). Additionally, the Act removes the exclusion from the definition of qualified tips amounts received in excess of the dollar amount in effect under section 414(q)(1)(B)(i) and omits the extension of tip credit to beauty service businesses. It also includes a transition rule for years beginning prior to January 1, 2026, for returns or statements required to report tip amounts.

New reporting information for tipped income: The Act modifies sections 6041, 6041A, and 6050W to require a payor making payment of compensation for services reportable on either Forms 1099-K, 1099-MISC, or 1099-NEC to report both the amounts of the compensation (if amounts exceed the reporting thresholds) but also to (1) separately report the portion of the payments that constitute cash tips and (2) indicate the occupation of the recipient as described in the new section 224(d)(1) added by the OBBBA.

Enhancement of the dependent care assistance program: The Act increases the exclusion for dependent care assistance up to $7,500 annually ($3,750 in the case of a married individual filing separately), effective for taxable years beginning after December 31, 2025. There was no similar provision in the House-passed bill.

Deduction for certain overtime pay: The Act introduces a new deduction (even for individuals who do not itemize) for individuals who receive “qualified overtime compensation” during tax years 2025 through 2028. The provision would exclude qualified tips (as defined in proposed section 224(c)) and amounts received as a highly compensated employee (as defined in section 414(q)(1)). “Qualified overtime compensation” is overtime compensation paid to an individual under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which such individual is employed. A work-eligible Social Security number is required in order to claim the deduction. Payors must include the total amount of qualified overtime compensation on Form W-2.

The Act includes all of the Finance Committee proposals noted below and, in addition, requires a condition of deductibility the inclusion of the amount of qualified overtime compensation on an information reporting statement furnished to the individual.

The Finance Committee proposal would limit this deduction to $12,500 ($25,000 for taxpayers who are married filing jointly), reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's “modified adjusted gross income” exceeds $150,000 ($300,000 MFJ). For this purpose, modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, 933 (for US citizens or residents living abroad or bona fide residents of certain US possessions). Additionally, it would remove the exclusion from qualified overtime compensation amounts received as a highly compensated employee under section 414. The Finance Committee proposal would require a statement to be furnished for the secretary and to the payee reporting qualified overtime compensation paid to persons not treated as employees under tax laws and includes a transition rule for years beginning prior to January 1, 2026, for returns or statements required to report overtime amounts.

It would also modify section 6041 to require a payor making payment of compensation for services reportable on Form 1099-MISC/-NEC to report the amount of the compensation (if amounts exceed the reporting thresholds) but also to separately report the portion of the payments that constitute an amount of qualified overtime compensation.

Deductibility of car loan interest: The Act creates an above-the-line deduction of up to $10,000 for qualified passenger vehicle loan interest during a given taxable year. This deduction is available for interest paid from tax year 2025 through 2028. This deduction begins to be phased out when the taxpayer’s modified adjusted gross income exceeds $100,000 ($200,000 in the case of a joint return). This provision is expansive and includes numerous types of personal and recreational vehicles within the definition of a qualified passenger vehicle. In addition to specific language dictating which vehicles are considered a qualified passenger vehicle, the provision also establishes that this deduction is only available for vehicles for which final assembly occurs in the United States.

The Act makes this interest deductible after the calculation of adjusted gross income, but the deduction would nevertheless reduce taxable income even for those taxpayers who do not itemize deductions (akin to the section 199A deduction). Unlike the House-passed bill, the Act requires that the original use of the applicable passenger vehicle commence with the taxpayer. In defining an “applicable passenger vehicle,” the Act replaces specific references in the House-passed bill to all-terrain vehicles, trailers and campers with requirements that the vehicle have a both gross vehicle weight rating of less than 14,000 pounds and be treated as a motor vehicle for purposes of title II of the Clean Air Act. The Act also requires as a condition of deductibility that the taxpayer’s tax return include the vehicle identification number of the applicable passenger vehicle.

Wagering losses: Losses sustained during a taxable year on wagering transactions are allowed as a deduction only to the extent of the gains during the taxable year from such transactions. The TCJA enacted a temporary provision, described in the legislative history as a “clarification,” that the scope of the term “losses from wagering transactions” includes any deduction allowable under chapter 1 of the Internal Revenue Code. Thus, the limitation on losses from wagering transactions applies not only to the actual costs of wagers but also to other expenses incurred in connection with gambling activity (such as the otherwise deductible costs of travel to and from a casino).

The Act makes permanent the TCJA provision regarding the scope of losses from wagering transactions. In addition, it limits wagering losses allowed to 90 percent of such losses incurred during the taxable year, and such losses would only be allowed to the extent of gains from such transactions during such taxable year.

Moving expenses: The TCJA temporarily repealed the above-the-line deduction for moving expenses paid or incurred in connection with the commencement of work at a new principal place of work. The temporary repeal does not apply to certain members of the Armed Forces on active duty. Similarly, the TCJA temporarily repealed the exclusion from gross income and wages for qualified moving expense reimbursements received from an employer, except in the case of certain members of the Armed Forces on active duty. The House-passed bill would permanently repeal the deduction for moving expenses and the corresponding exclusion from gross income for reimbursements from an employer. As under current law, the repeal of these provisions would not apply to certain members of the Armed Forces.

The Act makes these same changes, but it also allows the deduction of moving expenses and the corresponding exclusion from gross income for certain members of the Intelligence Community.

Discharge of student loans: The TCJA included a temporary provision which provided an exclusion from gross income for an otherwise includible amount from the discharge of certain education loans on account of a student's death or total and permanent disability. The House-passed bill would have made permanent the temporary exclusion under the TCJA for an otherwise includible amount from the discharge of a qualifying loan on account of a student's death or total and permanent disability. The House-passed bill's exclusion from gross income would have been permitted in respect of a discharge during a taxable year only if the taxpayer includes on the tax return for the year the taxpayer's Social Security number and, if the taxpayer is married, the Social Security number of the taxpayer's spouse.

The Act is consistent with the House-passed bill, other than not containing language regarding joint returns for married persons and inclusion of the Social Security number of the taxpayer's spouse on the tax return.

Bicycle commuting reimbursement: Prior to the TCJA, qualified bicycle commuting reimbursements of up to $20 per qualifying bicycle commuting month in a calendar year were excludible from an employee's gross income. The TCJA temporarily repealed that exclusion from gross income. The Act permanently repeals the qualified bicycle commuting reimbursement exclusion. However, for qualified transportation fringe benefits, other than the qualified bicycle commuting reimbursement, it adds an additional year of inflation adjustment.

Hazardous duty area for members of the Armed Forces: The TCJA provides that a qualified hazardous duty area is temporarily treated in the same manner as a combat zone for purposes of determining eligibility for certain tax benefits available to members of the Armed Forces. The Act makes that provision permanent. In addition, it modifies the definition of a qualified hazardous duty area to include the Sinai Peninsula of Egypt, Kenya, Mali, Burkina Faso, and Chad, in certain circumstances.

Achieving a Better Life Experience (ABLE) account enhancements: Pre-TCJA law created tax-preferred savings accounts for payments of qualified disability expenses of a designated beneficiary, with contributions subject to various limitations. The TCJA temporarily enhanced the account provisions to make contributions eligible for the nonrefundable "savers credit," permit nontaxable rollovers from qualified tuition programs, and permit account beneficiaries who work and earn income to contribute above the ABLE contribution limit. The Act makes the enhancements to the ABLE account provisions permanent and increases the section 25B(a) credit from $2,000 to $2,100.

Limitation on eligibility for advance payments of health insurance premium assistance payments: Under current law, certain individuals may receive advance payments of premium assistance credits in order to purchase health insurance through an American Health Benefit Exchange.

The Act restricts eligibility for the premium assistance credit to individuals who are lawfully admitted to the US for permanent residence, certain citizens of Cuba, and individuals living in the US through a Compact of Free Association and limits eligibility for certain cost-sharing reductions and eligibility for a basic health program to similar categories of individuals.

Additional restrictions on health insurance premium tax credits: Under current law, individuals who are "lawfully present" in the US are allowed to receive premium tax credits to purchase health insurance through an American Health Benefit Exchange. The House-passed bill would restrict individuals with immigration status granted by asylum, parole, temporary protected status, deferred action or deferred enforced departure, and withholding of removal from receiving premium tax credits. In addition, the proposal would cause individuals who are lawfully present aliens and ineligible for Medicaid by reason of alien status to be ineligible for premium tax credits.

Current law also provides that excess advance payments of the premium assistance credit are treated as an additional tax liability on the individual's income tax return (i.e., recaptured), subject to a limit on the amount of additional liability in certain cases. The House-passed bill would provide that, for an individual with household income below 400 percent of federal poverty level, the recapture of the excess advance payments is no longer limited.

Finally, the House-passed bill would provide that the premium assistance credit is unavailable with respect to a specific plan through which an individual has enrolled using the monthly special enrollment period available for individuals with projected annual household income no greater than 150 percent of the federal poverty level.

The Act made no substantive changes to the House-passed language, aside from modifying the definition of "eligible aliens" for this purpose.

School expenses for 529 accounts: Cash distributions from a qualified tuition program (also known as a section 529 plan) that are attributable to earnings on contributions to the account are included in the account beneficiary's income only to the extent that total cash distributions during the taxable year exceed the amount of qualified higher education expenses of the account beneficiary during that year. The amount of cash distributions from all qualified tuition programs related to elementary or secondary schools are limited to $10,000 per beneficiary per taxable year. The House-passed bill would expand the definition of qualified higher education expenses related to elementary or secondary schools to include not only tuition, but also curriculum and curricular materials, books or instructional materials, certain tutoring expenses, standardized achievement test fees, and certain educational therapies for students with disabilities.

The Finance Committee proposal would remove qualified expenses incurred in connection with a homeschool, which were explicitly included in the House-passed bill, from the definition of the term "qualified higher education expense."

The Act increases the limit on cash distributions from all qualified tuition programs related to elementary or secondary schools from $10,000 per beneficiary per year to $20,000 per beneficiary per taxable year, effective for taxable years beginning after December 31, 2025.

Credentialing expenses/529 accounts: The Act adds a new category of "postsecondary credentialing expenses" to the definition of "qualified higher education expenses" under section 529. "Qualified postsecondary credentialing expenses" include a broad category of tuition and other expenses related to certain approved postsecondary programs, such as vocational training.

Allow for payments to certain individuals who dye fuel: There is no current provision in the Code that permits a payment to an individual that removes from a terminal dyed diesel fuel or kerosene on which a section 4081 tax was previously imposed. The Act adds new section 6435 to the Code, which provides for a payment to a person who removes from a terminal eligible indelibly dyed diesel fuel or kerosene. The term "eligible indelibly dyed diesel fuel or kerosene" is defined in new section 6435 to mean diesel fuel or kerosene on which a tax under section 4081 was previously paid and not credited or refunded, and which is exempt from taxation under section 4082(a). The provision also makes conforming amendments to sections 6206, 6430, and 6675.

0.5 percent floor on deduction of contributions made by individuals who elect to itemize: The Act imposes a reduction in charitable contributions for individuals who itemize deductions. The reduction is equal to 0.5 percent of the individual's contribution base. For example, an individual with a contribution base of $1 million who makes a charitable contribution of $100,000 would be able to deduct $95,000. Additionally, the provision permanently extends the 60 percent limitation for cash gifts made to qualified charities.

Permanent and expanded reinstatement of partial deduction for charitable contributions of individuals who do not elect to itemize: Under current law, only taxpayers who itemize are able to deduct their charitable contributions. The House-passed bill would create an above-the-line deduction of up to $150 ($300 for married filed jointly) for cash contributions to public charities (not including supporting organizations or donor advised funds) made during tax years 2025-2028 for individual taxpayers who do not itemize deductions. Charitable contribution carryovers from prior years would not qualify for this deduction. The Act increases these limits to $1,000 ($2,000 for joint filers) and makes this deduction permanent.

Adjustment of charitable deduction for certain expenses incurred in support of Native Alaskan subsistence whaling: The Act increases the amount of whaling expenses deductible as charitable contributions by recognized whaling captains from $10,000 per taxable year to $50,000 per taxable year.

Child tax credit: The TCJA temporarily increased the child tax credit from $1,000 to $2,000 per qualifying child. The House-passed bill would permanently extend the expanded child tax credit and provide further enhancements. It would temporarily increase the maximum credit amount to $2,500 for tax years beginning after December 31, 2024, and before December 31, 2028. For tax years beginning after 2028, the credit would revert to a permanent amount of $2,000, indexed for inflation. The House-passed bill would make permanent the maximum refundable portion of the credit, $1,400 per qualifying child, indexed for inflation ($1,700 in 2025). The TCJA phase-out thresholds of $400,000 for taxpayers filing jointly and $200,000 for all other taxpayers would be made permanent under the House bill. It would also make permanent the $500 non-refundable child tax credit for each dependent of the taxpayer who is not a qualifying child of the taxpayer.

The Act permanently increases the non-refundable child tax credit to $2,200 for taxable years beginning after December 31, 2024, and permanently indexes that credit amount for inflation beginning after tax year 2025. In addition, it makes permanent the refundable child tax credit of $1,400, adjusted for inflation ($1,700 in 2025). It also makes permanent the increased income phase-out threshold amounts of $200,000 ($400,000 in the case of a joint return), as well as the $500 non-refundable credit for each dependent of the taxpayer other than a qualifying child.

Adoption credit: Existing law allows eligible taxpayers to claim a nonrefundable credit, up to an annually adjusted maximum amount and subject to AGI limitations, for qualified adoption expenses. The House-passed bill would make the adoption tax credit partially refundable up to $5,000 (indexed for inflation) beginning in tax years starting after December 31, 2024. The refundable portion of the credit cannot be carried forward. The Act makes no material changes to the House-passed language.

Recognizing Indian tribal governments for purposes of determining whether a child has special needs for purposes of the adoption credit: Under current law, state governments can determine whether a child has “special needs” for purposes of the adoption tax credit. The Act provides Indian tribal governments the same ability as state governments to determine whether a child has special needs for the purposes of the adoption tax credit.

Social Security number requirement for American Opportunity and Lifetime Learning Credits: Under current law, a taxpayer is permitted the American Opportunity Tax Credit or Lifetime Learning Credit in a taxable year in respect of the education of an individual only if (among other requirements) the taxpayer includes on the taxpayer’s tax return for that year the taxpayer identification number (“TIN”) of that individual. The House-passed bill would replace the present law TIN requirement with a rule that a taxpayer is allowed the American Opportunity Tax Credit or Lifetime Learning Credit in a taxable year only if the taxpayer includes on the tax return for that year (1) the taxpayer’s Social Security number, (2) in the case of a joint return, the taxpayer’s spouse’s Social Security number, and (3) in respect of qualified tuition and related expenses of an individual other than the taxpayer or the taxpayer’s spouse (for example, a dependent child of a taxpayer parent), that individual’s name and Social Security number.

The Act includes the same provisions as the House-passed bill, except it would strike the explicit requirement for married taxpayers to include the taxpayer’s spouse’s Social Security number.

Updates to Earned Income Tax Credit ("EITC”): The House-passed bill would have required the Secretary of the Treasury to establish a program under which the Secretary is required to issue, in response to a taxpayer’s application with respect to a child, an EITC certificate to establish a child’s status as a qualifying child only of the taxpayer for a taxable year. The House bill would also increase the credit amount for specified Purple Heart recipients. However, the Act did not include a related provision.

Trump accounts: The Act establishes Trump accounts, treating these accounts similarly to traditional individual retirement accounts (IRAs) with the following notable features:

- Allow an annual non-deductible cash contribution of up to $5,000, indexed for inflation, prior to the year in which the account beneficiary reaches age 18.
- Allow a one-time employer contribution of $2,500 (indexed for inflation) per employee to the Trump account of an employee or any dependent of such employee, excludible from the employee’s income.
- Allow certain contributions by tax-exempt entities.
- No distributions allowed until the calendar year in which the account beneficiary reaches age 18.
- Provide for distinct rollover provisions specific to Trump accounts.

Trump accounts contribution pilot program: The Act provides for a pilot program for a government-funded one-time credit of $1,000 to the Trump account of each qualifying child of a taxpayer who is a child born after December 31, 2024, and before January 1, 2029, who is a US citizen at birth.

It also includes a special program that allows employers to make tax-free contributions of up to $2,500 (for 2026, adjusted for inflation for subsequent years) to the Trump accounts of its employees, or dependents of its employees. The program must be established through a written program and must meet certain requirements similar to the requirements applicable to Dependent Care Assistance Programs under section 129.

Estate and gift tax: The Act provides that the existing transfer tax architecture (the estate, gift and generation-skipping transfer taxes) be retained, with one modification: the basic exclusion amount (i.e., the amount that each citizen and US domiciled person is entitled to transfer either during life or, if otherwise unused, at death without incurring a current tax) and the generation-skipping transfer tax (GST) exemption (i.e., the amount that may be transferred to skip persons outright or in trust without giving rise to a present or future GST tax) would be increased to $15 million from its existing $10 million (before adjustment for inflation) for transfers occurring after December 31, 2025. The $15 million threshold would be indexed for inflation in years after 2026. Unlike the increase to the basic exclusion amount under current law, the $15 million is permanent and thus is not scheduled to revert to a lesser amount in the future.

Task force on termination of Direct File: The Act removed a provision in the House-passed bill terminating the Direct File program, which currently allows the IRS to prepare and file tax returns online for free for certain qualifying taxpayers in participating states. It, however, still requires the Department of Treasury to establish a task force that must report to Congress on the cost of a new public-private partnership to provide for free tax filing for up to 70 percent of all taxpayers. The report will also include taxpayer opinions and preferences regarding such a partnership in addition to an assessment of the feasibility and funding needed.

Excise tax on remittance transfers: New section 4475 of the Code (as well as new Subchapter C under Subtitle D, Chapter 36) creates a new excise tax on certain remittance transfers—defined as an electronic transfer of funds sent by a person in the United States to a recipient in another country. The excise tax encompasses 1 percent of the amount of any "remittance transfer." The "sender" of the remittance is required to pay the tax, but the amount of the tax is collected by the "remittance transfer provider." The remittance transfer provider must remit such collected taxes quarterly. If the remittance transfer provider fails to remit the collected tax, the remittance transfer provider becomes personally liable for the owed tax. Remittance transfers that violate the anti-conduit rules of section 7701(l) can be recharacterized as financing transactions.

The Act provides an exemption from the tax if a remittance transfer is drawn from funds held in an account with certain financial institutions described in the Bank Secrecy Act (specifically, 31 U.S.C. 5312(a)(2)(A-H). Such institutions include banks (both domestic and US branches of foreign banks), credit unions, thrifts, and brokers and dealers, and the relevant account must be subject to the reporting requirements of the Bank Secrecy Act (subchapter II of chapter 53 of Title 31). Similarly, no tax is required if the remittance transfer is funded by a debit card (including a prepaid card) or credit card issued in the United States.

Covered remittance transfers include where the sender provides cash, a money order, a cashier's check, or any other similar physical instrument to the remittance transfer provider. Terms related to remittances are defined by reference to existing 15 U.S.C. 1693o-1 and 1693o-2 (the Electronic Fund Transfer Act). Based on those definitions, a remittance transfer involves an electronic transfer of funds requested by a sender located in the US (or a US possession or territory) to a designated recipient located in a foreign country. A remittance transfer provider is any person or financial institution that provides remittance transfers for a natural person in the normal course of its business, whether or not the natural person holds an account with such person or financial institution. A sender is any natural person who requests a remittance provider to send a remittance transfer for the sender to a designated recipient. 15 U.S.C. 1693o-1 indicates that a remittance transfer does not involve transfers below a de minimis threshold— regulations under that section list the threshold as $15.

The Act is effective for transfers after December 31, 2025.

Reduction of transfer and manufacturing taxes for certain devices: The Act amends section 5811 so that the $200 transfer tax on each firearm transferred only applies in the case of a machine gun or a "destructive device," and the $5 transfer tax on any firearm classified as any other weapon under section 5854(a) is eliminated. It also amends section 5821, so the $200 tax imposed on each firearm made only applies to a machine gun or a "destructive device." The Act did not include the Finance Committee proposal that would have amended section 5841(f), related to registration of firearms. The amendments made by the Act apply to calendar quarters beginning more than 90 days after the date of enactment.

Educational assistance for student loan payments: Section 127 of the Code permits an employer to maintain an educational assistance program for the benefit of its employees. Under such a program, an employer can provide educational assistance (subject to certain qualification requirements related to the program) to its employees on a tax-free basis, up to a limit of $5,250 per year. The CARES Act added a temporary provision to section 127 (section 127(c)(2)(B)) to allow an employer to make payments on an employee's qualified educational loan, taken out by the employee for the employee's own education, on a tax-free basis. This particular provision was set to expire at the end of 2025. The Act amends section 127 to make this provision permanent.

Section 127(a)(2) imposes an annual limit of $5,250 that can be provided tax free under an educational assistance program. The Act provides for annual inflation indexation of this amount, beginning in years after 2026.

Enhancement of child and dependent care tax credit: A taxpayer with one or more qualifying individuals, such as a child or other dependent, may claim a credit against income tax liability for employment-related expenses for child and dependent care. The credit is calculated by multiplying the amount of qualifying expenses by the appropriate credit rate. The Act increases the maximum credit rate to 50 percent (currently 35 percent), reduced by one percentage point, but not below 35 percent, for each $2,000 or fraction thereof by which the taxpayer's AGI exceeds $15,000. For AGIs between $75,001 and $105,000 ($150,001 and $210,000, respectively, in the case of a joint return), the credit rate is further phased down to 20 percent. This provision is effective for taxable years after December 31, 2025.

Tax-exempt organizations

One percent floor on deduction of charitable contributions made by corporations: The Act is consistent with the Senate- and House-passed bills to amend section 170(b)(2)(A) to include a minimum threshold of charitable contribution which corporations must meet to take a charitable contribution deduction. Under newly modified section 170(b)(2)(A), a corporation generally would be allowed a deduction for charitable contribution only to the extent the aggregate charitable contributions exceeds 1 percent of a taxpayer's taxable income) and does not exceed 10 percent of the taxable income (i.e., if a taxpayer does not exceed the 1 percent floor, such amounts are permanently disallowed). However, the Act amends section 170(d)(2) to provide amounts disallowed by the 1 percent floor that can be carried forward only from years in which a taxpayer's charitable contributions exceed the 10 percent limit on charitable contributions. Therefore, if a taxpayer exceeds the 10 percent threshold, the 1 percent floor is not permanently disallowed and may be utilized in the five subsequent taxable years where the taxpayer exceeds the 1 percent floor. The changes apply to taxable years beginning after December 31, 2025.

Expanding application of tax on excess compensation within tax-exempt organizations: The Act aligns with the House-passed bill, in that it would remove limitations to and expand the definition of "Covered Employee" under section 4960(c)(2). The provision would remove the application of the definition to only the five highest compensated employees and removes the extension to covered employees in a prior taxable year to only taxable years beginning after December 31, 2016. As a result, a covered employee includes any employee of an applicable tax-exempt organization that receives remuneration in excess of $1 million.

The Act aligns with the House-passed bill and also limits the extension to covered employees in a prior taxable year to only taxable years beginning after December 31, 2016 and expand this definition to include employees or former employees of a predecessor tax-exempt organization.

Modification of excise tax on investment income of certain private colleges and universities: Like the House-passed bill, the Finance Committee proposed a higher tax on the investment income of certain private colleges and universities. It would also, like the House-passed bill, have provided that "qualified religious institutions" are excepted from the definition of an "applicable educational institution." The Finance Committee proposal would have further provided that "applicable educational institutions" are only schools that participated in US federal student aid programs in the tax year. The Act does not include either of these provisions. The definition of applicable education institution in the Act includes institutions with at least 3,000 tuition paying students, a change from the House-passed bill and Finance Committee proposal of 500 tuition paying students.

The Act replaces the existing flat excise tax of 1.4 percent in section 4968 with a tiered system ranging from 1.4 percent to 8 percent based on the institution's student-adjusted endowment, applicable for taxable years beginning after December 31, 2025:

- $500,000 to $750,000 = 1.4 percent
- $750,001 to $2,000,000 = 4 percent
- Greater than $2,000,000 = 8 percent

Unlike the Act, the House-passed bill would have amended the current 1.4 percent excise tax on net investment income framework for certain private colleges and universities with a tiered system ranging from 1.4 percent to 21 percent based on an institution's student-adjusted endowment. Additionally, both the House-passed bill and the Finance Committee proposal would have increased a school's net investment income by the amount of student loan interest income and certain royalty income. The Act is consistent with the House-passed bill and Finance Committee proposal in these provisions.

For purposes of calculating an institution's student-adjusted endowment, both the House-passed bill and the Finance Committee proposal would have amended such calculation by excluding students who are not either US citizens or other allowable individuals. This exclusion was not included in the Act.

The House-passed bill also included a number of provisions that were not addressed in the Finance Committee proposal, the Senate-passed bill, or the Act:

- Increase in rate of tax on net investment income of certain private foundations
- Certain purchases of employee-owned stock disregarded for purposes of foundation tax on excess business holdings
- Unrelated business taxable income increased by amount of certain fringe benefit expenses for which deduction is disallowed
- Exclusion of research income limited to publicly available research

Tax credit for contributions of individuals to scholarship granting organizations: The Act adds new section 25F, Qualified Elementary and Secondary Education Scholarships, to the Code, as well as new section 139K, Scholarships for Qualified Elementary or Secondary Education Expenses of Eligible Students. New section 25F allows a credit to citizens or residents of the United States (within the meaning of section 7701(a)(9)) in an amount equal to the aggregate amount of qualified contributions made in the form of cash by the taxpayer during the taxable year to a scholarship granting organization that uses the contributions to fund scholarships for eligible students within the state in which the organization is listed. The credit is limited to $1,700 per year for any taxpayer and is reduced by the amount allowed as a credit on any state tax return of the taxpayer for qualified contributions made by the taxpayer during the year. The new credit applies to taxable years ending after December 31, 2026.

Scholarships received from certain organizations: The House-passed bill would add new section 139K, exempting scholarship income received by dependents for qualifying elementary and secondary education expenses. This provision would apply to scholarship income received after December 31, 2025, and before January 1, 2030. The Finance Committee proposal would make this new provision permanent—the Act made no changes to the Finance Committee proposal.

Accounting methods

Increased gross receipts threshold for small manufacturing businesses: Section 448(a) provides that, in general, a taxpayer that is a C corporation, a partnership which has a C corporation as a partner, or a tax shelter must use an accrual method of accounting. Section 448(b)(3) provides an exception to the general rule and allows a C corporation or a partnership with a C corporation as a partner to use the cash method of accounting if such entity meets the gross receipts test of section 448(c). The gross receipts test under section 448(c) is satisfied if the average annual gross receipts of such entity for the three-taxable-year period ending with the taxable year which precedes such taxable year does not exceed $25 million, as adjusted for inflation. For tax years beginning in 2025, the inflation adjusted average annual gross receipts amount is $31 million.

Though the Act did not include a related provision, the proposal from the Ways and Means Committee would have amended section 448(c) by increasing the average annual gross receipts test for a manufacturing taxpayer from $25 million to $80 million, adjusted for inflation. A manufacturing taxpayer means a corporation or partnership substantially all the gross receipts of which during the three-taxable-year period ending with the taxable year which precedes the current taxable year are derived from the lease, rental, license, sale, exchange, or other disposition of qualified products. A qualified product is a tangible personal property which is not a food or beverage prepared in the same building that sells a similar property to the public and is produced or manufactured in a manner that results in a substantial transformation of the property comprising the product. The amendments would have applied to taxable years beginning after December 31, 2025.

Limitation on amortization of certain sports franchises: Section 197(a) generally allows a taxpayer to amortize the adjusted basis of certain acquired intangibles (i.e., a "section 197 intangible) ratably over a 15-year period beginning with the month in which such asset is acquired. A section 197 intangible includes: goodwill; going concern value; workforce; an information base; a patent, copyright, formula, process, design, pattern, know-how, format, or similar item; a customer-based intangible; a supplier-based intangible; a license, permit or other right granted by a governmental unit or agency; a covenant not to compete that is entered into in connection with the acquisition of an interest in all or a substantial part of a trade or business; and, a franchise, trademark, or trade name.

Though the Act did not include a related provision, the House-passed bill would have added new section 197(g) to exclude 50 percent of a taxpayer's amortization on specified sports franchise intangibles. New section 197(g)(3) would have defined "specified sports franchise intangibles" as any amortizable section 197 intangibles that is a franchise to engage in professional football, basketball, baseball, hockey, soccer, or other professional sport, or acquired in connection with such franchise. This amendment would apply to property acquired after the date of the enactment of the House proposal.

Health care

Health Savings Accounts (HSAs) are a custodial or trust account that is similar to an Individual Retirement Account (IRA) that can be used to pay healthcare expenses. Generally, eligible individuals and their employers can make tax-favored contributions to HSAs up to certain limits but only if the individual is covered by a high deductible health plan (HDHP) and is not covered under any other health plan. An HDHP is a health plan that meets certain annual deductible and out-of-pocket expense limits.

Under current law, a health plan is not an HDHP if it covers medical services (other than preventive services) before certain deductibles are satisfied. The Act provides that a plan does not fail to be an HDHP solely because it fails to have a deductible for telehealth and other remote care services.

Catastrophic health plans (that is, health plans that generally only protect against catastrophic medical conditions) and some bronze-level plans offered on an Exchange currently are not considered HDHPs because they do not meet the applicable out-of-pocket expense limits. The Act makes these plans HDHPs for purposes of the HSA rules.

Coverage under a direct primary care (DPC) arrangement (for example, a concierge medical practice) is generally treated as coverage under a health plan that will disqualify an individual from being able to make or receive tax-favored contributions to an HSA, even if the individual is also covered under an HDHP. The Act provides that certain coverage under certain DPC arrangements would not disqualify an individual from making or receiving contributions under an HSA and would allow HSA funds to be used to pay for such DPC fees. It limits the amount that can be used for this purpose to $150 per month for individuals or $300 per month for families, adjusted annually for inflation.

State tax issues raised by federal tax reform

Many state corporate income tax regimes are affected by federal tax law changes because states conform to the Internal Revenue Code for purposes of administrative ease by either incorporating the IRC in whole or in part, or by using federal taxable income as the starting point. Generally, states that incorporate the IRC either: (1) conform to the IRC as of a specific date ("Fixed Date Conformity"); or (2) automatically follow the version of the IRC in effect for the current tax year ("Rolling Conformity"). However, some states, like California, only selectively conform to specific IRC provisions ("Selective Conformity").

While Rolling Conformity states may choose to later decouple from any IRC provisions enacted by Congress through state legislative action, the Fixed Date Conformity states would continue to use a version of the IRC prior to the amendments in the new law unless and until they updated their conformity date. These differences can lead to different tax outcomes at the state level when compared to federal.

Specific provisions with potential state nonconformity:
Provisions which may create a federal/state disconnect in Fixed Date Conformity states include (but are not limited to) the following:

- *GILTI/FDII:* Certain states may continue to follow the lower deduction percentages prescribed in section 250 for years 2026 and later instead of the 40 percent and 33.34 percent deduction amounts for GILTI and FDII respectively.
- *Section 163(j):* Certain states may continue to require the computation of adjusted taxable income without additions for depreciation, amortization, and depletion.
- *Section 174:* Certain states may continue to require amortization for domestic research expenditures during the period that they are not required to do so for federal tax purposes.
- *Section 168(n):* Certain states may not allow the full expensing of "qualified production property" under new 168(n).

Financial reporting implications

On July 4, 2025, President Trump signed into law the Act which has the potential to affect the financial statements of many organizations. US GAAP (ASC 740, Income Taxes) requires entities to recognize the effects of new income tax legislation in the interim and annual reporting period in which the legislation is enacted. The income tax effects of a change in tax law on deferred tax assets and liabilities as of the enactment date are allocated to continuing operations and recognized as a discrete item in the period of enactment. The income tax effects of a change in tax law on current taxes related to current year ordinary income are included in the annual effective tax rate (AETR), beginning in the period of enactment. Similarly, the income tax effect of a change in tax law on deferred taxes arising subsequent to the enactment date and related to ordinary income are included in the AETR beginning in the period of enactment.

An entity with an annual or interim reporting period ending *before* July 4, 2025 (e.g., Q2 for calendar year-end entities), should not recognize the income tax effects of the Act in such interim or annual period's financial statements. However, entities should consider the subsequent-event guidance in ASC 855 to determine the extent of disclosures required in interim and annual financial statements issued or available to be issued on or after July 4, 2025. ASC 855-10-50 provides that some non-recognized subsequent events must be disclosed to keep the financial statements from being misleading. In such cases, an entity should disclose both "[t]he nature of the event" and "[a]n estimate of its financial effect, or a statement that such an estimate cannot be made."

Additionally, SEC Regulation S-K, Item 303(a) requires SEC registered entities to provide certain forward-looking information in certain prescribed items in Forms 10-Q and 10-K outside of the financial statements related to "material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition." Accordingly, entities with periods ending both before and after the enactment date should consider disclosing, when material, the anticipated future impact of the income tax effects of the Act on their results of operations, financial position, liquidity, and capital resources.

Appendix

How Congress got to "yes": Tax relief provisions compared

The table that follows compares the provisions in the tax relief law as enacted with those in the House version of the bill (approved on May 22, 2025), and the Internal Revenue Code provisions in effect for 2025.

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Research and experimental expenditures (sec. 174)	Section 174 requires specified research and experimental (SRE) expenditures paid or incurred in tax years after December 31, 2021, to be capitalized and amortized ratably over five years (domestic) or 15 years (foreign)	Suspended mandatory capitalization and amortization requirements for domestic SRE expenditures paid or incurred in tax years beginning after December 31, 2024, and before January 1, 2030 Added new section 174A that allows an immediate deduction for domestic SRE expenditures paid or incurred during the tax year, effective for tax years beginning after December 31, 2024, and sunsetting for tax years beginning after December 31, 2029 Optional capitalization and amortization of domestic SRE expenditures over no less than 60 months Election under section 59(e) to capitalize and ratably deduct domestic SRE expenditures over 10 years Treatment of foreign SRE expenditures unchanged Certain states may continue to require amortization for domestic research expenditures during the period that they are not required to do so for federal tax purposes (e.g., Florida and North Carolina)	Permanently added new section 174A that allowed an immediate deduction of domestic SRE expenditures paid or incurred in tax years beginning after December 31, 2024 Optional capitalization and amortization of domestic SRE expenditures over no less than 60 months Election under section 59(e) to capitalize and ratably deduct domestic SRE expenditures over 10 years Special transition rules to elect to deduct unamortized amounts paid or incurred in tax years beginning before January 1, 2025, over one or two tax years Special transition rules for small businesses to elect to retroactively apply section 174A for tax years beginning after December 31, 2021 Treatment of foreign SRE expenditures unchanged Certain states may continue to require amortization for domestic research expenditures during the period that they are not required to do so for federal tax purposes (e.g., Florida and North Carolina)

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Business interest limitation (sec 163(j))	Limitation on deduction for business interest expenses paid or accrued for the tax year; limited to business income + 30% of adjusted taxable income (ATI) + floor plan financing interest; disallowed interest is carried forward indefinitely Did not address business interest that is subject to a capitalization provision	Modified ATI; reinstated calculation of ATI with earnings before interest, taxes, depletion, depreciation, and amortization (EBITDA) (effective for tax years beginning after December 31, 2024, and before January 1, 2030, then compute ATI without deduction for depreciation, amortization, or depletion) Permanently expanded definition of "motor vehicle" for floor plan financing to include trailer and camper (effective for tax years beginning after December 31, 2024) Certain states may continue to require the computation of ATI without additions for depreciation, amortization, and depletion (i.e. Florida, North Carolina for corporate taxpayers and Massachusetts, New Jersey, and Pennsylvania for non-corporate taxpayers)	Permanently reinstated calculation of ATI to align with EBITDA (effective for taxable years beginning after December 31, 2024); included an adjustment to disregard income inclusions under section 951(a), 951A(a), 78 (and corresponding deductions under sections 245A(a) and 250(a)(1)(B)) (effective for taxable years beginning after December 31, 2025) Expanded definition of "motor vehicle" for floor plan financing to include trailer and camper, similar to the House bill (effective for tax years beginning after December 31, 2024) Included provision providing that section 163(j) interest limitation applies to business interest that is capitalized, unless the business interest is subject to capitalization under sections 263(g) or 263(f) (effective for taxable years beginning after December 31, 2025) Certain states may continue to require the computation of ATI without additions for depreciation, amortization, and depletion (i.e. Florida, North Carolina for corporate taxpayers and Massachusetts, New Jersey, and Pennsylvania for non-corporate taxpayers)
Bonus depreciation for qualified property	100% expensing for qualified property placed in service after September 27, 2017, and before January 1, 2023, then phased down by 20% for each calendar year (80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026); phase-out for property with longer production periods began in 2024	Reinstated 100% expensing for qualified property acquired and placed in service after January 19, 2025, and before January 1, 2030 (or January 1, 2031, for property with longer production periods) Modified applicable percentage to 0% for property acquired before January 20, 2025, and placed in service after December 31, 2026 (or December 31, 2027, for longer production period property)	Made permanent 100% expensing for qualified property acquired and placed in service after January 19, 2025

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Bonus depreciation for nonresidential real property used in qualified production activities (sec. 168(n))	No provision	Added new section 168(n) that allows a taxpayer to elect to apply 100% expensing on "qualified production property" defined as: • Portion of nonresidential real property used as an integral part of a qualified production activity • Original use commences with taxpayer • Construction must begin after January 19, 2025, and before January 1, 2029 • Placed in service in the US, or a possession thereof, before January 1, 2033 (Excludes certain property used for offices, administrative services, lodging, parking, sales activities, research activities, and software or engineering activities) "Qualified production activity" defined as manufacturing, production, or refining of a qualified product (production limited to agricultural production and chemical production activities) "Qualified Product" is any tangible personal property For acquired nonresidential real property, such property is treated as originally used by the taxpayer if such property was not previously used in qualified production activity between January 1, 2021, and May 12, 2025 Depreciation recapture rules apply if property ceases to be used in qualified production activity within 10 years of when property is placed in service Certain states may not allow the full expensing of "qualified production property" under new 168(n) (ex. all fixed-date states)	The same as House bill except for the following: The qualified production property has to be placed in service before January 1, 2031 Lessor cannot consider lessee's use of property as part of qualified production activity "Qualified Product" is any tangible personal property that is not a food or beverage prepared in a retail establishment For acquired nonresidential real property, such property is treated as originally used by the taxpayer if such property was not previously used in qualified production activity between January 1, 2021, and May 12, 2025, but only if such property was not used by the taxpayer prior to acquisition and certain acquisition rules are satisfied Certain states may not allow the full expensing of "qualified production property" under new 168(n) (ex. all fixed-date states)

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Expensing of certain depreciable assets (sec. 179)	$1 million limitation, reduced by cost of qualifying property placed in service in the tax year that exceeds $2.5 million; indexed for inflation after 2018 (in 2025, threshold is $1.25 million, and phase-out threshold is $3.13 million)	Permanently amended sections 179(b)(1) and (2) to increase the dollar limitation to $2.5 million and phase-out threshold to $4 million, indexed for inflation after 2025 Effective for property placed in service in tax years beginning after December 31, 2024	Same as House bill
Excess business losses of non-corporate taxpayers	Disallowed and carried forward as a Net Operating Loss (NOL) in the subsequent year (set to expire on or after January 1, 2029)	Permanently extended (limits business losses, including NOLs carried forward that may offset nonbusiness income after December 31, 2025)	Permanently extends current law such that excess business losses continue to be carried forward as a NOL in the subsequent year Adjusts the $250,000 / $500,000 limitation amounts in accordance with 2024 base amounts (rather than 2017), effective for tax years beginning after December 31, 2025
Sound recording production (sec. 181)	Deduct up to $15 million of qualified film, television, or live theatrical production costs on a per-production basis if such production begins before January 1, 2026 ($20 million in a low-income community/distressed area) Capitalize and depreciate production costs in lieu of the deduction. Section 168(k) requires taxpayers to claim bonus depreciation, with an annual phasedown, sunset to 0% for property placed in service in tax years beginning after December 31, 2026.	Added an election to deduct costs of qualified sound recording production up to $150,000 of the aggregate cost of any or all qualified sound recording production in the taxable year if production commences before January 1, 2026 A "qualified sound production recording" is a sound recording produced and recorded in the US Amended section 168(k) to include qualified sound recording productions placed in service before January 1, 2029, as qualified property eligible for bonus depreciation for production costs that are capitalized and depreciated Effective for productions commencing in taxable years ending after the date of the enactment of the Act	The same as House bill except there is no requirement in the amendment to section 168(k) that the qualified sound recording productions be placed in service before January 1, 2029, to be qualified property eligible for bonus depreciation

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Certain executive compensation to controlled group	Section 162(m) limits the annual employer tax deduction for compensation paid to a covered employee of a publicly held corporation to $1 million, unless the remuneration is grandfathered from application of section 162(m) under TCJA provisions Under Section 162(m)(3), a covered employee is: A. The principal executive officer or the principal financial officer of the taxpayer at any time during the taxable year, or was an individual acting in such capacity B. An employee that is among the three most highly compensated executive officers C. In the case of taxable years beginning after December 31, 2026, an employee that is among the five highest compensated employees for the taxable year other than any individual described in (A) or (B) above, or D. For any taxable year beginning after December 31, 2016, any individual described in (A) or (B) above that is subject to the “once a covered employee, always a covered employee” rule	Added entity aggregation rule to section 162(m); payments to “specified covered employees” made by any controlled group member are aggregated and if aggregate exceeds $1 million, then the deduction limit in excess of $1 million would be allocated pro rata to each controlled group member, based on percentage of total compensation paid by each controlled group member (effective after December 31. 2025); controlled group determined under sections 414(b), (c), (m), and (o) The term “specified covered employee” means with respect to any controlled group 1. Those employees described under Section 162(m)(3)(A), (B) or (D) with respect to the publicly held corporation and 2. The highest five paid employees identified under section 162(m)(C) taking into account the employees of all members of the controlled group	Same as House bill
Depreciation of energy property (sec. 168(e)(3)(B)	Five-year MACRS recovery period for property described in section 48(a)(3) and wind generation facilities	No provision	Amends section 168(e)(3)(B)(vi) to strike the provision referencing section 48(a)(3) and addressing certain wind generation facilities for property the construction of which begins after December 31, 2024. This effective date is the same as the various termination dates of section 48(a)(3). No effect on section 168(e)(3)(B)(viii) providing five-year MACRS for any qualified facility (as defined in section 45Y(b)(1)(A)), any qualified property (as defined in section 48E(b)(2)) which is a qualified investment (as defined in section 48E(b)(1)), or any energy storage technology (as defined in section 48E(c)(2))

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Qualified Opportunity Zone (QOZ) program (sec. 1400Z)	Qualified opportunity zones (QOZs) are eligible census tracts that have been nominated by state governors and certified by Treasury as eligible areas for qualified investments. Investments in qualified opportunity funds (QOFs) are entitled to tax benefits at the taxpayer's election. There are currently 8,764 certified qualified opportunity zone ("QOZ") census tracts in the US and five US territories These tax benefits include: • A temporary deferral of the capital gain reinvested in the QOZ (the "rollover gain") • A permanent 10% or 15% reduction in the amount of such gain that must be recognized if the investment is held for five or seven years, respectively • A permanent exclusion of future gains resulting from the investment in the QOZ if the investment is held at least 10 years To qualify, the rollover gain is generally required to be invested in a QOF during a 180-day period that begins on the date of the sale or exchange that generated the gain. All rollover gain generated before January 1, 2027, must be invested into a QOF by June 30, 2027. Gain deferral lasts until the earlier of the sale or exchange of the investment, or December 31, 2026 Low-income communities ("LICs") eligible for nomination as a certified QOZ include any census tract with: • Poverty rate of at least 20% • Median family income does not exceed 80% of statewide median family income (or if greater, for census tracts in metropolitan areas, 80% of median family income within that area)	Extends the QOZ incentive by seven years, permitting investments in QOZs to be made until December 31, 2033 Creates a second round of QOZs beginning in 2027, with all previously designated QOZs sunsetting after 2026 For second round QOZ designations, the definition of LIC is narrowed to census tracts that have a poverty rate of at least 20% or a median family income that does not exceed 70% of the area median income. A LIC does not include any census tract where the median family income is 125% or greater than the area median family income. State CEOs are limited to nominating only up to 25% of the LIC census tracts within a state, are prohibited from nominating any non-LIC contiguous tracts, and must apply special rules intended to increase the number of rural areas nominated when seeking certification of second round QOZ designations from Treasury Second round QOZ designations must occur during the period that includes 90 to 120 days after the date of enactment Establishes the creation of rural qualified opportunity funds ("RQOFs"). Qualified investments made into RQOFs receive a single 30% basis step-up, if the RQOF investment is held for at least five years through 2033 Qualified investments made into QOFs receive a 10% step-up if held for at least five years through 2033, but there is no additional 5% basis increase The gain deferral period ends on December 31, 2033	Establishes a permanent qualified opportunity zone ("QOZ") program that builds off the version originally enacted in 2017 with several modifications New QOZ designations would be made on a rolling 10-year basis beginning July 1, 2026, and each decennial July 1 thereafter effective on the "applicable start date," defined as the January 1 following the date on which such QOZ was certified and designated by the Treasury Secretary The definition of LICs is narrowed to census tracts that have a poverty rate of at least 20% or a median family income that does not exceed 70% of the area median income. In addition, a LIC does not include any census tract where the median family income is 125% or greater than the area median family income. Generally, preserves the three taxpayer benefits achieved by making an investment in a QOF, at the taxpayer's election: • A temporary deferral of the capital gain reinvested in the QOZ • A permanent 10% reduction (decreased from the maximum of 15% under the originally enacted QOZ program) in the amount of such gain that must be recognized if the investment is held for at least five years • A permanent exclusion of future gains resulting from the investment if the investment is held for at least 10 years Retains a similar newly established RQOF provision as provided in the House bill increasing the permanent reduction in the amount of deferred gain that must be recognized (i.e., 30% basis step-up rather than 10%) if the investment is held for at least five years Retains a similar provision as the House bill that reduces the substantial improvement threshold to 50% (from 100%) for the substantial

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
		As under current law, if a qualified investment made into the RQOF or QOF is held for at least 10 years, taxpayers may make a full basis step-up election upon the sale or exchange of the qualified investment A special provision permits taxpayers to invest up to $10,000 of previously taxed ordinary income (rather than capital gain) into a QOF or RQOF. Although those qualified investments are not eligible for deferral or basis step-up, the taxpayer remains eligible for the back-end step-up to FMV of its qualified investment when the investment is sold or exchanged provided it has been held for a period of at least 10 years Another special provision reduces the 100% substantial improvement threshold to 50% for existing non-original-use QOZ buildings including data centers located in rural areas	improvement of existing buildings located in rural areas with an immediate effective date upon enactment Retains additional reporting requirements as included in the House bill requiring taxpayers and Treasury to comply with several new reporting requirements intended to provide greater transparency with respect to the economic impacts achieved from the QOZ program
Payments from partnerships to partners for property/services	Section 707(a)(2) provides that "under regulations prescribed by the Secretary," certain transactions between a partner and a partnership (or two or more partners) are treated as occurring between the partnership and a person who is not a partner (or two or more partners acting other than in their capacity as partners)	Replaced "Under regulations prescribed by the Secretary" with "Except as provided by the Secretary" as the introduction to the section 707(a)(2) rules	Same as House bill
Taxable REIT subsidiary asset test threshold	A REIT may not own securities of one or more taxable REIT subsidiaries representing more than 20% of its assets at end of each calendar quarter	25% threshold (effective beginning after December 31, 2025)	Same as House bill

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Qualified business income (QBI) deduction (sec. 199A)	20% deduction for domestic business profits, subject to certain limitations	Modified section 199A: • Made permanent deduction for QBI • Increased deduction to 23% • Adjusted phase-in limitations by using two-step process for taxpayers whose taxable income exceeds threshold amount (limitations phase-in at fixed rate) • Include qualified BDC (business development company) interest dividends with REIT and PTP (publicly traded partnership) income used to calculate Combined QBI calculation • Indexed threshold amounts for inflation beginning after 2025 Applies to taxable years beginning after December 31, 2025	Modified section 199A: • Makes permanent 20% deduction for QBI • Adjusted phase-in limitation range from $100,000 to $150,000 for joint returns (in the case of non-joint returns from $50,000 to $75,000 Provides a $400 minimum deduction, indexed for inflation, for active QBI Applies to taxable years beginning after December 31, 2025
Passthrough entity tax (PTET)	IRS Notice 2020-75 provided a workaround mechanism allowing passthrough entities to pay state and local income taxes at entity level (rather than at individual-owner level) in response to $10,000 cap on state and local tax (SALT) deductions	Reversed IRS Notice 2020-75 to repeal PTET workarounds; permitted passthrough entities operating a trade or business to continue to deduct certain SALTs under limited circumstances; excluded most service businesses, including investment management, by referencing section 199A definitions; treated "substitute payments" as specified taxes subject to limitation • Amended section 702 to require any state, local, and foreign tax expenses to be separately stated by partnerships • Modified section 703 to disallow deduction of such taxes at partnership level, with some exceptions • Subjected state, local, and foreign tax deductions or credits to basis limitation rule of section 704(d)	Does not contain provisions addressing treatment of PTET regimes or other state and local taxes paid by passthrough entities

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
		Established new section 6659 that would impose a tax on partners benefiting from a "state and local tax allocation mismatch" Effective for tax years beginning after December 31, 2025	
Exclusion of interest on loans secured by rural or agricultural real estate	Interest income is included in gross income	Excluded 25% of interest received by a qualified lender on a qualified real estate loan from gross income Qualified real estate loan is any loan secured by rural or agricultural real estate or leasehold mortgage on rural or agricultural real estate made after enactment but before January 1, 2029; loan cannot be made to a specified foreign entity Qualified lender defined to include only certain insurance companies and banks	Same as House Bill but the Senate Bill made the provision permanent
Hydrogen storage, carbon capture added to income of certain partnerships (sec. 7704)	Section 7704(d)(1)(E) provides that qualifying income for certain publicly traded partnerships includes, among other things, income and gains from the exploration, development, mining or production, processing, refining, transportation, or marketing of any mineral or natural resource, industrial source carbon oxide, or transportation or storage of certain fuels	Amended section 7704(d)(1)(E) to include in "qualifying income" income and gains derived from: • Transportation or storage of sustainable aviation fuel (SAF) or liquified or compressed hydrogen, or, • Certain qualified facility at which CO2 is captured	Retains the House-passed bill's amendments to the term "qualifying income" and extends the treatment to income and gains derived from: • Production of electricity from any advanced nuclear facility • Production of electricity or thermal energy exclusively using geothermal energy or hydropower • Operation of geothermal energy or geothermal heat pumps
Backup withholding	Payors must obtain payee's taxpayer identification number (TIN) for 1099-reportable payments (backup withholding applies if TIN not provided); withheld amount is based on 4th lowest rate under section 1(c) (24% through 2025)	Permanently extended 24% rate Raised backup withholding threshold in section 6041 to require reporting for $2,000 or more in payments for 2026 (after 2026, $2,000 threshold will rise with inflation) Modified backup withholding threshold for 1099-NEC reporting for nonemployee compensation to reference new threshold in section 6041	Same as House bill

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
		Modified backup withholding threshold for 1099-K reporting to reference $20,000 and 200 transactions	
Miscellaneous payments by payors	Reporting payments on 1099-MISC required payments of fixed or determinable gains, profits, and income under section 6041; No reporting required for less than $600 1099-NEC reporting under section 6041A for nonemployee compensation threshold is $600	Raised threshold in section 6041 to require reporting for $2,000 or more in payments for 2026 (after 2026, $2,000 threshold will rise with inflation) Modified threshold for 1099-NEC reporting for nonemployee compensation to reference new threshold in section 6041	Same as House bill
Third-party settlement organizations (TPSO)	1099-K reporting required for TPSOs under section 6050W Original threshold: more than 200 transactions and $20,000/year ARPA lowered this threshold: reporting is required for payments made over $600, with no transaction minimum	Reverted threshold back to $20,000 and 200 transactions	Same as House bill
Exception for percentage of completion method for certain residential construction contracts	The percentage of completion method is not required to determine taxable income from home construction contracts	No provision	The Act expands the types of residential construction contracts that may be eligible for the exception from the requirement to report taxable income on the percentage of completion method, such as a developer of multi-unit residential buildings that contain more than four units
Treatment of intangible drilling costs under the book minimum tax	None	None	Added an adjustment to reduce adjusted financial statement income by the deduction allowed for intangible drilling and development costs for regular tax and disregard depletion expenses for intangible drilling and development costs taken on the applicable financial statement
Business meals	Section 274(n)(1) currently limits the amount of meal expenses allowed as a deduction to 50% of the amount of such expenses paid or incurred Any employer provided meals incurred and paid after December 31, 2025, are not deductible	Provided an exception to denial of deduction for business meals that are sold by the taxpayer in a bona fide transaction	The Act permanently maintains the current laws and exceptions; it also generally is the same as House bill, but added that meals provided on certain fishing boats and at certain fish processing facilities are exempted from the 50% limitation rule and the disallowance of

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
			employer provided meals rule The amendments apply to amounts paid or incurred after December 31, 2025
Litigation financing	A third party who finances litigation could in some cases have the potential for long-term capital gain upon receipt of litigation proceeds (in the case of a domestic investor) and no US withholding tax (in the case of a foreign investor)	No provision	No provision
Permanent increase in limitation on cover over of tax on distilled spirits	Section 7652(f) imposes a limitation on the amount of excise tax imposed under section 5001 on distilled spirits that can be "covered over" (i.e., transferred) into the treasuries of Puerto Rico and the Virgin Islands. The limitation is the lesser of $10.50 per proof gallon ($13.25 in the case of distilled spirits brought into the United States after June 30, 1999, and before January 1, 2022) or the tax imposed under section 5001(a) on each proof gallon, determined as if the reduced rates in section 5001(c)(1) do not apply.	No provision	Amends section 7652(f)(1) to permanently increase the $10.50 per proof gallon amount to $13.25 per proof gallon. Effective for distilled spirits brought into the US after December 31, 2025.
Spaceports treated like airports under exempt facility bond rules	No provision	No provision	Treats spaceports like airports under the exempt facility bond rules. Adds a special rule for the treatment of spaceport ground leases for land leased by a governmental unit from the US and defines "spaceport" as any facility located at or in close proximity to a launch site or re-entry site. Also provides an exception for spaceports from federally guaranteed bond prohibitions. Applies to obligations issued after enactment.

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Employee retention tax credit (ERTC)	Refundable credit for 2020-Q3-2021 designed for eligible businesses and tax-exempt organizations that retained employees during COVID-19 pandemic Assessment statute of limitations for 2020 and Q1-Q2 2021 ERTC claims to three years from the later of: • The date of filing of the original quarterly return • April 15th of the year following the end of the calendar year Assessment statute of limitations for Q3-2021 ERTC claims to five years from the later of: • The date of filing of the original quarterly return • April 15th of the year following the end of the calendar year	Revised penalty for aiding and abetting the understatement of a tax liability would be increased for ERTC promoters to greater of $200,000 ($10,000 for a natural person) or 75% of gross income derived from aid, assistance, or advice related to ERTC claims $1,000 penalty (ERTC promoters for each failure to comply with due diligence requirements) Treated ERTC claims as a listed transaction and reportable transaction for promoter and treated promoters as a material advisor for such claims ERTC promoters meet certain requirements: • Charges fees based on ERTC claim amounts and earns over 20% of gross receipts from such services, or • ERTC-related services make up over 50% of gross receipts or exceed 500,000 and more than 20% of gross receipts Refunds claimed after January 31, 2024, would be disallowed Extended assessment statute of limitations for ERTC claims to the six years from the later of: • The date of filing of the original quarterly return • April 15th of the year following the end of the calendar year • The date for ERTC claim was made Extended period for taxpayers to file a refund claim for amounts attributable to a deduction for improperly claimed ERTC wages until the end of the same six-year assessment statute	$1,000 penalty (ERTC promoters for each failure to comply with due diligence requirements for Q3 2021 ERTC claims) ERTC promoters meets certain requirements: • Charges fees based on ERTC claim amounts and earns over 20% of gross receipts from such services, or • ERTC-related services make up over 50% of gross receipts, or exceed 500,000 and more than 20% of gross receipts Q3 2021 refunds claimed after January 31, 2024, would be disallowed Extended assessment statute of limitations for Q3 2021 ERTC claims to the six years from the later of: • The date of filing of the original quarterly return • April 15th of the year following the end of the calendar year • The date the ERTC claim was made Extended period for taxpayers to file a refund claim for amounts attributable to a deduction for improperly claimed Q3 2021 ERTC wages until the end of the same six-year assessment statute

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
Employer-provided childcare credit (sec. 45F)	Provides a credit up to $150,000/ year to offset 25% of qualified childcare facility expenditures and 10% of qualified childcare resource and referral expenditures Qualified childcare facility expenditures include costs related to acquiring, constructing, rehabilitating, or expanding a facility as well as operating expenses	Increased credit to 40% of qualified childcare expenditures (50% for eligible small businesses); increased maximum allowable credit to $500,000 ($600,000 for an eligible small business); subject to inflation adjustment Added definition of "eligible small business" and clarified that joint ownership or operation doesn't disqualify facility as a qualified childcare facility	Same as House bill
Paid family and medical leave credit (sec. 45S)	For wages paid after December 31, 2017, and before January 1, 2026, eligible employers can claim a business credit of 12.5% on wages paid to qualifying employees while on family and medical leave (if payment rate under the program is 50% of the wages normally paid to an employee); credit is increased by .25% (but not above 25%) for each percentage point by which the rate of payment exceeds 50%	Made credit permanent Employer can elect credit in an amount equal to either, but not both, of the following: • Applicable percentage of wages paid to qualifying employee for any period in which such employee is on family and medical leave, or • If employer has an insurance policy for paid family and medical leave: applicable percentage of total of premiums paid or incurred by such employer during the year with respect to the policy Applicable percentage for an insurance policy is equal to 12.5% (if program payment rate is 50%) and is increased by .25% (but not above 25%) for each percentage point by which the rate of payment exceeds 50% of wages normally paid Modified aggregation rule to determine whether persons are treated as a single employer by changing references from section 52(a) and (b) to section 414(b) and (c) and provides an exception for any person with a substantial and legitimate business reason for failing to provide a written leave policy that meets certain requirements	Same as House bill

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
		The definition of a qualifying employee is modified to: (1) allow taxpayers to elect a shorter tenure of six months or more to determine qualifying employee eligibility, (2) allows compensation to be considered on a pro-rata basis for part-time employees, and (3) requires the employee to be customarily employed for not less than 20 hours per week No deduction allowed under section 280C for the portion of premiums equal to that portion of paid family and medical leave credit claimed under new section 45S(a)(1)(B)	
Low-income housing tax credit (LIHTC) (sec. 42)	Provides a credit over 10 years equal to the applicable percentage of the qualified basis of each qualified low-income building for costs of building or rehabilitating residential low-income rental buildings The applicable percentage is calculated to yield a present value of either 70% (for new, non-federally subsidized buildings) or 30% (for existing buildings and federally subsidized new buildings) of the qualified basis over 10 years The minimum credit rate is 9% for new, non-federally subsidized buildings, and 4% for other buildings placed in service after certain dates For any calendar year, the total amount of housing credits available for allocation by a state is limited to the state housing credit ceiling For projects that are bond-financed, at least 50% of the aggregate basis of the building and land must be financed with bonds that are subject to a state's private activity bond volume cap	Temporarily increases the state housing credit ceiling for allocation of the 9% LIHTC by 12.5% for calendar years 2026 through 2029 Temporarily increases availability of 4% LIHTC for projects financed with tax-exempt private activity bonds by reducing the tax-exempt bond financing threshold from at least 50% of aggregate basis of building and land to 25% for tax-exempt private activity bonds issued between calendar years 2026 through 2029 Allows buildings placed in service between January 1, 2026, and December 31, 2029, in certain Native American areas and rural areas to be treated as located in "difficult development areas" for which taxpayers may be eligible for a 30% increase in the LIHTC for new buildings and existing buildings treated as separate buildings for purposes of the LIHTC	Permanently increases the state housing credit ceiling for allocation of the 9% LIHTC by 12% for calendar years after 2025 Increases availability of the 4% LIHTC for projects financed with tax-exempt private activity bonds by reducing the tax-exempt bond financing threshold from at least 50% of the aggregate basis of building and land to 25% for tax-exempt private activity bonds issued beginning in 2026

Business provisions in general

Provision	2025 law	House bill	Senate bill/Enacted legislation
New Markets Tax Credit (sec. 45D)	Section 45D provides a competitively awarded credit to taxpayers who make qualified equity investments in certified community development entities, which in turn use substantially all of the investment to make qualified low-income community investments in low-income communities or for the benefit of low-income persons Low-income communities are designated by the Community Development Financial Institutions Fund (CDFI) Credit is claimed over a seven-year period, with 5% of investment allowed as a credit in each of first three years, and 6% in each of the following four years, totaling 39% of the investment	No provision	Permanently extends the credit and establishes an annual pool of $5 billion of tax credit allocation investment authority each calendar year beginning after December 31, 2025

Energy credit provisions

<table>
<tr><th>Provision</th><th>2025 law</th><th>House bill</th><th>Senate bill/Enacted legislation</th></tr>
<tr><td>Prohibited foreign entities</td><td>Currently “foreign entity of concern” (FEOC) restrictions apply to sections 30D and 48D

Section 48D provides that an eligible taxpayer means any taxpayer which is not a FEOC; under section 30D, vehicles with any applicable critical minerals in the battery that are extracted, processed, or recycled by a FEOC or any component contained in the battery that is manufactured or assembled by a FEOC does not qualify for the credit</td><td>Added certain prohibited foreign entities (“PFE”) restrictions to sections 48E, 45Y, 45X, 45Q, 45U, 45Z, and 48 (only for geothermal heat pump (“GHP”) (collectively, “applicable credits”)

Added new section 7701(a)(51) and (52) defining the terms “prohibited foreign entity” and “material assistance from a prohibited foreign entity”

Following restrictions apply for the applicable credits:
• For tax years beginning after enactment, taxpayers that are “specified foreign entities” are not eligible for the credit
• For tax years beginning two years after enactment, taxpayers that are “foreign influenced entities” are not eligible for the credit

Additional restrictions for sections 48E, 45Y, and 45X:
• For any tax years beginning two years after enactment, taxpayers that make certain fixed, determinable, annual or periodic payments to PFE are not eligible for the credit

Additional restrictions for section 48E and 45Y:
• Disallows the credit for any facilities for which construction begins after 2025 and for which taxpayers receive material assistance from PFE

Additional restrictions for section 45X only:
• For tax years beginning two years after enactment, disallows the credit for any component which includes material assistance from a PFE or is produced subject to certain licensing agreement</td><td>45Y, 45X, 45Q, 45U, and 45Z for tax years beginning after enactment

Taxpayers that are “foreign influenced entities” are not eligible for sections 48E, 45Y, and 45X credits for tax years beginning after enactment. For the credits under sections 45Q, 45U, and 45Z, taxpayers that are “foreign influenced entities” (without applying the effective control payment rule) are not eligible for such credits for tax years beginning two years after enactment.

Disallows credits under 48E, 45Y, or 45X for facilities or energy storage technologies for which construction begins or eligible components produced after 2025 and for which taxpayers receive material assistance from PFE</td></tr>
</table>

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Clean electricity production credit (sec. 45Y)	Section 45Y provides a credit for any clean electricity production facility that has a zero GHG emissions rate and is placed in service after 2024 Credit begins to phase-out for facilities the construction of which begins after the applicable year, which is the later of 2032 or the year in which the annual GHG emissions from the US electricity production is at or below 25% of such emissions in 2022 Credit is reduced by: • 25% if the construction begins during the second calendar year following the applicable year • 50% if the construction begins during the third calendar year following the applicable year • 100% if the construction begins after the third calendar year following the applicable year	Credit termination for advanced nuclear facilities (including expansions) based on start of construction after 2028 Credit termination for all other technologies based on start of construction more than 60 days after enactment or placed in service after 2028 Credit termination for certain leased residential clean energy property (solar water heating property, solar electric property, small wind energy property) placed in service in taxable years beginning after the date of enactment Adds certain restrictions relating to prohibited foreign entities (see rules above)	Credit termination for solar and wind facilities that begin construction more than 12 months after the date of enactment and are not placed in service before 2028 For solar and wind facilities that begin construction within 12 months after the date of enactment, these facilities must comply with the beginning of construction continuity rules to qualify for the credit For all other qualifying technologies, the credits are subject to an accelerated phase-out based on the calendar year construction of the facility began: 2034 (75%), 2035 (50%), and after 2035 (0%) The Senate bill retains the House bill credit termination rules for certain leased residential clean energy property but modifies it to exclude solar electric property. That means residential rooftop solar installations are exempted from the leasing prohibition. For purposes of determining the greenhouse gas emissions rates for types and categories of facilities, the Secretary must also consider studies, published on or before the date of enactment, which demonstrate a net lifecycle greenhouse gas emissions rate which is less than zero, using widely accepted lifecycle assessment standards, such as standards developed by the International Organization for Standardization Expands the definition of an energy community solely for advanced nuclear facilities to include MSAs with at least 0.17% direct employment related to the advancement of nuclear power Whether the expansion of facility and incremental production under section 45Y(b)(1)(C) results in the addition of capacity of the facility may be determined in any reasonable manner, including based on: determinations by the Federal Energy Regulatory Commission, the Nuclear Regulatory

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
			Commission, or any similar entity; determinations by an independent professional engineer; reports to or issued by regional transmission organizations or other operators; or any other method provided by the Secretary Adds certain restrictions relating to prohibited foreign entities (see rules above)
Clean fuel production credit (sec. 45Z)	Section 45Z provides a credit based on the applicable amount per gallon ($0.20 or $1 for non-SAF fuels; $0.35 or $1.75 for SAF) of transportation fuel produced at a qualified facility in the US and sold to an unrelated person for use in production of a fuel mixture, use in a trade or business, or to sell at retail and place in the fuel tank of another person Producer must be registered as a producer of clean transportation fuel at the time of production Two broad categories of fuel to which credit applies: • Sustainable aviation fuel (SAF) • Non-SAF transportation fuel Available between January 1, 2025, through December 31, 2027	Extends section 45Z four years to apply to fuel produced and sold before 2032 Fuel produced after 2025 must be exclusively derived from a feedstock produced or grown in the US, Mexico, or Canada For emissions rates published for taxable years beginning after 2025, lifecycle greenhouse gas emissions shall be adjusted to exclude any emissions attributed to indirect land use changes. Any such adjustment shall be based on regulations or methodologies determined by the Secretary of Treasury in conjunction with the EPA Administrator and Secretary of Agriculture. Additionally, for purposes of the emissions rate table, with respect to any transportation fuels derived from animal manure (e.g. renewable natural gas), a distinct emission rate shall be provided for each of the specific feedstocks used to produce such fuel. Transferability is repealed for fuel produced and sold after December 31, 2027 Adds certain restrictions related to prohibited foreign entities (see rules above)	Extends section 45Z two years (rather than four) to apply to fuel produced and sold before 2030 Fuel produced after 2025 must be exclusively derived from a feedstock produced or grown in the US, Mexico, or Canada Fuel produced after 2025 cannot have an emissions rate that is less than zero, except for fuel derived from animal manure. Treasury is required to provide a distinct emissions rate for fuels derived from animal manure, based on the specific animal manure feedstock, and that rate may be less than zero. For emissions rates published for transportation fuels produced after 2025, emissions rate shall be adjusted to exclude any emissions attributed to indirect land use changes, based on Treasury regulations or methodologies Amends definition of "transportation fuel" to exclude a fuel produced from another fuel for which a 45Z credit is allowable Eliminates increased credit rate for SAF and provides coordination rules with section 6426(k) SAF blending credit Extends and increases section 40A small agri-biodiesel production credit, adds section 6418 transferability for 40A credit after June 30, 2025, and permits taxpayer to claim both 45Z and 40A credits on the same fuel Adds certain restrictions related to prohibited foreign entities as modified by the Senate bill (see rules above)

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Previously owned clean vehicle credit (sec. 25E)	Provides a credit for previously owned clean vehicles equal to the lesser of $4,000, or 30% of sale price Credit eligibility is MAGI limited to $150,000 (MFJ), $112,500 (head of household), and $75,000 (single) Credit terminates for vehicles acquired after December 31, 2032	Terminated with respect to any vehicle acquired after December 31, 2025	Terminated with respect to any vehicle acquired after September 30, 2025
Clean vehicle credit (sec. 30D)	Section 30D provides a credit for newly owned clean vehicles equal to $7,500 or $3,750, dependent upon satisfying certain critical mineral, battery component, and domestic assembly requirements Additional limits apply with respect to the maximum retail price of the vehicle depending on the vehicle type Credit eligibility is MAGI limited to $300,000 (MFJ), $225,000 (head of household), and $150,000 (single) Credit terminates for vehicles placed in service after December 31, 2032	Terminated with respect to any vehicle placed in service after December 31, 2025, that does not meet a manufacturer's exception An exception is provided based on a manufacturer limitation that allows the credit to continue through December 31, 2026, for manufacturers that have sold 200,000 or fewer plug-in electric vehicles or clean vehicles after December 31, 2009, and before January 1, 2026	Terminated with respect to any vehicle acquired after September 30, 2025
Qualified commercial clean vehicle credit (sec. 45W)	Provides credit for qualified commercial clean vehicles equal to the lesser of 30% (15% for hybrid vehicles) of the basis of the qualified vehicle, or the incremental cost, capped at either $7,500 or $40,000 based on gross vehicle weight (14,000 lbs.) No critical mineral, battery component, or final domestic assembly requirements apply Credit terminates for vehicles acquired after December 31, 2032	Terminated with respect to any vehicle acquired after December 31, 2025, that does not meet a binding written contract exception An exception is provided for vehicles placed in service before January 1, 2033, which are acquired pursuant to a written binding contract entered into before May 12, 2025	Terminated with respect to any vehicle acquired after September 30, 2025
Alternative fuel vehicle refueling property credit (sec. 30C)	Provides a personal and business credit based on the cost of qualified alternative fuel vehicle refueling property placed in service during the taxable year, subject to certain limitations Available for property placed in service after 2022 and before 2033	Terminated for property placed in service after December 31, 2025	Terminated for property placed in service after June 30, 2026

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Energy efficient home improvement credit (sec. 25C)	Provides a tax credit equal to 30% of the amount paid or incurred for certain energy efficiency improvements, residential energy property, and home energy audits by an individual, up to $1,200 in any taxable year, subject to certain limitations Available for certain energy efficiency improvement property and residential energy property placed in service before 2033	Amends section 25C(i), terminated for property placed in service after December 31, 2025	Amends section 25C(h); likely the intent is to amend subsection (i) to terminate for property placed in service after December 31, 2025
Residential clean energy credit (sec. 25D)	Section 25D provides an individual tax credit equal to the sum of the applicable percentages of expenditures for certain residential clean energy property made during a taxable year. The applicable percentage is determined based on the year the property is placed in service. The credit is terminated with respect to property placed in service after 2034.	Terminated with respect to any property placed in service after December 31, 2025	Terminated with respect to any expenditures made after December 31, 2025
Energy efficient commercial buildings deduction (sec. 179D)	Allows a deduction for the cost of energy efficient commercial building property placed in service during the taxable year, subject to certain limitations This was made permanent by the Consolidated Appropriations Act of 2021 and was subsequently amended by the Inflation Reduction Act of 2022 The deduction amount is limited to a maximum of $5 per sq ft. for new and existing buildings that reduce their energy and power costs by at least 25% with prevailing wage rules applying to secure the maximum value Taxpayers making energy-efficient retrofits that are part of a qualified retrofit plan with respect to a building that is at least five years old may qualify to deduct their adjusted basis in the retrofit property (so long as that amount does not exceed a per-square foot value determined on	No proposed amendments	Terminated with respect to property for which construction begins after June 30, 2026

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
	the basis of energy usage intensity) Tax-exempts and governmental entities are allowed to allocate the deduction to the designer of the building or retrofit plan		
Energy efficient home credit (sec. 45L)	Provides credit for any qualified new energy efficient home constructed and sold by an eligible contractor. The credit amount is $2,500 for single-family homes (or $5,000 if certified as zero-energy ready home). The credit is $500 (or $2,500 if meets prevailing wage requirement) for multifamily homes and $1,000 (or $5,000 if meets prevailing wage requirement) for zero-energy ready multifamily homes Credit terminates for any qualified new energy efficient home acquired after December 31, 2032	Terminated for any qualified new energy efficient home acquired after December 31, 2025 (or December 31, 2026, for any home for which construction began before May 12, 2025)	Terminated for any qualified new energy efficient home acquired after June 30, 2026
Clean electricity investment credit (sec. 48E)	Provides a credit for any clean electricity generation facility or energy storage technology (collectively "qualified facility") with a zero-greenhouse gas ("GHG") emissions rate and placed in service after 2024 Credit amount equals 6% of the qualified investment in the qualified facility, increased to 30% if the facility is under 1 MW and for facilities that meet prevailing wage and apprenticeship requirements (or for which construction began before January 29, 2023) Bonus credits are available for qualified facilities that satisfy certain energy community, domestic content, or low-income community requirements Credit begins to phase out for facilities the construction of which begins after the applicable year, which is the later of 2032, or the year in which the annual GHG emissions from the US electricity production is at or below 25% of such emissions in 2022	Credit termination for advanced nuclear facilities (including expansions) based on start of construction after 2028 Credit termination for all other technologies based on start of construction more than 60 days after enactment or placed in service after 2028 Credit termination for certain leased residential clean energy property (solar water heating property, solar electric property, small wind energy property) placed in service in taxable years beginning after the date of enactment Adds certain restrictions relating to prohibited foreign entities (see rules above)	Credit termination for solar and wind facilities that begin construction more than 12 months after the date of enactment and are not placed in service before 2028 For solar and wind facilities that begin construction within 12 months after the date of enactment, these facilities must comply with the beginning of construction continuity rules to qualify for the credit For all other qualified facilities including energy storage technologies, the credits are subject to an accelerated phase-out based on the calendar year construction of the qualified facility began: 2034 (75%), 2035 (50%), and after 2035 (0%) The Senate bill retains the House bill credit termination rules for certain leased residential clean energy property but modifies it to exclude solar electric property. That means residential rooftop solar installations are exempted from the leasing prohibition

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
	Credit is reduced by the following percentages: • 25% if the construction begins during the second calendar year following the applicable year • 50% if the construction begins during the third calendar year following the applicable year • 100% if the construction begins after the third calendar year following the applicable year		Adds certain restrictions relating to prohibited foreign entities as modified by the Senate bill (see rules above)
Advanced energy project credit program (sec. 48C)	Under section 48C, the IRS established a program to allocate credit amounts and award certifications to qualifying projects. Total credit amounts of $10B have been allocated currently. Section 48C allows a reallocation of credits related to any revocation of certifications	No proposed amendments	Does not allow reallocation of the section 48C credit due to any revocation of a project's certification, effective on the date of enactment
Carbon oxide sequestration credit (sec. 45Q)	Section 45Q provides a credit based on the amount of qualified carbon oxide captured at a qualified facility and disposed of by the taxpayer in secure geological storage or utilized in a qualifying manner	Terminates transferability of the credit for carbon capture equipment that begins construction after the date that is two years after the date of enactment Adds certain restrictions relating to prohibited foreign entities (see rules above)	Increases the credit rate for the utilization of qualified carbon oxide equal to the rate for qualified carbon oxide that is disposed of in secure geological storage without prior utilization Transferability is restored to sunset with the termination of the credit Adds certain restrictions relating to prohibited foreign entities (see rules above)
Zero-emission nuclear power production credit (sec. 45U)	Provides a credit for the production of power in the US at an existing qualified nuclear power facility and sold to an unrelated person The credit terminates for taxable years beginning after 2032	Credit termination for zero-emission nuclear power credit accelerated to December 31, 2031 (one year early) Adds certain restrictions relating to prohibited foreign entities (see rules above)	Accelerated credit termination date unchanged from current law No changes, other than modifications to the prohibited foreign entity restrictions (see rules above)
Clean hydrogen production credit (45V)	Provides a credit for hydrogen produced during a 10-year period at a clean hydrogen production facility for which construction begins before January 1, 2033	Terminated for facilities for which construction begins after 2025	Terminated for facilities for which construction begins after 2027

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Advanced manufacturing production credit (45X)	Provides a credit for the production and sale of certain eligible components, including solar, wind, and battery components, inverters, and critical minerals For eligible components sold during calendar years 2030, 2031, and 2032, the credit is reduced by 25%, 50%, and 75%, respectively (phase-down does not apply to critical minerals). The credit is fully phased out for eligible components except for critical minerals after 2032	Terminates the credit for wind energy components sold after 2027 For other eligible components, including critical minerals, sold during 2030 and 2031, the credit is reduced by 25% and 50%, respectively. The credit is fully phased out with respect to eligible components sold after 2031 Adds certain restrictions relating to prohibited foreign entities (see rules above)	Terminates the credit for wind energy components produced and sold after 2027 For critical minerals produced during 2031, 2032, and 2033, the credit is reduced by 25%, 50%, and 75%, respectively. The credit is fully phased out with respect to critical minerals produced after 2033. Adds metallurgical coal as an applicable critical mineral with a credit amount equal to 2.5% of the production costs. With respect to only metallurgical coal, the credit is terminated for such coal produced after 2029. For components sold in taxable years beginning after 2026, amends the integrated component rule by requiring use of same facility for primary and secondary components and at least 65% of the total direct material costs must be attributable to primary components that were mined, produced, or manufactured in the US Amends the definition of battery modules Adds certain restrictions relating to prohibited foreign entities (see rules above)
Geothermal energy property energy credit (48)	Legacy ITC available for energy property or projects that started construction before 2025 Qualifying technologies include solar energy, fiber-optic solar, electrochromic glass, geothermal, qualified fuel cell, microturbine, combined heat and power, small wind, geothermal heat pump (GHP), waste energy recovery, energy storage technology, qualified biogas, microgrid controllers, and certain qualified investment credit facilities (ITC in lieu of PTC election) Base credit amount can vary but generally equals 6% of the qualified investment in the energy property, increased to 30% if the energy	No changes except for GHP property as follows: • Accelerated phase-out based on start of construction in calendar 2030 (5.2%), 2031 (4.4%), and after 2031 (0%) • Transferability is restricted for property the construction of which begins more than two years after the date of enactment Adds certain restrictions relating to prohibited foreign entities for GHP (see rules above)	No proposed amendment to GHP property Terminates the 2% credit for solar and geothermal energy for which construction begins after 2024

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
	property (or qualified investment credit facility) is under 1 MW and for energy property (or qualified investment credit facilities) that meet prevailing wage and apprenticeship requirements (or for which construction began before January 29, 2023) Bonus credit adders are available for energy property that satisfy certain energy community, domestic content, or low-income community requirements Generally, energy property must begin construction prior to 2025 to qualify for the credit, except: • For GHP the credit phases-out based on the start of construction in calendar 2033 (5.2%), 2034 (4.4%), and after 2034 (0%) For solar and geothermal energy property, the credit is 2% if construction begins after 2024		
Advanced manufacturing investment credit (48D)	The section 48D credit equals 25% of the qualified investment for the taxable year with respect to any advanced manufacturing facility of an eligible taxpayer The term advanced manufacturing facility means a facility for which the primary purpose is the manufacturing of semiconductors or semiconductor manufacturing equipment The qualified investment is the basis of any qualified property placed in service by the taxpayer during the taxable year that is part of an advanced manufacturing facility An eligible taxpayer means any taxpayer that is not a foreign entity of concern ("FEOC"), and has not engaged in an applicable transaction (as defined in section 50(a)) The credit allowed terminates for property which is part of	No provision	Increases the credit amount to 35% for property placed in service after December 31, 2025

Energy credit provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
	an advanced manufacturing facility (or a single advanced manufacturing facility project) if the beginning of construction of the property (or the advanced manufacturing facility project) begins after December 31, 2026 The section 48D credit is eligible for an elective payment election		

International provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Global Intangible Low-Taxed Income (GILTI)	50% deduction (reduced to 37.5% after 2025) GILTI is the excess of net CFC tested income ("NCTI") over net deemed tangible income return ("NDTIR") NDTIR is 10% of qualified business asset investment (reduced by certain interest expense)	Reduced percentage deduction for a GILTI inclusion (and related section 78 gross-up) to 49.2% (after 2025) Certain states may continue to follow the lower deduction percentages in section 250 for years 2026 and later instead of the permanent deduction amount (i.e. Arizona, Georgia, Minnesota)	Reduced percentage deduction for a GILTI inclusion (and related section 78 gross-up) to 40% (after 2025) Eliminates NDTIR in the computation of a taxpayer's inclusion. Thus, a taxpayer includes its NCTI (rather than GILTI) in income.
Foreign Tax Credit ("FTC") related to GILTI / NCTI	Numerator of GILTI FTC limitation ratio reduced by expenses that may not directly relate to such inclusion (e.g., interest, stewardship) 20% haircut for GILTI FTCs No statutory haircut on FTCs paid/accrued (or deemed paid accrued) with respect to GILTI PTEP distributions	No change	For FTC limitation purposes, deductions that are allocated and apportioned to a taxpayer's NCTI inclusion limited to (1) the section 250 deduction attributable to a NCTI inclusion (including any deduction allowed under section 164(a)(3) for taxes imposed on a NCTI inclusion), and (2) any other deductions only to the extent they are directly allocable to a NCTI inclusion. No amount of interest expense or research and experimental expenditures is allocated and apportioned to a NCTI inclusion. Any deductions that would otherwise have been allocated/apportioned to a NCTI inclusion are allocated/apportioned to US-source income NCTI inclusion FTC haircut reduced to 10%

International provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
			10% FTC haircut for foreign income taxes paid/accrued (or deemed paid/accrued) with respect to NCTI PTEP
FTCs	Foreign income taxes attributable to base differences are allocated/apportioned to the foreign branch category Certain dividends without adequate substantiation are treated as section 951A category income Section 78 gross-up does apply to taxes deemed paid under section 960(b) on PTEP distributions	Not applicable	Foreign income taxes attributable to base differences are allocated/apportioned to the general category Certain dividends without adequate substantiation are treated as passive category income Section 78 gross-up does not apply to taxes deemed paid under section 960(b) on PTEP distributions
Foreign-Derived Intangible Income (FDII)	37.5% deduction (reduced to 21.875% after 2025) FDII is reduced by deemed tangible income return ("DTIR") DTIR is 10% of qualified business asset investment	Reduced percentage deduction related to FDII to 36.5%	Reduces percentage deduction related to FDII to 33.34% Eliminates DTIR. As a result, a taxpayer is allowed a deduction with respect to its foreign-derived deduction eligible income (rather than FDII). Introduces an exclusion from deduction-eligible income for income or gain from the sale or disposition (or deemed sale or disposition) of intangible property as defined in section 367(d)(4) or any other property of a type subject to depreciation, amortization, or depletion by the seller No amount of interest or research and experimental expenditures is allocated/apportioned to deduction-eligible income or foreign-derived deduction eligible income
Base Erosion and Anti-Abuse Tax (BEAT)	10% tax rate (11% for banks and securities dealers) (increased to 12.5% (13.5% for banks and securities dealers) after 2025) Through 2025, regular tax liability reduced by all credits other than certain of the components of the §38 credit	Increased the rate to 10.1% (11.1% for banks and securities dealers)	Increases the rate to 10.5% (11.5% for banks and securities dealers) Retains pre-2026 treatment of tax credits

International provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Controlled Foreign Corporation ("CFC") look-thru	Excludes from foreign personal holding company income certain dividends, interest, rents and royalties received from related CFCs to the extent attributable or properly allocable to income that is neither subpart F nor effectively connected income Applies to tax years of foreign corporations beginning before January 1, 2026	No change	Permanently extended
Downward Attribution for CFC Status	Former section 958(b)(4) repealed as of last tax year of foreign corporation beginning before January 1, 2018 Note: Section 958(b)(4) was a restriction on downward attribution of stock ownership from foreign persons to US persons when applying the constructive ownership rules for purposes outlined in section 958(b) (e.g., CFC status, US shareholder status)	No change	Restored section 958(b)(4) Added section 951B that subjects "foreign controlled US shareholders" ("FCUSS") to income inclusions under section 951 and section 951A from "foreign controlled foreign corporations" ("FCFCs") FCUSS: A US person who would be considered a US shareholder of a foreign corporation if such person owned more than 50 percent of the stock of such foreign corporation and downward attribution from foreign persons applied FCFC: A foreign corporation (other than a CFC) that is more than 50 percent owned by at least one FCUSS. Section 958(a) and section 958(b) (but excluding section 958(b)(4)) apply for purposes of determining whether this ownership threshold is met
Pro rata share rules	A US shareholder of a foreign corporation that is a CFC at any time during any tax year, and who owns stock in the foreign corporation on the last day in such year when the corporation is a CFC, includes in gross income the US shareholder's pro rata share of the foreign corporation's subpart F income for such year and, in general, the amount determined under section 956 with respect to such shareholder for such year	No change	Requires US shareholder of a CFC who owns stock in the CFC during its tax year ("CFC year") to include US shareholder's pro rata share of the CFC's subpart F income and tested income related to such CFC year. Such pro rata share is calculated based on the period (1) such shareholder owned the CFC stock, (2) such shareholder was a US shareholder, and (3) such corporation was a CFC Section 951(a)(2)(B) (reduction for distributions to other persons) removed, subject to a transition rule Requires US shareholders who own

International provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
			stock on the last day of the CFC year when the corporation is a CFC to include the section 956 amount for that year
One-month deferral tax years	Specified foreign corporations may elect a tax year beginning one month earlier than the majority US shareholder year	No change	Repeals one-month deferral year election in section 898(c)(2) Transition rule ends foreign corporation's first tax year beginning after November 30, 2025, on the date the required year ends; Treasury to provide rules for allocating foreign taxes that accrue in the foreign corporation's first tax year beginning after November 30, 2025, between such year and the succeeding tax year
Source rules for foreign offices or other fixed places of business	Income from the sale or exchange of inventory property produced by a taxpayer in the US is treated as US-source income under section 863(b) Income from the purchase and sale of inventory property is generally sourced based on the place of title passage under section 861(a)(6) and section 862(a)(6)	No change	Up to 50% of a US person's taxable income from sales of inventory (1) produced by the taxpayer in the US, (2) for use outside the US, and (3) sold outside the US which is attributable to an office or other fixed place of business in a foreign country will be treated as foreign-source taxable income for purposes of the FTC limitation, notwithstanding the general rule in section 863(b)
Section 899 enforcement of remedies against unfair foreign taxes	No provision	Intended to give the President tools to counter what some have characterized as "unfair foreign taxes." Increased rates (by 5 percentage points per year, up to 20 points) on FDAP, ECI, branch profits, and section 4948(a) income of certain foreign persons Tax increase on ECI is limited to FIRPTA gains; Withholding rates under sections 1441, 1442, and 1445 also rise by 5 percentage points annually (excluding the 14% rate in 1441(a)) Section 899 would have applied to "applicable persons;" modified application of BEAT to certain corporations in which more than 50% of the total combined voting and total value of their stock is owned by "applicable persons"	No provision

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Income tax rate structure	Seven tax brackets, top bracket at 37% through 2025; cost-of-living adjustment for inflation	Made permanent	Made permanent
Standard deductions	$30,000 (MFJ); $22,500 (HOH); $15,000 (MFS and Single)	Permanently extended current law; temporarily increased deduction by $2,000 (MFJ and surviving spouse); $1,500 (HOH); and $1,000 for any others beginning after December 31, 2024, and before January 1, 2029	Permanently extended current law and permanently increased deduction amounts to $31,500 (MFJ and surviving spouse); $23,625 (HOH); and $15,750 (single) beginning after December 31, 2024, adjusted for inflation thereafter
Senior deduction	No provision	Temporary bonus standard deduction of $4,000 for senior citizens (age 65 beginning after December 31, 2024, and before January 1, 2029) Phase-out for modified adjusted gross income (MAGI) that exceeds $150,000 for MFJ or $75,000 for all other taxpayers; bonus amount is phased out by 4% that exceeds MAGI thresholds	Temporary senior deduction of $6,000 in tax years beginning after December 31, 2024 and ending before January 1, 2029 (age 65 before the close of the taxable year) Phase-out for modified adjusted gross income (MAGI) that exceeds $150,000 for MFJ or $75,000 for all other taxpayers; bonus amount is phased out by 6% that exceeds MAGI thresholds
Home mortgage interest	Interest deductible on first $750,000 ($375,000 MFS) $1 million limitation for acquisition indebtedness incurred before December 15, 2017	Made permanent	Made permanent and treats certain mortgage insurance premiums as qualified residence interest
Qualified disaster losses	For federally declared disaster, generally deductible to extent of personal casualty gains and net disaster losses that exceed 10% of AGI For certain losses in a federally declared disaster between February 26, 2021, and generally February 10, 2025, special rules apply to remove the 10% of AGI limitation: • Must be a federally declared disaster no later than 60 days after enactment of Federal Disaster Tax Relief Act of 2023 (the Act) (i.e., 60 days from December 12, 2024) • Incident period must begin on or before enactment of the Act (i.e., December 12, 2024)	Special rules related to qualified disaster losses would be extended as the applicable end dates would coincide with when the bill is signed into law	Special rules related to qualified disaster losses would be extended through 30 days after date of enactment In addition, deductible personal casualty losses extended beyond federally declared disasters to also include "state declared disasters" effective for taxable years beginning after December 31, 2025 "State declared disasters" are defined in part as any natural catastrophe, or any fire, flood, or explosion, which is determined by the Governor of such State and the Secretary as causing sufficient damage to warrant application of the personal casualty loss rules. Also, "state" for this purpose includes the District of Columbia, Puerto Rico, US Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Marianna Islands.

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Miscellaneous itemized deductions	Temporarily repealed (certain deductions including investment expenses, certain legal fees, and unreimbursed employee expenses)	Made repeal permanent	Made repeal permanent Removes unreimbursed employee expenses for eligible educators from list of misc. itemized deductions; i.e., such deductions are not included in the permanent repeal
Itemized deduction limitation	Temporarily repealed Pease limitation	Made Pease limitation repeal permanent • New limitation: Caps the value of each dollar of otherwise allowable itemized deductions at $0.35, in most cases, and applies only to taxpayers in (or approaching) the highest individual income tax bracket. SALT deductions are subject to a greater limitation for taxpayers in (or approaching) the highest tax bracket.	Made Pease limitation repeal permanent • New limitation: Caps the value of each dollar of otherwise allowable itemized deductions at $0.35, in most cases, and applies only to taxpayers in (or approaching) the highest individual income tax bracket However, for purposes of determining taxable income for section 199A purposes, this new itemized deduction limitation does not apply
Personal exemptions	Temporarily reduced personal exemption to $0 for taxable years 2018-2025	Permanently reduced the personal exemption to $0	Permanently reduced the personal exemption to $0 with the exception of a temporary senior deduction (see "Senior Deduction" above)
Section 1202 expansion of qualified small business stock gain exclusion	Provides an exclusion from gross income with respect to gain from the sale of Qualified Small Business Stock ("QSBS") held for more than five years. The exclusion amount is currently the greater of: 1. $10 million, reduced by the aggregate amount of gain exempted in prior years, or 2. Ten times the aggregate adjusted basis of stock issued by such corporation that was disposed of in the taxable year The exclusion amount depends on the date the stock is issued. For example, the applicable percentage is 100 percent for stock issued after September 27, 2010. In addition, in order for the stock to qualify as QSBS, the company must meet a number of requirements, including to be	No change relative to current law	Would modify the percentage excludible from income ("applicable exclusion percentage") to create a tiered gain exclusion amount depending on the date the stock was issued, as follows: • Applicable percentage for stock held for more than three years but less than four years: 50 percent • Applicable percentage for stock held for more than four years but less than five years: 75 percent • Applicable percentage for stock held for more than five years: 100 percent Exclusion amounts continue to not be a tax preference item in the calculation of the taxpayer's alternative minimum taxable income ("AMTI") for alternative minimum tax ("AMT") purposes Eligible gain exclusion amount increases from $10 million (not inflation-indexed) to $15 million (inflation-indexed beginning

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
	treated as a qualified small business, which includes the gross asset test		in 2027 but inflation increases do not apply to taxpayers who fully utilized the exclusion amount in a prior year) Gross asset threshold (used in determining whether stock qualifies as QSBS) increases from $50 million (not inflation-indexed) to $75 million (inflation-indexed)
State and local tax (SALT) deduction	Deduction of up to $10,000 ($5,000 MFS) for aggregate of nonbusiness: • State and local property taxes • State and local income or sales taxes Sunsets December 31, 2025	SALT cap made permanent For 2025 and beyond, increased SALT cap to $40,000 ($20,000 MFS), phased down by 30% of modified AGI in excess of $500,000, $250,000 (MFS) (increase fully phased out at MAGI of $600,000), but not less than $10,000 SALT cap and MAGI phase down threshold increased by 1% each year 2026-2033, with 2033 amounts fixed thereafter; no increases to $10,000 floor	Same as House bill except increase to income phased-out higher SALT cap is applicable for 2025-2029 only; cap reverts to $10,000 post-2029
AMT	Exemption amounts beginning in 2025 are: (1) $137,000 for MFJ and surviving spouses; (2) $88,100 for unmarried individuals (other than surviving spouses); (3) $68,500 for MFS; and (4) $30,700 (estate or trust) Phase-out beginning in 2025 by an amount equal to 25% of the individual's AMTI that exceeds (1) $1,252,700 for MFJ and surviving spouses, (2) $626,350 for MFS and unmarried individuals (other than surviving spouses), and (3) $102,500 for estate or trust. The amounts are indexed for inflation.	Calculated inflation adjustments for tax starting in 2025 (rather than in 2017), causing 2026 AMT exemptions and phase-out thresholds to be equal to 2018 amounts, with no inflation adjustments for intervening years	Permanently extends AMT exemptions and phase-out thresholds. Exemption amounts indexed for inflation from 2017. Phase-out beginning in 2026 by an amount equal to 50% of the individual's AMTI that exceeds stated threshold amounts Exemption phaseout thresholds under the Senate bill in 2026 revert to 2018 levels of $500,000 ($1,000,000 in the case of a joint return), with those phaseout thresholds being indexed for inflation beginning in 2027
Deduction for tipped income	No provision	New deduction during tax years 2025 through 2028 for individuals who receive qualified tips in an occupation that traditionally and customarily received tips; expanded FICA tip tax credit for part of employer-paid Social Security (SS) taxes received in connection with beauty services (including barbering	New deduction for tax years 2025 through 2028 for individuals who receive qualified tips in an occupation that traditionally and customarily received tips; expanded FICA tax tip credit for part of employer-paid Social Security taxes received in connection with beauty services (including barbering and hair care, nail care, esthetics

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
		and hair care, nail care, esthetics, and body and spa treatments) Qualified tips exclude income from specified service trades or businesses; also excludes individuals with earned income above a certain threshold from qualified tips (5% owners may still qualify if under limit) Work-eligible SSN is required Reporting: Modified sections 6041, 6041A, and 6050W to require a payor making payment of compensation for services reportable on either 1099-K, 1099-MISC, or 1099-NEC to report the compensation (if amounts exceed the reporting thresholds) but also to: • Separately report the portion of the payments that constitute tips, and • Indicate whether such tips are earned in an occupation described in new section 224(c)(1)	and body and spa treatments) The deduction is limited to $25,000, reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's "modified adjusted gross income” exceeds $150,000 ($300,000 in the case of a joint return); For this purpose, modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, 933 (for US citizens or residents living abroad or bona fide residents of certain US possessions) Qualified tips exclude income from specified service trades or business Work-eligible SSN is required Reporting: Modified sections 6041, 6041A, and 6050W to require a payor making payment of compensation for services reportable on either 1099-K, 1099-MISC, or 1099-NEC to report the compensation (if amounts exceed the reporting thresholds) but also to: • Separately report the portion of the payments that constitute tips, and indicate the occupation described in new section 224(d)(1) of the person receiving such tips
Deduction for overtime	No provision	New deduction for “qualified overtime compensation” (2025-2028); excluded qualified tips and amounts received as a highly compensated employee; work-eligible SSN required; payors must report on W-2	New deduction for “qualified overtime compensation” (2025-2028); work-eligible SSN required; payors must report on W-2; payors must provide a statement of qualified overtime compensation paid to a payee not treated as employee Qualified overtime compensation must be included on an information reporting statement furnished to the individual to be deductible Deduction limited to $12,500 ($25,000 MFJ), reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's “modified adjusted gross income” exceeds $150,000 ($300,000

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
			MFJ). For this purpose, modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, 933 (for US citizens or residents living abroad or bona fide residents of certain US possessions) Reporting: Modified section 6041 to require a payor making payment of compensation for services reportable on either 1099-MISC, or 1099-NEC to report the compensation (if amounts exceed the reporting thresholds) but also to: Separately report the portion of the payments that constitute qualified overtime compensation
Car loan interest deduction	No provision	New deduction of up to $10,000 for qualified passenger vehicle loan interest, for vehicles of which final assembly occurs in the US; phase-out begins when the taxpayer's MAGI exceeds $100,000 ($200,000 for a joint return), available for interest paid from 2025-2028	New deduction of up to $10,000 for qualified passenger vehicle loan interest, for vehicles of which final assembly occurs in the US; original use of the vehicle must commence with the taxpayer; must qualify as a motor vehicle for purposes of title II of the Clean Air Act; phase-out begins when the taxpayer's MAGI exceeds $100,000 ($200,000 for a joint return), available for interest paid from 2025-2028
Wagering losses	Deductible only up to the amount of wagering gains in the same year; TCJA temporarily provided that "wagering losses" include related expenses, such as costs like travel to and from a casino; deduction limit applies to both cost of wagers and related gambling expenses	Made provision permanent	Made provision permanent Limits wagering losses allowed to 90% of such losses incurred and such losses only allowed to the extent of gains from such transactions
Moving expenses	Temporarily repealed with the exception of certain members of the Armed Forces	Made temporary repeal permanent (does not apply to certain members of Armed Forces)	Made temporary repeal permanent (does not apply to certain members of Armed Forces or Intelligence Community)

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Student loan discharges	Temporary provision that provided an exclusion from gross income for an otherwise includible amount from the discharge of certain education loans on account of a student's death or total and permanent disability The ARPA temporarily expanded this exclusion to make it applicable irrespective of whether the discharge is because of a student's death or total and permanent disability	Made permanent the temporary exclusion for death and disability; SSN required for students, and if married, for spouse	Made permanent the temporary exclusion for death and disability; SSNs required for students
Bicycle commuting reimbursement	Prior to TCJA, qualified bicycle commuting reimbursements of up to $20 per qualifying bicycle commuting month in a calendar year were excludible from an employee's gross income; the TCJA temporarily repealed that exclusion from gross income	Made repeal permanent	Made repeal permanent
Hazardous duty area for Armed Forces members	Qualified hazardous duty area is temporarily treated in the same manner as a combat zone to determine eligibility for certain tax benefits available the Armed Forces	Made provision permanent; modifies the definition of a qualified hazardous duty area to include the Sinai Peninsula of Egypt, Kenya, Mali, Burkina Faso, and Chad, in certain circumstances	Same as House bill
Achieving a Better Life Experience (ABLE) account enhancements	Temporary enhancements make contributions eligible for nonrefundable "savers credit;" permit nontaxable rollovers from qualified tuition programs; permit account beneficiaries who work and earn income to contribute above the ABLE contribution limit	Made enhancements permanent	Made enhancements permanent Increases the section 25B(a) credit from $2,000 to $2,100
Penalties for unauthorized disclosures of information (sec. 6103)	$5,000 (maximum fine for unauthorized disclosure of information under section 6103); five years (maximum imprisonment for conviction)	Increased maximum fine to $250,000, raised maximum prison sentence to 10 years, and clarified that a willful unauthorized disclosure involving the returns or return information of multiple taxpayers is a separate violation for each taxpayer	No provision

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Restriction on regulation of contingency fees regarding tax returns	Treasury Department Circular No. 230 provides rules on when a practitioner may charge a contingency fee regarding matters before IRS	Prohibited Treasury from regulating, prohibiting, or restricting use of contingency fees respecting tax returns, claims for refund, or related documents prepared on behalf of a taxpayer	No provision
School expenses for 529 accounts	Distributions from a section 529 plan that are attributable to earnings on contributions to the account are included in the account beneficiary's income only to extent that total cash distributions during the taxable year exceed "qualified higher education expenses" of the account beneficiary during that year Cash distributions from elementary or secondary schools (qualified tuition programs) limited to $10,000/ beneficiary per taxable year	Expanded definition of "qualified higher education expenses" related to elementary or secondary schools to include (not only tuition) curriculum and curricular materials, books or instructional materials, certain tutoring expenses, standardized achievement test fees, and certain educational therapies for students with disabilities Added category of "postsecondary credentialing expenses" to "qualified higher education expenses;" "Qualified postsecondary credentialing expenses" include a broad category of tuition and other expenses related to certain approved postsecondary programs, such as vocational training	The school expenses/529 accounts provision is identical between the House and Senate bills, except (i) the Senate bill strikes a provision in the House bill which would specifically permit expenses for a homeschool to be considered "qualified higher education expenses" if they are in one of eight new categories of expenses that the bill would add to the statute more broadly (those eight new categories of expenses apply beyond homeschooling and are identical between the House and Senate bills), and (ii) the Senate bill (but not the House bill) would raise the limit on cash distributions for tuition at elementary or secondary schools as noted. The Senate bill would make all of the changes as contained in the House bill, except for the allowance of homeschool expenses as discussed.
Charitable contributions of non-itemizers	Deductible (only if the taxpayer itemizes)	Established deduction up to $150 ($300 MFJ) for cash given to public charities (not including supporting organizations or donor advised funds) made during tax years 2025-2028 for those who don't itemize (carryovers do not qualify for deduction)	Established permanent deduction up to $1,000 ($2,000 MFJ) for cash given to public charities (not including supporting organizations or donor advised funds) made permanent for those who don't itemize (carryovers do not qualify for deduction)
Charitable contributions made by individuals	Section 170 permits taxpayers to deduct charitable contributions made to qualified organizations	No provision	Modified section 170—individuals can only deduct charitable contributions that exceed 0.5% of a taxpayer's adjusted gross income (computed without regard to any NOL carryback to the taxable year); charitable contributions in excess of allowable limits still can be carried forward for five years. Provision expands/ makes permanent the increased limit for cash contributions to certain donees that was set to expire after 2025 Applies beginning after December 31, 2025

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Adjustment of charitable deduction for certain expenses incurred in support of Native Alaskan subsistence whaling	No provision	No provision	Increased the amount of whaling expenses deductible as charitable contributions by recognized whaling captains from $10,000 per taxable year to $50,000 per taxable year
Child tax credit	$2,000/qualifying child Maximum refundable portion: $1,700 in 2025, indexed for inflation $500 non-refundable child tax credit for each dependent who is not a qualifying child of the taxpayer Phase-out threshold: $400,000 (filing jointly) and $200,000 (all other taxpayers)	Temporarily increased maximum credit amount to $2,500 beginning after December 31, 2024, and before December 31, 2028 (after 2028, credit permanently reverted to $2,000, indexed for inflation) Made permanent refundable portion of credit, phase-out thresholds, and non-refundable credit for non-qualifying children	Permanently increased the nonrefundable child tax credit to $2,200 for taxable years beginning after December 31, 2024, and permanently indexes that credit amount for inflation beginning after tax year 2025 Made permanent refundable portion of credit, phase-out thresholds, and non-refundable credit for non-qualifying children
Adoption credit	Nonrefundable credit, up to an annually adjusted maximum amount and subject to AGI limitations, for qualified adoption expenses • Max adoption expenses (2025): $17,280 • Phase-out starts: AGI over $259,190 • Fully phased out: AGI at $299,190	Made partially refundable up to $5,000 (indexed for inflation) beginning in tax years starting after December 31, 2024 (refundable portion cannot be carried forward) Native tribal governments given same ability as state governments to determine whether a child has special needs for adoption credit	Same as House bill
SSN requirement for American Opportunity and Lifetime Learning Credits	Open to taxpayers who file tax return with a taxpayer identification number (TIN)	Must include on tax return: • Taxpayer's SSN • Spouse's SSN (joint returns) • Other individual's name and SSN (for qualified tuition and related expenses of an individual other than taxpayer or spouse – for ex. dependent child of a taxpayer-parent)	Same provisions as House bill but strikes the explicit requirement to include spouse's SSN for married taxpayers

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Earned Income Tax Credit (EITC)	Requirements for an individual to be a qualifying child: must meet relationship, age, and residency tests under section 152; no credit is allowed for a taxpayer with an aggregate amount of certain investment income that exceeds a threshold amount ($11,950 for 2025)	New program: Required Treasury to issue EITC certificate to establish child's status as the taxpayer's qualifying child for a taxable year, upon application Increased credit for specified Purple Heart recipients	No provision
Scholarship granting organizations (sec. 25F)	No existing IRC section, generally would be exempt under section 501(c)(3)	Added new section 25F (Qualified Elementary and Secondary Education Scholarships): • Equal to aggregate amount of qualified contributions made by taxpayer during the year • Cannot exceed greater of 10% of AGI, or $5,000 • Limited to Treasury volume cap • Defined "scholarship granting organization," "Qualified elementary or secondary education expense," and "eligible student" Added new section 4969 (Failure to Distribute Receipts) • Penalized failing to distribute required amount before distribution deadline (contributions not treated as qualified if failure occurs) • Required distributions of 100% of receipts, minus reasonable admn. costs plus up to 15% carryover from prior year • Safe harbor for reasonable admn. costs if 10% or less of total receipts for a taxable year, then expenses deemed to be reasonable Added new section 139K exempting scholarship income received by dependents for qualifying elementary and secondary education expenses (effective after December 31, 2025, and before January 1, 2030)	Added new section 139K exempting scholarship income received by dependents for qualifying elementary and secondary education expenses (effective after December 31, 2025)

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Premium tax credit (sec. 36B)	Available to certain individuals who purchase health insurance coverage in the individual marketplace through the American Health Benefit Exchange Available for individuals (single or joint filers) with household incomes btw 100% and 400% of Federal Poverty Level (FPL) Household income is: • Individual's MAGI, plus • Aggregate MAGI of all other individuals taken into account in determining family size (but only if the other individuals are required to file tax returns for the taxable year) For recapture of advance payment of premium credit, there is a scale; repayment limits are the maximum amount a taxpayer must repay if the taxpayer's income ends up higher than initially estimated upon receiving advance payment of the credit	Amended section 36B; details exceptions to eligibility for aliens who are not "eligible aliens;" no credit if enrolled via special enrollment; applies to individuals with household income no greater than 150% of FPL; applies to plans enrolled beginning three months after enactment Struck limitations on repayment of excess advance premium tax credit payments for taxpayers whose household income is less than 400% of the poverty level; full repayment required if income is misstated and more generous advance payment of the premium tax credit is received; Effective beginning in 2026	Same as House-passed bill with modifications to the definition of "eligible aliens" for this purpose
Trump accounts	No provision	Established new type of tax-preferred account for those under 18: • Annual cash contributions up to $5,000 (indexed for inflation) • Distributions begin only after the beneficiary turns 18 • Up to 50% of account value may be distributed (ages 18-25) • Entire account deemed distributed upon age 31 Accounts function similar to section 529 plans (but different qualifications and distribution rules) Pilot program for a one-time credit of $1,000 (qualifying child who is born after December 31, 2024, and before January 1, 2029, US citizen at birth)	Established new type of tax-preferred account similar to a traditional individual retirement account (IRA); notable features include: • Prior to calendar year in which beneficiary reaches age 18, annual non-deductible cash contributions up to $5,000 (indexed for inflation) • Allows a one-time tax-preferred employer contribution of $2,500 (indexed for inflation) per employee and certain contributions by tax-exempt entities • No distributions allowed until the calendar year in which the beneficiary reaches age 18 • Subject to Trump-account specific rollover rules

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
			Pilot program for a one-time credit of $1,000 (qualifying child who is born after December 31, 2024, and before January 1, 2029, U.S. citizen at birth) which treats the payment as a credit against the child's income tax liability
Estate and gift tax	40% estate, gift, and generation-skipping tax (GST); basic exclusion amount of $10 million per taxpayer, indexed for inflation ($13.99 million per taxpayer in 2025)	Permanent basic exclusion amount and GST exemption increased to $15 million from its existing $10 million (before adjustment for inflation) for transfers after December 31, 2025 (indexed for inflation after 2026)	Same as House-passed bill
Direct file	Allows IRS to prepare and file tax returns online for free for certain qualifying taxpayers in participating states	Terminated Direct File program Established task force to report to Congress on the cost of a new public-private partnership to provide free tax-filing for up to 70% of all taxpayers	Removed language requiring the termination of the Direct File program, but still establishes task force to report to Congress on the cost of a new public-private partnership
Remittance transfer	No provision	Added section 4475 for a 3.5% excise tax on certain remittance transfers (sender of the remittance required to pay tax, remittance transfer provider collects tax and remits tax quarterly) Any remittance transfer made by a "verified US sender" through "qualified remittance transfer provider" not subject to excise tax Added section 36C that would allow any individual to claim a credit for the amount collected and remitted to the Treasury on remittance transfers paid by such individual (SSN required, spouse's SSN required if married) Added section 6050AA that would require a remittance transfer provider to file information return Effective starting January 1, 2026	Added section 4475 for a 1% excise tax on certain remittance transfers (sender of the remittance required to pay tax, remittance transfer provider collects tax and remits tax quarterly). Remittance transfers subject to the excise are limited to those funded by cash, a money order, a cashier's check, or "any similar physical instrument." Any remittance transfer funded from an account held with a financial institution (defined in 31 USC §5312(a)(2)(A)-(H)) subject to the Bank Secrecy Act, funded from a debit card issued in the US, or funded from a credit card issued in the US is not subject to excise tax Effective beginning January 1, 2026

Individual provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Firearms excise taxes (sections 5811, 5821, 5845)	Excise tax of $200 is generally imposed on each firearm as defined in section 5845(a), including any silencer, that is transferred (“transfer tax”) (section 5811) or made (“making tax”) (section 5821) Transfer tax on any firearm classified as any other weapon under section 5845(e) is $5	Eliminated $200 transfer tax on firearm silencers and the $200 making tax on firearm silencers Rate of the transfer tax: • $5 (any other weapon under section 5845(e)) • $0 (each firearm silencer) • $200 (any other firearm under section 5845(a)) Rate of the making tax: • $0 (each firearm silencer) • $200 (any other firearm under section 5845(a)) Effective for calendar quarters beginning more than 90 days after enactment	Amends section 5811 so the $200 transfer tax only applies to a machine gun or a “destructive device” and eliminates the $5 transfer tax on any firearm classified as any other weapon under section 5845(a) Amends section 5821 so the $200 tax imposed on each firearm made only applies to a machine gun or a “destructive device” Effective for calendar quarters beginning more than 90 days after enactment
Payments to certain individuals who dye fuel (new sec. 6435)	No provision	No provision	Provides a payment to a person who removes from a terminal eligible indelibly dyed diesel fuel or kerosene Eligible indelibly dyed diesel fuel or kerosene means diesel fuel or kerosene on which a section 4081 tax was previously paid and not credited or refunded and which is exempt from taxation under section 4082(a) Applies to eligible indelibly dyed diesel fuel or kerosene removed on or after the date that is 180 days after enactment
Enhancement of child and dependent care tax credit	A taxpayer with one or more qualifying individuals, such as a child or other dependent, may claim a credit against income tax liability for employment-related expenses for child and dependent care. The credit is calculated by multiplying the amount of qualifying expenses by the appropriate credit rate.	No provision	Increase the maximum credit rate to 50% (currently 35%), reduced by 1 percentage point, but not below 35%, for each $2,000 or fraction thereof by which the taxpayer’s AGI exceeds $15,000. For AGIs between $75,001 and $105,000 ($150,001 and $210,000, respectively, in the case of a joint return), the credit rate is further phased down to 20%. This provision is effective for taxable years after December 31, 2025.

Employer provided benefits

Provision	2025 law	House bill	Senate bill/Enacted legislation
Educational assistance for student loan payments (sec. 127)	Section 127 permits an employer to maintain an educational assistance program for the benefit of its employees on a tax-free basis, up to a limit of $5,250 per year Temporary provision was added to amend section 127 to allow employers to make tax-free payments on an employee's qualified educational loans (for the employee's own education); set to expire at end of 2025	Amended section 127 to make tax-free payments by an employer on an employee's qualified educational loans permanent; indexed the $5,250 annual limit for inflation starting after 2026	Same as House bill

Tax-exempt organizations

Provision	2025 law	House bill	Senate bill/Enacted legislation
Charitable contributions made by corporations	Taxpayers may deduct charitable contributions, in the form of cash or property, made to qualified organizations A taxpayer's charitable contribution is limited to 10% of its taxable income, with any excess carried forward to the next five taxable years	A corporation's charitable contributions deduction is allowed only to the extent the aggregate contribution exceeds 1% and does not exceed 10% of its taxable income for the taxable year The 1% is permanently disallowed unless the taxpayer exceeds the 10% limitation whereby the taxpayer may carryforward the 1% disallowance and the amount in excess of 10% for five taxable years Applies to taxable years beginning after December 31, 2025	Same as House bill
Tax on excess compensation (sec. 4960)	Tax on employers who pay over $1 million in remuneration or who pay an excess parachute payment to certain highly paid employees of tax-exempt organizations A "covered employee" is an employee (including any former employee) of an applicable tax-exempt organization if the employee is one of the five highest compensated employees of the organization or was a covered employee of the organization (or a predecessor) for any preceding taxable year beginning after December 31, 2016	Revised definition of "covered employee" to include only "any employee (including any former employee) of an applicable tax-exempt organization"	Revised definition of "covered employee" to include any employee or former employee of an applicable tax-exempt organization or any predecessor of such organization during a tax year beginning after December 31, 2016. This provision does not limit covered employees to the five highest compensated employees.
Investment income of certain private colleges and universities (sec. 4968)	Certain colleges and universities are subject to a 1.4% excise tax on their net investment income	Revised 1.4% excise tax with a tiered system from 1.4% to 21% based on institution's student-adjusted endowment Amended calculation for an institution's student-adjusted endowment Increased school's net investment income by the amount of student loan interest income and certain royalty income	Revised 1.4% excise tax with a tiered system from 1.4% to 8% based on institution's student-adjusted endowment • $500,000 to $750,000 = 1.4 percent • $750,001 to $2,000,000 = 4 percent • Greater than $2,000,000 = 8 percent Amended calculation for an institution's student-adjusted endowment Increased school's net investment income by the amount of student loan interest income and certain royalty income

Tax-exempt organizations

Provision	2025 law	House bill	Senate bill/Enacted legislation
Net investment income of certain private foundations (PFs)	1.39% excise tax on PF's net investment income	Amended 1.39% excise tax with a tiered system; maintained current excise tax rate for PFs with less than $50 million in total assets, but higher excise tax rates of up to 10% on PFs with $5 billion or more in total assets (Assets and net investment income of any related organization not available for use or benefit of the PF shall not be taken into account in computing net investment income) Applies to taxable years beginning after date of enactment	No provision
Purchases of employee-owned stock disregarded for purposes of foundation tax on excess business holdings	Section 4943 does not specifically exclude purchases of employee-owned stock (such as from an ESOP) from being counted toward a PF's excess business holdings	Amended section 4943, stock repurchased (on or after Jan. 1, 2020) from a retiring employee who participated in ESOP treated as outstanding for calculating the share that company owned by a PF Excludes stock repurchased from an ESOP within first 10 years of the plan and stock that would allow for holdings by PF and all disqualified persons to exceed 49% of voting stock (calculated without including repurchased ESOP stock) Effective after enactment and for purchases by a business enterprise of voting stock beginning after December 31, 2019	No provision

Accounting methods

Provision	2025 law	House bill	Senate bill/Enacted legislation
Gross receipts threshold for small manufacturing businesses (sec. 448(c))	Limited to businesses with average annual gross receipts: $25 million, $31 million (beginning in 2025, inflation adjusted)	Increased average annual gross receipts for a manufacturing taxpayer to $80 million, adjusted for inflation Defined "manufacturing taxpayer" as a corporation or partnership whose gross receipts over three tax years mainly come from leasing, renting, licensing, selling, exchanging, or disposing of qualified products (tangible personal property that is not food or beverage prepared in the same building as a retail establishment in which substantially similar property is sold to the public, or produced or manufactured by the taxpayer in a manner that results in substantial transformation) Effective for taxable years beginning after December 31, 2025	No provision
Amortization of certain sports franchises	Section 197(a) generally allows a taxpayer to amortize the adjusted basis of certain acquired intangibles (i.e., a section 197 intangible) ratably over a 15-year period beginning the month in which such asset is acquired	Added section 197(g) to exclude 50% of amortization on specified sports franchise intangibles Defined "specified sports franchise intangibles" as any amortizable section 197 intangibles that is a franchise to engage in professional football, basketball, baseball, hockey, soccer, or other professional sport, or acquired in connection with such franchise Applies to property acquired after the date of enactment	No provision

Health care provisions

Provision	2025 law	House bill	Senate bill/Enacted legislation
Health savings accounts (HSAs)	Individual not eligible for tax-favored contributions to an HSA if individual has coverage under Medicare Part A or comprehensive health coverage that is not a High Deductible Health Plan (HDHP) Annual contributions limited to $4,300 (individual), $8,500 (family), indexed for inflation No HSA tax-favored contribution if enrolled in Direct Primary Care (DPC) arrangement, and DPC fees are not treated as medical expenses Catastrophic and certain bronze level plans offered on an Exchange are not considered HDHPs Employer-provided on-site clinics offering significant care disqualify tax-favored HSA eligibility Sports and fitness expenses are generally not considered medical expenses Amounts remaining in an FSA (flexible spending account) and account balances in HRAs cannot be contributed to an HSA An HDHP generally cannot provide health care benefits (other than preventive services) until certain statutory deductibles have been satisfied	Coverage under Medicare Part A does not disqualify an individual from making or receiving tax-favored HSA contributions Increased employee contribution by a specified dollar amount: • $4,300 (individual) • $8,500 (family if individual makes less than $75,000 ($150,000 for families) Phase-out for individuals making $100,000 ($200,000) Certain DPC coverage would not disqualify taxpayer from making tax-favored HSA contributions, DPC fees would be treated as medical expenses Catastrophic and all bronze plans on the Exchange considered HDHPs Allowed tax-favored HSA contributions if employer-provided on-site clinics are limited to certain specific services (e.g. preventive care for chronic conditions) Certain sports and fitness expenses up to $500 (single taxpayer) or $1000 (MFJ or HOH) are treated as medical expenses Permitted certain transfers from FSAs and HRAs to HSAs and liberalized certain rules relating to spouses	Catastrophic and all bronze plans on the Exchange considered HDHPs Certain DPC coverage would not disqualify taxpayer from making tax-favored HSA contributions, and DPC fees would be treated as medical expenses A health plan would not fail to be an HDHP by reason of failing to have a deductible for telehealth and other remote care services

Acknowledgments and contacts

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Washington National Tax Contacts

Credits & Incentives

Brian Americus
Principal
Deloitte Tax LLP
+ 1 202 536 7205
bamericus@deloitte.com

Gary Hecimovich
Partner
Deloitte Tax LLP
+ 1 703 338 6976
ghecimovich@deloitte.com

Jaime Park
Managing Director
Deloitte Tax LLP
+ 1 571 574 0276
jaipark@deloitte.com

Accounting for Income Taxes

Patrice Mano
Partner
Deloitte Tax LLP
+1 415 783 6079
pmano@deloitte.com

Compensation and Benefits

Grace Melton
Partner
Deloitte Tax LLP
+ 1 402 220 1742
gmelton@deloitte.com

Financial Instruments

Mary Jo Lang
Principal
Deloitte Tax LLP
+ 1 202 573 3743
marlang@deloitte.com

Global Information Reporting

Susan Segar
Managing Director
Deloitte Tax LLP
+ 1 703 885 6328
ssegar@deloitte.com

International

Jason Smyczek
Principal
Deloitte Tax LLP
+ 1 202 220 2073
jsmyczek@deloitte.com

Reed Kirschling
Partner
Deloitte Tax LLP
+1 202 220 2704
rkirschling@deloitte.com

Multistate Tax

Alexis Morrison-Howe
Principal
Deloitte Tax LLP
+1 617 437 2345
alhowe@deloitte.com

Valerie Dickerson
Partner
Deloitte Tax LLP
+1 202 220 2693
vdickerson@deloitte.com

Passthroughs

Michael Scaramella
Partner
Deloitte Tax LLP
+ 1 312 486 3514
mscaramella@deloitte.com

John Hynes
Managing Director
Deloitte Tax LLP
+ 1 212 492 4549
johynes@deloitte.com

Ben Applestein
Principal
Deloitte Tax LLP
+ 1 415 793 3465
bapplestein@deloitte.com

Accounting Methods and Periods

Wendy Friese
Partner
Deloitte Tax LLP
+ 1 202 220 2799
wefriese@deloitte.com

Michael Ulleweit
Partner
Deloitte Tax LLP
+ 1 202 220 2990
mulleweit@deloitte.com

Private Wealth

Karen Brodsky
Partner
Deloitte Tax LLP
+ 1 212 436 3025
kbrodsky@deloitte.com

Ryan Thomas
Managing Director
Deloitte Tax LLP
+ 1 312 486 1995
rythomas@deloitte.com

Tax Controversy

Matt Cooper
Principal
Deloitte Tax LLP
+ 1 202 220 2153
mattcooper@deloitte.com

Tax Policy

Jon Traub
Principal
Deloitte Tax LLP
+ 1 202 220 2055
jtraub@deloitte.com

Anna Taylor
Principal
Deloitte Tax LLP
+ 1 771 210 7502
annataylor@deloitte.com

Steven Grodnitzky
Tax Manager
Deloitte Tax LLP
+ 1 202 220 2606
sgrodnitzky@deloitte.com

Deloitte.

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