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Washington Watch

Week ended July 6, 2025

Legislation that largely makes permanent many parts of TCJA enacted; most new provisions effective Jan. 1, 2026

Highlights

The One Big Beautiful Bill Act (OBBBA) was passed by the Senate on July 1 and House on July 3, and signed into law by the President on July 4. The OBBBA makes permanent many of the temporary provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that were scheduled to expire at the end of 2025, and enacts numerous other Congressional Republican and Trump administration tax policy priorities. The law also addresses border security, national defense, and energy policy, and includes projected spending cuts designed to offset the law's estimated costs.

Most notably for high-income taxpayers, the law permanently retains the 37% top income tax rate and increases the lifetime exclusion amount used for estate, gift, and GST tax purposes from $13.99MM to a new base amount of $15MM, effective 1/1/26 and adjusted for inflation thereafter. It increases, from 2025 through 2029, the state and local tax (SALT) deduction cap to $40K, with a phase-down for most households that make more than $500K (less for married filing separately), subjecting high-income taxpayers making more than $600K to the current $10K cap. Also made permanent are higher alternative minimum tax (AMT) exemption amounts and phase-out thresholds, the $750,000 principal cap on mortgage interest deductibility, and the disallowance of miscellaneous itemized deductions (applicable to investment management fees, among other expenses).

Revenue raisers include an overall limitation on the tax benefit of itemized deductions (for example, charitable contributions and investment interest) that will reduce their value for individuals in the top rate bracket, beginning 1/1/26. Also effective next year, a new floor on charitable contributions that reduces the deduction by 0.50% of the contribution base (based on adjusted gross income) for taxpayers who itemize. It also includes tiered excise taxes on the net investment income of large private college and university endowments, beginning 1/1/2026, from the current 1.40% up to a maximum rate of 8%. The OBBBA also scales back many Biden-era energy tax credits enhanced by the Inflation Reduction Act.

Among the business-friendly provisions, the OBBBA permanently restores 100% bonus depreciation for certain business property, allows immediate expensing of domestic R&D expenditures, and provides more generous limitations on business interest deductibility. It makes permanent the 20% qualified business income deduction on income earned by owners of certain "pass-through" businesses (e.g., partnerships, S corporations). It also enhances qualified small business stock (QSBS) benefits for stock acquired after the date of enactment with: (1) a $15MM capital gains exclusion (up from $10MM); (2) a tiered exclusion for stock that does not meet the 5-year holding period (i.e., 50% if held 3 years, 75% if 4 years), and (3) a $75MM gross asset test (up from $50MM). It also creates a new, permanent round of Qualified Opportunity Zone investment incentives, beginning in 2027.

Earlier proposals, among others, that ended up not being part of the OBBBA would have: (1) increased taxes on large private foundation net investment income (from the current 1.39% rate); (2) restricted the so-called "SALT cap workaround" used by certain pass-through entities to allow its owners to deduct, indirectly, SALT paid by the pass-through entity; (3) reduced amortization benefits for professional sports team owners; (4) eliminated the ability of non-corporate taxpayers to treat disallowed "excess business losses" carried forward as net operating losses; and (5) introduced higher cross-border taxes, including a "revenge tax" on certain U.S. source income of non-U.S. investors and a 1% excise tax on foreign "remittance transfers" sent by U.S. financial institutions. The treatment of carried interest and municipal bonds was also preserved.

The law also raises the debt ceiling by $5 trillion. According to the Congressional Budget Office, the OBBBA would increase deficits by $3.4 trillion over 10 years compared to current law, not including interest.

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