

Republicans Complete Sweeping Reconciliation Bill

The president signed into law a sweeping reconciliation tax bill in a July 4 signing ceremony, capping a furious sprint to finish the legislation before the self-imposed holiday deadline. The Senate approved the bill in a 51-50 vote on July 1 after making a number of last-minute changes following intense bicameral negotiations. The House voted 218- 214 on July 3 to send the bill to the president's desk.

Notable late changes to the version of the tax title released by the Senate Finance Committee on June 16 include:

- Cutting Section 899 from the bill after reaching an agreement on Pillar Two with G-7 countries;
- Significantly amending the provisions on global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and the base erosion and anti-abuse tax (BEAT);
- Modifying the energy credits provisions;
- Removing the shutdown of state pass-through entity workarounds to the cap on deducting state and local tax (SALT);
- Removing an unfavorable expansion of the loss limit under Section 461(l);
- Reducing the new tax on remittances;
- Changing the opportunity zone provisions;
- Expanding to all residential construction an exception to the long-term contract rules; and
- Removing a new excise tax on litigation financing.

Also, President Donald Trump reportedly promised House conservatives that he would strictly enforce the beginning of construction rules for wind and solar projects and potentially make the permitting process more difficult.

With the legislation now final, taxpayers should focus on assessing its impact and identifying planning opportunities and challenges. The bill offers both tax cuts and increases that would affect nearly all businesses and investors. The Joint Committee on Taxation (JCT) scored the bill as a net tax cut of \$4.5 trillion over 10 years using traditional scoring. Under the current policy baseline the Senate used for purposes of the reconciliation rules, that cost drops to just \$715 billion. The Senate scored the provisions against a baseline that assumes temporary provisions have already been extended, essentially wiping out the cost of extending the tax cuts in the Tax Cuts and Jobs Act (TCJA).

The bill not only makes the TCJA tax cuts permanent but amends them in important ways. The legislation also offers a mix of favorable and unfavorable new provisions. Key aspects of the bill include:

- Making 100% bonus depreciation permanent while temporarily adding production facilities;
- Permanently restoring domestic research expensing with optional transition rules;

- Permanently restoring amortization and depreciation to the calculation of adjusted taxable income (ATI) under Section 163(j) while shutting down interest capitalization planning;
- Increasing the FDII effective rate while changing the deduction allocations and other rules;
- Increasing the GILTI effective rate while changing the foreign tax credit (FTC) haircut and expense allocation rules;
- Increasing the effective rate on BEAT;
- Phasing out many Inflation Reduction Act energy credits early and imposing new sourcing restrictions;
- Creating new deductions for overtime, tips, seniors, and auto loan interest;
- Imposing a 1% excise tax on remittances;
- Increasing filing thresholds for Forms 1099-K, 1099-NEC, and 1099-MISC;
- Extending opportunity zones with modifications;
- Increasing transfer tax exemption thresholds; and
- Increasing the endowment tax to a top rate of 8%.

Takeaway

Now that the legislation is final, taxpayers should assess its impact carefully and consider planning opportunities. Several key provisions offer different options for implementation. The effective dates will be important, and there may be time-sensitive planning considerations.

The following offers a more detailed discussion of the provisions. For a comparison of the tax provisions to current law and the campaign platform see [our table](#).

Business Provisions

Bonus Depreciation

The bill permanently restores 100% bonus depreciation for property acquired and placed in service after January 19, 2025.

The legislation also creates a new elective 100% depreciation allowance under Section 168(n) for any portion of nonresidential real property that is considered “qualified production property.” The election is available if construction on the property begins after January 19, 2025, and before January 1, 2029, and the property is placed in service by the end of 2030.

A qualified production activity includes the manufacturing of tangible personal property, agricultural production, chemical production, or refining.

Qualified production property does not include any portion of building property that is used for offices, administrative services, lodging,

parking, sales activities, research activities, software engineering activities, or other functions unrelated to qualified production activities.

There is an exception from the original use requirement if acquired property was not used in a qualified production activity between January 1, 2021, and May 12, 2025. Special recapture rules apply if the property is disposed of within 10 years after it is placed in service.

The bill also increases the Section 179 deduction to \$2.5 million with a phaseout threshold of \$4 million for property placed in service after 2024, with both thresholds indexed to inflation in future years.

Takeaway

Allowing producers, refiners, and manufacturers to fully expense buildings rather than depreciate them over 39 or 15 years offers a significant benefit. The definition of “production” will be important, and generally requires “a substantial transformation of the property comprising the product.” Taxpayers with buildings that house both qualified production activities and other administrative, office, or research functions will also likely need to perform an analysis to allocate costs between functions.

Section 174 Research Expensing

The bill permanently restores the expensing of domestic research costs for tax years beginning after December 31, 2024. The permanent expensing rules are created under new Section 174A, while Section 174 is retained and amended to provide for the continued 15-year amortization of foreign research costs. Software development is statutorily included in the definition of research for purposes of Section 174A. Taxpayers retain the option of electing to capitalize domestic research costs and amortize such amounts over either 10 years or the useful life of the research (with a 60-month minimum).

The bill will generally require taxpayers to implement the new treatment with an automatic accounting method change on a cut-off basis, but it offers two alternative transition rules. Taxpayers can elect to claim any unamortized amounts incurred in calendar years 2022, 2023, and 2024 in either the first tax year beginning after 2024 or ratably over the first two tax years beginning after 2024. Separate transition rules are available for eligible small business taxpayers meeting the gross receipts test under Section 448 (\$31 million in 2025) for the first tax year beginning after 2024, allowing those taxpayers to file amended returns to claim expensing for tax years before 2025. Retroactivity is not available to small business taxpayers that are tax shelters, such as pass-throughs that allocate more than 35% of their losses to limited partners or limited entrepreneurs.

The bill also amends Section 280C to again require taxpayers to reduce their deduction for research costs under Section 174A by the amount of any research credit (or reduce their credit by an equivalent amount), effective for tax years beginning after 2024. Under changes made by the TCJA, taxpayers were generally required to reduce their Section 174 capital account only to the extent the research credit exceeded their current-year amortization deduction. For most taxpayers, that meant that the amortization deductions and research credits were both allowed in full.

Takeaway

The restoration of domestic research expensing is somewhat retroactive, and taxpayers will have several options for recognizing unused research amortization and for recovering future research costs. Businesses should consider modeling their options to identify beneficial strategies because the timing of deductions can affect other calculations, including those for Section 163(j), net operating losses, FDII, and GILTI.

Section 163(j) Interest Deduction Limit

The bill permanently restores the exclusion of amortization, depreciation, and depletion from the calculation of ATI for purposes of Section 163(j), which generally limits interest deductions to 30% of ATI. The change is effective for tax years beginning after 2024.

The bill also makes two unfavorable changes effective for tax years beginning after 2025:

- Excluding income from Subpart F and GILTI inclusions and excluding Section 78 gross-up from ATI; and
- Including interest capitalized to other assets in the limit under Section 163(j), except interest capitalized to straddles under Section 263(g) or to specified production property under Section 263A(f).

The business interest allowed as a deduction up to the Section 163(j) limit will come first from any capitalized interest. Any disallowed capitalized interest exceeding the cap will be incorporated into the Section 163(j) carryforward and will not be treated as capitalized in future years.

Takeaway

The ability to again exclude amortization and depreciation from ATI will provide welcome relief for many taxpayers, but others will be negatively affected by the changes. The JCT score indicates that the revenue raised from shutting down capitalization planning and excluding new categories of income will save more than one-third of the \$60 billion cost of reinstating the exclusion of depreciation and amortization. Taxpayers should model the impact and consider tax attribute and accounting method planning. Although the bill essentially shuts down interest capitalization

planning for years beginning in 2026 or later, those strategies remain viable for the 2024 and 2025 tax years. The legislation does not claw back any interest capitalized to other assets in tax years beginning before 2026, even if the capitalized interest has not been fully recovered with the asset.

Section 199A

The bill makes permanent the deduction for pass-through income under Section 199A and favorably adjusts the phaseout of the deduction for taxpayers who do not meet the wage expense and capital investment requirements or who participate in a “specified trade or business.” The legislation also creates a minimum deduction of \$400 for taxpayers with at least \$1,000 of qualifying income.

Opportunity Zones

The bill makes permanent the qualified opportunity zone (QOZ) program and updates the rules for investments made after 2026. As in the current program, taxpayers can defer capital gain by investing in a qualified opportunity fund. For investments made after 2026, taxpayers will be required to recognize the deferred gain five years after the date of the investment but will get a 10% increase in basis. Taxpayers can still receive a full basis step up to fair market value (FMV) for property held 10 years, but the bill adds a rule freezing the basis step up at the FMV 30 years after the date of the investment.

Current QOZ designations will expire early at the end of 2026. New zones will be designated in rolling 10-year designation periods under new criteria that are expected to shrink the number of qualifying zones. A new category of rural opportunity zones is created. The 10% basis increase is tripled to 30% for investments in rural opportunity zones and the threshold for establishing the substantial improvement of qualifying property would be lowered to 50%.

Both qualified opportunity funds (QOFs) and qualified opportunity zone businesses (QOZBs) will be required to comply with substantial new reporting requirements.

Takeaway

The bill does not extend the mandatory recognition date of December 31, 2026, for investment made before 2027, as many taxpayers had hoped. But the program’s extension preserves one of the most powerful tax incentives ever offered by lawmakers. The timing of capital gains transactions may be particularly important. Delaying a capital gain transaction could allow taxpayers to make a deferral election in 2027 and defer recognizing the gain until well after the current 2026 recognition date. On the other hand, QOZ designations are likely to change in 2027. Taxpayers planning investments in geographic areas that are unlikely to be redesignated may need to make the investments before the end of 2026.

Existing QOFs and QOZBs should consider their long-term capital needs because it is not clear whether any “grandfathering” relief will allow additional qualified investments into funds operating in QOZs that are not redesignated. The new reporting rules will apply to both new and existing QOZs and QOZBs for tax years beginning after the date of enactment, and those entities will need to collect and report substantial new information that has never before been required.

Qualified Small Business Stock

The bill enhances the exclusion of gain for qualified small business (QSB) stock under Section 1202 issued after the date of enactment in the following ways:

- In addition to the existing 100% exclusion for qualified stock held for five years, taxpayers can qualify for a 50% exclusion after three years and a 75% exclusion after four years;
- The current limit on the exclusion (the greater of \$10 million or 10 times basis) is increased to \$15 million, indexed to inflation beginning in 2027; and
- The limit on gross assets at the time stock is issued is increased from \$50 million to \$75 million, indexed to inflation beginning in 2027.

Takeaway

QSB stock is a powerful tax planning tool that can essentially erase gain of up to 10 times the initial basis. The changes make the structure more accessible and increase the size of potential investments. The bill does not change the expansive qualification requirements under Section 1202, and taxpayers should understand the rules clearly and document compliance throughout the holding period.

Section 162(m)

The bill amends the aggregation rules for applying the \$1 million limit on deducting the compensation of a public company’s covered employees under Section 162(m). The current rules identify covered employees separately for each public entity but calculate compensation subject to the limitation on a controlled group basis. The number of covered employees is set to expand by five for tax years beginning in 2027 or later, and there has been some question whether such employees can come from the entire controlled group or only the public entity.

The bill creates a new aggregation rule for tax years beginning after 2025 for identifying who is a covered employee and the amount of compensation subject to the limit. The aggregation rules are based on a controlled group as defined under the qualified plan rules in Section 414. The proposal also provides rules for allocating the \$1 million deduction among members of a controlled group.

Takeaway

The provision will have unfavorable consequences for many companies, including requiring the full amount of compensation from a related partnership in the calculation (rather than a pro-rata amount based on ownership percentage). It is estimated to raise almost \$16 billion.

Form 1099 Reporting

The bill amends Section 6050W to reinstate the 200 transaction and \$20,000 threshold for reporting third-party payment network transactions on Form 1099-K. The American Rescue Plan Act of 2021 repealed that threshold and required reporting when aggregate payments exceeded \$600, regardless of the number of transactions. The IRS offered transition relief delaying the implementation of the change for two years and then provided a \$5,000 threshold for payments made in 2024 and a \$2,500 threshold for payments made in 2025. The bill restores the old threshold retroactively so that reporting is required only if aggregate transactions exceeded 200 and aggregate payments exceeded \$20,000.

The bill also increases the threshold for reporting payments under Sections 6041 and 6041A on the respective Forms 1099-MISC and 1099-NEC from \$600 to \$2,000 in 2026, indexing that figure to inflation in future years.

Remittance Tax

The bill imposes a new 1% excise tax on remittances of cash, money orders, cashier's checks, or other similar physical instruments, with an exception for transfers from most financial institution accounts or debit cards.

Takeaway

The tax in the final version affects a much narrower set of payments than the original 5% tax proposed in the House and the 3.5% tax in earlier House and Senate drafts.

Exception for Percentage of Completion Method

The bill expands exceptions to the percentage of completion method under the long-term contract rules under Section 460. The exception for home builders is expanded to include all residential construction. Further, the exception from the uniform capitalization rules for home builders meeting the gross receipts threshold under Section 448(c) (\$31 million in 2025) is expanded to include all residential construction, and the allowable construction period is extended from two years to three.

Employee Retention Credit

The legislation makes several changes to the employee retention credit (ERC), including:

- Barring ERC refunds after the date of enactment for claims filed after January 31, 2024;
- Extending the statute of limitations on ERC claims to six years; and
- Increasing preparer and promoter penalties on ERC claims.

Takeaway

The provision presumably will affect only refund claims that have not been paid by the IRS. The legislative language provides that no credit or refund “shall be allowed or made after the date of enactment” unless the claim was filed on or before January 31, 2024. The IRS had been slow to process claims – potentially in anticipation of this provision, which had been included in a failed 2024 tax extenders bill. The provision is now estimated to raise only \$1.6 billion, much less than the \$77 billion estimated under the 2024 version. The difference may be the result of refunds that have already been paid, although it remains unclear how fast the IRS is processing claims filed after January 31, 2024.

International Provisions

Foreign-Derived Intangible Income

The bill makes significant reforms to FDII, including raising the effective rate while making the calculation of income more generous.

The bill permanently lowers the Section 250 deduction from 37.5% to 33.34%, still well above the 21.875% deduction rate that would take effect without legislation. The change will increase the FDII effective rate from 13.125% to 14% (compared to 16.4% absent legislation).

The bill also repeals the reduction in FDII for the deemed return on qualified business asset investment (QBAI) and provides that interest and research and experimental (R&E) costs are not allocated eligible income. The final version modifies a change from an earlier draft that would have narrowed the allocation of deductions only to those “directly related” to such income. The final bill provides that the calculation includes “properly allocable” deductions.

The changes are effective for tax years beginning after 2025, aside from a new exclusion from FDII-eligible income that would take effect after June 16, 2025. The bill would exclude income or gain from the Section 367(d) disposition of intangible property or property subject to depreciation, amortization, or depletion. The final bill omits a provision from an earlier draft that would have also excluded specified passive income subject to the high-tax kickout.

Takeaway

The changes could expand the value of the deduction for many taxpayers despite the effective rate increase, particularly for industries with significant fixed assets and R&E costs. Taxpayers should assess the changes for potential planning and arbitrage opportunities, given the change in rates and rules. There may be accounting methods opportunities that could increase the benefit in current and future years.

Global Intangible Low-Taxed Income

The bill increases the GILTI effective rate while making both favorable and unfavorable changes to the underlying calculation effective for tax years beginning after 2025.

The Section 250 deduction for GILTI decreases from 50% to 40%, still higher than the 37.5% deduction rate that would take effect without legislation. The effective rate before the FTC haircut will increase from 10.5% to 12.6% (compared to 13.125% absent legislation). The bill will also reduce the FTC haircut under GILTI from 20% to 10%, resulting in an equivalent top effective rate of 14% (up from the current 13.125% rate and the 16.4% rate that would take effect without legislation). It also provides that 10% of taxes (compared to 20% absent legislation) previously associated with Section 951A taxed earning and profits are not treated as deemed paid for purposes of Section 78.

The deemed return for QBAI is repealed, increasing the amount of income subject to the tax. The provision also changes the allocation of expenses to GILTI for FTC purposes so that it includes only the Section 250 deduction, taxes, and deductions “directly allocable” to tested income. It also specifically excludes interest and R&E costs.

Takeaway

The changes are significant and could affect GILTI calculations in both favorable and unfavorable ways. The legislation does not provide a definition of “directly allocable,” and guidance may be important in this area. Taxpayers should assess the impact and consider FTC and other planning strategies.

Base Erosion and Anti-Abuse Tax

The bill increases the BEAT rate from 10% to 10.5% for tax years beginning after 2025, lower than both the 14% rate in the previous Senate draft and the 12.5% rate that would take effect without legislation. The legislation also repeals an unfavorable change to the BEAT scheduled to take effect in 2026 that would effectively require taxpayers to increase their liability by the sum of all income tax credits.

The final bill omits several provisions from an earlier draft that would have changed the base erosion percentage, created a high-tax exclusion, and shut down interest capitalization planning.

Takeaway

The final version removed several favorable changes from an earlier draft but potentially still allows for planning that capitalizes interest to other assets.

Reciprocal Tax for ‘Unfair Foreign Taxes’

The final bill omits proposed Section 899, which would have imposed retaliatory taxes on residents of that impose “unfair foreign taxes.” The provision was removed from the legislation after the Trump administration announced an agreement with the G-7 countries to “exempt” the U.S. from Pillar Two taxes. The G-7 released a statement saying that the countries are committed to working toward an agreement that would create a side-by-side system to fully exclude U.S.-parented groups from the undertaxed profits rule and income inclusion rule while ensuring that risks related to base erosion and a level playing field are addressed. The group also agreed to work toward compliance simplification and consider treating nonrefundable tax credits similarly to refundable tax credits.

Takeaway

The ability of G-7 countries to drive broader agreements — and the details emerging from any such agreements — will be critical for U.S. multinationals. The current announcements are largely just statements of intent on a common goal. No countries outside the G-7 were party to the commitments, and there may be resistance from some OECD and EU countries.

Other International Provisions

The bill includes several other international provisions effective for tax years beginning after December 31, 2025, including:

- Making permanent the controlled foreign corporation (CFC) look-through under Section 954(c)(6);
- Restoring the exception from downward attribution rules under Section 958(b)(4) that was repealed under the TCJA while adding a narrower rule under Section 951B that is more closely aligned with the TCJA’s intent;
- Amending the FTC rules to treat inventory produced in the U.S. and sold through foreign branches as foreign-source income, capped at 50%, likely only for branch category purposes; and

- Amending the pro-rata rules under GILTI and Subpart F.

Takeaway

The changes are generally favorable. The permanent extension of the CFC look-through rule under Section 954(c)(6) preserves an important exception for Subpart F income that is scheduled to sunset at the end of 2025. The restoration of Section 958(b)(4) could simplify reporting obligations for some taxpayers. However, Section 951B gives Treasury the authority to provide guidance on reporting for foreign-controlled U.S. shareholders. The inventory sourcing rule could result in additional foreign-source income for FTC purposes when compared to the current rule, which sources based on production activities. Finally, the pro-rata share rules will require a U.S. shareholder of a CFC to include its pro-rata share of Subpart F or GILTI income if it owned stock in the CFC at any time during the foreign corporation's tax year in which it was a CFC. That provision removes the requirement that the U.S. shareholder own the CFC's stock on the last day the foreign corporation was a CFC. The proposal provides Treasury with the authority to issue regulations allowing taxpayers to make a closing of the tax year election if there is a disposition of a CFC.

Energy Provisions

Consumer and Vehicle Credits

The bill repeals the following credits with varying effective dates:

- Previously owned clean vehicle credit under Section 25E repealed for vehicles acquired after September 30, 2025;
- Clean vehicle credit under Section 30D repealed for vehicles acquired after September 30, 2025;
- Commercial clean vehicle credit under Section 45W repealed for vehicles acquired after September 30, 2025;
- Alternative fuel refueling property credit under Section 30C repealed for property placed in service after June 30, 2026;
- Energy-efficient home improvement credit under Section 25C repealed for property placed in service after December 31, 2025;
- Residential clean energy credit under Section 25D repealed for expenditures made after December 31, 2025; and
- New energy-efficient home credit under Section 45L repealed for property acquired after June 30, 2026.

Depreciation

The bill repeals the five-year depreciable life of qualified energy property. The Section 179D deduction is repealed for construction beginning after June 30, 2026.

Sections 48E and 45Y

The bill will generally begin to phase out the production tax credit under Section 45Y and the investment tax credit under Section 48E for projects beginning construction after 2033 except for solar and wind projects. Wind and solar projects beginning more than 12 months after the date of enactment must be placed in service by the end of 2027.

The bill also creates restrictions related to prohibited foreign entities, most significantly adding limits on receiving material assistance from a prohibited entity for facilities that begin construction after December 31, 2025. Material assistance is based on a cost ratio for sourcing eligible components. The bill also tightens domestic sourcing requirements under Section 48E.

Takeaway

The final language was softened with a last-minute amendment that allows some continued runway for wind and solar projects. The change angered some House conservatives, who blocked a final vote in the House for hours before reportedly extracting a promise from the administration that it would vigorously enforce the beginning of construction rules. Treasury may have limited ability to change the guidance in this area because the statute itself provides that the beginning of construction for some credit purposes shall be determined under rules similar to existing IRS notices.

Section 45X

The advanced manufacturing credit under Section 45X is repealed for wind energy components sold after 2027 but will otherwise be extended to allow a 75% credit for components sold in 2031, 50% for 2032, 25% for 2033, and fully repealed for 2034 or later. The credit is expanded to cover metallurgical coal. Material assistance rules for prohibited foreign entities apply.

Section 45Z

The bill extends the Section 45Z clean fuel production credit through 2031 while reinstating a stackable small agri-biodiesel credit under Section 40A. A new restriction under Section 45Z disallows a credit unless the feedstock is produced or grown in the U.S., Mexico, or Canada.

The calculation of greenhouse gas emissions is amended to exclude indirect land use changes and new prohibited foreign entity rules are imposed.

Other Energy Provisions

The bill makes several other changes, including:

- Repealing the clean hydrogen production credit under Section 45V for construction beginning after 2027, two years later than earlier versions of the bill would have provided;
- Increasing the rates for carbon capture under Section 45Q for carbon sequestered as a tertiary injectant or for productive use to provide parity with the rates for permanent geologic storage (also adding foreign entity of concern restrictions);
- Expanding the publicly traded partnership rules to allow income from carbon capture facilities nuclear energy, hydropower, geothermal energy, and the transportation or storage of sustainable aviation fuel or hydrogen; and
- Adding new restrictions for foreign entities of concern for the nuclear production credit under Section 45U.

Tax-Exempt Entities

The bill replaces the 1.4% endowment tax rate with graduated brackets based on the size of the endowment per student up to a top rate of 8%. The tax applies only to universities with at least 3,000 students, up from 500.

The bill also expands the excise tax on executive compensation exceeding \$1 million to include all current employees, as well as former employees employed in tax years beginning after 2016.

Takeaway

The final version of the bill removed provisions that would have increased the excise tax on private foundations and resurrected the “parking tax,” which included the value of transportation in fringe benefits in unrelated business taxable income.

Individual Provisions

Deduction for Tip Income

The bill creates an annual deduction of up to \$25,000 for qualified tips reported on Forms W-2, 1099-K, 1099-NEC, or 4317 for tax years 2025 through 2028.

The deduction is available without regard to whether a taxpayer itemized deductions but begins to phase out once modified adjusted gross income exceeds \$150,000 for single filers and \$300,000 for joint filers.

For tips to be deductible, they must be paid voluntarily in an occupation that “traditionally and customarily” received tips before 2025, as provided by the Secretary. The business in which the tips are earned cannot be a specified trade or business under Section 199A, and self-employed taxpayers, independent contractors, and business owners face additional limitations.

Employers will be required to report qualifying tips to employees on Form W-2. The provision applies only to income taxes and generally does not affect the employer’s FICA tip credit except to extend it to specified beauty services businesses.

The bill gives Treasury several explicit grants of authority to provide regulations on specific issues. The IRS is required to adjust withholding tables and provide guidance within 90 days to define which occupations “traditionally and customarily” received tips in the past. The IRS will also need to provide rules for determining when a tip is voluntary.

Takeaway

The provision will affect employers in important ways. Hospitality companies will face new reporting requirements that depend on how the business and worker occupations are characterized. Further, an employee’s ability to deduct tips could also depend on employer policies, such as mandatory tips, service charges, or other amounts that are not determined solely by customers.

Deduction for Overtime Pay

The bill creates a permanent deduction of up to \$12,500 (single) and \$25,000 (joint) of qualified overtime compensation for tax years 2025 through 2028. The deduction is available without regard to whether a taxpayer itemized deductions but begins to phase out once modified adjusted gross income exceeds \$150,000 for single filers and \$300,000 for joint filers.

Qualified overtime compensation is defined as compensation paid to an individual required under Section 7 of the Fair Labor Standards Act (FLSA). Employers must perform new information reporting to separately report overtime pay.

Takeaway

Determining whether compensation is qualified overtime pay will not be made using tax rules but will instead depend on the employer’s characterization of the pay under the FLSA.

Auto Loan Interest Deduction

The bill will create a permanent deduction of up to \$10,000 of interest on a qualified passenger vehicle loan for tax years 2025 through 2028. The deduction begins to phase out once modified adjusted gross income exceeds \$100,000 for single filers and \$200,000 for joint filers.

The vehicle must be manufactured primarily for use on public streets, roads, and highways, and its final assembly must occur in the U.S. The deduction does not apply to lease financing and the loan cannot be to finance fleet sales, purchase a commercial vehicle, purchase a salvage title, purchase a vehicle for scrap or parts, or be a personal cash loan secured by a vehicle previously purchased by the taxpayer.

Takeaway

Auto loan financing companies will face additional reporting requirements and be required to furnish a return with specific information on loans.

Personal Exemption for Seniors

The bill provides a new \$6,000 personal exemption for individuals aged 65 and above for tax years 2025 through 2028. The deduction phases out for taxpayers with modified adjusted gross income exceeding \$150,000 for joint filers and \$75,000 for all other taxpayers.

Takeaway

The personal exemption is meant to fulfill Trump's pledge to remove tax on Social Security payments, which is not allowable under reconciliation rules. The legislation does not affect payroll taxes on Social Security payments.

Individual TCJA Extensions

The bill largely makes the individual TCJA provisions permanent, although with some important modifications. The individual rate cuts and bracket adjustments are made permanent while providing an extra year of inflation adjustment for the lower brackets. The bill also makes permanent:

- The repeal of general personal exemptions;
- The limits on the deductions for mortgage interest (while adding mortgage insurance premiums as qualified interest), personal casualty losses, and moving expenses;

- The repeal of miscellaneous itemized deduction (with an exception for some educator expenses); and
- The exclusion for bicycle commuting reimbursements.

The bill restores an itemized deduction for up to 90% wagering losses, capped at the amount of wagering income.

The bill makes permanent the increased alternative minimum tax exemption and phaseout thresholds but would claw back inflation adjustments to the phaseout thresholds by resetting them to 2018 levels. The actual phaseout of the exemptions based on the amount of income exceeding the thresholds is slowed by half.

The bill permanently repeals the Pease limitation on itemized deductions that the TCJA suspended through 2025, but it would create a new limit. The new provision would essentially cap the value of itemized deductions so that the maximum benefit achievable for the deductions is equivalent to offsetting income taxed at a top rate of 35% rather than offsetting income taxed at the higher individual marginal rate of 37%.

The bill creates a 0.5% haircut on individual itemized charitable deductions but also adds a permanent charitable deduction for non-itemizers of up to \$2,000 for joint filers and \$1,000 for other taxpayers.

SALT Cap

The bill makes the SALT cap permanent while raising the threshold for five years and then reverting it to \$10,000 in 2030. The cap is set at \$40,000 for 2025 but phases down to \$10,000 once income exceeds \$500,000. Both thresholds will increase by 1% for each year through 2029.

Takeaway

Earlier drafts of the bill would have shut down taxpayers' ability to use pass-through entity tax regimes to circumvent the SALT cap; the final version eliminated those provisions.

Transfer Taxes

The bill permanently sets the lifetime exemptions for the gift, estate, and generation-skipping transfer taxes at \$15 million for 2026 and indexes them for inflation thereafter. The change represents a modest increase from the exemptions under the TCJA, which were initially set at \$10 million but reached \$13.99 million in 2025 with inflation adjustments.

Active Business Losses

The legislation makes the active loss limit under Section 461(l) permanent but reverses recent inflation adjustments in the \$250,000 threshold.

Takeaway

The final bill struck an unfavorable provision in earlier drafts that would have required disallowed losses to remain in the Section 461(l) calculation in future years. Under the final bill, disallowed losses still become net operating losses in subsequent years and can offset other source of income.

Other Provisions

The bill contains a number of other meaningful tax changes, including:

- Creating a 1% floor for charitable deductions for corporations by providing that a deduction is allowed only to the extent it exceeds 1% of taxable income (up to the current 10% cap) for tax years beginning after 2025;
- Changing the explicit regulatory mandate for disguised sale rules under Section 707(a)(2) to clarify that the rules are self-executing without regulations, effective after the date of enactment;
- Raising the percentage of allowable assets a real estate investment trust (REIT) may have in a qualified REIT subsidiary from 20% to 25% effective for tax years beginning after 2025;
- Making permanent the increases to the low-income housing tax credit;
- Increasing the Section 48D credit for semiconductor manufacturing facilities from 25% to 35% for property placed in service after 2025;
- Making permanent the new markets tax credit;
- Treating spaceports like airports for the private activity bond rules, effective for obligations issued after the date of enactment;
- Increasing the limit on the “cover over” to Puerto Rico and the U.S. Virgin Islands for excise taxes on distilled spirits effective for imports after 2025;
- Allowing the liability from gain on the sale of qualified farmland property to be paid in 10-year installments for sales after the date of enactment; and
- Creating tax-preferred accounts for children, with a pilot program offering a \$1,000 contributory credit for qualifying children for tax years beginning after 2025.

Takeaway

The inclusion of the new markets tax credit and the CFC look-through rule, which are both scheduled to expire at the end of 2025, indicates that Republicans do not have much hope for another tax bill this year. House Ways and Means Committee Chair Jason Smith, R-Mo., originally left those provisions off the House bill, saying he hoped to address them in a bipartisan extenders bill. Republicans have also discussed moving a second reconciliation bill, although that may have been a negotiating ploy to appease members whose priorities are not addressed in this bill.

Next Steps

Taxpayers should assess the potential impact of major provisions when considering the tax efficiency of transactions and investments. There may be planning opportunities that should be considered now, such as accelerating or abandoning energy credit projects or investments and modeling the impact of changes to the limit on the interest deduction under Section 163(j), bonus depreciation, and research expensing under Section 174. Changes to opportunity zone rules could affect the timing for triggering capital gains and making investments. International changes may present arbitrage opportunities to capitalize on favorable changes or mitigate the impact of unfavorable changes.

[For more information, contact a member of our Tax Team.](#)