Tax Insights
from Tax Policy Services

Overview of Senate-passed version of H.R. 1, the “One Big Beautiful Bill Act”

July 1, 2025

Note: President Trump signed H.R. 1 into law on July 4, which marks the date of enactment for the tax provisions discussed below. The House on July 3 approved without change H.R. 1 as passed on July 1 by the Senate.

In brief

What happened?

The Senate on July 1 voted 51 to 50 to pass an amended version of H.R. 1, the “One Big Beautiful Bill Act.” The bill was approved with the tie-breaking vote of Vice President JD Vance and the support of all Senate Republicans, except for Senators Susan Collins (R-ME), Rand Paul (R-KY), and Thom Tillis (R-NC) who opposed the bill along with all Senate Democrats. The Senate approved H.R. 1 under reconciliation procedures that allowed the legislation to be approved by a simple majority with only Republican votes, instead of the 60-vote majority typically needed to consider bills in the Senate.

President Donald J. Trump has called for the House to approve the Senate-passed version of H.R. 1 without any changes, which could clear the legislation for him to sign it into law by the July 4 Independence Day federal holiday. House Speaker Mike Johnson (R-LA) has announced that the House will reconvene during the current July 4 recess period to consider the Senate’s amendments. Any House changes to the Senate-passed bill would require continued efforts to enact a 2025 reconciliation bill by some point later in July.

The Senate-passed bill includes significant tax law changes, increased funding for immigration control and national defense, and spending reductions affecting Medicaid and a large number of other federal programs. The bill also includes a provision to increase the federal government’s current $36.1 trillion statutory debt limit by $5 trillion.

Below is an overview of tax provisions in the Senate-passed version of H.R. 1, which includes some changes to the tax proposals originally released on June 16 by Senate Finance Committee Chairman Mike Crapo (R-ID).

In detail

Overview

The tax provisions of the Senate-passed H.R. 1 (the Senate-passed bill) would extend permanently, with modifications, certain individual, business, and international tax provisions enacted as part of the 2017 TCJA that currently are set to change at the end of this year. The Senate-passed bill does not include the House-proposed Section 899 to address countries with "unfair" foreign taxes.

The Senate-passed bill features modified versions of individual and business tax relief proposals advanced by President Trump, and other new tax relief measures. In addition, the Senate-passed bill includes various revenue-raising measures, including changes to certain Inflation Reduction Act (IRA) clean energy tax credits and various limits on business and individual tax deductions, that are intended to offset part of the cost of the legislation.

Observation: The Senate made significant changes to key tax and spending provisions that House Republicans approved by a one-vote 215 to 214 majority in late May. While the Senate-passed bill expands some tax provisions, it also would impose a higher level of spending reductions to Medicaid and would increase federal deficits more than the version of the bill approved by the House. It remains to be seen whether President Trump and House Republican leaders can secure the votes needed to approve the Senate-passed version of H.R. 1 without additional changes.

Any House changes to the Senate-passed bill would require continued efforts to enact a 2025 reconciliation bill. The Treasury Department has stated that the statutory debt limit increase provision that is part of H.R. 1 must be enacted before Congress begins its traditional August recess. Treasury Secretary Scott Bessent has warned Congress that the federal government could exhaust its ability to avoid default on federal debt obligations as early as mid-August.

Observation: From a state and local tax perspective, most states will have ended their legislative sessions by the time of anticipated federal enactment. However, because of economic uncertainty and the potential effects of reductions in federal funding, several states have indicated that they may need to have a special session later this year to address budgetary issues. This could provide states with an opportunity to respond to the state tax impact of the proposed federal tax changes discussed below.

The Joint Committee on Taxation (JCT) staff has estimated that tax provisions in the Senate-passed version of H.R. 1 would reduce net federal revenues by $715.2 billion over 10 years, under a "current-policy baseline" that assumes no revenue effect for maintaining expiring TCJA provisions. The JCT staff projected the same tax proposals would reduce net federal revenues by $4.475 trillion over 10 years under the traditional current-law baseline. The JCT staff estimated that the House-passed version of H.R. 1 would have reduced net federal revenues by $3.8 trillion over 10 years under the same current-law baseline.

Note: The FY 2025 budget resolution approved by Congress earlier this year provided reconciliation instructions for the House to consider its tax proposals under a current-law baseline and for the Senate to consider its tax provisions under a current-policy baseline.

The Congressional Budget Office (CBO) staff projected that the overall mix of revenue and spending provisions in the Senate-passed bill would reduce net federal deficits by $0.4 trillion under a current-policy baseline between 2025 to 2034 but would increase net deficits by $3.4 trillion under a current-law baseline over the same period.

The nonpartisan CBO staff previously projected that the overall net budgetary effects of the House-passed version of H.R. 1 would increase US debt by $2.4 trillion through 2034 under a current-law baseline. A CBO macroeconomic report found that H.R. 1 as passed by the House would increase real economic growth by an average of 0.5% through 2034, but the benefits of this growth effect would be more than offset by increased debt service costs and a projected rise in interest rates, resulting in a projected net increase of $2.8 trillion in US debt over the same period.

***Observation*:** While the CBO's estimates are in line with a range of estimates published by many private sector and academic institutions, the Trump administration and Congressional Republicans are projecting that a significant increase in US economic growth from the legislation, increased tariff revenues, and other administration policies will offset most of the cost of H.R. 1. It remains to be seen whether the deficit effects of the Senate-passed bill will be considered acceptable to House Republicans who have expressed concerns over US debt increasing to more than 120% of GDP.

Observation: Key differences between the House and Senate bills are expected to affect the macroeconomic consequences of the legislation. Permanent bonus depreciation, revisions to the business interest limitation, and expensing of domestic research and experimental expenditures would have positive effects on investment relative to the temporary versions of those provisions in the House bill. The JCT staff also identified proposed Section 899 and changes to IRA clean energy credits as provisions that would "discourage corporate capital investment." While the Section 899 provision was removed from the Senate bill, it does include significant changes to IRA credit provisions. Finally, larger deficits under the Senate bill could result in more crowd-out of private investment that could diminish the positive growth effects of the legislation.

Business tax proposals

H.R. 1 addresses key business tax provisions that were modified in 2017 under the TCJA. These business tax provisions include restoration of 100% bonus depreciation under Section 168(k), Section 174 expensing for US-based research, and the EBITDA-based business interest expense limitation under Section 163(j).

The House-passed version of H.R. 1 generally proposed to extend these provisions for five years. The Senate-passed bill would make these provisions permanent.

The Senate-passed bill also features a new temporary Section 168(n) bonus depreciation provision for qualified production property (QPP).

In addition to permanence of certain business provisions, the Senate-passed bill includes the following details:

- The 100% bonus depreciation deduction would apply to property acquired and placed in service after January 19, 2025, as well as for specified plants planted or grafted on or after January 19, 2025.
- Under new Section 174A, domestic research or experimental (R&E) expenditures paid or incurred in tax years beginning after December 31, 2024, would be immediately deductible. Alternatively, taxpayers could make an election to capitalize and amortize these R&E expenditures over (1) a

period of not less than 60 months (beginning with the month in which the taxpayer first realizes benefits from those expenditures) under Section 174A, or (2) a 10-year period under Section 59(e)(2)(B). Special rules would allow small business taxpayers to apply the rules retroactively to tax years beginning after December 31, 2021, while an election would permit all taxpayers to accelerate over a one or two-year period beginning with the taxpayer's first tax year beginning after December 31, 2024, the deductions for unamortized domestic R&E expenditures that were capitalized after December 31, 2021, and before January 1, 2025.

Observation: The election to capitalize under new Section 174A or to expense previously capitalized domestic Section 174 amounts will raise state income tax conformity considerations. Further, Section 174 and other retroactive changes such as the proposed Section 163(j) limitation computation amendment may impact state 2025 tax year liabilities. Taxpayers should analyze state conformity to these provisions for potential impact on state estimated payments as well as monitor state legislative actions and administrative guidance should the federal changes be enacted.

- New rules on the deductibility of business interest expense would (1) impose an ordering rule that requires calculation of the Section 163(j) limitation before the application of any interest capitalization provision (except for interest capitalized under Sections 263A(f) and 263(g)) and (2) exclude subpart F and GILTI inclusions and the associated Section 78 gross-up amounts, as well as amounts determined under Section 956, from a taxpayer's adjusted taxable income.

- The elective 100% depreciation allowance for QPP under new Section 168(n) would apply to nonresidential real property that (1) is acquired by the taxpayer after January 19, 2025, and before January 1, 2029, (2) was not used in a qualified production activity at any time during the period beginning on January 1, 2021, and ending on May 12, 2025, (3) was not used by the taxpayer or a related party at any time prior to such acquisition, (4) is used by the taxpayer as an integral part of a qualified production activity, (5) is placed in service in the United States or any possession of the United States, and (6) is placed in service after the date of enactment and before January 1, 2031, except in cases of Acts of God in which case the Secretary can extend the date by up to two years. Note the recapture rate for depreciation taken under this provision would be the ordinary income tax rate and not the Section 1250 rate of 25%.

Observation: The proposed bonus depreciation allowance for QPP under new Section 168(n) may provide a significant benefit for companies investing in US-based manufacturing facilities. This provision was adopted in lieu of President Trump's proposal to provide a 15% corporate income tax rate for US-based manufacturing income. Companies should model the potential effects of the proposal on their business investment planning.

Observation: While many states have decoupled from or require an addback for "bonus" depreciation under Section 168(k), states will likely need to address the new Section 168(n) depreciation allowance separately.

Additional business tax relief provisions include:

- A new adjustment for intangible drilling and development costs would be included in the computation of adjusted financial statement income to determine liability for the corporate alternative minimum tax, effective for tax years beginning after December 31, 2025.

- A new 25% exclusion from the gross income of qualifying financial institutions for interest income derived from certain loans secured by rural or agricultural real property, effective for original debt incurred in tax years ending after the date of enactment.

- An increase from 20% to 25% in the share of a REIT's assets that can be comprised of securities in taxable REIT subsidiaries.
- An expansion of contracts that are eligible to be exempt from the percentage of completion method to cover all "residential construction contracts" as opposed to just "home construction contract." This means that apartment building and condo developers will be able to use the completed contract method to account for sales.

Not included in the Senate-passed bill were provisions that would expand existing limitations on the ability of state and local tax jurisdictions to impose net income taxes under Public Law 86-272 (for more on those provisions in the House-passed bill, see PwC's Insight).

IRA clean energy credits

H.R. 1 as passed by the House would curtail certain credits enacted by the Inflation Reduction Act in 2022 and accelerate the phase-out of others with earlier sunset dates. The House-passed bill also provides several new limitations for the IRA clean energy credits, including new requirements for foreign entities of concern and transferability restrictions.

The Senate-passed bill would modify, terminate, and accelerate the phase-out of a wide range of IRA clean energy credits. For example, it would terminate the clean electricity production and investment credits under Sections 45Y and 48E for wind and solar facilities for projects for which construction begins 12 months after the date of enactment and are placed in service after December 31, 2027.

The Senate-passed bill generally would adopt the definitions for "prohibited foreign entities" and "foreign-influenced entities" in a manner consistent with the House bill, but the restrictions would apply to a broader range of credits, impose penalties, and include more explicit definitions and safe harbors – including thresholds on integrated component rules. New thresholds and methodologies would apply for determining when a US taxpayer has received material assistance from a prohibited foreign entity, including a "material assistance cost ratio," that measures the extent to which the costs of a qualified facility, energy storage technology, or eligible components are attributable to materials procured from prohibited foreign entities. The rules would be phased in over several years and would include anti-circumvention measures.

Whereas the House-passed bill would restrict transferability of credits, the Senate-passed bill generally would permit the transfer of IRA credits until their repeal; however, the Senate bill would prohibit the transfer of credits to a specified foreign entity.

New provisions in the Senate-passed bill include an increase in the Section 48D advanced manufacturing investment credit rate from 25% to 35%, effective for property placed in service after December 31, 2025.

Observation: Excluded from the final Senate-passed bill are restrictive proposals in the initial manager's amendment offered by Budget Committee Chairman Graham that would have severely limited the qualification of wind and solar investments by requiring significantly short timelines for placing projects into service. The final Senate-passed bill also dropped a proposed excise tax on certain wind and solar projects, which would have imposed a significant previously unanticipated potential cost on projects as well as new record-keeping/substantiation burdens.

Observation: Companies making investments in energy production and related activities will need to assess the effects of changes to energy tax credits in light of the pending legislation. In particular, the use of placed-in-service and begun-construction testing dates in both bills will cause material differences in credit eligibility and amount – making these determinations more critical than ever.

International tax provisions

H.R. 1 contains proposals on global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and the base erosion and anti-abuse tax (BEAT). The House-passed version of H.R. 1 would have permanently extended the current rates on GILTI, FDII, and BEAT with slight modifications. The deduction for corporations for tax years beginning after December 31, 2025, would decrease to 49.2% of their GILTI (including the corresponding Section 78 gross-up amount) and 36.5% of their FDII. The House-passed bill also would increase the current BEAT rate to 10.1% on modified taxable income for tax years beginning after December 31, 2025, and would make permanent the current law BEAT provisions relating to the treatment of the research credit and certain other credits.

The Senate-passed bill would decrease the Section 250 deduction percent for tax years beginning after December 31, 2025, to 40% for GILTI and 33.34% for FDII, resulting in an effective tax rate of 14% for both GILTI (after an updated GILTI foreign tax credit (FTC) for 90% of relevant foreign income taxes) and FDII. It also would eliminate both the net deemed tangible income return (DTIR) currently utilized in determining a US shareholder's GILTI inclusion and a domestic corporation's FDII. Additionally, the Senate-passed bill would rename the GILTI and FDII provisions to net CFC tested income (NCTI) and foreign-derived deduction eligible income (FDDEI), respectively.

The Senate-passed bill would limit the deductions of a US shareholder allocable to foreign-source income for the purpose of determining the FTC limitation with respect to the NCTI category -- only the Section 250 deduction relating to NCTI and deductions directly allocable to that income would be allocable; all other expenses, including interest and research and experimentation (R&E) expenses, would be allocated against US-source income. Similarly, for purposes of determining FDDEI the proposal would provide interest and R&E expenses are not allocable to deduction eligible income (DEI).

The Senate-passed bill would increase the current BEAT rate to 10.5% of modified taxable income beginning after December 31, 2025, and, like the House bill, would maintain current law treatment of the research credit and certain other credits in the BEAT computation on a permanent basis.

Observation: Many taxpayers have excess FTCs in the GILTI category described in Section 904(d)(1)(A). The increase of the applicable GILTI tax rate, the reduction of the GILTI FTC "haircut" from 20% to 10%, and the removal of certain expenses in determining the FTC limitation would result in more NCTI FTCs being able to reduce taxpayers' US tax liabilities. The Senate bill provides that only directly allocable expenses should be allocated to NCTI for purposes of the FTC limitation. Determining whether a deduction is "directly allocable" to NCTI is not well defined and, therefore, we expect that future Treasury regulations will clarify this issue as it relates to expenses other than interest and R&E, which, as noted above, are explicitly addressed in the statutory text of the Senate bill.

Section 899 dropped

The Senate-passed bill does not include the House-proposed Section 899 to address countries with "unfair" foreign taxes. The House-proposed Section 899 would have imposed increased rates of tax on certain affected taxpayers connected to countries with an "unfair tax," which would include the undertaxed profits rule (UTPR), digital services taxes (DSTs) and diverted profits taxes (DPTs). Furthermore, special BEAT rules would have applied to US companies with majority ownership by residents of countries with an unfair tax. An initial substitute for the House-passed bill offered by Finance Chairman Crapo featured a Senate version of the Section 899 provision that followed a similar path on incremental tax rules and special BEAT rules, albeit with key differences on how and when they applied.

The proposed Section 899 was dropped from the bill at the request of Treasury Secretary Bessent, following a June 26 announcement by the Secretary that other G7 countries had agreed to the US position that certain aspects of Pillar Two should not apply to US multinational corporations and their subsidiaries. In addition to the United States, the G7 is comprised of Canada, France, Germany, Italy, Japan, and the United Kingdom. A joint statement issued by G7 members indicated that a "shared understanding" had been reached that would exempt US-parented groups from both of the primary Pillar Two tax regimes (the UTPR and the Income Inclusion Rule (IIR)).

Observation The G7 statement indicates that this understanding will have to be further discussed and developed with the non-G7 members of the OECD's Inclusive Framework (IF). On this basis, House Ways and Means Committee Chairman Jason Smith (R-MO) and Senate Finance Committee Chairman Crapo released a joint statement announcing their intention to remove Section 899 from the legislation. The joint statement notes that "Congressional Republicans stand ready to take immediate action if the other parties walk away from this deal or slow walk its implementation." In this regard, Republicans could use the reconciliation process for up to two more times this Congress, meaning there are potential vehicles to revive Section 899.

Observation: It is likely that the details of the shared G7 understanding will ultimately be issued as Administrative Guidance (e.g., one or more safe harbors) to be agreed by IF member countries, which will then need to be reflected in the national laws of countries that have adopted the IIR and/or the UTPR. However, the G7 agreement is non-binding on other IF member countries.

Additional international tax proposals in the Senate-passed bill include:

- Sourcing of inventory sales for FTC limitation: Solely for purposes of the FTC limitation, up to 50% of income from the sale or exchange of inventory property produced in the United States that is sold or exchanged outside the United States and which is attributable to an office or other fixed place of business in a foreign country would be treated as foreign-source taxable income.

- Permanent extension of Section 954(c)(6) look-through rule for controlled foreign corporations (CFCs).

- Limitation on FDII for intangible property and other transfers: The Senate-passed bill proposes to exclude from FDII gain or other income from dispositions of intangible property (as defined in Section 367(d)) and any other property of a type that is subject to depreciation, amortization, or depletion by the seller (e.g., machinery that had been used in the seller's business) occurring after June 16, 2025.

- Repeal of the election for one-month deferral in determining the tax year of certain foreign corporations: A foreign corporation using a one-month deferral year would be required to change to use its majority US shareholder year. The proposal would apply to tax years of specified foreign corporations beginning after November 30, 2025, with a transition rule for a specified foreign corporation's first tax year beginning after November 30, 2025.

- Restoration of the limitation on downward attribution of stock ownership in applying constructive ownership rules: The proposal would restore the limitation on downward attribution of stock ownership, former Section 958(b)(4), when applying the constructive ownership rules. It also would create a new Section 951B to allow for downward attribution from a foreign person in certain cases. This rule would apply to tax years of foreign corporations beginning after December 31, 2025.

- Modifications to pro rata share rules: If a foreign corporation is a CFC at any time during a tax year of the foreign corporation, each US shareholder that owns stock in that corporation during the CFC year would be required to include in gross income each shareholder's pro rata share of the corporation's subpart F income for the CFC year. Similar modified pro rata share rules would apply in the calculation of a US shareholder's GILTI inclusion. The methodology for determining a US shareholder's pro rata share is not described in the statutory language. This rule would apply to tax years of foreign corporations beginning after December 31, 2025.

- Technical clarifications: The Senate-passed bill would ensure the limitation on NCTI taxes to 90% (sometimes referred to as a 10% haircut) also would apply to taxes imposed on distributions of earnings and profits previously taxed as GILTI or NCTI and would clarify any taxes so imposed would not result in a corresponding Section 78 gross-up dividend. In addition, the bill would clarify FTC cross-references under Sections 904(d)(2)(H) (relating to base differences), 904(d)(4)(C) (relating to unsubstantiated 10/50 dividends), and 904(h) (relating to US-source income derived with respect to certain foreign subsidiaries).

Tax accounting implications

ASC 740 requires the effects of a change in tax law to be recognized in the period in which the law is enacted. For US federal tax purposes, the date in which the President signs the bill into law is considered the date of enactment. From a state and local income tax perspective, each jurisdiction's legislative process must be assessed to determine whether it adopts or otherwise conforms to the Internal Revenue Code as of date of enactment.

The impact of the change in tax law must be reported as a component of the income tax provision related to continuing operations, even if the underlying assets and liabilities relate to other components of the financial statements, such as discontinued operations, a prior business combination, or items of accumulated other comprehensive income.

The Senate-passed bill proposes a number of changes that, upon enactment, may have financial reporting implications, including, but not limited to, the recognition of deferred taxes, the realizability of deferred tax assets, and uncertain tax positions.

Companies will need to carefully evaluate the impact that the changes will have on their existing financial statement positions and disclosures in order to appropriately account for the changes in the period of enactment. To the extent the bill is enacted after the balance sheet date, but prior to the issuance of the financial statements, companies should consider a subsequent event disclosure that describes the nature of the event and an estimate of the financial statement effect, or a statement that such an estimate cannot be made.

Individual tax proposals

The House-passed bill would extend permanently, with some modifications, key TCJA individual tax provisions, including the 37% top individual income tax rate. The House-passed bill includes many new temporary individual tax relief provisions, such as temporary increases in standard deductions and the child tax credit. H.R. 1 as passed by the House also would increase the Section 199A pass-through deduction from 20% to 23%, but at the same time would deny owners of certain pass-through entities engaged in so called "specified service trade or businesses" (SSTBs) from being able to take deductions for state and local taxes at the entity level.

The Senate-passed bill proposes to modify and make permanent TCJA individual tax provisions, including the 37% top individual tax rate. Proposed modifications include an additional year of inflation adjustments for the 10% and 12% tax brackets and an increase in the standard deduction for tax years beginning after 2025 to $15,750 for a single filer, $23,625 for a head of household, and $31,500 for married individuals filing jointly and adjusted for inflation thereafter.

Additional modifications of current TCJA individual provisions include permanently increasing the nonrefundable child tax credit from $2,000 per child to $2,200 per child beginning in tax year 2025 and permanently indexing the nonrefundable credit amount for inflation.

While providing a charitable deduction of up to $1,000 for single filers who do not itemize ($2,000 for joint filers), the Senate-passed bill would add a new 0.5% floor on charitable contribution deductions for individuals who elect to itemize, effective for tax years beginning after December 31, 2025.

The Senate-passed bill would make permanent the current 20% Section 199A pass-through deduction, instead of increasing the deduction to 23% as proposed by the House. However, the Senate-passed bill would expand the deduction limit phase-in range by increasing the $50,000 (non-joint returns) and $100,000 (joint returns) amounts to $75,000 and $150,000, respectively, which could ease the impact of the limitations for both SSTBs and those pass-through entities subject to the wage and investment limitation. In addition, the Senate-passed bill introduces a new minimum pass-through deduction of $400 for taxpayers with at least $1,000 of qualified trade or business income from any qualified trade or business in which the taxpayer materially participates (within the meaning of Section 469(h)).

Observation*:* Taxpayers should review the proposed Section 199A modifications and related impacts.

Under the House-passed bill, the current $10,000 SALT cap would be increased permanently to $40,000 for tax years beginning after December 31, 2024 ($20,000 in the case of a married individual filing a separate return). In addition, a proposed phase-out threshold for the higher SALT cap would begin at $500,000 ($250,000 in the case of a married individual filing separately). The revised SALT cap and phase-out threshold levels would increase by 1% annually over the next 10 years and would remain at that level after the 10-year period, but not below $10,000 ($5,000 in the case of a married individual filing separately). The House-passed bill also would disallow the federal deduction that Notice 2020-75 currently allows for state pass-through entity taxes (PTETs) when the pass-through entity is an SSTB.

The Senate-passed bill amends the House SALT cap provision so that the higher $40,000 cap would sunset for tax years beginning after 2029. Under the Senate-passed bill, the higher $40,000 SALT cap would apply for tax years beginning after December 31, 2024. The Senate-passed bill also drops the House-proposed PTET changes.

Observation: House Speaker Johnson has indicated that he believes the revised Senate SALT cap relief proposals should be sufficient to win the votes of nearly all House “SALT CAP Caucus” Republicans. Treasury Secretary Bessent, who was involved in negotiations on the compromise SALT cap proposal, has indicated that President Trump will be urging House members to support the revised provision.

Observation: Both the House-passed bill and Finance Chairman Crapo’s initial substitute amendment would have placed significant restrictions on existing PTET structures. For example, the House-passed bill would have denied PTET benefits to pass-through entities engaged in a “specified service trade or business,” whereas the original Senate version would have imposed a separate cap on federal PTET deductions (in addition to the SALT cap already in place for non-PTET taxes). The removal of these limitations from the Senate-passed bill, coupled with the temporary increase in the SALT cap from $10,000 to $40,000, offers welcome relief for individual taxpayers and pass-through owners.

The Senate-passed bill proposes to permanently repeal the previous “Pease” limitation on itemized deductions and replace it with a new permanent overall limitation on the tax benefit of itemized deductions. This provision would cap the value of otherwise allowable itemized deductions at the 35% income tax rate bracket, for tax years beginning after 2025.

Observation: Higher-income taxpayers who are subject to the top 37% individual income tax rate will need to evaluate how this reduction in the value of otherwise allowable itemized deductions, including the limited deduction for mortgage interest, the floor on charitable deductions, and the revised limited deduction for state and local taxes, will affect their overall individual effective tax rate.

The House-passed bill would have permanently extended Section 461(l), which disallows excess business losses for non-corporate taxpayers. In addition, the House proposal would have characterized a disallowed excess business loss incurred after December 31, 2024 as a business loss in subsequent tax years, rather than as a net operating loss (NOL).

The Senate-passed bill would make the Section 461(l) limitation permanent but does not include the broader House language changing the characterization of losses. While modifying the inflation adjustments to the $250,000 ($500,000 for joint filers) threshold amounts for tax years beginning after December 31, 2025, the Senate-passed bill would retain the treatment of disallowed excess business losses under current law by characterizing such losses as NOLs in subsequent tax years.

Observation: The ability under current law to convert a disallowed excess business loss into an NOL effectively creates a one-year timing difference because the NOL is eligible to offset any type of income in the carryover year (whether business or nonbusiness income), subject to the overall 80% taxable income limitation. By proposing to characterize an excess business loss as a trade or business loss in subsequent years rather than an NOL, the House-passed bill could have potentially deferred the recognition of active business losses indefinitely, at least until the loss could be offset against other trade or business income. The Senate's decision to maintain the current treatment of excess business loss carryovers as NOLs should come as welcome news to taxpayers with active trade or business losses.

Additional individual tax provisions in the Senate-passed bill include:

- Permanent extension and enhancement of increased exempt estate and gift tax amounts.
- Permanent extension of increased alternative minimum tax exemption amounts and modifications of phase-out thresholds.
- Permanent extension and modification of certain ABLE account provisions.
- Permanent extension and modification of the limitation on deductions for qualified residence interest, casualty losses, and certain other individual deductions.
- Permanent termination of the deduction for personal exemptions other than a temporary senior deduction.

The Senate-passed bill includes several new individual tax relief provisions that address proposals offered by President Trump, including:

- A deduction on certain qualified tip income of up to $25,000 received by an individual in an occupation that customarily and regularly receives tips in a given tax year, effective for tax years 2025 through 2028.
- A deduction for certain qualified overtime compensation of up to $12,500 ($25,000 in the case of a joint return) received by an individual during a given tax year, effective for tax years 2025 through 2028.

Observation: Industries that are labor intensive, such as retail, restaurants, and hospitality, should consider the impact on administration and on their workforce strategy of the federal income tax deduction for tips and overtime compensation.

- A deduction of up to $10,000 for certain qualified passenger vehicle loan interest during a given tax year, effective for tax years 2025 through 2028.
- New Trump savings account for eligible individuals under the age of eighteen for whom a social security number has been issued. For US citizens born between January 1, 2024, and December 31, 2028, the federal government would contribute $1,000 per child to every eligible account. Taxable entities may contribute up to $5,000 annually of after-tax dollars to a Trump account, indexed for inflation. Certain contributions to Trump accounts from tax-exempt sources are not subject to the $5,000 annual limit.

Additional individual tax relief provisions proposed by the Senate-passed bill include enhancements to the employer-provided childcare credit, the adoption credit, and child and dependent care tax credit.

Additional proposals

The Senate-passed bill features permanent renewal and enhancements of opportunity zone investment incentives and proposes an expansion of the qualified small business stock gain exclusion:

- The opportunity zone program would be made permanent. Under the new rules, opportunity zones would be designated every 10 years. To the extent a taxpayer has capital gain that is invested in a qualified opportunity zone fund, they would be able to defer their gain for five years and if they hold their investment for at least five years would be able to increase the basis of the investment by 10% of their deferred gain (30% in the case of an investment in a qualified rural opportunity fund). In addition, taxpayers may be able to exclude gains from qualified opportunity zone investments held for at least 10 years, with special rules applying to investments held over 30 years.
- The five-year holding requirement to be eligible for qualified small business stock (QSBS) benefits would be eased by establishing a tiered system once the stock has been held for at least three years. Under the proposal, 50% of the gain would be excluded for QSBS stock held at least three years, 75% for four years, and 100% for five years or more. The bill also would increase the lifetime exclusion for QSBS gains from a single issuer from $10 million to $15 million and raise the gross asset limit for a corporation to qualify as a "qualified small business" from $50 million to $75 million. Both thresholds would be indexed for inflation beginning in 2027. These changes would apply to tax years and to QSBS issued or acquired after the date of enactment.

Observation: By reducing the QSBS holding period requirement from five years to three years, the Senate-passed bill could enable a broader range of taxpayers to take advantage of QSBS benefits. This change also would be particularly beneficial for taxpayers with shorter investment periods, enabling them to access QSBS tax benefits sooner.

The bill also includes permanent extensions of the low-income housing tax credit and the new markets tax credit. It also would repeal the revision to de minimis rules for third-party network transactions that was enacted as part of the 2021 American Rescue Plan Act and would increase the threshold for requiring information reporting with respect to certain payees.

The Senate-passed bill contains other revenue-raising provisions in addition to those noted above, including a provision that would modify Section 162(m) to add new entity aggregation and allocation rules, and a provision that would expand Section 4960 to generally apply to all employees and former employees of an applicable tax-exempt organization.

The Senate-passed bill reduces to 1% the new 3.5% excise tax on certain foreign remittance transfers that was proposed in the House-passed bill. The Senate version of this provision also would generally limit the application of the new 1% federal foreign remittance excise tax to transfers of cash and similar instruments, and would specifically exclude the tax from applying to remittance transfers from accounts held in certain financial institutions or transfers funded with a debit card or a credit card that is issued in the United States. The provision would apply to transfers made after December 31, 2025.

The Senate-passed bill includes a proposal to replace the current-law endowment excise tax on applicable educational institutions with a new rate structure, effective for tax years beginning after December 31, 2025. Where the House-passed bill would establish four rates (1.4%, 7%, 14%, and 21%), the Senate-passed bill would establish only three (1.4%, 4%, and 8%). The Senate-passed bill exempts educational institutions with fewer than 3,000 students from the endowment excise tax.

The Senate-passed bill does not include the House-proposed change in the tax treatment of private foundations. The bill does not include a proposal to tax the proceeds of certain litigations funded by a third-party; the proposal was ruled to conflict with Senate reconciliation procedures. The Senate also adopted an amendment striking a provision that sought to impose a moratorium on state and local taxes and regulations related to artificial intelligence.

Additional provisions that are part of the Senate-passed bill include:

- modifications to de minimis entry privileges for commercial shipments that include an additional civil penalty for violations of other US customs law, of up to $5,000 for the first violation and up to $10,000 for each subsequent violation, effective 30 days after the date of enactment,
- a new 1% floor on charitable deductions by corporations, effective for tax years beginning after December 31, 2025,
- new enforcement provisions with respect to COVID-related employee retention tax credits,
- earned income tax credit reforms, and
- certain other IRS reforms.

For more information

Click here for the text of the Senate-passed version of H.R. 1

Click here for the JCT staff estimated revenue effects of the tax provisions in the Senate-passed bill relative to current policy

Click here for the JCT staff estimated revenue effects of the tax provisions in the Senate-passed bill relative to current law

Click here for PwC overview Insight on the House-passed version of H.R. 1. (17 pages)

Let’s talk

Tax Policy Services

Pat Brown
(203) 550-5783
pat.brown@pwc.com

Rohit Kumar
(202) 841-8300
rohit.kumar@pwc.com

Scott McCandless
(202) 748-4760
scott.mccandless@pwc.com

Janice Mays
(202) 603-0641
janice.a.mays@pwc.com

Todd Metcalf
(202) 304-5383
todd.metcalf@pwc.com

Mark Prater
(202) 826-9014
mark.a.prater@pwc.com

Kevin Levingston
(678) 592-5159
kevin.levingston@pwc.com

Larry Campbell
(202) 251-6666
larry.campbell@pwc.com

Andrew Prior
(703) 980-4520
andrew.prior@pwc.com

Dave Camp
(989) 488-8807
david.l.camp@pwc.com

Pam Olson
(703) 627-8925
pam.olson@pwc.com

National Economics & Statistics

Karl Russo
(202) 431-9566
karl.russo@pwc.com

Federal Tax Services

George Manousos
(202) 302-0942
george.manousos@pwc.com

Adam Hales
(702) 756-0349
adam.hales@pwc.com

Scott Rabinowitz
(301) 801-7056
scott.rabinowitz@pwc.com

Federal Tax Services - Sustainability

Topher Call
(949) 910-1518
christopher.call@pwc.com

Sara Logan
(202) 834-4831
sara.l.logan@pwc.com

Specialized Tax Services - Sustainability

Nicole Brigati
(267) 280-3536
nicole.brigati@pwc.com

Randa Barsoum
(914) 656-6811
randa.barsouml@pwc.com

Wendy Punches
(408) 981-0570
wendy.punches@pwc.com

International Tax Services, Outbound

Wade Sutton
(202) 657-7461
wade.sutton@pwc.com

Aaron Junge
(202) 739-1053
aaron.junge@pwc.com

Laura Williams
(202) 948-5214
laura.elizabeth.williams@pwc.com

International Tax Servies, Inbound

Nita Asher
(202) 870-2462
nita.asher@pwc.com

Tom Patten
44 7841 561840
tom.patten@pwc.com

Nils Cousin
(202) 492-8361
nils.cousin@pwc.com

Mergers and Acquisitions

Mike Hauswirth
(202) 213-2729
michael.j.hauswirth@pwc.com

Brett York
(571) 237-6426
brett.york@pwc.com

Horacio Sobol
(202) 281-8514
horacio.sobol@pwc.com

Financial Services

Brian Rebhun
(732) 267-6371
brian.rebhun@pwc.com

Amy McAneny
(201) 290-6112
amy.e.mcaneny@pwc.com

Kara Friedenberg
(917) 648-5667
kara.l.friedenberg@pwc.com

PwC Private

Gregg Muresan
(216) 392-5116
gregg.g.muresan@pwc.com

Joe Gomez
(818) 512-4760
joseph.h.gomez@pwc.com

Personal Financial Services

Sheryl Eighner
(630) 849-3504
sheryl.eighner@pwc.com

Irene Estrada
(703) 628-5243
irene.c.estrada@pwc.com

Matthew F. Mullaney
(201) 247-0421
matthew.f.mullaney@pwc.com

Compensation & Benefits Tax / Employment Tax Services

Veena K. Murthy
(202) 579-8829
veena.k.murthy@pwc.com

Megan Marlin
(202) 669-9422
megan.marlin@pwc.com

Exempt Organizations Tax Services

Rob Friz
(302) 545-0885
robert.w.friz@pwc.com

Erica McReynolds
(610) 213-1187
erica.r.mcreynolds@pwc.com

Travis Patton
(703) 517-9744
travis.patton@pwc.com

Tax Accounting Services

Damien Boudreau
(646) 709-5662
damien.e.boudreau@pwc.com

Jennifer Spang
(973) 202-6401
jennifer.a.spang@pwc.com

Jennifer Schiellack
(262) 370-0684
jennifer.l.schiellack@pwc.com

State and Local Tax Services

Robert C. Ozmun
(612) 209-0508
robert.c.ozmun@pwc.com