SQUIRE PATTON BOGGS

Tax Update: House Approves Senate Reconciliation Package

July 3, 2025

On Thursday, July 3, the House of Representatives approved the Senate's amendments to Republicans' multi-trillion-dollar reconciliation package, known as the *One Big Beautiful Bill Act* (H.R. 1), by a vote of 218-214. Earlier on July 1, the Senate advanced its amended bill by a vote of 51-50, with Vice President J.D. Vance casting a tie-breaking vote in favor of passage. Sens. Susan Collins (R-ME), Rand Paul (R-KY), and Thom Tillis (R-NC) joined all Democrats in opposition to the bill in the Senate. The reconciliation package now heads to the White House, where President Trump is expected to sign the bill on July 4.

What is Included in the Final Legislation? The Senate included several changes to tax provisions in the final, amended reconciliation bill compared to the initial version of the bill passed by the House in May, including less stringent phaseouts of *Inflation Reduction Act* (IRA) clean energy tax credits, and permanent business tax reforms, among others.

Notable tax provisions in the final legislation include:

- **TCJA Extension** – The bill makes permanent or extends several expiring provisions from the 2017 *Tax Cuts and Jobs Act* (TCJA), including:
    - <u>Individual Income Tax Rates</u>: The bill makes permanent the individual income tax rates enacted by TCJA. The bill does <u>not</u> include a new bracket for high-income individuals.
    - <u>Standard Deduction</u>: The bill makes permanent TCJA's increase to the standard deduction and further temporarily increases the standard deduction for tax year 2025. The bill also permanently reduces the deduction for personal exemptions and miscellaneous itemized deductions which were temporarily limited by TCJA.
    - <u>Section 199A Pass-Through Deduction:</u> The bill makes permanent the 20 percent Section 199A qualified business income deduction, among several other changes.
    - <u>Alternative Minimum Tax</u>: The bill makes permanent TCJA's increase in the alternative minimum tax (AMT) exemption but reverts the exemption phaseout thresholds to 2018 levels. The reversion may result in additional individuals being subject to the AMT and therefore excluded from claiming the SALT deduction.
    - <u>Estate and Gift Tax:</u> The bill permanently increases the estate and gift tax exemption level to $15 million, beginning after December 31, 2025, and indexes the increase to inflation.
- **Business Provisions** – The bill includes several sought-after business provisions, as well as incentives for domestic manufacturing. The final permanently extends several business tax provisions.
    - <u>Bonus Depreciation</u>: The legislation permanently restores 100 percent bonus depreciation, effective January 20, 2025, allowing businesses to immediately deduct 100 percent of the cost of certain short-term investments (*e.g.*, equipment

and machinery) from their taxable income in the first year rather than over fixed intervals.

- Interest Deductibility: The bill restores the EBITDA (*earnings before interest, taxes, depreciation, and amortization*)-based limitation on the net business interest deduction effective December 31, 2024.

- R&D Expensing: The bill provides for immediate expensing of domestic research and development (R&D) expenditures effective after December 31, 2024. The bill maintains current capitalization and amortization requirements for foreign R&D expenditures.

- Special Depreciation for Manufacturing Facilities: The final bill includes a new 100 percent bonus depreciation allowance for certain manufacturing, production, or refining facilities.

- Advanced Manufacturing Investment Credit (Section 48D): The bill increases the Section 48D credit rate to 35 percent (from 25 percent under current law) effective for property placed in service after December 31, 2025.

- **Presidential Priorities** – The final reconciliation package contains several of President Trump's major campaign promises on tax, including:

  - No Tax on Tipped Income: The legislation includes a new deduction of up to $25,000 for "qualified tips" through 2028. Under the provision, "qualified tips" are generally defined as "any cash tip received by an individual in an occupation which traditionally and customarily received tips," as determined by the Secretary of the Treasury. The legislation also includes several exclusions, including for highly-compensated employees, as well as Social Security Number (SSN) and reporting requirements. The deduction would be available for employees and independent contractors. The deduction would also be available for individuals claiming the standard deduction.

  - No Tax on Overtime: The legislation includes a new deduction of up to $12,500 ($25,000 for joint filers) for "qualified overtime compensation" through 2028. The provision contains exclusions for highly-compensated employees, as well as Social Security Number (SSN) and reporting requirements. The deduction would be available for individuals claiming the standard deduction.

  - Tax Relief for Seniors: The legislation includes an additional standard deduction amount of $6,000 for individuals 65 and older from 2025 through 2028. The additional bonus amount begins to phase out for individuals with income over $75,000 (or $150,000 for taxpayers filing jointly).

  - Auto Loan Interest Deductibility: The bill generally provides for a deduction for "qualified passenger vehicle loan interest," of up to $10,000 through 2028. "Qualified passenger vehicle loan interest," is defined as "any interest that is paid or accrued during the taxable year on indebtedness *incurred by the taxpayer after December 31, 2024* for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use," subject to several exceptions. (emphasis added). The deduction applies to new passenger vehicles. The legislation also includes phase outs of the deduction for individuals exceeding income thresholds. In addition, to qualify, a vehicle's final assembly must occur in the US.

- **Inflation Reduction Act Amendments** – The bill does not include full repeal of the IRA. However, the legislation repeals, sunsets, or otherwise limits several clean energy tax incentives expanded or created by the 2022 law. The House and Senate modified several IRA-related proposals throughout the legislative process, including in response to competing concerns from moderate and conservative Republicans. Provisions include:

  - Advanced Manufacturing Production Credit (Section 45X): The bill makes several changes to the Section 45X Advanced Manufacturing Production Credit. The bill eliminates the credit for wind energy components after December 31, 2027, and gradually phases out the credit for critical minerals between 2031 and 2034. Unlike the initial House-passed bill, the final legislation maintains partial credit eligibility for other components sold during calendar year 2032. The final bill also includes new limits on credit access for certain prohibited foreign entities. Final prohibited foreign entity provisions differ significantly from those proposed in the initial House-passed bill.

  - Clean Electricity Credits (Sections 45Y & 48E): The final legislation terminates the Clean Electricity Production Tax Credit (45Y) and Clean Electricity Investment Tax Credit (48E) for wind and solar facilities placed in service after December 31, 2027, with the exception of certain wind and solar facilities that begin construction within a year of enactment of the bill. The original Senate legislation proposed to terminate the credit for wind and solar facilities beginning construction after 2027. In addition, the final bill does not include a new excise tax on certain wind and solar projects that utilize components from certain foreign countries, as proposed in prior versions of the legislation.

  - Clean Fuel Production Credit (Section 45Z): The legislation extends the Section 45Z Clean Fuel Production Credit through December 31, 2029. The bill also prohibits the credit from being claimed for fuel derived from feedstocks produced or grown outside the US, Mexico, or Canada, effective after December 31, 2025. Initial proposals would have extended the credit to 2031 and would have reduced the value of the credit for foreign feedstocks.

  - Clean Hydrogen Production Credit (Section 45V): The legislation terminates the Section 45V Credit for Clean Hydrogen Production for facilitates beginning construction after December 31, 2027.

  - EV Credits: The bill terminates the Section 25E Previously Owned Clean Vehicle Credit, the Section 30D Clean Vehicles Credit, and the Section 45W Commercial Clean Vehicle Credit for vehicles acquired after September 30, 2025. The bill also terminates the Section 30C Alternative Fuel Vehicle Refueling Property credit with respect to property placed in service after June 30, 2026.

  - Residential Clean Energy Credits: The legislation terminates the Section 25D Residential Clean Energy Credit 180 days after enactment. The legislation also terminates the Section 45L New Energy Efficient Home Credit 1 year after enactment.

- Zero-Emission Nuclear Power Production Credit: The legislation includes new prohibited foreign entity restrictions on the Section 45U Zero-Emission Nuclear Production Tax Credit. However, the final bill no longer includes restrictions on imported nuclear fuel produced in certain countries effective beginning in 2028.

- Transferability Rules: The final legislation retains the transferability of several IRA credits, including the Section 45Q Credit for Carbon Oxide Sequestration and Section 45Z Clean Fuel Production Credit.

- **Child & Family Policies** – The legislation includes several provisions concerning children and families, including:

  - Child Tax Credit: The bill makes permanent several aspects of the Child Tax Credit (CTC), including permanently extending TCJA's increase of the CTC to $2,000 per child and increase to the refundable CTC to $1,400, adjusted for inflation. The bill also makes permanent income phaseout threshold amounts. The bill also permanently increases the nonrefundable CTC to $2,200 per each qualifying child, indexed for inflation. The final bill requires that the qualifying child and at least one spouse (if filing jointly) have an SSN to be eligible to claim the credit.

  - Employer-Provided Child Care Credit (Section 45F): The legislation permanently increases the employer-provided child care credit to 40 percent of qualified child care expenditures (50 percent for small businesses) and 10 percent of qualified child care resource and referral expenditures and increases the maximum credit amount to $500,000 ($600,000 for small businesses).

  - Child and Dependent Care Tax Credit: The legislation permanently increases the maximum Child and Dependent Care Tax Credit (CDCTC) rate to 50 percent from 35 percent under current law, effective for taxable years after December 31, 2025.

  - Dependent Care Assistance Program: The legislation increases the exclusion for dependent care assistance up to $7,500 annually from $5,000 under current law, effective for taxable years beginning after December 31, 2025.

  - Trump Accounts: The final legislation creates new tax-preferred investment accounts, named "Trump Accounts," for beneficiaries under the age of eight at the time of establishment of the account. Individuals are permitted to contribute up to $5,000 per year to each account, adjusted for inflation.

  - Scholarship Credit**:** The bill includes a new income tax credit for charitable contributions made to scholarship granting organizations of up to $1,700 per individual.

- **Housing & Community Development:** The legislation includes several changes to housing and community development incentives:

  - Opportunity Zones: The legislation establishes a permanent Opportunity Zone (OZ) incentive with ten-year rolling OZ designations beginning in 2027. The legislation includes special incentives for investment in rural areas and changes several eligibility requirements and definitions for the program.

- Low-Income Housing Tax Credit: The legislation permanently increases the Low-Income Housing Tax Credit (LIHTC) state allocation ceiling by 12 percent and lowers the bond-financing threshold to 25 percent for projects financed by bonds starting in 2026.

- New Markets Tax Credit: The legislation permanently extends the New Markets Tax Credit (NMTC) program. The NMTC is set to expire on December 31, 2025 under current law.

- Real Estate Investment Trusts (REITs)**:** The bill includes a provision to increase the limit on a REIT's assets that may be attributed to a fully taxable subsidiary.

- **International Provisions:** The legislation includes several changes to international tax provisions:

  - International Tax Reform: The legislation includes new limits on the deduction for "Foreign-Derived Deduction Eligible Income" (renamed from Foreign-Derived Intangible Income (FDII)) and "Net CFC Tested Income" (renamed from Global Intangible Low-taxed Income (GILTI)). The legislation also makes multiple changes to the base erosion and anti-abuse tax (BEAT).

  - Section 899**:** The final legislation does not include a new Section 899 of the Internal Revenue Code to provide a mechanism for imposing retaliatory US tax increases against residents of countries with "unfair foreign taxes." Senate Finance Committee Chairman Mike Crapo (R-ID) and House Ways and Means Committee Chairman Jason Smith (R-MO) announced the provision would be removed from the reconciliation package following a joint understanding reached between the US and G7 countries to limit the application of the global minimum tax, adopted as part of the OECD Pillar 2 agreement, on US companies.

- **State & Local Tax (SALT) Deduction Cap:** The final legislation increases the current cap on the state and local tax (SALT) deduction to $40,000 through 2029 (with modest annual increases in the deduction between 2026 and 2029). The legislation would revert the SALT deduction cap to $10,000 (consistent with current law) starting after 2029.

- **College & University Endowments:** The final legislation would exempt private colleges and universities with less than 3,000 tuition-paying students from a new tiered excise tax on the net investment income of private college and university endowments. The previous Senate proposal would have exempted private colleges and universities with less than 500 tuition-paying students from the excise tax. The final legislation retains the Senate's endowment excise tax rate range of between 1.4 and 8 percent.

- **De Minimis:** The bill repeals the de minimis entry privilege for commercial shipments beginning on July 1, 2027.

- **Remittance Transfers:** The final bill includes a 1 percent excise tax on certain cash remittance transfers sent to persons outside the United States, effective after December 31, 2025. The original Senate legislation proposed a 3.5 percent tax, while the initial House-passed bill would have imposed a 5 percent tax.

- **Debt Limit:** The legislation increases the statutory debt limit by $5 trillion. The initial House-passed bill includes a $4 trillion increase.

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