One Big Beautiful Bill Becomes Law

It's Planning Time for You and Your Business

On July 4, President Trump signed the One Big Beautiful Bill Act ("OBBBA") into law, following House approval on July 3. This sweeping legislation brings together a broad range of pro-business and taxpayer-friendly changes. It extends popular provisions from the 2017 Tax Cuts and Jobs Act (TCJA), reinstates and enhances key deductions, and introduces new opportunities for planning across business, international, energy and individual tax areas.

Here's a look at the most important highlights of the bill:

- Restores deductions for **research and development (R&D), bonus depreciation and business interest expense**
- Maintains many **individual tax provisions from the TCJA** that were set to expire in 2025
- Increases the **SALT deduction cap** and preserves the 20% **pass-through deduction**
- Makes the **New Markets Tax Credit** permanent
- Extends **Opportunity Zones** with added requirements
- Modifies **international tax provisions,** including GILTI, FDII and BEAT
- Removes **Section 899** "international revenge tax"
- Adds a new 1% **excise tax on remittances**
- Phases out and alters **energy tax credit provisions**
- Changes **reporting thresholds** for 1099-K, 1099-NEC and 1099-MISC

In the sections that follow, we break down these changes with added context, observations and planning insights so you can make the most of the new law.

Business Provisions

Bonus Depreciation and Section 179 Expensing

OBBBA permanently restores 100% bonus depreciation for property and equipment acquired and placed in service after January 19, 2025. This reinstates the immediate expensing provisions that were being phased out under the TCJA. In addition, the bill introduces an election to deduct 100% of the cost of "qualified production property." This includes plants and buildings tied to qualified production activities such as manufacturing tangible personal property, agriculture, chemical production and refining. However, any portion of the building used for unrelated functions like offices, administration, parking, sales or research is excluded from eligibility.

This election applies to construction beginning after January 19, 2025, and before December 31, 2029. To qualify, the property must be placed in service before the end of 2030.

The bill also increases Section 179 expensing limits. Businesses can now deduct up to $2.5 million in qualifying property, with the phase-out threshold raised to $4 million. These new limits apply to property placed in service after December 31, 2024.

What this means: This provision encourages investment by allowing immediate write-offs for qualifying purchases. If your business made asset purchases around January 19, 2025, it's critical to review acquisition and in-service dates. Those before January 19 may fall under the older, phased-down 40% bonus depreciation rate. Discussing timing and strategy with your tax advisor is key.

Cost segregation studies remain a powerful tool, especially with the restored bonus depreciation and expanded Section 179 expensing.

You should also model out the total impact of taking the bonus depreciation. This will help you understand the impact it has on other favorable provisions like FDII and foreign tax credit. It may be advantageous to continue to amortize.

Section 174: Research and Development Expensing

The TCJA had required businesses to amortize domestic R&D costs beginning in 2022 rather than expense them outright. OBBBA reverses this change, allowing companies to fully deduct U.S.-based research costs once again, starting with tax years beginning after December 31, 2024.

For small businesses, there's also relief for prior years. You may be eligible to amend your 2022–2024 returns to claim the deduction through an accounting method change. Larger taxpayers can apply for a method change and either deduct the remaining amortized costs in 2025 or spread them across 2025 and 2026.

However, beginning in 2025, the R&D deduction must be reduced by any R&D credit claimed.

What this means: This provision makes R&D more tax-efficient again for U.S.-based activities. Foreign research remains on a 15-year amortization schedule. The ability to amend returns is a meaningful opportunity for small businesses, while larger firms should carefully model their recovery options.

This is another area where you'll want to model out the total impact of the taking the deduction. It may be more advantageous to amortize once you understand the impact on other favorable provisions like FDII and foreign tax credit.

Section 163(j): Business Interest Deduction Limitation

For tax years ending after December 31, 2024, OBBBA restores the favorable EBITDA-based limitation for calculating earnings before interest, depreciation, taxes and amortization under Section 163(j). This replaces the less favorable EBIT-based limit that excluded "add-back" depreciation and amortization for calculating the adjusted taxable income (ATI). In that scenario, ATI was multiplied by 30% to determine the deductibility of business interest expense. Under the OBBA, the 30% cap on ATI still applies.

What this means: This change is especially beneficial for businesses that are highly leveraged or capital-intensive. Depreciation and amortization can now increase your ATI, boosting allowable interest deductions. Taxpayers with accumulated excess interest carryforwards may also find new opportunities to use them. Modeling the tax impact ahead of time is recommended.

Opportunity Zones

OBBBA indefinitely extends the Qualified Opportunity Zone (QOZ) program, which was originally set to sunset at the end of 2026. The new rules, however, bring added complexity, oversight and transparency requirements. These changes take effect January 1, 2027.

Under the updated rules:

- QOZ census tracts will be redesignated every 10 years
- Capital gains will be deferred, but must be recognized five years after the investment date
- The 10% basis step-up will be capped for investments not triggered by sale or exchange
- New designations include Qualified Rural Opportunity Funds (QROFs)
- Noncompliance penalties and expanded reporting requirements apply

What this means: While the extension offers long-term investment incentives, the added oversight means real estate investors and developers will need to maintain stricter compliance standards. These changes aim to ensure that the program stays true to its original economic development goals.

Section 1202: Qualified Small Business Stock (QSBS)

The OBBBA makes several adjustments to Section 1202, which is a tax savings tool that allows for partial or full exclusion of gains on the sale of qualified C corporation stock if certain criteria are met.

For stock sold or exchanged on or after January 1, 2025:

- The percentage of gain excluded will now be indexed between 50% and 100%, depending on the holding period
- The gross asset eligibility threshold increases from $50 million to $75 million
- The per-issuer cumulative gain exclusion limit increases to $15 million, an amount that was previously limited to $10 million per issuer

What this means: If you're considering a business exit or the sale of qualified stock, these changes could significantly impact your tax position. Timing, valuation and issuer-level thresholds all matter. Be sure to model various sale scenarios to take full advantage of the new rules.

Completed Contract Method (CCM) for Contractors

The bill expands eligibility for the completed contract method of accounting, a method often preferred by construction contractors because it allows revenue and expenses to be deferred until a project is substantially complete.

Previously, only home construction contracts and smaller contractors under a gross receipts threshold (about $31 million in 2024) could use the CCM. OBBBA now expands eligibility to all residential construction contracts.

What this means: If your construction business was previously excluded from using CCM due to size or contract type, it may now qualify. This is a great opportunity to revisit your current accounting methods and evaluate whether a switch could improve cash flow and reduce current tax liability.

Section 199A: Qualified Business Income Deduction

The 20% deduction for pass-through business income is now permanent under OBBBA, with some modifications. In particular, phase-out thresholds have been revised for taxpayers who do not meet wage and capital investment tests or who are engaged in specified service businesses.

What this means: While the deduction remains generous, changes to phaseouts could affect eligibility for some. It's important to revisit whether your income qualifies under the new rules.

Additional Business Changes

OBBBA also includes:

- Revised **1099 reporting thresholds** (including 1099-K, 1099-NEC and 1099-MISC)
- New limitations on the deductibility of **executive compensation for public companies**
- Changes to the **Employee Retention Credit (ERC)**

International Provisions

FDII Reformed as FDDEI

OBBBA replaces the Foreign-Derived Intangible Income (FDII) regime with a newly named "Foreign-Derived Deduction Eligible Income" (FDDEI) regime. The new rules:

- Reduce the deduction from 37.5% to 33.34% (yielding a 14% effective tax rate)
- Eliminate the Deemed Return on Qualified Business Asset Investment (QBAI)
- Prohibit allocation of interest and R&D expenses against FDDEI; only directly allocable deductions apply
- Exclude Section 367(d) transfers of intangibles and depreciable property from eligible income

These changes apply to tax years beginning after December 31, 2025. The exclusions for 367(d) transfers take effect after June 16, 2025.

What this means: The transition to FDDEI will impact companies with significant export income. R&D deductions no longer being allocable in 2026 create a planning opportunity in 2025. Consider accelerating qualifying export income and modeling how the rule changes affect your deduction strategy. The impact of the additional deductions for depreciation and R&D expensing (for 2025) should also be considered.

GILTI Now "Net CFC Tested Income"

OBBBA also makes major changes to the Global Intangible Low-Taxed Income (GILTI) regime, now renamed "Net CFC Tested Income." Key updates include:

- Reducing the GILTI deduction from 50% to 40%
- Allowing 90% of foreign tax credits (FTCs) against GILTI
- Removing 10% of foreign taxes from Section 78 gross-up treatment
- Repealing QBAI for GILTI calculations
- Limiting expense allocations for FTC purposes to only directly allocable expenses (interest and R&D are excluded)

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

What this means: With reduced deductions and altered FTC calculations, taxpayers with CFCs should run side-by-side models to understand how these changes shift their liability between 2025 and 2026.

BEAT: Base Erosion and Anti-Abuse Tax

OBBBA raises the BEAT rate from 10% to 10.5% for tax years beginning after 2025. The bill continues to allow certain credits to offset BEAT liability.

What this means: Even with a modest rate hike, businesses subject to BEAT should reassess their exposure and eligibility for credit offsets under the revised rules.

Other International Provisions

Several additional changes impact cross-border tax planning:

- The proposed **"international revenge tax"** (Section 899) was dropped due to OECD progress on Pillar Two
- The **Controlled Foreign Corporation (CFC) look-through rule** under Section 954(c)(6) is made permanent
- The **downward attribution rule exception** under Section 958(b)(4), repealed by TCJA, is reinstated with a narrower version under Section 951B
- **Inventory produced in the U.S. and sold through a foreign branch** is now treated as foreign-source income for FTC purposes, but capped at 50%
- **Pro-rata rules** under GILTI and Subpart F are also amended

Energy Provisions

Energy Tax Incentives and Expiring Credits

The OBBBA reshapes the landscape for clean energy incentives, with many credits sunsetting, phasing out or changing eligibility requirements. Timing is critical for developers, designers and property owners seeking to take advantage of these provisions.

Key Highlights:

- **Section 179D** (Energy-Efficient Commercial Buildings Deduction): Remains in effect for projects that begin construction before June 30, 2026. Tax-exempt owners can allocate these deductions to designers, which is particularly beneficial for energy service companies (ESCOs) and design firms. Even if there's no immediate tax liability, the deductions can be carried forward.

- **Investment Tax Credit (ITC) Sections 48 and 48E:** Solar and wind projects that begin construction before July 4, 2026, remain eligible under the current ITC rules. However, new clean electricity credits (Sections 48E and 45Y) will terminate for facilities placed in service after December 31, 2027, unless construction begins within 12 months of OBBBA's enactment.

- **Qualifying Technologies:** Projects using energy storage, geothermal systems and other clean technologies continue to qualify, but they must meet updated domestic sourcing rules and cannot be associated with prohibited foreign entities.

- **Section 30C** (EV Charging and Refueling Infrastructure Credit): This credit will expire for property not placed in service by June 30, 2026. This affects both residential and commercial installations.

- **Repealed Credits:**
  - **Section 30D:** New EV credit ends for vehicles acquired after September 30, 2025
  - **Section 25E:** Credit for previously owned EVs ends the same date
  - **Section 45W:** Credit for commercial EVs also ends for acquisitions after September 30, 2025
  - **Section 25C and Section 25D:** Credits for

energy-efficient home improvements and residential clean energy investments are repealed for expenses incurred or properties placed in service after December 31, 2025
    - **Section 45L:** The New Energy Efficient Home Credit ends for homes acquired after June 30, 2026

What this means: The window is closing fast for several clean energy tax benefits. Developers, property owners and ESCOs must prioritize project planning and documentation now. For commercial deductions under 179D, confirm your start date before June 30, 2026, and coordinate allocations early. For renewable projects like solar or wind, ensure you begin construction before the key ITC/Section 48E deadlines. EV infrastructure projects should be fast-tracked to meet the June 2026 in-service requirement. The coming rush will strain supply chains, so act early to secure equipment and labor.

Commercial Energy Projects and Manufacturing Credits

Section 45X: Advanced Manufacturing Production Credit

- This credit phases out for:
    - Wind energy components produced and sold after December 31, 2027
    - Certain integrated components after December 31, 2026
- Entities with foreign ownership or using prohibited foreign materials are disqualified

Section 45V: Clean Hydrogen Production Tax Credit

- Terminated for facilities that begin construction after December 31, 2027

Section 45Z: Clean Fuel Production Credit

- Extended through December 31, 2029
- Still subject to restrictions on foreign-sourced feedstock and ownership by prohibited foreign persons

Sections 45Q and 45U

- Credits for carbon oxide sequestration and zero-emission nuclear power production remain in place
- But new restrictions apply for entities with foreign ownership or material sourcing from foreign adversaries

What this means: If your company is involved in wind, hydrogen, clean fuel or advanced energy component manufacturing, you'll want to pay very close attention to the new construction and ownership rules. The 45Z credit extension is a notable bright spot, but compliance will require diligence with sourcing and ownership structures. Review supply chains now and build in flexibility to avoid being disqualified.

Accelerated Depreciation for Energy Property

The bill removes five-year Modified Accelerated Cost Recovery System (MACRS) accelerated depreciation for energy property, including solar, wind and storage projects that begin construction after December 31, 2024.

What this means: This change has immediate implications for financial modeling. If you're planning new energy installations, it's crucial to accelerate project initiation to preserve the more favorable depreciation treatment. Your long-term project ROI and cash flow planning may need to be adjusted accordingly.

Direct Pay and Credit Transferability

OBBBA maintains two important features:

- **Direct Pay:** Tax-exempt organizations can continue to receive IRS refunds directly for applicable energy credits
- **Credit Transfers:** Still allowed for taxable businesses under Section 6418, except transfers to prohibited foreign entities

What this means: While these mechanisms offer flexibility and liquidity, they come with strict compliance rules. Make sure your transfers and structures are properly documented and executed to retain credit eligibility.

Prevailing Wage and Apprenticeship Requirements

Prevailing wage and apprenticeship (PWA) standards remain in place for projects larger than one megawatt. These rules require rigorous documentation of wage records, apprenticeship hours and participation proof. They apply for five to 10 years, depending on the project.

What this means: Meeting PWA compliance comes down to sustained documentation. Real-time tracking and early engagement with tax and HR advisors are essential to avoid losing credit eligibility.

Section 45L: New Energy Efficient Home Credit

The 45L credit, which offers up to $5,000 for each energy-efficient home or multifamily unit, is repealed for homes acquired after June 30, 2026. Until then, homes must meet ENERGY STAR or Zero Energy Ready certification to qualify.

What this means: Builders and developers should prioritize certifying and selling eligible homes before the mid-2026 cutoff. Work closely with certification partners and keep documentation organized for tax reporting and audit defense.

Individual Provisions

Extensions of Key TCJA Provisions

One of the biggest moves in the OBBBA is the extension of many provisions from the 2017 Tax Cuts and Jobs Act (TCJA), which were set to expire at the end of 2025. With this new law, several taxpayer-favorable provisions will remain in place, including:

- The **existing tax brackets** of 10%, 12%, 22%, 24%, 32%, 35% and 37%
- Repeal of **personal exemptions**
- Limitation on **mortgage interest** to $750,000 of acquisition debt ($375,000 for married filing separately) will still be in effect for post-2017 loans
- Continued limitation on **casualty loss deductions** to federally declared disaster areas, with the new bill also applying disaster loss treatment to certain state-declared disasters
- Repeal of miscellaneous **itemized deductions**
- Increased **Alternative Minimum Tax (AMT)** exemption and threshold amounts
- Retention of the higher **standard deduction** (now made permanent under OBBBA), set for 2025 at:
  - $31,500 for married joint filers (MFJ)
  - $23,625 for head of household (HOH)
  - $15,750 for single and married filing separately (MFS)

What this means: Taxpayers who had moved away from itemizing in recent years should revisit their deduction strategy. With the higher standard deduction staying in place and SALT caps shifting (more below), this is a good time to reassess whether bunching deductions or other timing techniques can reduce your liability.

SALT Cap Modifications

The OBBBA makes the $10,000 cap on state and local tax (SALT) deductions permanent, but with a temporary increase for middle- to upper-income taxpayers.

For tax years 2025–2029:

- The SALT cap increases to $40,000 ($20,000 for MFS)
- The cap phases down as income rises, reducing by 30% of modified adjusted gross income (MAGI) over $500,000 ($250,000 MFS), until it reverts to $10,000 ($5,000 MFS)
- Starting in 2026, the MAGI threshold and SALT cap will increase by 1% each year through 2029
- In 2030, the SALT cap reverts fully back to $10,000 ($5,000 MFS)
- MAGI includes adjusted gross income (AGI) plus foreign earned income exclusions (§911), income from Guam/Samoa/Mariana Islands (§931), and Puerto Rico income exclusions (§933)

What this means: If you've been taking the standard deduction due to the SALT cap, this temporary increase might make itemizing more advantageous. Taxpayers in high-tax states should revisit deduction strategies and consider bunching or deferral.

Child Tax Credit (CTC)

The CTC receives a permanent boost under the new law:

- Increases from $2,000 to $2,200
- Begins indexing for inflation starting in 2026
- Retains elevated income phaseout thresholds of $400,000 (MFJ) and $200,000 (all others)

What this means: The increase may seem modest, but it's a helpful inflation hedge for families and keeps the CTC accessible for a broader range of middle-income households.

New Individual Relief Provisions

Several new deductions and credits were introduced:

- **Tip Income Deduction:** Up to $25,000 of qualified tips may be deductible (phases out at $150,000 MAGI single / $300,000 MFJ)
- **Overtime Compensation Deduction:** Up to $12,500 single / $25,000 MFJ deduction for qualified overtime income (same MAGI phaseout)
- **Senior Personal Exemption:** A $6,000 personal exemption for individuals aged 65+ from 2025 to 2028 (phased out at $150,000 MFJ / $75,000 single, HOH or MFS)
- **Automobile Loan Interest Deduction:** Up to $10,000 deduction for interest paid on loans for vehicles assembled in the U.S. (phases out at $100,000 MAGI single / $200,000 MFJ; applies to both itemizers and non-itemizers)
- **Non-Itemizer Charitable Deduction:** $1,000 for single filers / $2,000 for MFJ
- **New 0.5% Floor on Itemized Charitable Deductions:** Adds a modest threshold for deductibility
- **"Trump Accounts" for Newborns:**
  - Tax-exempt savings accounts seeded with $1,000 at birth
  - Annual contributions capped at $5,000

What this means: Employers must ensure that tip and overtime compensation are accurately captured on employee W-2s to ensure deductibility. For seniors and those with significant car loans or charitable contributions, the new provisions offer targeted relief, but tracking MAGI will be key.

New Limit on Itemized Deduction Benefit

The previous "Pease" limitation on itemized deductions (which phased out deductions for high earners) is repealed. In its place is a permanent overall limitation of itemized deductions capped at the 35% income tax bracket.

What this means: High-income taxpayers in the top 37% bracket will no longer receive the full value of their itemized deductions. This change could affect effective tax rates, especially for those with significant charitable giving or state tax payments.

Estate and Gift Tax Exemptions

One of the most widely anticipated provisions is certainty on the estate and gift tax exemption amount.

- The lifetime exemption increases to $15 million per person for 2025
- Indexed for inflation going forward

This prevents the prior law's scheduled drop in 2026, which would have cut the exemption roughly in half.

What this means: This creates much-needed stability for estate plans already in place and opens the door for additional lifetime gifting. Taxpayers with significant estates should revisit their strategies to align with the higher limits and preserve flexibility for the future.

State-Level Impact

Many of these federal changes could also impact your state tax return. Here's a snapshot:

- **Moving Expenses:** Since it's tied to the calculation of AGI, it will impact those in most states
- **Deductions for Tips, Overtime and Car Loan Interest:** Only apply in states starting from federal taxable income (unless states enact separate conformity provisions)
- **Senior Personal Exemption and Standard Deduction Increases:** Will affect those in states that tie to the federal standard deduction or in states that start with federal taxable income
- *Itemized Deductions:* This will impact those in states that start with the federal taxable income, as well as those states where itemized deductions are tied to federal deductions or adopt federal provisions or definitions.
- **Charitable Deduction for Non-Itemizers:** Applies only to those in states that start with federal taxable income for tax calculations
- **Qualified Business Income (QBI) Deduction:** This, too, only has an impact for people in states that use the federal taxable income as a starting point and in states where the QBI deduction has been adopted
- **Federal Tax Rates:** They have no direct impact on state taxes
- **Child and Dependent Care Credit:** Impacts those in the roughly 30 states whose child and dependent care tax credit is based on the federal credit

What this means: Every state is different. It's essential to understand how, or whether, your state adopts these federal provisions so you can optimize across both tax regimes.

Remittance Tax

Beginning in 2026, a 1% excise tax will apply to certain remittances, including money orders, cashier's checks and similar transmissions. Transfers from financial bank accounts and debit cards are exempt. This tax applies only to individuals.

What this means: Individuals who owe taxes should pay with direct payments from banks to avoid this tax.

Your Next Move Matters

The One Big Beautiful Bill brings a wide array of tax planning opportunities and a few new hurdles. Whether you're a business owner, investor, homeowner or simply navigating your personal return, these changes affect how you deduct, defer and plan. You should review the impact of OBBBA from both a federal and state tax perspective. Some of these changes will have a significant bearing that can be planned for by year's end.

The good news is that you have time to act. And we're here to help you make the most of it.

Your WR Specialty Tax Team

Let's walk through how these provisions apply to your unique situation so you can move forward with confidence.

Technical Tax Leaders

David Zaiken | Director, International & Corporate Tax Technical Leader | DZaiken@WebsterRogers.com
Stephen Holladay | Tax Partner | SHolladay@WebsterRogers.com

Individual & Family Wealth Tax

Kirby Millwood, KMillwood@WebsterRogers.com

Passthrough Tax

Sarah Polson, SPolson@WebsterRogers.com
Stephen Holladay, SHolladay@WebsterRogers.com

Corporate Tax

Kevin Wise, KWise@WebsterRogers.com
David Zaiken, DZaiken@WebsterRogers.com

International Tax

David Zaiken, DZaiken@WebsterRogers.com
Lavone Rosenberg, LRosenberg@WebsterRogers.com

Accounting Methods

Megan Ferguson, MFerguson@WebsterRogers.com
Kevin Wise, KWise@WebsterRogers.com

State & Local Tax (SALT)

Kathleen Holston, KHolston@WebsterRogers.com

Energy & Other Credits

Tim Sinclair, TSinclair@WebsterRogers.com

Opportunity Zones & New Market Tax Credits

Bobby Creech, BCreech@WebsterRogers.com