



# The One Big Beautiful Bill Act Brings on Significant Tax Reform

## Client Advisories

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On July 4, 2025, President Trump signed the *One Big Beautiful Bill Act* (H.R. 1), passed by the U.S. House of Representatives just a day earlier through a dramatic 218-214 vote. This comprehensive tax bill reshapes federal policy across nearly every major sector of the American economy, with significant focus on corporate and individual tax reform. The OBBBA makes many expiring provisions of the Tax Cuts and Jobs Act ("TCJA") permanent, and also significantly accelerates the termination of many credits created under the Inflation Reduction Act ("IRA").

Below is a summary of the key individual and business tax provisions, highlighting the most consequential changes. All Section references in this advisory are to the Internal Revenue Code of 1986, as amended.

### Individual Tax Provisions

TCJA Tax Rates. The OBBBA permanently extends the existing TCJA tax rates for individuals (10% to 37%), with an additional year of inflation adjustments for the two lowest brackets. Effective for taxable years beginning after December 31, 2025.

Standard Deduction. The OBBBA permanently extends the standard deduction amounts under the TCJA and increases them by \$750 (\$1,500 for married joint filers), to a new deduction of \$15,750 for single filers, \$23,675 for head of household filers, and \$31,500 for joint filers. Subject to existing inflation adjustments after 2025 with the cost-of-living adjustment with 2024 as the baseline year. Effective for taxable years beginning after December 31, 2024.

Personal Exemptions. The OBBBA permanently eliminates the deduction for personal exemptions other than the temporary senior deduction discussed below. Effective for taxable years beginning after December 31, 2025.

Senior Deduction. The OBBBA adds a temporary \$6,000 deduction for each individual over the age of 65, subject to a phaseout starting at modified adjusted gross income of \$75,000 (\$150,000 for married joint filers).

The full deduction is phased out at \$175,000 (or \$250,000 for married joint filers). The deduction is available whether one is itemizing deductions or not on his or her tax returns. Effective for taxable years 2025 through 2028.

Child Tax Credit. The OBBBA makes the Child Tax Credit (CTC) permanent and increases it to \$2,200 beginning in 2025 (an increase of \$200), adjusted for inflation (including the refundable portion). It also makes the \$500 dependent credit permanent. Subject to inflation adjustment after 2025. The CTC phase outs for incomes of \$200,000 for single filers/\$400,000 for married couples are now permanent. To claim the CTC, both the child and the parent must have valid social Security numbers. This change will make families with ITIN-holding parents ineligible, even if the child has a SSN.

Universal Charitable Contributions Deduction for Non-Itemizers. The OBBBA makes permanent an above-the-line deduction for charitable contributions for individuals who do not itemize. The maximum amount is \$2,000 for married joint filers and \$1,000 for all other filers. Effective for tax years beginning after December 31, 2025. For itemizing taxpayers, the OBBBA creates a 0.5% floor on itemized deductions for charitable contributions, making them deductible only if they exceed 0.5% of the taxpayer's AGI. For corporations, charitable donations are deductible only if they are above 1% of the corporation's taxable income, though the overall cap remains at 10%.

Tax Credit for Contributions to Scholarship Granting Organizations. The OBBBA provides a non-refundable tax credit of up to \$1,700 for qualified contributions to qualified scholarship-granting organizations, provided the taxpayer is a U.S. citizen or resident. The amount received by the scholarship recipient is excludable from gross income. Effective for taxable years beginning after December 31, 2026.

State and Local Tax Deduction. The OBBBA increases the cap on the itemized deduction for state and local tax (SALT) to \$40,000 for 2025 and 2026. For 2027 through 2029, the amount increases by 1% of the preceding year's amount and then reverts back to \$10,000 after 2029. The deduction is half the amount for married taxpayers filing separately. The deduction phases out for incomes above \$500,000 for 2025 (reduced by 30% but not below \$10,000), above \$505,000 for 2026, and above 101% of the preceding year's income amount after 2026. Effective for taxable years beginning after December 31, 2024.

Other Changes to Itemized Deductions. The OBBBA makes other changes and limitations to itemized deductions permanent, including the limitation on personal casualty losses, and termination of the miscellaneous itemized deduction (including unreimbursed employee expenses, investment advisory fees, tax preparation fees etc.). The OBBBA also limits the value of itemized deductions to 35 cents on the dollar for taxpayers in the top tax bracket. Effective for taxable years beginning after December 31, 2025.

Treatment of Capital Gains from Sale of Certain Farmland. The OBBBA provides for an election to pay in four installments the net income tax on the gain from the sale or exchange of qualified farmland property to a qualified farmer. Available to partnerships and S corporations at the partner or shareholder level, as applicable. The election applies to sales and exchanges of property in taxable years beginning after July 4, 2025.



**Deduction for Car Loans.** The OBBBA provides a temporary above-the-line deduction of up to \$10,000 per year of personal car loan interest associated with new vehicles whose final assembly occurred in the U.S. This deduction is available to both itemizers and non-itemizers, but phases out, starting with incomes above \$200,000 for married joint filers and \$100,000 for all other filers. Effective for taxable years beginning after December 31, 2024, and before January 1, 2029.

**No Tax on Tips or Overtime.** The OBBBA provides a temporary above-the-line deduction of up to \$12,500 (\$25,000 for joint returns) of qualified overtime compensation and tips received during the taxable year. The deduction phases out for incomes above \$300,000 for married joint filers and \$150,000 for all other filers. This deduction applies only to voluntary, customer-determined tips, and excludes service charges, and to FLSA-mandated overtime premium pay reported on IRS Forms W-2 or 1099. In addition, Social Security and Medicare taxes still apply. Effective for taxable years beginning after December 31, 2024, and before January 1, 2029.

**Extension and Modification of Limitation on Deduction for Qualified Residence Interest.** The OBBBA makes permanent the \$750,000 principal limit for the home mortgage interest deduction (\$375,000 for married filing separately) and eliminates any interest deduction for home equity interest. Effective for taxable years beginning after December 31, 2025.

## **Business Tax Provisions**

**Qualified Business Income Deduction.** The OBBBA makes permanent the Section 199A pass-through deduction for Qualified Business Income (QBI). The deduction rate is increased from 20% to 23% of QBI, including REIT dividends and publicly traded partnership income. The OBBBA also expands the deduction limit phase-in range by increasing the amount to \$75,000 (single filers) and \$150,000 (joint filers) (from \$50,000/\$100,000 respectively), indexed for inflation. Effective for taxable years beginning after December 31, 2025.

**Bonus Depreciation.** The OBBBA permanently extends the Section 168(k) 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025; an additional first year depreciation deduction is available for manufacturing, production and refining property. Effective for property acquired after January 19, 2025, and specified plants planted or grafted after January 19, 2025.

**Research and Development Expenses.** The OBBBA permanently restores immediate expensing for domestic research or experimental expenditures under Section 174, if such are paid or incurred after December 31, 2024. Taxpayers can choose to deduct such expenses, elect to capitalize and amortize over a period of at least 60 months, or elect to capitalize and recover such expenses over 10 years. Small businesses (revenue of \$31 million or less) can apply this change retroactively to expenditures incurred after December 31, 2021, and others can accelerate any remaining unamortized deductions over a one- or two-year period.

**Increased Section 179 Expensing Limitation.** The OBBBA significantly expands the Section 179 expensing limit, making it easier for businesses to immediately deduct the cost of assets instead of depreciating their cost over time. Specifically, the OBBBA increases the maximum amount a taxpayer may expense under Section 179 to \$2.5 million and increases the phaseout threshold amount to \$4 million. Effective for property placed in service in taxable years after December 31, 2024.



Limitations on Business Losses for Taxpayers other than Corporations. The OBBBA makes permanent the limitation on excess business loss of a taxpayer other than a corporation. The limitation threshold for 2025 (as adjusted for inflation) is \$313,000 for single filers and \$626,000 for those filing jointly. Therefore, if total business losses exceed this threshold, the excess loss is disallowed and becomes a net operating loss deduction carried to future years, subject to the 80% income limitation. Effective for taxable years after December 31, 2024.

Limitation on Business Interest. The OBBBA permanently reinstates the EBIDTA-based limitation on business net interest deduction for taxable years beginning after December 31, 2024. The OBBBA modifies Section 163(j) to include a provision that states the business interest limitation comes first before any interest capitalization provision, except for Sections 263A(f) and 263(g).

Disguised Payments to Partners for Property or Services. The OBBBA amends Section 707(a)(2) of the Code to clarify that the statute for payments by partnerships to partners is self-executing, as opposed to being effective “under regulations prescribed by the Secretary.” In effect, the change treats payments as disguised sales without the need for IRS regulation. This change is effective for services performed, and property transferred, after July 4, 2025.

Exclusion for Employer Payments of Student Loans. The OBBBA makes the exclusion from an employee’s income of employer payments of qualified education loans permanent. The current \$5,250 maximum exclusion will be adjusted for inflation after 2026. Effective for payments made after December 31, 2025.

Deduction for Business Meals. The OBBBA eliminates the deduction for expenses of the employer associated with providing food or beverages to employees through an eating facility that meets the requirements for de minimis fringes and for the convenience of the employer. Subject to certain exemptions. Effective for amounts incurred and paid after December 31, 2025.

Extension and Modification of Qualified Transportation Fringe Benefits. The OBBBA permanently eliminates the bicycle commuting fringe benefit. However, it also adds an extra year of inflation adjustments to commuter highway, transit, and parking fringe benefits. Effective for taxable years beginning after December 31, 2025.

## **Energy-Related Provisions**

Clean Electricity and Investment Credits. The OBBBA eliminates clean electricity production credit under Section 45Y and the investment credit under Section 48E for projects placed in service after 2027, except for projects that begin construction within 12 months of passage and baseload power sources such as nuclear, hydropower, geothermal, and battery storage.

Fuel Production Credit. The OBBBA extends the fuel production credit under Section 45Z and expands its eligibility. The extension will apply for two years, through December 31, 2029.

Other Restrictions on Energy Credits. The OBBBA introduces FEOC restrictions for several other credits, including the nuclear production credit under Section 45U (with a sunset date of after December 31, 2032), the clean fuel production credit under Section 45Z (effective for taxable years after December 31, 2025), the carbon



oxide sequestration credit under Section 45Q, and the advanced manufacturing production credit under Section 45X (effective for taxable years after December 31, 2026). It also alters the phaseouts and eligibility for the advanced manufacturing production credit and the carbon oxide sequestration credit.

Drilling and Development Costs. The OBBBA requires that intangible drilling and development costs be taken into account for the purposes of computing adjusted financial statement income. Effective for taxable years after December 31, 2025.

Certain Qualifying Income. The OBBBA provides that income from hydrogen storage, carbon capture, advanced nuclear, hydropower, and geothermal energy be added to qualifying income of certain publicly traded partnerships treated as C corporations. Effective for taxable years after December 31, 2025.

### **Executive Compensation and Benefits Provisions**

Excessive Employee Remuneration. The OBBBA adds an aggregation rule to Section 162(m) under which, if a specified covered employee is paid by different members of a controlled group, the amounts are combined for purposes of the \$1 million limit. The deduction is then allocated within the control group. Effective for taxable years beginning after December 31, 2025.

Exclusion for Moving Expenses. The OBBBA permanently provides that taxpayers (except for members of the Intelligence Community or Armed Forces on active duty) cannot deduct moving expenses, or exclude reimbursements, with such now treated as compensation subject to all applicable withholdings and SS and Medicare taxes. Effective for taxable years beginning after December 31, 2025.

Increased Threshold for Requiring Certain Information Reporting. The OBBBA increases the \$600 threshold to \$2,000 (with an inflation adjustment for calendar years after 2026) for Forms 1099-MISC and 1099-NEC (contractor/Service Payments), significantly easing the burden on individuals and small businesses. The payment threshold is based on a calendar year. Effective for payments made after December 31, 2025.

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While the OBBBA introduces significant changes in both individual and corporate taxation, much remains to be clarified through Treasury Regulations and IRS guidance. We will continue to monitor developments and provide updates as additional guidance is issued. If you have questions about how this legislation may affect you or your organization, please contact your Archer attorney, or reach out to tax partner **Bonnie Diaz** at [bdiaz@archerlaw.com](mailto:bdiaz@archerlaw.com).

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## Related People



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