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Ways and Means Committee Approves Tax Proposal Featuring Individual and Business Breaks and Targeted Revenue Raisers — But No Changes to Carried Interest

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On May 14, 2025, the House Ways and Means Committee approved a 389-page package of proposed tax law changes (the "Tax Proposal") that, according to a preliminary estimate from the Joint Committee on Taxation, would cost $3.8 trillion over 10 years. If enacted in its current form as part of the broader budget reconciliation bill (the "Bill"), the Tax Proposal would have material implications for private equity (PE) sponsors, their principals and their portfolio companies.

The Tax Proposal generally would extend or make permanent, with some exceptions and enhancements, many of the individual, pass-through business, and international tax provisions enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA) and scheduled to sunset at the end of this year. It also features many new business and individual tax proposals, including several of President Trump's priorities (for instance, "no tax on tips or overtime"), and curtails or eliminates (although to a lesser degree than many anticipated) certain clean energy credits enacted as part of the 2022 Inflation Reduction Act.

The Tax Proposal is notable not only for what it includes, but also for the legislative concepts floated by the White House and/or House Republicans that did not make the cut — at least for now. Under the Tax Proposal in its current form, there would be (i) no changes to the tax treatment of carried interest paid to PE fund managers, (ii) no limitation on the corporate deduction for state and local taxes, (iii) no changes to capital gains rates or to corporate tax rates (including no special rate for domestic manufacturers), (iv) no increases to the tax rates on income U.S. companies earn abroad, (v) no new "millionaires" tax bracket or increases to the headline 2025 ordinary income tax rates and (vi) no increase to the stock buyback excise tax rate.

Both the Tax Proposal and the broader Bill face potentially significant obstacles in the House and Senate, and material changes could be made — including the addition of previously omitted policies — as the legislative process unfolds.

With those caveats, following is a high-level summary of the Tax Proposal's proposed tax changes that are most relevant to our PE investment professionals. Unless otherwise specified below, the proposals would be effective for taxable years beginning after December 31, 2025. Several key tax breaks would expire in a few years, setting up another "fiscal cliff" to be addressed by a future Congress.

Key Individual Tax Proposals

- *State and Local Tax Deduction Limitation (SALT cap)*. Would increase the SALT cap to $30,000 for both individual filers and married couples filing jointly, with the increased cap being reduced for taxpayers with taxable income over $400,000, but not below $10,000.[1] This provision remains subject to intense negotiations.
- *Disallowance of Pass-Through Entity Tax (PTET) Deductions*. Would eliminate the so-called PTET-workaround to the SALT cap for certain pass-through entities engaged in a specified service trade or business (SSTB), including PE management companies and other investment or asset managers, accounting firms, consulting businesses and medical practices.
- *Permanent Expansion of Pass-Through Deduction.* Would permanently extend the pass-through business deduction at an increased 23% rate and would replace the existing income cap with phase-in limitation rules that would allow some owners of SSTBs (who, under current law would have their full deduction disallowed) to receive a partial benefit, although the full deduction may still be disallowed for higher-income owners. REIT dividends would remain eligible for the deduction, which also would be expanded to include interest dividends paid by a "business development company" that has elected to be treated as a regulated investment company.
- *Modified Limitation on Itemized Deductions*. Would replace the so-called "Pease limitation" with a mechanism that would in effect limit the value of itemized deductions to 35% for taxpayers in the top marginal tax bracket (37%).

Key Business-Related Tax Proposals

- *Increased Business Interest Deduction*. Would temporarily increase the 30% of adjusted taxable income (ATI) cap on the deductibility of business interest expense by computing ATI using a concept akin to the financial accounting concept of EBITDA (rather than EBIT, as under current law) for the 2025-2029 tax years.[2]
- *Restoration of 100% "Bonus" Depreciation*. Would restore 100% expensing (also known as bonus depreciation) for qualified property acquired and placed in service after January 19, 2025, and before January 1, 2030.
- *New 100% "Bonus" Depreciation for Certain Domestic Manufacturing Facilities*. Would allow for the immediate, 100% expensing in the year placed in service for certain domestic facilities (real property) used to produce tangible personal property. To qualify, construction would have to begin after January 19, 2025, and before January 1, 2029, and the facility would have to be placed in service before January 1, 2033. An original use requirement would apply, with limited exceptions.
- *Temporary Suspension of Required Capitalization of Domestic Research and Experimental (R&E) Expenditures*. Would permit taxpayers to either immediately expense domestic R&E expenditures or capitalize such expenditures over their choice of either (i) the useful life of the research (but not less than 60 months) or (ii) 10 years. Would apply to expenses incurred in tax years beginning after December 31, 2024, and before January 1, 2030. Foreign R&E would remain subject to mandatory 15-year amortization.
- *Limitation on Amortization of Sports Team Acquisition Costs*. Would permit owners of professional sports teams to amortize over 15 years only 50% — as opposed to the 100% permitted under current law — of the acquisition costs allocable to certain team-related intangibles, including franchise rights and goodwill. Would apply to acquisitions made after the Bill is enacted.

Key Clean Energy Tax Credit Proposals

- *Reduced Timeframe for Availability or Elimination of Certain Tax Credits and Extension of Clean Fuels Tax Credits*. All existing clean energy tax credits (other than those being eliminated) generally would expire at the end of 2031, reducing the runway for renewable energy projects and advanced manufacturing, while extending the runway for clean fuels. Would eliminate the tax credits for commercial and residential electric vehicles (with a phase-down depending on volume of cars sold), charging stations, hydrogen and energy efficient homes.
- *Reduced or Eliminated Transferability*. With respect to renewable energy projects, carbon capture and hydrogen, transferability would be available only for those projects that start construction within two years of enactment. Transferability would be eliminated in all other instances.

- *Expanding the Foreign Entity of Concern Rules*. Would modify the "foreign entity of concern rules" in a manner that would limit availability of clean energy tax credits and the equipment that could be included in renewable projects. The rules would apply both due to foreign entity ownership and foreign entity economic involvement, and foreign countries for this purpose would include China, North Korea, Russia and Iran.

Key International Tax Proposals

- *Permanent Extension of Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI) Deduction Rates*. Would permanently extend the current rates for GILTI (50%) and FDII (37.5%) deductions.
- *Permanent Extension of Base Erosion Anti-Abuse Tax (BEAT) Rate*. Would permanently extend the current BEAT rate (10%) and repeal unfavorable computation provisions.
- *New Retaliatory Measures Aimed at Residents and Governments of Countries with "Unfair Foreign Taxes."* Would increase the U.S. tax rates, and impose corresponding withholding requirements, on the U.S. income of tax residents and governments of "discriminatory foreign countries" that impose "unfair foreign taxes" (including digital services taxes, diverted profits taxes or an under-taxed profits rule) on U.S. persons and certain foreign entities owned by U.S. persons.

Key Opportunity Zone Proposals

- *New Opportunity Zone (OZ) Designations*. Would renew the TCJA's Qualified OZ ("QOZ") program with various modifications applicable to a second "round" of OZ designations effective from January 1, 2027, to December 31, 2033. The TCJA's QOZ provisions applicable to existing qualified opportunity fund ("QOF") investments generally would remain unchanged until their expiration (other than the "10-year benefit rule") on December 31, 2026.
- *New Benefits, Rural QOFs (RQOFs), and Reporting Requirements*. Would create additional benefits for new QOZs — including a new "five-year benefit rule" under which basis would be stepped up after a five-year holding period and which would apply in addition to the existing 10-year benefit rule — and a new RQOF designation with enhanced benefits that could incentivize businesses such as data centers. Would impose additional information reporting requirements on QOFs (and the QOZ businesses they own), with penalties for noncompliance.

University Endowment Tax Proposals

- *New Endowment Excise Tax Rate on Certain Universities*. Would replace the existing flat 1.4% excise tax on applicable education institutions' net investment income with a new graduated rate structure that tops out at 21% for institutions with an endowment of more than $2 million per student. Certain state-owned and religious-affiliated educational institutions would not be subject to the excise tax.

Estate and Gift Tax Proposals

- *Permanent Extension of Increased Estate and Gift Tax Exemption Amounts*. Would permanently increase the estate, gift and generation-skipping transfer tax exemption amounts to $15 million, adjusted for inflation from 2026, compared to the TCJA's temporary $10 million exemption that was adjusted for inflation to $13.99 million in 2025.

We are monitoring these proposals as the Tax Proposal and broader Bill move through the legislative process. In the meantime, please reach out to any member of your Kirkland Tax team, including the authors below.

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1. Both the cap and the income threshold would be halved for a married individual filing separate. ↩

2. Applying the EBIT concept, ATI is determined by including deductions allowable for depreciation, amortization, and depletion, whereas applying the EBITDA concept, ATI is determined without regard to such deductions (resulting in a higher amount of ATI against which the 30% cap is calculated). ↩

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- 16 May 2025 Press Release Kirkland Advises AE Industrial Partners on Close of $418 Million Aerospace Leasing Fund II
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