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Kirkland Alert

Final "One Big Beautiful Bill Act" Features Enhanced Tax Breaks and Targeted Tax Increases — But No Changes to Carried Interest and No "Revenge" Tax

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On July 4, 2025, President Trump signed into law a sweeping budget reconciliation bill commonly known as the "One Big Beautiful Bill Act" (the Act). Originating in the House and subsequently amended by the Senate, the final Senate-amended version cleared the House without further changes on July 3.[1] The Act includes a 362-page package of tax law changes that the Joint Committee on Taxation preliminarily estimates will provide net tax cuts of $4.5 trillion over 10 years.

This *Alert* highlights the Act's tax changes (and omissions) that are most relevant to our private equity (PE) investment professionals.

Key Omissions

Consistent with the earlier House version, the final version of the Act does not incorporate several revenue-raising concepts floated at various stages by the White House and/or congressional Republicans. It does not:

- change the tax treatment of carried interest paid to PE fund managers;
- change the corporate or capital gains tax rates; or
- create a new "millionaires" tax bracket or increase the headline 2025 ordinary income tax rates.

In addition, several significant provisions that appeared either in the House bill or early Senate amendments (or both) ultimately were excluded from the Act, including:

- the proposed Section 899 "revenge" tax;
- a provision that would have curtailed (or in some cases eliminated) so-called PTET workarounds to the SALT cap;
- a proposed excise tax on wind and solar projects receiving assistance from foreign entities of concern (FEOC);
- a proposed 41% excise tax on third-party litigation funding arrangements; and
- a provision that would have limited amortization of professional sports team acquisition costs.

Key Individual Tax Changes

- *Increased State and Local Tax Deduction Limitation (SALT cap)*. Beginning with the 2025 tax year, the cap on the state and local tax (SALT) deduction is temporarily increased to $40,000 for both individual filers and married couples filing jointly. This increased cap is subject to a phase-down — though not below $10,000 — starting at taxable income over $500,000. The provision sunsets after 2029, with the SALT cap reverting to $10,000 (without a phase-down) for tax years 2030 and beyond.
- *No Change to Pass-Through Entity Tax (PTET) Deductions*. The Act does not contain any provisions addressing SALT imposed on pass-through entities. Accordingly, the deductibility of SALT imposed on pass-through entities — including amounts paid under so-called PTET workarounds — remains unchanged.
- *Permanent Extension of Pass-Through Deduction*. Permanently extends the 20% deduction for pass-through business income. Provides a minimal expansion to the deduction for owners of specified service trades or businesses (SSTBs) — including PE management companies and other investment or asset managers, accounting firms, consulting businesses and medical practices — by raising the income-based phase-out threshold from $100,000 to $150,000 for married couples filing jointly ($75,000 for individual filers) and via a new minimum $400 deduction, each indexed for inflation.
- *Modified Limitation on Itemized Deductions*. Replaces the so-called "Pease limitation," which had been suspended by the TCJA through 2025, with a mechanism that in effect limits the value of all itemized deductions to a 35% effective rate (in contrast to the 37% effective tax rate) for taxpayers in the top marginal tax bracket.
- *New 0.5% Floor on Charitable Deductions for Itemizers*. Beginning with the 2026 tax year, charitable deductions for taxpayers who itemize will be allowed only to the extent they exceed 0.5% of the taxpayer's contribution base (essentially, adjusted gross income).
- *New Excise Tax on Remittance Transfers*. Imposes a new 1% excise tax on certain outbound international cash or cash-equivalent remittance transfers sent from the

U.S. Subject to anti-conduit rules, the tax does *not* apply to (i) transfers made from most U.S. bank accounts or funded with U.S.-issued credit or debit cards and (ii) transfers made by entities, as “sender” is defined to include only natural persons.

Key Business-Related Tax Changes

- *Increased Business Interest Deduction*. For tax years beginning after 2024, permanently increases 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).[2] However, for taxable years beginning after 2025, (i) the deduction cap also applies to most interest that is required to be capitalized and (ii) certain international income is excluded from the EBITDA calculation, potentially lowering the cap for some U.S. multinational enterprises.
- *Restoration of 100% “Bonus" Depreciation*. Permanently restores 100% expensing (also known as bonus depreciation) for qualified property acquired and placed in service after January 19, 2025.
- *New 100% “Bonus" Depreciation for Certain Domestic Manufacturing Facilities*. Allows for the immediate, 100% expensing in the year placed in service for certain domestic facilities used to produce tangible personal property. To qualify, construction must begin after January 19, 2025, and before 2029, and the facility generally must be placed in service before 2031. An original use requirement applies, with limited exceptions.
- *Elimination of Required Capitalization of Domestic Research and Experimental (R&E) Expenditures*. Permanently allows taxpayers to immediately expense domestic R&E expenditures incurred in tax years beginning after 2024. Taxpayers may elect to instead 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. A special transition rule generally allows taxpayers to deduct over a one- or two-year period the remaining unamortized balance of domestic R&E expenditures paid or incurred in 2022-2024. Foreign R&E remains subject to mandatory 15-year amortization.

QSBS Expansion

The Act makes several enhancements to the gain exclusion for “qualified small business stock” (QSBS), with these changes applying to QSBS stock issued or acquired on or after July 4, 2025.

- *Increased Gain Exclusion*. Increases the per-person, per-issuer eligible gain exclusion amount from a static $10 million to $15 million, indexed for inflation.
- *Partial Gain Exclusion at Shorter Holding Periods*. In addition to the existing exclusion of 100% of eligible gain after a five-year holding period, allows for a 50% exclusion after three years and 75% after four years.
- *Expanded QSB Eligibility*. Expands "qualified small business" eligibility to incrementally larger corporations by increasing the gross asset value cap from a static $50 million to $75 million, indexed for inflation.

Key Clean Energy Tax Credit Changes

- *Curtailment of Solar and Wind Tax Credits*. Solar and wind projects are eligible for tax credits if they are placed in service by the end of 2027 — unless taxpayers begin construction with respect to those projects by July 4, 2026. Additional guidance with respect to the requirements for beginning construction is expected to be issued pursuant to the July 7, 2025, executive order titled "Ending Market Distorting Subsidies for Unreliable, Foreign Controlled Energy Sources."
- *Extension and Expansion of Tech Neutral, Emissions Free, and Traditional Energy Tax Credits*. Retains the tax credits for battery storage, nuclear, geothermal, and hydropower, with phase downs beginning in 2032. Fuel cells, including those using fossil fuels, are eligible for tax credits. The clean fuels production tax credit is extended for two years through the end of 2029 and accompanied with favorable revisions to emissions computations — although credit values for sustainable aviation fuels are reduced. Carbon capture projects benefit from increased production tax credit values for carbon used in enhanced oil recovery.
- *Manufacturing Credits Largely Retained*. Retains production tax credits for domestic manufacturing of solar and storage components through 2032, while wind components lose eligibility after 2027. Critical minerals are updated to include metallurgical coal. Production tax credits for minerals generally phase out between 2031 and 2033, except for metallurgical coal which expires at the end of 2029.
- *Foreign Entity of Concern Rules Apply to Ownership and Supply Chains*. Taxpayers that, as of July 4, 2025, have significant ownership by entities organized or located in China, Russia, Iran or North Korea, are ineligible for tax credits. Such foreign entities also are barred from purchasing tax credits. Beginning in 2026, projects must limit Chinese-sourced materials to no more than 60% to remain eligible for tax credits, with the cap tightening annually until it reaches 40%. Manufacturing credits may be eliminated if a taxpayer's supply chain includes material Chinese components. Significant guidance will be needed to enable compliance with these provisions.

Key International Tax Changes

- *Increases in Effective Rates on Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII)*. Rebrands GILTI as "Net CFC Tested Income" (NCTI) and FDII as "Foreign-Derived Deduction Eligible Income" (FDDEI), reflecting changes that broaden their scope beyond solely "intangible" income. For tax years beginning after 2025, the effective tax rate on NCTI will be 12.6% and the effective tax rate on FDDEI will be 14% — up from the current effective rates of 10.5% on GILTI and 13.125% on FDII.
- *Permanent Change in Base Erosion Anti-Abuse Tax (BEAT) Rate*. For tax years beginning after 2025, sets the BEAT rate to 10.5% — a slight increase to the current 10% rate but less than the 12.5% rate set to go into effect in 2026 under the TCJA.
- *Reinstatement of CFC Non-Downward Attribution Rule*. For tax years of foreign corporations beginning after 2025, and subject to a new anti-abuse rule described below, reinstates the rule that blocks downward stock ownership attribution from a foreign person to a U.S. person when determining a foreign corporation's CFC status. This rule had been repealed by the TCJA, leading to a multitude of new (unintentional) CFCs — many of which may now lose their CFC status due to this reinstatement.
- *New Rule Targeting Potential Abuse of CFC Non-Downward Rule*. Establishes a new rule targeting potential abuse of the reinstated CFC non-downward attribution rule. Expands the CFC income inclusion rules to apply to "foreign controlled U.S. shareholders" (FCUSSs) of "foreign controlled foreign corporations" (FCFCs). An FCUSS is a U.S. person that owns more than 50% (by vote or value) of a foreign corporation (the FCFC), including through downward attribution from foreign persons.
- *Non-Enactment of Proposed Section 899 "Revenge Tax."* Proposed Section 899, which would have imposed certain retaliatory tax measures on persons and entities associated with countries imposing "unfair foreign taxes" — and which generated significant concerns for some U.S. borrowers, non-U.S. investors and fund sponsors — was ultimately excluded from the Act.[3] The provision was removed after the U.S. reached an agreement-in-principle with fellow G7 members under which U.S.-parented groups would be exempt from those countries' income inclusion rules (IIRs) and/or undertaxed profits rules (UTPRs).

Key Opportunity Zone Changes

- *Permanent Extension and New Designations*. Permanently extends the Qualified Opportunity Zone (QOZ) program established by the TCJA and previously set to sunset at the end of 2026. Starting in 2026, provides for new Opportunity Zone (OZ) designations to be made every 10 years, subject to updated criteria including stricter eligibility requirements and the elimination of OZs in Puerto Rico. The original TCJA QOZ provisions applicable to existing QOZ investments generally remain unchanged until their expiration (other than the "10-year benefit rule") on December 31, 2026.

- *Expanded Benefits and New Qualified Rural Opportunity Funds (QROFs)*. For newly designated OZs, implements new and revised incentives, including (i) gain deferral, on a rolling basis, for up to five years from time of investment, (ii) a streamlined five-year benefit rule under which basis is stepped up incrementally (to a total 10% increase) during the five-year hold, (iii) retaining the exclusion for future gains from the sale or exchange of an OZ investment held for at least 10 years, but limited to the gain accrued over the first 30 years and (iv) a new QROF designation with enhanced benefits to promote investment in rural areas.
- *New Reporting Requirements*. Imposes additional information reporting requirements on QOFs (and the QOZ businesses they own), with penalties for noncompliance.

University Endowment Tax Provision

- *New Endowment Excise Tax Rates on Certain Universities*. For taxable years beginning after 2025, replaces the existing flat 1.4% excise tax on applicable education institutions' net investment income with a new graduated rate structure. The new rates top out at 8% for institutions with endowments exceeding $2 million per student — significantly lower than the 21% top rate proposed in the House version. Certain state-owned institutions and those with fewer than 3,000 students are exempt from the tax.

Estate and Gift Tax Changes

- *Permanent Increase in Estate and Gift Tax Exemption Amounts.* Permanently increases 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.

Looking Ahead

The Act is the product of intense intra-party negotiations among congressional Republicans, as well as further adjustments required by the Senate parliamentarian to comply with budget reconciliation rules. GOP leadership has already indicated interest in pursuing additional reconciliation legislation ahead of the midterm elections, and congressional Republicans are raising the possibility that previously excluded tax proposals could be reintroduced and current compromises revisited in any such future efforts.

Additionally, many of the Act's tax changes will require the IRS and Treasury to issue new interpretative guidance. Congress may also pursue follow-up legislation to correct drafting errors or address unintended consequences.

We will be monitoring these developments closely. In the meantime, please reach out to any member of your Kirkland Tax team — including the authors listed below — with any questions or for further discussion.

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1. For a summary of the House Ways & Means Committee's draft version of the tax package, see our *Alert*. For a summary of the House's proposed changes to the clean energy tax credits, see our *Alert*. ↩

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). ↩

3. For a summary of Proposed Section 899, see our *Alert*. ↩

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