Highlights

- Competing House and Senate Proposals Are Likely to Change
- Most TCJA Individual Provisions Made Permanent in Both Versions
- Senate Bill Permanently Extends Business Expensing, House Temporarily
- New Provisions Eliminate Taxes on Tip and Overtime Income
- Increase in SALT Cap in House, None in Senate
- Early Termination of Green Energy Credits

Inside

Tax Briefing | One Big Beautiful Bill Act

Senate Finance Committee Version of Reconciliation Bill Released

On June 16, 2025, the Senate Finance Committee released proposed text of its version of the 2025 budget reconciliation bill. A few weeks earlier, on May 22, the House passed its version, the One Big Beautiful Bill Act, by a single vote. Both texts come in at around 400 pages, and include a number of tax changes, including permanent and limited modification of many soon-to-expire tax provisions, new provisions promised by President Trump during his 2024 campaign, elimination or modification of many green energy provisions, and dozens of other changes affecting individuals and businesses.

Upon its passage, the majority of the provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) included expiration dates in order to satisfy budgetary requirements. Lower individual rate brackets, higher standard deductions, the elimination of the personal exemption, the cap on the deduction of state and local taxes (SALT), changes to the alternative minimum tax and many other provisions are all set to expire at the end of 2025. If Congress takes no action, then the federal tax system will largely revert back to the rules applicable in 2017.

Throughout the 2024 campaign, Trump, as well as many GOP lawmakers, proposed making these soon-to-expire provisions a permanent part of the tax code. The proposed act would do just that, but it comes at a high price tag (some estimates have it at $5 trillion over ten years). Much of this cost is balanced by reduced outlays in many government programs not related to taxation, and by the elimination of many of the “green” tax provisions from the Inflation Reduction Act.

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"If Congress takes no action, then the federal tax system will largely revert back to the rules applicable in 2017."

The release of the text by the Senate Finance Committee serves more as a beginning to the process in the Senate. Even though Senators have been negotiating for weeks over the content, there is still a long way to go before the Senate votes on the proposal. The House had a similar experience before passing their version in May, with committees working late into the night on the contents.

The majority of debate between members of the Senate GOP has been on different issues than the House GOP was most concerned with. The major sticking point in the House was the size of the increase in the SALT deduction, which the Senate is not particularly concerned with. The Senate, meanwhile, has been concerned with reducing the cost of the bill. Both chambers have grappled with disagreements over the non-tax related parts of the bill, specifically the cuts to government programs that are helping to pay for the extension and expansion of the tax provisions.

COMMENT. *With the release of the text, the debate in the Senate is now likely to become more public. Since the bill is being passed under the reconciliation rules, the Senate GOP can pass the bill without any support from Democrats. However, it is not entirely clear that the Senate GOP will be able to get the 50 votes it needs for passage on this version of the bill. What is clear is that whatever version of the bill the Senate passes, it will likely see significant changes from the version the House passed. With a razor-thin majority in the House, passing a bill in the Senate that can be passed in the House will be a tightrope walk, and significant negotiation between leaders in both chambers may ultimately be required. The GOP has a self-imposed deadline of July 4 to get the package to the president's desk, but many lawmakers, particularly in the Senate GOP, have expressed doubt that this is possible. Nevertheless, the bill includes an increase in the debt ceiling, which is estimated to be reached as early as mid-July. If this bill is the chosen vehicle for the debt ceiling increase, action must be taken during the summer.*

COMMENT. *This CCH Tax Briefing is not intended to comprehensively cover all provisions proposed in the approximately 400-page tax portions of the two bills, but rather the highlights. It is not clear how many of these provisions will survive the legislative process.*

EXTENDED INDIVIDUAL PROVISIONS

Individual Extenders

Many of the provisions of the TCJA applicable to individuals are among those scheduled to expire at the end of 2025. These include:

- 10, 12, 22, 24, 32, 35 and 37 percent brackets applicable since 2018;
- Elimination of personal exemptions;
- Increased alternative minimum tax exemption and threshold amounts;
- Lower limitation on the deduction of mortgage interest;
- Limitation on the casualty loss deduction;
- Termination of the miscellaneous itemized deduction; and
- Allowance of rollovers from qualified tuition programs to ABLE accounts.

House Bill

The House-passed version of the bill would make all these provisions permanent with little to no modification.

Proposed Senate Bill

The proposed Senate bill makes all of these provisions permanent, but does make some modifications. The bill would permanently treat mortgage insurance premiums as qualified residence interest for which a deduction could be

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claimed and allows for unreimbursed educator expenses to be deducted as a miscellaneous itemized deduction.

> **COMMENT.** *Between 2008 and 2021, mortgage insurance premiums could be treated as qualified residence interest and deducted by homeowners. Also, under current law, teachers are allowed an above-the-line deduction for classroom expenses of up to $300 for 2024 and 2025, but the Senate bill would expand that beyond the dollar limitation.*

The proposed Senate bill does permanently eliminate the personal exemption amount, but would temporarily provide a $6,000 deduction amount for seniors age 65 and older after 2024 and before 2029. This deduction would phase out for individuals whose modified adjusted gross income exceeds $75,000 ($150,000 for joint filers).

> **COMMENT.** *A similar provision can be found in the House-passed version of the bill, but the deduction is capped at $4,000*

Standard Deduction

The TCJA nearly doubled the standard deduction for tax years beginning after 2017. For 2025, the inflation adjusted amounts are $30,000 for joint filers, $22,500 for heads of households, and $15,000 for single taxpayers and married taxpayers filing separately. These higher amounts are set to expire after 2025.

House Bill

The House-passed bill would make those higher amounts permanent. For tax years 2025 through 2028, the amounts above would increase by $2,000, $1,500, and $1,000, respectively. In the case of seniors, an additional standard deduction of $4,000 would be available during those same years.

> **COMMENT.** *Presumably, this $4,000 amount would be on top of the current additional deduction for the elderly.*

Senate Bill

The proposed Senate bill would also make the increase permanent, but rather than providing a temporary increase in the amounts, it tacks on the $2,000, $1,500, and $1,000 amounts for 2026 and thereafter, making the 2026 standard deduction amounts $32,000 for joint filers, $24,000 for heads of households, and $16,000 for all others, adjusted for inflation thereafter. The proposed Senate bill does not include a temporary increase for seniors, as it includes that as a personal exemption amount.

SALT Deduction

One of the most controversial provisions of the TCJA was the imposition of a $10,000 cap on the deduction for state and local taxes. Before the ink was dry on the 2017 legislation, lawmakers in higher tax states on both sides of the aisle (the so-called “SALT Caucus”) were introducing legislation intended to increase or outright repeal the cap.

House Bill

The House-passed bill, after extended negotiations between leadership and the SALT Caucus, would allow a $40,000 limit on the SALT deduction ($20,000 for married taxpayers filing separately) for 2025. The limitation would phase out for taxpayers with modified adjusted gross income in excess of $500,000 ($250,000 for married taxpayers filing separately). After 2025, these amounts increase by one percent each year through 2033, and then hold at the 2033 amount.

> **COMMENT.** *This has proven to be one of the stickier points for legislators in their negotiations. Members of the SALT Caucus were still outwardly unhappy with the $40,000 limit agreed to in the bill, but ultimately decided to vote in favor of it.*

Senate Bill

The Senate bill permanently extends the SALT cap at its current $10,000 level. The bill also limits the use of one of the so-called “SALT workarounds” using a passthrough entity.

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COMMENT. *Members of the Senate Finance Committee described this number as a sort of placeholder for future negotiations. Generally, there are no GOP Senators who represent states with higher taxes, and an increase in the SALT cap has never been a priority for the Senate GOP. Members of the House SALT Caucus consider the $10,000 amount as a nonstarter, and this will be one of the big negotiation points as the two chambers try to get together on a final bill.*

Child Tax Credit

The TCJA increased the amount of the child tax credit from $1,000 to $2,000 for tax years 2018 through 2025, as well as nearly quadrupling the phaseout thresholds to $400,000 for joint filers and $200,000 for other filers.

House Bill

The House-passed bill would make the current amounts permanent, as well as temporarily increasing the credit amount to $2,500 for tax years 2025 through 2028 and adjusting the $2,000 amount for inflation after 2028. The re GOP Senators fundable portion of the child tax credit ("additional child tax credit") would be capped at $1,400 under the proposed text. The bill would also require the taxpayer claiming the credit, the taxpayer's spouse (if married), and the child for whom the credit is claimed to have Social Security numbers.

Senate Bill

The Senate bill increases the base amount of the credit to $2,200, subject to annual inflation increases. The additional child tax credit is also adjusted annually for inflation in the Senate bill, and not subject to a cap. Like the House bill, the Senate bill requires Social Security numbers for all parents, spouses, and children.

Estate Taxes

The estate tax basic exclusion amount, which the TCJA doubled for decedents dying through 2025 (inflation adjusted to $13.99 million in 2025) would revert back to 2017 amounts if the TCJA is allowed to expire.

House Bill

Under the House-passed bill, the basic exclusion amount is increased again to a base amount of $15 million for decedents dying in 2026, adjusted for inflation thereafter. This amount would be permanent.

COMMENT. *The $15 million amount is probably not far off from where inflation would have taken the exclusion amount for 2026 if the TCJA was not scheduled to expire.*

Senate Bill

The Senate bill provides for the same increase and permanent extension as the House-passed bill.

NEW INDIVIDUAL PROVISIONS

No Tax on Tips

One of the big talking points for President Trump during the campaign was the elimination of tax on tip income. Historically, tip income was not subject to tax until the early 1980's when legislation passed during the Reagan administration treated it like regular income.

House Bill

The House-passed bill does not provide an exclusion from income for tips, but rather provides a deduction from income for amounts received as tips. Under the proposal, taxpayers would not be required to itemize deductions to claim the deduction, but a Social Security number would be required to claim the deduction. The deduction would not be allowed for tax years beginning after 2028.

The bill would also extend the employer credit for Social Security taxes on employee cash tips to the beauty service industry (the credit currently only applies to the food and beverage industry).

Senate Bill

The Senate bill provides the same deduction as the House bill, but it caps the deduction at $25,000, and the deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 for joint filers).

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No Tax on Overtime

During his campaign, President Trump also proposed making overtime compensation tax free.

House Bill

Under the House-passed bill, taxpayers would be able to claim a deduction for the amount of overtime pay received as required under section 7 of the Fair Labor standards Act of 1938. Like the deduction for tip income, taxpayers would not have to itemize deductions to claim the deduction, but would be required to provide a Social Security number. The deduction would not be allowed for tax years beginning after 2028.

Senate Bill

The Senate bill provides the same deduction as the House bill, but it caps the deduction at $12,500, and the deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds $100,000 ($200,000 for joint filers).

> **COMMENT.** *Neither bill provides extensive rules for the application of this provision, leaving the rules of application up to Treasury Regulations.*

Itemized Deduction Limitation

Prior to the TCJA, the itemized deduction limitation was subject to a phaseout at higher incomes (the "Pease" limitation).

House Bill

The House-passed bill includes a return of the limitation on itemized deductions for taxpayers in the 37 percent income tax bracket, effective after 2025.

Senate Bill

The Senate bill provides the same limitation as the House-passed bill.

Automobile Loan Interest

Under current law, interest on an individual's automobile loan is treated as nondeductible personal interest.

House Bill

The House-passed bill includes a deduction of up to $10,000 for interest paid on an automobile loan in 2025 through 2028 for a car purchased after 2024. The deduction is available for both itemizers and non-itemizers.

Senate Bill

The Senate bill provides the same deduction under the same terms as the House-passed bill.

Trump Accounts

House Bill

The proposed bill also includes provisions for the creation of tax-favored accounts for newborn children, called "Trump Accounts." The accounts are seeded with $1,000 for newborn children. From a tax standpoint, they operate similarly to ABLE accounts, but are available more broadly to all children.

Senate Bill

The proposed Senate bill matches the House-passed proposal

Additional Provisions

Both the House-passed bill and the proposed Senate bill include:

- A tax credit for contributions to scholarship-granting organizations;
- An expansion of 529 programs to include elementary, secondary, and home schooling expenses; and
- The resurrection of the COVID-era allowance of a charitable contribution deduction for non-itemizers.

BUSINESS PROVISIONS

Bonus Depreciation

The TCJA provided for 100 percent expensing of certain business property through 2022, with a 20 percent stepdown each year after before reaching 0 percent in 2027 (currently set at 40% in 2025).

House Bill

The House-passed bill would provide 100 percent bonus depreciation through 2029 for property acquired after January 19, 2025. The bill also proposes a special depreciation allowance for qualified production property used in agricultural or chemical production.

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Senate Bill

The Senate bill would make 100 percent bonus depreciation permanent for property acquired after January 19, 2025. The Senate bill does not include any special allowance for agricultural of chemical production property.

Research and Experimental Expenditures

Under current law, taxpayers are required to amortize research and experimental expenditures. Prior to 2022, a direct expense election was available.

House Bill

The House-passed bill would reinstate the deduction for domestic research and experimental expenditure costs incurred after 2024 through 2029. Taxpayers can elect whether to deduct or amortize the expenditures, though the requirement to amortize under current law is suspended while the deduction is available.

Senate Bill

Under the Senate bill, the deduction would be made permanent, under the same terms as the House-passed bill. Additionally, small businesses with average annual gross receipts of $31 million or less would be able to elect to claim the deduction retroactively to 2022.

Qualified Business Income Deduction

The TCJA's qualified business income deduction under Code Sec. 199A is set to expire for tax years beginning after 2025.

House Bill

Under the House-passed bill, the qualified business income deduction would be made permanent. Additionally, the amount of the deduction would be increased to 23 percent from the current 20 percent for tax years beginning after 2024. Additional changes are proposed modifying the limitations and qualification for the deduction.

Senate Bill

The Senate bill would also make the deduction permanent, as well as modifying the limitations and qualifications for the deduction. However, the amount of the deduction under the Senate bill would remain at 20 percent.

Additional Provisions

Both the House-passed bill and the proposed Senate bill include:

- Renewal and enhancement of Opportunity Zones
- Increase in the 179 deduction limitations after 2024
- An exclusion of interest received by qualified lenders secured by rural or agricultural real property
- Modifications to the low-income housing credit.

International Extensions

House Bill

The House-passed bill would make permanent many international and foreign-related provisions under the TCJA, including the:

- Deduction for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI); and
- Base erosion minimum tax amount.

However, the bill would change the FDII rate to 36.5 percent (currently 37.5 percent) and the GILTI rate to 49.2 percent (currently 50 percent) after 2025.

> **COMMENT.** *Under TCJA, these rates were scheduled to drop to 21.875 percent and 37.5 percent, respectively, after 2025. So this actually represents a tax increase for 2026 and beyond.*

The bill would also change the base erosion minimum tax amount to 10.1 percent from its current 10 percent rate after 2025.

> **COMMENT.** *Under TCJA, this rate was scheduled to increase to 12.5 percent after 2025, so this represents a tax decrease for 2026 and beyond.*

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Senate Bill

The Senate bill provides a smaller increase in the FDII and GILTI rate in 2026 and beyond to 33.34 percent and 40 percent, respectively. However, the Senate bill changes the base erosion minimum tax amount to 14 percent in 2026 and beyond.

The Senate bill also makes changes to the treatment of "tested" CFC income and the foreign tax credit that were not included in the House-passed bill.

GREEN ENERGY TERMINATIONS

The Inflation Reduction Act of 2022 created dozens of new tax credits intended to promote the manufacture and adoption of alternative energy sources. The elimination of these credits by the One Big Beautiful Bill Act is a key method of paying for many of the new taxpayer-friendly provisions. However, the timing of the termination will be a key sticking point in negotiations between the House and the Senate.

House Bill

Under the House-passed bill, the affected credits would include the following (termination generally after 2025 unless noted):

- Previously owned clean vehicle credit;
- Clean vehicle credit (proposed termination generally after 2026);
- Qualified commercial clean vehicle credit;
- Alternative fuel refueling property credit;
- Energy efficient home improvement credit;
- Residential clean energy credit; and
- New energy efficient home credit.

Additionally, many of the credits for clean energy production are either terminated or subject to accelerated phaseouts.

> **COMMENT.** *Much of the news relating to the concerns of the budget-focused members of the House GOP was that they felt the original proposal was not aggressive enough in accelerating the termination of the energy credits. The House-passed version of the bill does terminate these credits for clean energy production sooner than originally proposed. There does not appear to be any change to the termination of credits available to taxpayers for the purchase of energy efficient vehicles, appliances, etc.*

Senate Bill

The Senate bill terminates all of the credits that the House-passed bill terminates, but under a different timeline. For example, many of the credits that would be claimed by consumers, like those for clean vehicles, would take effect during the current year, in some cases as soon as 90 days after enactment of the bill. Others, like those for clean energy and fuel production, would take effect in 2026 or later.

IRS PROCEDURAL PROVISIONS

House Bill

The House-passed bill includes a number of provisions that impact IRS operations. The bill would mandate that the IRS implement the use of artificial intelligence in reducing and recouping improper tax payments. The bill would also impose a penalty up to $200,000 on promoters of fraudulent COVID-era employee retention credit (ERC) schemes.

> **COMMENT.** *The version of the bill that was passed by the House did include the provision imposing the penalty on ERC promoters. However, in a subsequent vote on a recissions bill on June 11, a rule adopted in passage struck that provision from the House-passed bill.*

Perhaps the most widely applicable operations provision of the proposed bill is the termination of the IRS Direct File program. The bill requires the termination of the program within 30 days after passage and appropriates funding for the IRS to research a public-private partnership to replace the current "free file" program.

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Senate Bill

The Senate bill includes specified penalties for fraudulent promoters of retention credit schemes, but at a much lower limit of $1,000 per failure to comply with due diligence requirements (though without a cumulative limit). The Senate bill also includes the termination of the Direct File program.

The Senate bill does not include a mandate to use artificial intelligence in reducing and recouping improper tax payments.

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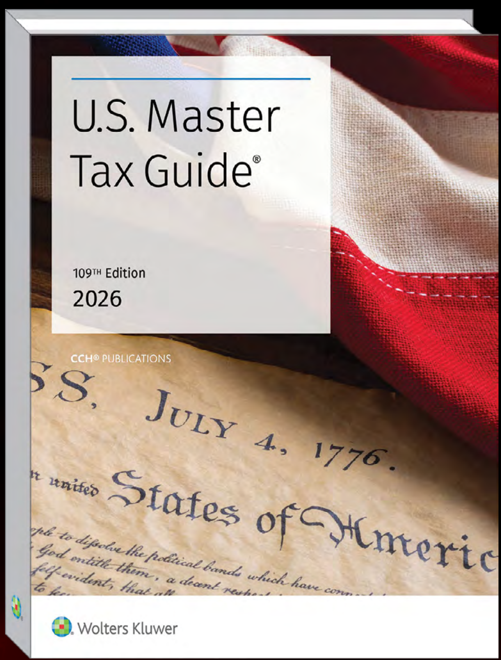

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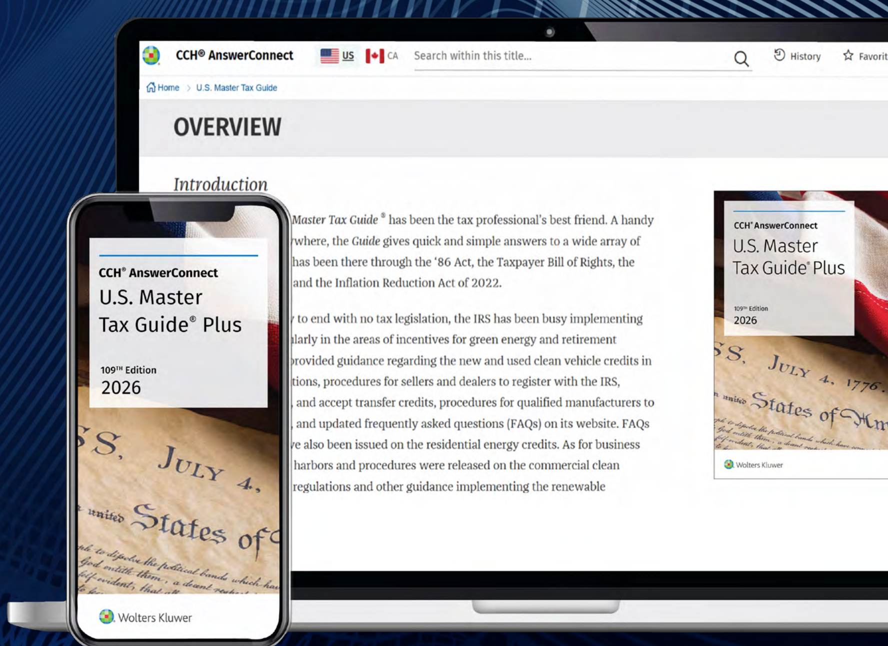

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