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This update reflects facts as of Tuesday morning, May 27, 2025. The situation is fluid and may change.

The House passed its version of budget reconciliation legislation shortly before adjourning for the Congressional Memorial Day recess. It did not do so, however, without some last-minute changes, including changes to the tax title reported earlier in the week by the Ways and Means Committee. Those changes were needed to garner the last few votes needed to pass the legislation by the narrowest of party-line margins, 215-214. That narrow margin portends the possibility of future challenges, as several elements of the bill, including those last-minute changes, could face Senate opposition.

The KPMG analysis of the tax title of the House bill can be found at [KPMG reports: Tax title for “One Big Beautiful” bill].

Broadly, the bill would, among other things, extend and make permanent the expiring provisions of the Tax Cuts and Jobs Act, with a few enhancements, modifications, and some additions.

For businesses, the bill would make no change to the corporate tax rate, the principal, permanent feature of the TCJA. The bill would permanently extend lower rates on GILTI, FDII, and the BEAT though in a surprise last minute move, increased slightly the rate on each. It would now also make permanent the section 199A deduction for passthrough businesses and increase the deduction from 20% to 23%. The bill would reinstate for five years expensing of research and development costs under section 174, restore depreciation and amortization to the calculation of the limit on the interest expense deduction under section 163(j), and reinstitute 100% bonus depreciation. Other taxpayer-friendly provisions include extending 100% bonus depreciation to certain manufacturing facilities; an increase in the low-income housing tax credit, with some reforms; and extending opportunity zone tax benefits, also with reforms and new limitations.

For individuals, it would make permanent the TCJA rates, while also increasing the child credit and standard deduction. It would also increase the estate tax exemption to $15 million.

In extending the limitation on the SALT deduction, it would increase the cap to $40,000 for those with income under $500,000. The bill would also include, with limitations, the President's campaign tax benefit proposals for tip income, overtime pay, Social Security recipients, and automobile loan interest.

The net revenue cost of the tax extensions, enhancements, and new benefits is limited to $4 trillion in the joint budget resolution. To comply, the bill would increase some taxes. It would impose retaliatory tax measures on the U.S. operations of foreign businesses resident in countries that impose discriminatory taxes on U.S. corporations, principally through application of the undertaxed profits rule of OECD Pillar 2 and digital sales taxes. The bill would also increase taxes on college endowments and private foundations, and it would invalidate employee retention tax credit claims filed after January 31, 2024. And, most significantly, it would repeal or phase out the energy tax credits created by the Inflation Reduction Act.

The Senate will take up the bill when it returns next week, but passage will likely not be easy or quick. One of the last-minute changes made by the House was to accelerate phase-out of IRA energy credits, which have supporters in the Senate. Beyond tax, the House also made considerable modifications to Medicaid and the Supplemental Nutrition Assistance Program, changes also advanced and presumably increased by those last-minute changes.

Deficits are a concern underlying these House-Senate differences and the bill generally. The Congressional Budget Office has not yet provided revenue tables for the House-passed bill, but it is expected to produce a significant net increase in 10-year deficit. If temporary provisions in the House bill were to be made permanent by the Senate, the deficit cost (under traditional scoring conventions) would be considerably greater. This broader deficit impact could endanger re-passage by the House, many of the members of which were already concerned about additions to the national debt.

The immediate objective of the Senate is to produce a bill that can be approved by that chamber. Whether that bill could also be successfully voted out of the House is a secondary concern for now. That question will have to be answered sooner or later, but not next.

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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