Private enterprise and family office tax provisions in “One Big Beautiful Bill Act”

KPMG analysis and observations

Current as of May 29, 2025, reflecting tax title approved by the House of Representatives on May 22, 2025

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Introduction

The U.S. House of Representatives on May 22, 2025, passed H.R. 1, the budget reconciliation bill known as the "One Big Beautiful Bill Act."

The bill would generally make the tax provisions of the 2017 Tax Cuts and Jobs Act (TCJA) permanent, such as the lower rates for individuals and for the international provisions global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and base erosion and anti-abuse tax (BEAT). The bill would also make several important adjustments to current law, including increasing the section 199A deduction for passthrough businesses and would restore for years 2025 through 2029 several expired business tax benefits from the TCJA, including the deductibility of U.S. research and development costs under section 174 and 100% bonus depreciation. The bill would also introduce for years 2025 through 2028 several new tax benefits proposed by the president during the campaign, such as 100% bonus depreciation for new manufacturing facilities and new deductions for tips and overtime pay.

To partially offset the cost of the above taxpayer-favorable changes, the bill includes a host of revenue-raising provisions, including an extension of the existing limit on the individual deduction for state and local taxes (SALT) (but subject to an increased cap), as well as early sunsets, phase outs, and other changes to the energy tax credits enacted in the Inflation Reduction Act (IRA). The bill also provides for retaliatory measures on certain non-U.S. corporations and individuals if their home jurisdiction has adopted taxes deemed to be discriminatory or extraterritorial and would increase tax rates on certain university endowments and private foundations.

The Joint Committee on Taxation (JCT) provided estimated revenue effects of the provisions of H.R. 1 in JCX-26-25.

The bill will be transmitted to the Senate for consideration to begin after the congressional Memorial Day recess. The Senate is expected to make changes to the House-approved bill, possibly including the tax provisions. KPMG will continue to provide updates as the bill works its way through the process in Congress.

This report includes initial analysis and observations regarding the provisions in the bill related to private enterprises, high income / high wealth individuals, and family offices. This is one of a series of reports that KPMG has prepared on the bill, which can all be found here.

High income individuals / family offices

Estate, gift, and generation-skipping transfer tax

The House bill would permanently increase the basic exclusion amount per individual from $10 million (which, as increased for inflation, is $13.99 million for 2025 transfers) to $15 million for estates of decedents dying, gifts made, and generation-skipping transfers made after 2025. The exclusion amount would be indexed for inflation such that the $15 million amount would increase for transfers in 2027 and beyond.

KPMG observation

The House bill would permanently extend, slightly enhance, and index for further inflation the increased exemption amount provided under the TCJA. However, "permanency" in this case signifies that the proposal does not contain any automatic future reductions in the exemption. Of course, even if this proposal is enacted, there is always the chance that a future Congress could lower the exemption amount, increase the rate of tax, or expand the scope of the transfer tax system. In addition, there are many tax and nontax benefits to making transfers today, especially the ability to remove future income and appreciation from an individual's estate. Therefore, taxpayers with significant wealth may still want to consider utilizing the increased exemption in connection with their estate planning efforts sooner rather than later.

Extension of modification of rates, increase to the standard deduction, and termination of personal exemptions

The House bill would make permanent the regular income tax rate schedules for individuals, estates, and trusts enacted by the TCJA and provide an additional year of inflation adjustment to all brackets except the highest marginal bracket. Further, the House bill would make the TCJA increases to the basic standard deduction permanent and would modify the cost-of-living adjustment for the standard deduction (using chained consumer price index for 2016 as opposed to 2017). This adjustment would result in a larger standard deduction, as it considers an additional year of inflation. Finally, the bill would permanently reduce the personal exemptions to zero.

Extension of deduction for qualified business income and permanent enhancement

Under current law, section 199A allows certain individuals, trusts, and estates to deduct 20% of their business income, qualified real estate investment trust (REIT) dividends, and publicly traded partnerships (PTP) income. The deduction, however, is subject to certain limitations and thresholds. For example, it is limited to 20% of taxable income reduced by net capital gain. Higher income taxpayers are also subject to a W-2 wage and capital investment limitation and are not allowed a deduction for income from specified service trades or businesses (SSTB), such as health, law, and accounting businesses. Section 199A is set to expire December 31, 2025.

The House bill would make several important changes to section 199A:

- Make the section 199A deduction permanent
- Increase the potential deduction percentage from 20% to 23%
- Replace the existing phase-in of W-2 wages, capital investment, and specified service trades or businesses with a two-step process for taxpayers whose taxable income exceeds the threshold amount
- Include qualified business development company ("BDC") interest dividends in the combined qualified business income amount (similar to qualified REIT dividends and qualified PTP income under the current law)
- Index the threshold amounts for inflation for tax years beginning after 2025

KPMG observation

The permanent extension and increased deduction rate should be beneficial to individuals who invest in qualified trades or businesses. Further, the extension of the deduction to qualified BDC interest dividends is likely to be welcome given the increased activity and interest in private credit and BDCs.

KPMG observation

Making the section 199A permanent will offer tax relief to certain owners of qualifying pass-through businesses, establishing a level of parity with the reduction of corporation tax rate in 2017, which was permanently lowered from 35% to 21%. The proposed version of section 199A to be made permanent would retain for certain higher-income taxpayers the requirement of a W-2 and capital investment requirement to fully utilize the deduction and for this same group of taxpayers would also retain the disallowance of benefit against SSTB. When originally proposed the increase in the rate was to be 22% and then was increased to 23%. If considering a taxpayer who might be at the highest marginal federal tax rate who might be able to fully utilize the benefit of the deduction, the revised effective tax rate against such qualifying income would be 28.49% (37% x 77%).

KPMG observation

With respect to the changed phase-out calculation, the new approach would limit the deduction to the greater of (1) the W-2 and capital investment limitation with respect to qualified businesses or (2) 23% of income from all trades or businesses (including SSTBs) minus 75% of taxable income over a threshold amount. The mechanics of the proposal provide a more gradual phase-in of limitations as compared to current law, reducing some of the "cliff effect" of having deductions abruptly disappear once income thresholds are surpassed. The proposed method may allow additional taxpayers who have nearly exceeded the statutory phaseout range to claim a deduction from SSTBs (or from other qualifying businesses when the W-2 and capital investment limitation might apply) over the current population of taxpayers presently in the same range.

Changes to state and local tax deduction limit and treatment of passthrough taxes

Proposed changes in the bill would increase the state and local tax (SALT) itemized deduction from $10,000 to $40,400 for taxpayers (or $20,200 for married individuals filing separately) for tax years after 2025. Known as the "SALT cap", this amount would begin to phase out for taxpayers with modified adjusted gross income over $505,000 ($252,500 for married individuals filing separately).

In addition, the proposal would temporarily increase the current SALT cap for 2025 to $40,000 ($20,000 for married filing separately) from $10,000 ($5,000 for married filing separately). The temporary increase would be subject to a phasedown similar to the phasedown above, except that the applicable MAGI threshold for 2025 would be $500,000 ($250,000 for married filing separately).

Of significant additional interest to many taxpayers is that the House bill includes numerous changes to prevent the avoidance of the SALT cap, particularly for passthrough entities that have elected into the various pass-through entity tax (PTET) regimes offered by many state and local tax jurisdictions. In general, these regimes permit a passthrough entity to elect into an entity-level tax that is often deductible by the entity and permits the owners of the passthrough entity to receive a tax credit against their own state tax liability.

The House bill would generally include these entity-level income taxes as "specified taxes" subject to the SALT cap limitation unless the electing pass-through entity is primarily carrying on a qualified trade or business (within the meaning of section 199A(d)(1)), subject to a gross receipts test determined by reference to section 52(b). As a result, the deductions for PTET and other entity-level state taxes may be severely limited under this proposal. In some instances, however, an election into a PTET regime may still provide benefits for electing portfolio companies and their partners.

Modifications to section 461(l) limitation on excess business losses

In general, the section 461(l) excess business loss limitation limits the extent to which trade or business losses of a noncorporate taxpayer may be used to offset other income of the taxpayer. The excess business loss limitation is calculated by taking the aggregate deductions attributable to trades or businesses over the sum of aggregate gross income or gain attributable to trades or businesses, plus an annual threshold amount. Under current law, any excess business loss which is suspended is carried over to the taxpayer's next tax year as a net operating loss (NOL) and is not retested under section 461(l).

The current excess business loss limitation regime is set to sunset, such that losses will no longer be limited under section 461(l) after December 31, 2028. The House bill would make the excess business loss limitation permanent.

More significantly, the House bill would also change the manner in which the excess business loss is carried over to a subsequent year. Under the provision, excess business losses disallowed in tax years after December 31, 2024, would be included in the taxpayer's calculation of aggregate deductions attributable to a taxpayer's trade or business in the following tax year. Z

However, any NOLs generated from excess business losses disallowed in tax years beginning before January 1, 2025, would not be included as an aggregate deduction attributable to the taxpayer's trade or business.

The effective date of the proposal is for tax years beginning after December 31, 2024.

KPMG observation

The proposal would represent a substantial change to the manner in which the excess business loss regime currently operates. By modifying the provision to have excess business losses retested under section 461(l) in subsequent tax years—as compared to treating as an NOL carryover to the following year—a taxpayer's ability to claim trade or business deductions could be significantly limited. As background, NOL deductions for tax years beginning after December 31, 2020, are limited to 80% of taxable income and can generally offset any type of income. In contrast, if an excess business loss arising in a tax year is required to be retested in the subsequent tax year, it may take many more years for the taxpayer to be able to utilize the benefit of such losses. Further, if a taxpayer has consecutive years of excess business losses, the modification may significantly compound the delay in utilization of such losses. In addition, the provision would create a new tax attribute for individuals to track.

KPMG observation

The House bill may result in the permanent elimination of the taxpayer's excess business losses. For example, if a taxpayer had a small business that generated significant losses and did not have any other sources of trade or business income before the business ceases, the taxpayer would have an excess business loss carryover. If the taxpayer then proceeded to earn only non-business income (including wage income as an employee), such cumulative excess business losses – in excess of the amount afforded to the taxpayer through the annual threshold construct – would be functionally lost to the taxpayer under this proposal. Furthermore, should the taxpayer die without using his or her cumulative excess business losses, then it would appear that the taxpayer's remaining excess business losses could be permanently lost after the year of death. The proposal would create an excess business loss limitation regime which would stand in stark contrast to other loss limitations (such as under section 469) which generally afford a taxpayer a mechanism to utilize losses before they are permanently eliminated.

Termination of miscellaneous itemized deductions

The TCJA suspended the ability for individuals to deduct miscellaneous itemized deductions for tax years 2018 through 2025. Thus, absent action from Congress, miscellaneous itemized deductions would once again become deductible beginning with the 2026 tax year, subject to certain limitations. The bill would permanently eliminate the miscellaneous itemized deduction allowance.

Limitation on tax benefit of itemized deductions

Prior to enactment of the TCJA, the total amount of allowable itemized deductions (other than medical expenses, investment interest, and casualty, theft, or gambling losses) was reduced by the lesser of 3% of the amount by which the taxpayer's AGI exceeded a threshold amount or 80% of the otherwise allowable itemized deductions (referred to as the "Pease limitation"). The TCJA suspended the Pease limitation for tax years 2018 through 2025.

The proposal would not extend the TCJA suspension of the Pease limitation. Instead, the proposal would replace the Pease limitation with a new limitation on the tax benefit of itemized deductions for tax years beginning after December 31, 2025. Under the proposal, the tax benefit of an individual's itemized deductions would be reduced if the taxpayer has taxable income (before taking account of deductions) in excess of the threshold at which the 37% rate of tax applies, based on the taxpayer's filing status. The tax benefit of a taxpayer's itemized deductions would be reduced under a two-part formula.

First, a taxpayer's allowable itemized deductions would be reduced by 5/37 of the lesser of: (1) the amount of the deduction otherwise allowable to the taxpayer for certain state and local and foreign taxes for the tax year ("the section 164 deduction"); or (2) the amount by which the taxpayer's taxable income (increased by the taxpayer's itemized deductions) exceeds the threshold at which the 37% rate of tax applies to the taxpayer.

Then, to the extent the taxpayer has itemized deductions in excess of the section 164 deduction ("other itemized deductions"), a taxpayer's allowable itemized deductions would be further reduced by 2/37 of the lesser of: (1) the amount of the taxpayer's allowable other itemized deductions; or (2) the amount by which the taxpayer's taxable income (increased by the taxpayer's itemized deductions) exceeds the sum of (A) the section 164 deduction plus (B) the amount by which the taxpayer's taxable income (increased by the taxpayer's itemized deductions) exceeds the threshold at which the 37% rate of tax applies to the taxpayer. This limitation would be applied after the application of any other limitation on the allowance of any itemized deduction (e.g., the limitation on the deduction for state and local taxes).

KPMG observation

To illustrate, assume the House bill proposal in its entirety becomes law. Under the proposal, the 37% bracket is projected to apply to single individuals with taxable income over $639,275. Assume a single taxpayer has taxable income of $700,000 (without regard to the proposal) and itemized deductions of $70,000, of which $10,000 is attributable to state and local income taxes. Applying the first part of the proposal's limitation, the taxpayer's section 164 deduction of $10,000 is less than the amount by which the taxpayer's taxable income (increased by the taxpayer's itemized deductions) exceeds the projected 37% threshold for a single taxpayer ($60,725). Thus, the taxpayer's allowable itemized deductions of $70,000 would be reduced by $1,351 ($10,000 x 5/37). Applying the second part of the proposal's limitation, the taxpayer's other itemized deductions of $60,000 is less than $629,275, the amount by which $700,000 (taxable income of $630,000 increased by itemized deductions of

$70,000) exceeds $70,725, the sum of the taxpayer's section 164 deduction of $10,000 plus the amount the taxpayer's taxable income (increased by taxpayer's itemized deductions) exceeds the projected 37% threshold for a single taxpayer ($60,725). Thus, the taxpayer's allowable itemized deductions of $68,649 ($70,000-$1,351) would be further reduced by $3,243 ($60,000 x 2/37).

Qualified Opportunity Zones

The Qualified Opportunity Zone program was designed to incentivize economic development and long-term equity investments in certain Qualified Opportunity Zones (QOZs). As originally enacted, certain low-income communities and census tracts contiguous to low-income communities were designated as QOZs. These initial designations expire on December 31, 2028. Taxpayers may obtain certain tax benefits by investing in QOZs through Qualifying Opportunity Funds (QOFs). These benefits include a gain deferral benefit, a gain reduction benefit, and a gain elimination benefit.

The bill proposes to renew the QOZ program for 2027 through 2033 and provides certain enhancements to the program for low-income communities designated as QOZs that are comprised entirely of rural areas. As proposed, the current designation of census tracts as QOZs would expire on December 31, 2026 (rather than December 31, 2028). A second round of QOZs would be designated and would be in effect from January 1, 2027, through December 31, 2033.

The House bill proposal modifies the definition of eligible QOZs and requires a minimum number of designated QOZs in each state must be low-income communities comprised entirely of rural area, or "Rural QOZs".

The gain deferral benefit is proposed to be modified such that only amounts invested before January 1, 2027, would be taken into income on December 31, 2026. Amounts invested after December 31, 2026, but before January 1, 2034, would be taken into income on December 31, 2033.

Under the renewed QOZ program, a taxpayer could be entitled to a permanent reduction of either 10% or 30% of its deferred gain.

Finally, a taxpayer who holds its QOF investment for at least 10 years would be able to elect, on the sale or exchange of that QOF investment, to adjust the tax basis of the disposed investment to its fair market value on the date of the sale.

Under the proposal, each QOF and Qualified Opportunity Zone Business (QOZB) would be subject to enhanced reporting requirements. QOFs and QOZBs would also face potential penalties for failing to file reports on a timely and accurate basis.

Removal of various energy credits from the Inflation Reduction Act

The proposal would terminate several tax credits as follows:

- Previously owned clean vehicle credit (section 25E) on December 31, 2025
- Clean vehicle credit (section 30D) on December 31, 2025 (except an additional year would be provided for certain electric vehicles (EVs) if 200,000 or less have been sold for use in the United States between 2010-2025)
- Qualified commercial clean vehicle credit (section 45W) on December 31, 2025 (except for vehicles placed in service before January 1, 2033, and acquired pursuant to a written binding contract entered into before May 12, 2025)
- Alternative fuel vehicle refueling property credit (section 30C) on December 31, 2025

- Energy efficient home improvement credit (section 25C) on December 31, 2025
- Residential clean energy credit (section 25D) on December 31, 2025
- New energy efficient home credit (section 45L) on December 31, 2025 (except an additional year would be provided for homes which began construction before May 12, 2025)

Modification of education savings rules (529 plans)

Under current law, distributions from 529 plans are not taxable for federal purposes if the distributions are used for qualified higher education expenses (QHEEs). "QHEEs" is defined to include college tuition, room and board, and fees, books, supplies, and equipment required for enrollment, as well as $10,000 of tuition for public, private, and religious elementary and secondary schools. The proposal would expand the definition of QHEEs to include additional K-12 educational expenses (including in the homeschooling context) such as curriculum and curricular materials, books or other instructional materials, online educational materials, certain tutoring expenses, educational therapies, and fees for standardized testing, college admission examinations, and advanced placement tests. The proposal would further expand the definition of QHEEs to include "qualified postsecondary credentialing expenses" including tuition, fees, books, supplies, and equipment required for enrollment in a recognized program, as well as fees for testing if required to obtain the credential and continuing education if required to maintain the credential.

KPMG observation

If enacted, this provision would significantly expand the potential qualified educational expenses that could be paid for with 529 funds. Considering the favorable income, gift, and estate tax advantages of these accounts, taxpayers who have not established such accounts for their children or grandchildren may want to reconsider doing so.

Increase in tax rate on investment income of private foundations

The bill would amend and expand the excise tax on the net investment income of certain private foundations under Code section 4940 in two ways. First, it would replace the current flat 1.39% rate with a tiered rate structure that would depend on the aggregate fair market value of all of the foundation's assets as of the close of the tax year. The rate structure would be as follows:

- 1.39% for foundations with assets of less than $50 million
- 2.78% for foundations with assets of at least $50 million but less than $250 million
- 5% for foundations with assets of at least $250 million but less than $5 billion
- 10% for foundations with assets of $5 billion or more

For this purpose, the fair market value of the foundation's assets would include the value of the assets of certain related entities and would not be reduced for liabilities.

Second, the foundation would be required to include in its net investment income, and would owe tax on, the net investment income of certain related entities. According to the proposal, the assets and net investment income of an organization that controls or is controlled by (or is controlled by the same persons that control) the foundation would be treated as assets and net investment income, respectively, of the private foundation. However, no assets or net investment income would be taken into account with respect to more than one private foundation, and assets and net investment income that are not "intended or available for the use or benefit" of the private foundation would not be taken into account unless the related organization is controlled by the private foundation.

The provision would apply to tax years beginning after the date of enactment.

KPMG observation

When calculating the fair market value of the foundation's assets, the proposal appears not to exclude assets that are used directly in carrying out a foundation's exempt purpose, as is the case in the private foundation rules when measuring a foundation's assets for purposes of determining a foundation's required minimum distribution. Therefore, private foundations that have relatively small endowments may nevertheless face high excise tax rates on their investment income if they, for example, conduct significant direct charitable activities or hold program related investments of a substantial size.

Moreover, the proposal requires that assets of certain related organizations be aggregated with a foundation's assets for purposes of determining the applicable tiered tax rate. The statute does not define "control" or "intended or available for the use or benefit of" the private foundation, which would leave several open questions as to which organizations—both taxable and tax-exempt—must be taken into account when aggregating assets (as well as net investment income). The regulations under the college and university investment tax section 4968 expressly carve out taxable corporations and partnerships and other passthrough entities from being considered "related" for purposes of asset and income aggregation under that provision. They also carve out charitable remainder trusts, grantor charitable lead trusts, and many taxable trusts (with certain exceptions). Treasury and the IRS might take a similar approach to asset and income aggregation under 4940, but it is unclear whether this Administration intends to prioritize new regulatory projects or whether such carve outs could be presumed without administrative guidance.

In addition, unlike universities that generally have large boards, foundations are often controlled by a small number of individual donors and family members. These donors and family members may also sit on boards of other charities in their communities, increasing the potential for those other charities to be considered "related" to the foundation due to board overlap. The regulations under section 4968 provide that the assets and net investment income of a related organization are "intended or available for the use or benefit of" an educational institution "if such assets and net investment income are specifically earmarked or restricted for the benefit of, or otherwise are fairly attributable to, the educational institution." Perhaps regulations under 4940 could take a similar approach.

However, because the proposal provides that assets and net investment income would not be taken into account with respect to more than one private foundation, the assets and net investment income of foundations that are controlled by the same persons (or that control one another) would presumably not be aggregated under these amendments to section 4940.

The original tax title approved by the Ways and Means Committee only aggregated the assets of related organizations with those of the foundation, but the version approved by the full House included the aggregation of related organizations' net investment income as well. As a result, a private foundation would be subject to tax not only on its own net investment income but also that of related organizations, absent the applicability of one of the exceptions discussed above.

Finally, the proposal relies on the value of assets as of the end of the tax year to determine the tax rate, rather than the value at the end of the prior tax year, as is the case with the tax on investment income of colleges and universities. Without knowing the tax rate until the end of the year, it would be very difficult for foundations to estimate their tax liability and plan for the liquidity needed to make tax payments. This is especially true given the large differential in tax rates resulting from the cliff structure of the rate tiers

Proposals relating to charitable giving

The bill does not propose extending the temporary individual limitation for cash contributions to certain charities (currently 60% of adjusted gross income); thus the limitation will return to 50% on January 1, 2026. Provisions relating to charitable giving proposed in the bill include:

1% floor on deduction of charitable contributions by corporations

The bill would amend Code section 170(b)(2)(A) to permit a corporation to claim a deduction for charitable contributions only to the extent that the aggregate of such contributions exceeds 1% of the corporation's taxable income (as defined in section 170(b)(2)(D)). Total deductions for charitable contributions by the corporation would continue to be limited to 10% of taxable income, with the excess (as well as the contributions disallowed by the 1% floor) carried forward up to five years. However, if aggregate corporate contributions do not exceed 10% of taxable income, there would be no carryforward of contributions disallowed due to the 1% floor. The proposal would not modify the current treatment of qualified conservation contributions by certain corporate farmers and ranchers or by Native Corporations. The proposal would apply to tax years beginning after December 31, 2025.

Reinstatement of nonitemizer partial deduction for charitable contributions

The bill would modify and temporarily reinstate the partial deduction for charitable contributions for individuals who do not itemize their deductions (previously a temporary provision in the Coronavirus Aid, Relief, and Economic Security (CARES) Act). The maximum deduction amount would be $300 for married taxpayers filing jointly (previously $600) and $150 for all other taxpayers (previously $300). As in the previous iteration, the deduction would only be available for contributions made in cash to certain charitable organizations and would not include contributions of noncash property or contributions to supporting organizations, donor advised funds, or most private (non-operating) foundations. Contributions carried forward to the tax year in question would not be eligible for this deduction. The proposal would be effective for tax years beginning after December 31, 2024, and ending before January 1, 2029. The JCT has estimated the provision would have a revenue cost of approximately $6.9 billion during the years it is in effect.

Tax credit for contributions of individuals to scholarship granting organizations

The bill would create a new, nonrefundable tax credit for certain charitable contributions of cash or marketable securities to organizations described in section 501(c)(3) (and not private foundations) substantially all of the activities of which are providing scholarships to eligible elementary and secondary school students. Students eligible to benefit from the scholarships must be members of households with incomes not greater than 300% of the area median gross income. The credit allowed to a taxpayer for a tax year could be up to the greater of 10% of the taxpayer's aggregate gross income or $5,000.

The credit would have to be taken in lieu of a charitable contribution deduction and would be reduced by the amount allowed as a credit on a State tax return.

The proposal sets an aggregate volume cap on the total amount of credits at $5 billion for each of calendar years 2026 through 2029, and zero for any calendar years after 2029. Generally, for purposes of allocating volume cap for a calendar year, the Secretary is directed to allocate the credit on a first-come, first-served basis.

Pursuant to a provision added by the House Rules Committee, any amounts provided by a scholarship granting organization for eligible expenses of an eligible student would be excluded from the gross income of the individual claiming the student as a dependent.

The proposal would be effective for tax years ending after December 31, 2025. The JCT estimated the provision would have a revenue cost of approximately $20.4 billion over 10 years.

Additional private enterprise considerations

Extension of bonus depreciation allowance and changes to section 179

Current law permits taxpayers to deduct, for tax year 2025, 40% of the cost of qualified property placed in service during the tax year. The applicable percentage will decrease to 20% in 2026 and thereafter to 0%. The proposed changes would permit taxpayers to deduct 100% of the cost of qualified property placed in service as “bonus depreciation” for property placed in service after January 19, 2025, and before January 1, 2030.

Additionally, the bill provides for changes to section 179. Current law permits a taxpayer to deduct the cost of qualifying property under section 179. Taxpayers may deduct a maximum amount of $1,000,000 of the cost of qualifying property placed in service for the tax year, which is reduced by the amount by which the cost of qualifying property placed in service exceeds $2,500,000. The House bill increases the amount a taxpayer may expense to $2,500,000 and increases the phase-out threshold to $4,000,000. As with current law, the amounts in the House bill are adjusted annually for inflation.

KPMG observation

The increased ability to expense qualified expenditures under the bonus depreciation and section 179 proposals, coupled with the changes to section 163(j) mentioned below, would provide potentially significant additional tax shield for investors in capital intensive businesses.

Deduction for domestic research and experimental expenditures

Currently, taxpayers must capitalize and amortize certain research and experimental (“R&E”) expenditures. The House bill would suspend the required capitalization of domestic R&E costs for amounts paid or incurred in tax years beginning after December 31, 2024, and before January 1, 2030. Taxpayers would continue to be required to capitalize and amortize foreign R&E expenditures over 15 years.

KPMG observation

Like the proposed changes to bonus depreciation and section 179, the proposed ability to deduct domestic R&E expenditures would provide potentially significant tax shield for operating businesses that incur significant amounts of domestic R&E expenditures as part of their own operations and for investors in funds that invest in companies with significant domestic R&E expenditures.

Changes to section 163(j)

Section 163(j) limits the business interest expense deduction for certain taxpayers to 30% of its adjusted taxable income (ATI). Notably, for tax years beginning before January 1, 2022, ATI included an addback for depreciation, depletion, and amortization (DD&A). The bill would reinstate the addback for depreciation, depletion, and amortization to ATI for tax years beginning after December 31, 2024, and before January 1, 2030.

KPMG observation

Restoring the DD&A addback to ATI could result in a significant increase in the amount of business interest expense allowed to be deducted for capital intensive businesses thereby reducing the potential tax drag associated with debt-financing of capital investments.

Limitation on amortization for certain sports franchises

Under present law, section 197 allows for the amortization of certain intangible assets (such as franchises). Prior to the enactment of section 197, many intangibles were not amortizable. In addition, section 197 did not apply to sports franchises acquired prior to October 23, 2004; however, other special rules applied to such intangibles under former section 1056. The American Jobs Creation Act of 2004 repealed the exception from section 197 for sports franchises and correspondingly repealed former section 1056, effective for sports franchises acquired after October 22, 2004 (note that the regulations under section 197 have not ever been updated to reflect this change). Since such time, professional sports franchises and any intangible asset acquired in connection with the acquisition of such a franchise (including player contracts), have generally been amortizable under section 197.

With respect to a “specified sports franchise intangible” acquired after the date of enactment, the House bill would limit the section 197 amortization deduction to only 50% of the adjusted basis in such assets. A specified sports franchise intangible is defined as any “amortizable section 197 intangible” which is a franchise engaged in professional football, basketball, baseball, hockey, soccer, or other professional sport, or any other amortizable section 197 intangible acquired in connection with such a franchise.

KPMG observation

The House bill does not limit the amortization of separately acquired or self-created player contracts. Such contracts are generally amortizable over the limited life of the player contract if acquired separately from an acquisition of the professional sports team. An IRS safe harbor permits taxpayers to assign a value of zero in certain cases (see Rev. Proc. 2019-18, providing a safe harbor method for valuing sports recruiting and player trades if the contracts or draft picks are not section 197 intangibles).

Additional individual-level changes

There are a number of additional proposed changes at the individual level, including proposed changes to the following:

- Extension of increased child tax credit and temporary enhancement
- Extension of increased alternative minimum tax exemption and phase-out thresholds
- Extension of limitation on deduction for qualified residence interest
- Extension of limitation on casualty loss deduction

- Extension of rules for treatment of certain disaster-related personal casualty losses
- Extension of limitation on exclusion and deduction for moving expenses
- Reinstatement of partial deduction for charitable contributions of individuals who do not elect to itemize

For additional insight on the items above, along with other individual-level tax considerations, read **KPMG report: Global mobility tax provisions in "One Big Beautiful Bill Act"**

Contact us

For more information on the content of this report, contact a professional in the Private Enterprise group of KPMG Washington National Tax:

Rob Keller
T: +1 (504) 584-1030
E: rkeller@kpmg.com

Sabrina Stimel
T: +1 (415) 490-4514
E: sabrinastimel@kpmg.com

Tracy Stone
T: +1 (202) 533-4186
E: ttstone@kpmg.com

Scott Hamm
T: +1 (202) 533-3095
E: scotthamm@kpmg.com

Ruth Madrigal
T: +1 (202) 533-8817
E: ruthmadrigal@kpmg.com

Preston Quesenberry
T: +1 (202) 533-3985
E: pquesenberry@kpmg.com

For questions on legislative matters, contact a professional in the Federal Legislative and Regulatory Services group of KPMG Washington National Tax:

John Gimigliano
T: +1 (202) 533-4022
E: jgimigliano@kpmg.com

Jennifer Acuña
T: +1 (202) 533-7064
E: jenniferacuna@kpmg.com

Tom Stout
T: +1 (202) 533-4148
E: tstoutjr@kpmg.com

Jennifer Bonar Gray
T: +1 (202) 533-3489
E: jennifergray@kpmg.com

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