KPMG

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This update reflects facts as of Monday morning, July 14, 2025. The situation is fluid and may change.

Taxpayers will be digesting for some time the $4.5 trillion tax title of the 940-page so-called One Big Beautiful Bill (OBBB), signed by the President on July 4. The bill left the corporate rate untouched, but it repealed or phased out the IRA energy credits, reformed somewhat the international tax system, and renewed and extended various business tax preferences, such as the expensing of R&D costs, the lower limit on the deduction for interest expense, bonus depreciation, and the 20% deduction for the income of passthroughs.

The KPMG detailed analysis of the tax subtitle of the bill can be found on an external dedicated page, KPMG reports: Tax subtitle for “One Big Beautiful Bill.”

Congress will turn its attention to the federal budget for the remainder of July leading up to its August recess and for the month of September.

This week Congress must decide what to do with the President’s request to rescind $9.2 billion in funding for the 2025 and 2026 fiscal years. Most of the money was appropriated by Congress for international programs and organizations, the remainder for public broadcasting. The House narrowly passed the rescissions measure 214-212 in early June, with all Democrats and four Republicans voting against it. Congress must act on the rescissions request by July 18 or under the Budget Act of 1974 the President’s request expires and the funds must be spent for the purposes and programs for which they were appropriated.

One such program has potential tax implications. Among the foreign aid rescissions is the U.S. share of funding for international organizations, including the Organization for Economic Co-operation and Development. The US has been engaged in talks at the OECD with regard to its Base Erosion and Profit Shifting agreement, in particular how the Pillar 2 income inclusion rule and undertaxed profits rule will apply to U.S. companies. Suspension of payment of the U.S. share of funding for the OECD could play into those negotiations.

More broadly, the 2026 fiscal year begins October 1. Congress has not passed any of the twelve annual appropriations bills needed to provide nearly $2 trillion to fund discretionary programs or even reached agreement on top-line spending numbers. Deficit hawks, particularly among House Republicans, are demanding reductions in current spending levels. On the Senate side, conversely, there are calls for increased funding for national defense.

Congressional Democrats are almost certain to resist any reductions in funding for nondefense programs. This could be key, as unlike with passage of OBBB, democratic votes are required to obtain the 60-vote supermajority needed for appropriations without resort to budget reconciliation. Democratic opposition could be further fueled by passage of the recissions legislation, which in the Senate can be by simple majority. It will not be surprising to see the debate over annual appropriations extend into the Fall, with Congress funding the government on a temporary basis with one or more continuing resolutions, but always with the threat of a government shutdown looming.

Whether, and to what extent, Congress will return to tax issues in connection with government funding legislation or otherwise is uncertain.

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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