Asset management tax provisions in “One Big Beautiful Bill”

KPMG analysis and observations

Current as of July 4, 2025, reflecting the tax subtitle included in H.R. 1 as passed by the Senate on July 1, 2025, by the House on July 3, 2025, and signed into law by the president on July 4, 2025

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Introduction

The House of Representatives on May 22, 2025, passed H.R. 1 (House bill), the budget reconciliation bill known as the "One Big Beautiful Bill" (read *TaxNewsFlash*). On July 1, 2025, the Senate passed its version of H.R. 1 (Senate bill), which made various amendments to the bill, including changes to the tax subtitle that was included in the House bill (read *TaxNewsFlash*). On July 3, 2025, the House passed the Senate bill without amendment, and the bill was signed into law by President Trump on July 4, 2025.

This analysis of the legislation generally describes current law (meaning the law prior to enactment of the legislation), the House bill, and the amended Senate bill ultimately passed by the House and signed by the president.

The Joint Committee on Taxation (JCT) has provided estimates of the revenue effects of the various versions of the bill:

- JCX-26-25R estimates of the revenue effects of the bill as passed by the House on May 22, 2025
- JCX-35-25 estimates of the revenue effects of the Senate-approved bill using a present law baseline (the same baseline used for the estimates for the House bill provided above), which assumes that tax provisions of current law expire according to their terms
- JCX-34-25 estimates of the Senate-approved bill using a "current policy baseline" as adopted by the Senate, which assumes that tax policies currently in effect (such as the lower Tax Cuts and Jobs Act (TCJA) individual tax rates) are permanent and therefore extending those provisions has no revenue effect.

Both the House and Senate bills would generally make permanent the tax provisions of the TCJA. Both bills also would temporarily provide for tax benefits promised by the president for tip income, overtime pay, and auto loan interest, and introduce a host of revenue-raising provisions. However, the Senate bill differs from the House bill in several ways, as described below.

Among the important business provisions of the Senate bill are provisions that would:

- Reinstate and make permanent expensing of R&D costs, the higher EBITDA cap on the deduction for interest, and 100% bonus depreciation (the House bill would only extend these provisions for five years)
- Make permanent the section 199A deduction for passthrough business income (but at the current 20% rate instead of the higher 23% rate of the House bill)
- Renew and reform the Opportunity Zone program
- Add a 100% first-year depreciation deduction for real property used in a production activity (the House bill included a similar proposal)

It is noteworthy a proposed retaliatory tax on certain foreign corporations under new section 899 in the House bill was removed in the Senate bill following the announcement of an agreement with the other G7 countries regarding the tax (read *TaxNewsFlash*).

The Senate bill also includes revenue-raising provisions that would:

- Repeal or phase out energy tax credits created by the Inflation Reduction Act (IRA) (though in some cases extending the credits further than the House bill)
- Make extensive reforms to the U.S. international tax regime, including to foreign-derived deduction eligible income (FDDEI), global intangible low-taxed income (GILTI), and the base erosion anti-abuse tax (BEAT), and permanently extend the CFC look-through rule of 954(c)(6)

- Temporarily increase the $10,000 cap on the state and local tax (SALT) deduction to $40,000, with no significant changes to the treatment of passthrough entity taxes
- Impose a 1% tax on remittances to a recipient outside the United States (reduced from 3.5% under the House bill)
- Increase taxes on college endowments (at lower rates than those of the House bill and omitting a provision on private foundations)
- Bar the IRS from making payment on certain employee retention credit claims filed after January 31, 2024

This report includes initial analysis and observations regarding the tax provisions in the bill related to the Asset Management industry. This is one of a series of reports that KPMG has prepared on the bill, which can all be found **here**.

Investor/sponsor changes

Carried interest and tax on high-net-worth individuals

Notably, the bill does not include any changes to section 1061 and the re-characterization of certain long-term capital gains to short-term capital gains for carried interests in a partnership. Additionally, the bill does not provide for any significant changes to tax rates for high-net-worth individuals.

Removal of section 899

The initial House bill proposed new section 899, "Enforcement of Remedies Against Unfair Foreign Taxes," as a tool to retaliate against certain foreign countries (called "discriminatory foreign countries") that have implemented an "unfair foreign tax" that applies to U.S. persons or certain foreign entities owned by U.S. persons. Proposed section 899 would have imposed two retaliatory measures:

- Increase the rates of tax imposed on non-U.S. individuals, corporations, governments, and private foundations with sufficient nexus to a foreign country that imposes discriminatory or extraterritorial taxes, and
- Modify the application of the BEAT to U.S. corporations that are owned, directly or indirectly, by such persons (referred to as "Super BEAT")

Proposed section 899 was subject to significant discussion among asset managers because the proposal would have potentially impacted both investors in alternative investment funds and certain entities within fund structures.

Proposed section 899 was removed from the bill following an announcement by Treasury Secretary Bessent that Treasury had reached an agreement with the six other G7 countries (i.e., Canada, France, Germany, Italy, Japan, and the UK) under which U.S. companies will be excluded from the imposition of any Pillar Two IIR or UTPR taxes, in exchange for removing the proposed new section 899 from the budget reconciliation bill. For more information, read *TaxNewsFlash*.

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

The bill makes permanent the regular income tax rate schedules for individuals, estates, and trusts enacted by the 2017 Tax Cuts and Jobs Act (TCJA). The bill provides an additional year of inflation adjustment but rather than applying to all brackets except the highest marginal bracket as originally proposed by the House, the change would only apply to the 12% and 22% tax brackets. The bill makes the TCJA increases to the basic standard deduction permanent and modifies the cost-of-living adjustment for the standard deduction (using chained CPI for 2024 as opposed to 2017) for tax years after 2025. Finally, the bill permanently reduces personal exemptions to zero.

For a more detailed discussion, read [KPMG report: Global mobility / individual tax provisions in "One Big Beautiful Bill"]

Extension of deduction for qualified business income and permanent enhancement

Section 199A allows certain individuals, trusts, and estates to deduct 20% of their business income, qualified REIT dividends, and publicly traded partnership (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 bill makes several important changes to section 199A:

- Makes the section 199A deduction permanent
- Increases the existing phase-in limits for the W-2 wages, capital investment, and specified service trades or businesses limitations by $50,000 (from $100,000 to $150,000) for married taxpayers filing jointly and $25,000 for others (from $50,000 to $75,000).
- Indexes the threshold amounts for inflation for tax years beginning after 2025
- Includes a new minimum deduction of $400 for taxpayers who materially participate (within the meaning of section 469(h)) in a trade or business that has qualified business income of at least $1,000 (both the $400 and $1,000 are increased by cost-of-living adjustments)

Unlike the original House proposal, the bill does not increase the deduction percentage from 20% to 23% and does not include a section 199A benefit for qualified business development company interest dividends.

Making the section 199A deduction permanent will offer tax reductions to certain owners of qualifying pass-through businesses (including certain taxpayers owning these businesses indirectly through private equity, real estate, and other alternative investment funds). The deduction will help maintain the level of parity with the reduction of corporation tax rate established in 2017, when that rate was permanently lowered from 35% to 21%.

For a more detailed discussion, read [KPMG report: Passthroughs tax provisions in "One Big Beautiful Bill"]

Termination of miscellaneous itemized deductions

The TCJA suspended the ability of 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 permanently eliminates the miscellaneous itemized deduction allowance. The bill will therefore permanently disallow tax deductions for many of the expenses incurred by many alternative investment funds.

For a more detailed discussion, read [KPMG report: Global mobility / individual tax provisions in "One Big Beautiful Bill"]

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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 adjusted gross income 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 Pease limitation was scheduled to resume for tax years beginning after December 31, 2025.

The bill replaces the Pease limitation with a new limitation on itemized deductions that reduces the amount of the otherwise allowable itemized deduction by 2/37 of the lesser of:

- the amount of allowable itemized deductions, or
- 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.

Unlike the Pease limitation, the new limitation does not specifically exclude certain itemized deductions from the limitation, therefore, asset managers and investors with significant amounts of investment interest expense may find the tax benefit of these deductions diminished under the new limitation. The changes are effective for tax years beginning after December 31, 2025.

For a more detailed discussion, read KPMG report: Global mobility / individual tax provisions in "One Big Beautiful Bill"

Expansion of the qualified small business stock gain exclusion

Section 1202(a) provides for a gain exclusion on the sale or exchange of qualified small business stock (QSBS) held for more than five years. The percentage of gain that may be excluded depends on the date that the taxpayer acquired its stock:

- Stock acquired after September 27, 2010, is eligible for a 100% exclusion.
- Stock acquired after February 17, 2009, and before September 28, 2010, is eligible for a 75% exclusion.
- Stock acquired after August 10, 1993, and before February 18, 2009, is eligible for a 50% exclusion.

The remaining 25% and 50% of gain for taxpayers subject to the 75% and 50% exclusion rules, respectively, is subject to tax at a maximum 28% rate (not taking into account the 3.8% net investment income tax).

Moreover, 7% of the amount excluded from gross income under the 75% and 50% exclusion rules is treated as a tax preference item for purposes of the alternative minimum tax.

Taxpayers also are subject to a per-issuer limitation on eligible gain subject to the exclusion. This limitation is generally equal to the greater of (i) $10 million ($5 million for married taxpayers filing separately (MFS)), reduced by gain taken into account by the taxpayer with respect to the same issuer in prior tax years, or (ii) ten times the taxpayer's basis in the qualifying stock of the issuer disposed of in the tax year.

Stock must meet various requirements to qualify as QSBS. One requirement is that, for a corporation to issue QSBS, the "aggregate gross assets" (as defined by section 1202(d)(2)) of the issuing corporation generally must not have exceeded $50 million at any point prior to, as of, and immediately after the stock issuance.

As detailed below, the bill (i) provides for partial gain exclusion with respect to shares held for at least three but less than five years, (ii) increases the per issuer limitation on eligible gain, and (iii) increases the aggregate gross assets threshold of section 1202(d). In general, these provisions are effective for shares acquired after the enactment date of the legislation.

The bill adds new section 1202(a)(5), which generally provides for the exclusion of 50% of the gain on QSBS held for at least three years, and 75% of the gain on QSBS held for at least four years. Shares of QSBS held five years or more would qualify for the 100% exclusion, consistent with current law. The bill also provides that no amount of the gain excluded under section 1202 would be treated as a tax preference for alternative minimum tax purposes, consistent with current law treatment for shares issued after September 27, 2010.

The bill amends section 1202(b) to increase the per issuer limitation from $10 million to $15 million, with the $15 million amount to be increased by an inflation adjustment for tax years beginning after 2026.

The bill also increases the aggregate gross assets threshold under section 1202(d) from $50 million to $75 million, with the $75 million amount increased by an inflation adjustment for tax years beginning after 2026.

For a more detailed discussion, read KPMG report: Passthroughs tax provisions in “One Big Beautiful Bill”

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

Current section 164(b)(6) (the “Current SALT Cap”), enacted by the TCJA, generally caps an individual’s itemized deductions for state, local and foreign income, war profits, excess profits, and real property taxes, as well as state and local personal property taxes, at $10,000 (and $5,000 for MFS). The Current SALT Cap sunsets for tax years beginning after 2025. Beginning for tax years beginning after December 31, 2024, the bill quadruples the state and local tax limitation on itemized deductions in current section 164(b)(6), increasing the limitation from $10,000 (or $5,000 for MFS) to $40,000 (or $20,000 for MFS) (the “New SALT Cap”).

The bill also subjects the New SALT Cap to a phasedown of 30% of the excess of the taxpayer’s modified adjusted gross income (MAGI) over $500,000 (or $250,000 for MFS). This MAGI phasedown is capped to $30,000 (or $15,000 for MFS) allowing for a minimum itemized deduction related to state and local taxes of $10,000 (or $5,000 for MFS). At MAGI income of $600,000 ($300,000 for MFS) for 2025, the phasedown is at the floor.

Under the bill, the New SALT Cap would continue with increased dollar limitations and MAGI phasedowns until tax year 2030. Both the dollar limitation amounts and the MAGI thresholds before phasedown would increase by 101 percent per year through tax year 2029. For tax years 2030 and beyond, the limitation reverts back to current levels (i.e. $10,000 (or $5,000 for MFS)) and there would be no MAGI phasedown.

In response to the Current SALT Cap, many states enacted regimes through state-level legislation allowing a passthrough entity to elect to pay an entity-level state tax in return for a credit or deduction against a state tax imposed on the owner of such passthrough entity (“PTET Regimes”). The PTET Regimes have taken various forms and have imposed limitations on entities’ eligibility to elect into the PTET Regime, including based on ownership composition. PTET Regimes have proliferated as the IRS has appeared to endorse their use in Notice 2020-75. Notice 2020-75 stated the IRS’ intent to issue proposed regulations “clarifying” that state and local income taxes paid by a partnership or an S corporation are allowed as a deduction by such entity in its non-separately stated taxable income or loss (though no such regulations have been issued as of this writing). These PTET Regimes exist alongside pre-TCJA state and local income taxes imposed on passthrough entities (“Historical Passthrough SALT”), which generally do not allow for a partner or S corporation shareholder level credit (e.g., the Texas Franchise Tax or New York City UBT). Both the Current SALT Cap and the treatment of state and local income taxes paid under PTET Regimes have been the subject of significant debate through the current legislative process. As a result, multiple regimes have been proposed throughout the legislative process. Importantly, however, under the final bill, the current federal income tax treatment of certain state and local income taxes paid by passthrough entities under PTET regimes and Historical Passthrough SALT regimes is unchanged from current law.

For a more detailed discussion, read [KPMG report: Passthroughs tax provisions in "One Big Beautiful Bill"]

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

Under section 461(l), an excess business loss (losses in excess of a threshold amount) of a taxpayer other than a corporation is not allowed for the tax year. An excess business loss that is not allowed in a year is treated as a net operating loss (NOL) and carried over to subsequent tax years. The current excess business loss limitation regime is set to sunset on December 31, 2028. The bill removes the sunset date and makes the excess business loss limitation permanent. The bill follows current law, and any disallowed losses are treated as net operating losses in the following year, a change from the initial House proposal that would have subjected the losses carried forward to the section 461(l) limitation again.

For a more detailed discussion, read [KPMG report: Passthroughs tax provisions in "One Big Beautiful Bill"]

Expansion of taxes on tax-exempt organizations

The bill includes a modification to section 4968, which imposes an excise tax on applicable educational institutions equal to 1.4% of the net investment income for the tax year. The bill includes a new tiered rate structure based on the size of an educational institution's "student adjusted endowment". The rate structure is as follows:

- 1.4% if the student adjusted endowment is more than $500,000 and not more than $750,000
- 4% if the student adjusted endowment is more than $750,000 and not more than $2 million
- 8% if the student adjusted endowment is more than $2 million

The changes are effective for tax years beginning after December 31, 2025. As such, some tax-exempt investors may seek to accelerate gains prior to the change in rate structures.

Proposed changes to section 4940 for certain private foundations from the initial House proposal were not included in the final bill.

For a more detailed discussion, read [KPMG report: Tax-exempt organization provisions in "One Big Beautiful Bill"]

Investment and portfolio company changes

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 bill permits taxpayers to deduct 100% of the cost of qualified property placed in service as "bonus depreciation" on a permanent basis beginning for qualified property acquired after January 19, 2025.

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 bill increases the amount 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 bill are adjusted annually for inflation. The change is effective for property placed in service in tax years beginning after 2024.

The increased ability to expense qualified expenditures under the bonus depreciation and section 179 proposals, coupled with the changes to section 163(j) and section 174 mentioned below, should provide potentially significant additional tax shield for investors in capital intensive businesses.

For a more detailed discussion, read [KPMG report: Accounting methods tax provisions in “One Big Beautiful Bill”]

Deduction for domestic research and experimental expenditures

Currently, taxpayers must capitalize and amortize certain research and experimental (R&E) expenditures. The bill suspends the required capitalization of domestic R&E costs for amounts paid or incurred in tax years beginning after December 31, 2024, on a permanent basis. Taxpayers continue to be required to capitalize and amortize foreign R&E expenditures over 15 years. Like the changes to bonus depreciation and section 179, the ability to deduct domestic R&E expenditures should provide a significant tax benefit for asset managers 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.

For a more detailed discussion, read [KPMG report: Accounting methods tax provisions in “One Big Beautiful Bill”]

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 reinstates the addback for DD&A to ATI for tax years beginning after December 31, 2024, on a permanent basis. Restoring the DD&A addback to ATI could result in a significant increase in the amount of business interest expense that can be deducted for capital intensive portfolio companies, reducing the potential tax drag associated with debt-financing of capital investments.

For a more detailed discussion, read [KPMG report: Accounting methods tax provisions in “One Big Beautiful Bill”]

Global intangible low-taxed income and foreign-derived intangible income

Global intangible low-taxed income (GILTI) is currently taxed at a rate of 10.5% by means of a 50% deduction under section 250. Foreign-derived intangible income (FDII) is currently taxed at a rate of 13.125% by means of a 37.5% deduction under section 250. Section 250(a)(3) provides that the deductions related to GILTI (the “GILTI deduction”) and FDII (the “FDII deduction”) are to be reduced for tax years beginning after December 31, 2025, such that the GILTI deduction would decrease from 50% to 37.5% (resulting in a 13.125% rate for GILTI), and the FDII deduction would be reduced from 37.5% to 21.875% (resulting in a 16.406% rate for FDII).

The bill provides for a permanent 40% GILTI deduction (resulting in a 12.6% rate) and 33.34% FDII deduction (resulting in a 13.9986% rate). The bill also makes a few modifications to the inclusion calculation and changes "GILTI" to "Net CFC Tested Income" throughout the Code.

The bill also modifies the treatment of expenses allocated to FDII and GILTI, It amends section 250(b)(3)(A)(ii), to provide that, in determining DEI, gross DEI is reduced by expenses and deductions properly allocable to such gross income *other than* interest expense and research or experimental expenditures. It also adds new section 904(b)(5) to limit the deductions that a U.S. shareholder must allocate to GILTI category income, by providing that only the following deductions are allocable thereto: (1) the section 250 deduction with respect to the section 951A inclusion, (2) the deduction allowed under section 164(a)(3) for certain taxes (e.g., state and local taxes) imposed on GILTI category income, and (3) any other deduction that is directly allocable to such income *other than* interest expense and research or experimental expenditures. Any deductions that, absent this new rule, would have been allocated or apportioned to income in the GILTI category for section 904 purposes would be allocated and apportioned only to U.S. source income. These proposals would apply to tax years beginning after December 31, 2025.

For a more detailed discussion, read [KPMG report: International tax provisions in "One Big Beautiful Bill"]

Base erosion and anti-abuse tax

The base erosion and anti-abuse tax (BEAT) imposes an additional tax on certain corporations with respect to payments to foreign affiliates. Special rules were set to begin for tax years beginning after December 31, 2025, that would increase the 10% rate on modified taxable income for BEAT to 12.5%.

The bill modifies BEAT in a number of ways for tax years beginning after December 31, 2025, including permanently increasing the BEAT rate to 10.5% for tax years beginning after December 31, 2025. The bill also makes certain minor technical corrections to the rules relating to registered securities dealers and the exception for qualified derivative payments.

For a more detailed discussion, read [KPMG report: International tax provisions in "One Big Beautiful Bill"]

Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules for purposes of the CFC regimes

Former section 958(b)(4) prevented "downward attribution" of stock ownership from a foreign person to a U.S. person for purposes of determining whether a U.S. person is a U.S. shareholder and whether a foreign corporation is a controlled foreign corporation (CFC). The TCJA repealed section 958(b)(4) effective for the last tax year of CFCs that began before January 1, 2018, and the tax year of U.S. persons in which or with which such tax year ends. The repeal of section 958(b)(4) resulted in many foreign corporations in alternative investment structures being treated as CFCs (sometimes referred to as "faux CFCs") due to downward attribution of the stock of the foreign corporation to U.S. corporations owned by sponsors or large foreign investors. In some structures a foreign corporation's status as a CFC solely by reason of downward attribution resulted in subpart F or GILTI inclusions for U.S. investors that were U.S. shareholders of the CFC. The repeal of section 958(b)(4) also precluded certain foreign subsidiaries of foreign parented groups (that are CFCs due to downward attribution) from qualifying for the portfolio interest exemption with respect to interest paid by a related U.S. person.

The bill reinstates section 958(b)(4) for tax years of foreign corporations beginning after December 31, 2025, and tax years of U.S. persons in which or with which such tax years of foreign corporations end. Restoration of the pre-TCJA rules is likely to result in fewer CFCs within alternative investment fund structures.

For a more detailed discussion, read [KPMG report: International tax provisions in “One Big Beautiful Bill”]

Change to the taxable REIT subsidiary asset test

The bill increases the limitation of the percentage of a REIT’s total assets that may be represented by securities of one or more taxable REIT subsidiaries from 20% to 25%.

The increase in the limitation is effective for tax years beginning after December 31, 2025.

Treatment of payments from partnerships to partners for property or services

In general, contributions by a partner to a partnership and distributions to a partner from a partnership, to the extent that distributed cash does not exceed a partner’s basis, are not taxable. However, the Code also contains several exceptions to this general nonrecognition treatment, including the so-called “disguised sale” rules under section 707(a). Section 707(a)(2)(A) and (B) recharacterize certain transactions between a partner and a partnership as a transaction between the partnership and one who is not a partner, resulting in treatment as a disguised sale of property or of a partnership interest under section 707(a)(2)(B) or treatment as a disguised fee for services under section 707(a)(2)(A), as the case may be.

Current section 707(a)(2) prefaces the circumstances under which a recharacterization as a disguised sale or disguised fee for services might be appropriate with the language, “under regulations prescribed by the Secretary.”

Treasury regulations prescribe rules relating to disguised sales of property to a partnership. No regulations currently exist, however, that address disguised sales of partnership interests. The Treasury Department and the IRS in 2004 issued proposed regulations addressing the treatment of disguised sales of partnership interests, but in 2009 withdrew these regulations. The Treasury Department and the IRS issued proposed regulations with respect to disguised fees for services under section 707(a)(2)(A) in 2015, however, these regulations have not been finalized.

The bill strikes the language “Under regulations prescribed” and inserts in its place “except as provided.” The change appears motivated by a desire to make clear that regulations are not necessary to implement the rules relating to disguised payments for services or disguised sales of partnership interests. Note, however, that the IRS takes the position that section 707(a)(2)(B) is self-executing and does not require implementing regulations to recharacterize transactions as a disguised sale of a partnership interest, as evidenced by FSA 200024001 and TAM 200037005.

The bill applies to services performed, and property transferred, after the date of the enactment. The bill further includes a provision stating that “nothing in this section or the amendments made by this section, shall be construed to create any inference with respect to the proper treatment under section 707(a) of the [Code] with respect to payments from a partnership to a partner for services performed, or property transferred, on or before the date of the enactment of this Act.”

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 creates a permanent QOZ program that allows the Secretary to designate new QOZs every 10 years. With the exception of QOZs in Puerto Rico, the bill doesn't terminate the designation of QOZs prior to their expiration on December 31, 2028. Instead, the bill provides a 90-day window every 10 years beginning July 2026 for a State to nominate census tracts to be designated as QOZs. The bill, however, repeals the special rule under current law that designated each low income community census tract in Puerto Rico as a QOZ.

This repeal is effective on December 31, 2026. The bill modifies the definition of eligible QOZs but would not require a minimum number of designated QOZs in each state to be low-income communities comprised entirely of a rural area.

Gains invested prior to December 31, 2026, are still taken into account in accordance with the prior law. Recognition of gains realized after December 31, 2026, would be eligible for deferral under the QOZ program. Gains invested in a QOF after December 31, 2026, would be recognized on the date which is five years after the date of investment in the QOF. Ordinary income would continue to be ineligible for a deferral election under the QOZ program.

The basis of any QOF investment held for at least five years would be increased by an amount equal to 10% of the deferred gain. The basis increase would be 30% of the deferred gain for investments in a Qualified Rural Opportunity Fund. The basis increase would be treated as occurring before the deferred gain is recognized.

Under the bill, 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 (a) its fair market value on the date of sale (in the case of QOF investments sold prior to the 30th anniversary of the investment date) or (b) the fair market value of such investment on the 30th anniversary of the investment date (in the case of QOF investments sold after the 30th anniversary of the investment date).

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

For a more detailed discussion, read KPMG report: Incentives and credits tax provisions in "One Big Beautiful Bill"

Removal of various energy credits from the Inflation Reduction Act

The bill terminates certain tax credits and deductions as follows:

- Previously owned clean vehicle credit (section 25E) for vehicles acquired after September 30, 2025
- Clean vehicle credit (section 30D) for vehicles acquired after September 30, 2025
- Qualified commercial clean vehicle credit (section 45W) for vehicles acquired after September 30, 2025
- Alternative fuel vehicle refueling property credit (section 30C) for property placed in service after June 30, 2026
- Energy efficient home improvement credit (section 25C) for property placed in service after December 31, 2025
- Residential clean energy credit (section 25D) for expenditures made after December 31, 2025
- Energy efficient commercial buildings deduction (section 179D) for property beginning construction after June 30, 2026
- New energy efficient home credit (section 45L) for new homes acquired after June 30, 2026

For a more detailed discussion, read [KPMG report: Incentives and credits tax provisions in “One Big Beautiful Bill”]

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