Estate and gift tax provisions in “One Big Beautiful Bill Act”

KPMG analysis and observations

This report reflects the legislation signed into law by the president on July 4, 2025 (Pub. L. No. 119-21) and was last updated on July 28, 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 Act" (OBBBA) (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 (Pub. L. No. 229-21).[1]

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.

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 enacted Senate bill differs from the House bill in several ways, as described below.

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

- 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 (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)

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

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

- 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 (GILT), 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

[1] The Joint Committee on Taxation (JCT) has provided a number of documents estimating the revenue effects of the various versions of the bill:

- JCX-26-25R, which estimates the revenue effects of the provisions of the bill as passed by the House on May 22, 2025
- JCX-35-25, which estimates the Senate-approved bill using a present law baseline (the same baseline used for the estimates for the House bill provided above) that assumes that tax provisions of current law expire according to their terms
- JCX-34-25, which estimates 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

- Impose a 1% tax on remittances to a recipient outside the United States (would have been 3.5% under the House bill)
- Increase taxes on college endowments (but 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 provisions in the bill related to estate and gift taxes. This is one of a series of reports that KPMG has prepared on the bill, which can all be found here.

Estate, gift, and generation-skipping transfer tax

Current law

Federal law provides a lifetime exemption that allows taxpayers to gift or bequeath a certain amount of wealth without having to pay gift, estate, or generation-skipping transfer tax. Under the TCJA, from 2018 through 2025, this exemption is doubled to $10 million from its prior base amount of $5 million. This amount is adjusted annually for inflation. Thus, for 2025, the lifetime exemption amount is $13.99 million per person. However, as with many of the other individual tax benefits put in place by the TCJA, the increase is scheduled to sunset at the end of 2025, with the exemption reverting to $5 million per person (as adjusted for inflation; estimated to be $7.14 million) in 2026.

House bill (sec. 110006)

The proposal would permanently increase the lifetime exemption amount per individual from $10 million to $15 million for estates of decedents dying, gifts made, and generation-skipping transfers made after 2025. The exemption amount would be indexed for inflation such that the $15 million amount would increase for transfers in 2027 and beyond.

Senate bill enacted as OBBBA (sec. 70106)

Identical to House proposal. The Senate bill permanently increases the lifetime exemption amount per individual from $10 million to $15 million for estates of decedents dying, gifts made, and generation-skipping transfers made after 2025. The exemption amount will be indexed for inflation such that the $15 million amount would increase for transfers in 2027 and beyond.

KPMG observation

The Senate bill permanently extended, slightly enhanced, and indexed 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, 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.

Modification of education savings rules (529 plans)

Current law

Under current law, distributions from 529 plans are not taxable for federal purposes if the distributions are used for “qualified higher education expenses,” which 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.

House bill (sec. 110110-110111)

The House bill proposal would expand the definition of qualified higher education expenses 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 qualified higher education expenses 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.

The 529 plan proposals would both be effective for distributions made after the date of enactment.

The JCT has estimated that these 529 plan proposals will collectively decrease revenues by approximately $145 million through 2034.

Senate bill enacted as OBBBA (sec. 70413-70414)

Identical to House proposal, except the Senate bill removed homeschooling expenses from the definition of qualified higher education expenses and doubled the amount of allowed withdrawals for elementary and secondary school educational expenses and tuition from $10,000 to $20,000. The expanded definition of qualified higher education expenses and the increased amount are effective for tax years beginning after December 31, 2025, while the “credentialing expenses” provision is effective for distributions made after the date of enactment, July 4, 2025.

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