Private enterprise and family office 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 One Big Beautiful Bill Act (OBBBA or "the Act") was signed into law by President Trump on July 4, 2025.

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

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)

Note that the House bill included a proposed retaliatory tax on certain foreign corporations under new section 899 that 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 (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

- 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 certain tax provisions (non-exhaustive) in the Act which are most likely to be important to private enterprises, high income / high wealth individuals, and family offices. This is one of a series of detailed reports that KPMG has prepared on the bill, which can all be found here.

Where applicable, this analysis of the legislation generally describes "prior law" (meaning the law prior to enactment of the legislation) and the "new law" (meaning the amended Senate bill ultimately passed by the House and signed by the president).

High income individuals / family offices

Estate, gift, and generation-skipping transfer tax

Prior 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 Tax Cuts and Jobs Act (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.

New law

The Act permanently increased 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 will increase for transfers in 2027 and beyond.

KPMG observation

The Act 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 provision did 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.

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

New Law

Income rates

The provision made permanent the regular income tax rate schedules for individuals, estates, and trusts enacted by the TCJA. This includes the modified TCJA income breakpoints applicable to the net capital gain and qualified dividends tax rates.

Indexing for inflation

For tax years beginning after December 31, 2025, the provision adjusted the base tax year from 2017 to 2016 for measuring prior year chained CPI for the 10% and 12% tax brackets. Under the provision, the base tax year for the 22%, 24%, 32%, 35%, and 37% rate brackets remain unchanged, continuing to reference 2017.

The provision for income rates and indexing for inflation is effective for tax years beginning after December 31, 2025.

Standard deduction

The provision increased the basic standard deduction permanent and modified the cost-of-living adjustment for the standard deduction (using chained CPI for 2024 as opposed to 2017) for tax years after 2025. The provision also slightly increased the standard deduction amount for tax year 2025 compared to prior law.

The provision is effective for tax years beginning after December 31, 2024.

Personal exemption

The provision permanently reduced the amount of the personal exemption to $0 and temporarily added a new deduction for seniors of $6,000 for each “qualified individual” for tax years 2025 through 2028.

The temporary deduction for seniors is subject to phase out when modified adjusted gross income (MAGI) exceeds $75,000 ($150,000 for married filing jointly). This phase out is not adjusted for inflation. A “qualified individual” is a taxpayer who has attained age 65 before the close of the year. Additionally, the qualified individual’s Social Security Number (SSN) and if married, the SSN of the spouse, must be included in the tax return to claim the deduction. A married taxpayer must file a joint return with their spouse for the taxable year to qualify for the deduction.

The provision is effective for tax years beginning after December 31, 2024. As noted above, the proposed senior deduction is effective for tax years 2025 through 2028.

Extension of deduction for qualified business income

Prior law

Section 199A allows certain individuals, trusts, and estates to deduct 20% of their business income, qualified REIT dividends, and 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.

New law

The provision made section 199A permanent and indexed the threshold amounts for inflation for tax years beginning after 2025.

The provision increased the phase-in limits from $50,000 to $75,000 ($100,000 to $150,000 for joint filers).

The provision also included 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 $1000 are increased by cost-of-living adjustments).

KPMG observation

The permanent extension is beneficial to individuals who invest in qualified trades or businesses.

KPMG observation

Making the section 199A permanent offers 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 provision retained 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 also retained the disallowance of benefit against SSTB. The provision did not include an increase in the deduction rate over 20% leaving a taxpayer who might be at the highest marginal federal tax rate with a potential effective tax rate at 29.6% (37% x 80%).

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

New law

Changes for tax year 2025

The provision quadrupled the state and local tax limitation on itemized deductions in current law section 164(b)(6), increasing the limitation from $10,000 (or $5,000 for MFS) (i.e., the Current SALT Cap) to $40,000 (or $20,000 for MFS).

The provision also subjected the 2025 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) (MAGI Phasedown). 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 $10,000 floor (MAGI Limitation).

MAGI is defined as adjusted gross income increased by any amount excluded from gross income under sections 911 (foreign earned income and housing cost), 931 (income from sources within Guam, American Samoa, or the Northern Mariana Islands), or 933 (income from sources within certain U.S. possessions).

The provision continues this regime for tax years after December 31, 2025, with increased limitations and MAGI Phasedowns through tax year 2029, as discussed further below.

KPMG observation

Under the provision, the current federal income tax treatment of certain state and local income taxes paid by passthrough entities (“Passthrough SALT”) under PTET Regimes would be unchanged for all for tax years beginning in or after 2025.

Continued SALT Cap regime for tax years 2026 and beyond

Under the provision, the Current SALT Cap regime continues with increased dollar limitations and MAGI Phasedowns until tax year 2030. Both the SALT Cap dollar limitation amounts and the MAGI thresholds before phasedown increase by 101% per year through tax year 2029. For tax years 2030 and beyond, the SALT Cap reverts back to current levels (i.e. $10,000 (or $5,000 for MFS)) and there is no MAGI Phasedown.

KPMG observation

In total, the provision serves as a simple, temporary five-year increase to the Current SALT Cap, and then reverts back to the Current SALT Cap limitation for all tax year beginning in tax year 2030 and subsequent.

For tax years beginning after December 31, 2029, the MAGI Phasedowns is unnecessary as the SALT Cap would already be at the floor.

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

Prior law

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 was set to sunset, such that losses will no longer be limited under section 461(l) after December 31, 2028.

New law

The Act made the excess business loss limitation permanent but maintained the current manner in which the excess business loss is carried over to a subsequent year as a net operating loss. The provision also slightly modified the overall section 461(l) calculation by updating the timing for the inflation adjustment provisions to apply to the annual threshold amount.

The provision making section 461(l) permanent applies to tax years beginning after 2026. The provision to modify the calculation for inflation adjustment timing applies to tax years beginning after 2025.

0.5% floor on deduction of charitable contributions by individuals

New law

This provision amends Code section 170(b)(1) to permit an individual to claim a deduction for charitable contributions only if, and to the extent that, the aggregate of such contributions exceeds 0.5% of the individual's adjusted gross income (AGI). Total deductions for charitable contributions by an individual continue to be subject to the current limitations (which depend upon the type of contribution and recipient), with the excess (as well as the contributions disallowed by the 0.5% floor) carried forward up to five years. However, if the individual's aggregate contributions do not result in carryover, there is no carryover of contributions disallowed due to the 0.5% floor.

The change applies to tax years beginning after December 31, 2025.

Making permanent the 60% limitation on individual charitable contribution deductions

This provision makes permanent the current deduction limitation of 60% of AGI (the "60% limit") for charitable contributions of cash made by individuals to public charities (as well as certain private foundations described in section 170(b)(1)(F)) (together, "public charities"), which was enacted as part of the TCJA and would have expired at the end of 2025 absent the extension. The provision also amends the application of the 60% limit, potentially allowing individuals to deduct up to 60% of AGI even when they make aggregate cash contributions to public charities that are less than 60% of AGI and also make charitable contributions of noncash property and/or cash to eligible donees that are not public charities.

The provision applies to tax years beginning after December 31, 2025.

KPMG observation

Under current law, the provision containing the 60% limit appears to allow individual donors to take charitable contribution deductions up to the 60% limit only when and to the extent that they make aggregate cash contributions to public charities that equal or exceed that limit. When donors make cash contributions to public charities that are less than the 60% limit, they do not appear to be able to reach the 60% limit by combining those cash contributions with noncash contributions and contributions to eligible donees other than public charities (which are subject to limits of 50%, 30%, and 20% of AGI, depending up on the type of property and type of donee). Commentators expressed concern about this inability to combine various kinds of contributions to reach the 60% limit shortly after the provision was enacted as part of the TCJA. In 2018, the Joint Committee on Taxation indicated that it was not Congress's intent to prevent the combination of various kinds of contributions to reach the 60% limit, stating that "the 60-percent limit for cash contributions is intended to be applied after (and reduced by) the amount of noncash contributions" to public charities. Congress appears to be trying to amend the statutory language to allow the 60% limit to be applied when donors give cash to public charities in addition to other kinds of charitable gifts. However, it is not entirely clear the amendments achieve this result.

Termination of miscellaneous itemized deductions

Prior law

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.

New law

The provision made the TCJA's temporary repeal of miscellaneous itemized deductions permanent. The provision eliminated certain unreimbursed employee expenses for eligible educators from the list of miscellaneous itemized deductions. The provision is effective for tax years beginning after December 31, 2025.

Limitation on tax benefit of itemized deductions

Prior law

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.

New law

The provision replaced the Pease limitation with a new limitation on itemized deductions. The provision applies a single formula to reduce the tax benefit of itemized deductions

The provision 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.

For example, assume a single taxpayer has AGI of $700,000 and itemized deductions of $70,000, of which $45,000 is attributable to state and local income taxes. The taxpayer has taxable income of $665,000 after applying otherwise allowable deductions of $35,000. As noted above, the SALT deduction would be reduced to $10,000. Assume the 37% bracket is projected to apply to single individuals with taxable income over $639,275.

The amount of the taxpayer's allowable itemized deductions of $35,000 is less than the amount by which the taxpayer's taxable income (increased by the taxpayer's itemized deductions) exceeds the 37% threshold for a single taxpayer ($60,725). Thus, the taxpayer's allowable itemized deductions of $35,000 would be reduced by $1,892 ($35,000 x 2/37).

The provision is effective for tax years beginning after December 31, 2025.

KPMG observation

A new limitation on itemized deductions operates to further reduce the benefits provided by the state and local tax deduction (discussed above) and other itemized deductions for high-income earners (taxpayers in the top income tax bracket). Notably, for the 2025 tax year, the increase in the SALT cap would remain unaffected by the new overall limitation on itemized deductions, as this provision is not set to take effect until the 2026 tax year.

Requiring the itemized deductions to be limited using a factor of 2/37 results in the effective tax rate benefit of itemized deductions for high-income earners to be capped at 35% as opposed to the top marginal rate of 37%. Because this limitation only applies to taxpayers with income in the 37% bracket, applying a 2/37 reduction would mathematically create a 2% reduction in the rate benefit because 2/37 x 37% = 2%.

This can be illustrated with the example above. The itemized deductions of $35,000 was reduced by $1,892, leaving only $33,108 to be deducted. Because of this reduction, the tax benefit of this $35,000 deduction would only be $33,108 x 37% = $12,250. That becomes an effective tax rate benefit of $12,250 / $35,000 = 35%.

Expansion of qualified small business stock gain exclusion

Prior law

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, and
- 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, are 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 separate returns), 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. Section 1202(d)(1).

New law

The provision (i) provided for partial gain exclusion with respect to shares held for at least three but less than five years, (ii) increased the per issuer limitation on eligible gain, and (iii) increased the aggregate gross assets threshold of section 1202(d). In general, these provisions would be effective for shares acquired after the enactment date of the legislation.

The provision added 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 provision also provided 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.

KPMG observation

Under the prior law, no gain exclusion is available for the disposition of QSBS that has not been held for more than five years (unless QSBS status "tacks" to new stock received in certain nonrecognition transactions). Thus, this provision would help taxpayers that dispose of QSBS "early" get at least a partial benefit from QSBS status. It appears that the maximum 28% rate would apply to the portion of the gain not excluded pursuant to section 1202(a)(5) on shares held for more than three but less than five years

The provision amended 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 provision also increased the aggregate gross assets threshold from $50 million to $75 million, with the $75 million amount increased by an inflation adjustment for tax years beginning after 2026.

KPMG observation

The $50 million threshold has existed since the QSBS rules were enacted in 1993, and thus, given inflation, businesses must effectively be "smaller" now than in 1993 to satisfy the prior law requirement. With this provision enacted, shares issued after enactment generally (i) benefit from a $15 million (rather than $10 million) per issuer limitation, (ii) benefit from a partial gain exclusion if held for less than five (but more than three) years, and (iii) qualify based on the increased $75 million "aggregate gross assets" threshold even if the shares would not qualify under the prior $50 million threshold.

Qualified Opportunity Zones

Prior law

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. 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 current program applies to capital gains and certain section 1231 gains that would otherwise by recognized on or before December 31, 2026.

New law

The provision created a new permanent QOZ program applicable to QOF investments made after December 31, 2026. No significant changes were made to the current QOZ program. Gains deferred under the existing program are still scheduled to be taken into income on December 31, 2026 (unless an inclusion event occurs before that date). Existing QOZ designations are still set to expire on December 31, 2028.

Under the new permanent program, the Secretary will designate census tracts as QOZs every 10 years. The first designations for the new program are expected to be made during the third or fourth quarter of 2026. These new designations will apply to QOF investments made during the period beginning January 1, 2027, through December 31, 2036. The designation process will be repeated every 10 years.

In order to be designated as a QOZ, the census tract must qualify as a "low-income community" as defined in the new law. The provision revised the definition of "low-income community" to limit the tracts eligible for QOZ designation and provided that census tracts that are not low-income communities but are contiguous to a low-income community are ineligible to be designated as a QOZ. In addition, the provision repealed the special rule under current law that deemed each low-income community census tract in Puerto Rico to be a QOZ. This provision repeal is effective on December 31, 2026. Accordingly, under the new program, the QOZ designation process for Puerto Rico will be similar to other U.S. states and territories.

Gains invested in a QOF after December 31, 2026, are eligible for the benefits provided by the new permanent program. Eligible gains continue to be limited to capital gains and certain section 1231 gains. Ordinary income continues to be ineligible for a deferral election under the QOZ program. An eligible gain deferred under the new program is recognized on the date which is five years after the date of investment in the QOF (unless an inclusion event occurs before that date).

If the taxpayer holds its investment in the QOF for at least five years, the basis of the QOF investment is increased by an amount equal to 10% of the deferred gain. This basis increase is increased to 30% of the deferred gain for investments in a "qualified rural opportunity fund." Very generally, a qualified rural opportunity fund is one in which at least 90% of its property is deployed in QOZs that are comprised entirely of rural areas. The basis increase is treated as occurring immediately before the deferred gain is recognized, thereby reducing the amount of the deferred gain that must be taken into income.

Similar to current law, a taxpayer who holds its QOF investment for at least 10 years is 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). Unlike the current program, under the provision, a taxpayer is not required to sell its QOF investment by December 31, 2047, to make this election.

Modification of education savings rules (529 plans)

Prior 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.

New law

The provision expanded the definition of QHEEs to include additional K-12 educational expenses (but does not include homeschooling expenses) 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 provision further expanded 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.

The provision also 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 are effective for distributions made after the date of enactment.

> **KPMG observation**
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> This provision significantly expanded the potential qualified educational expenses that can 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.

Additional private enterprise considerations

Extension of bonus depreciation allowance and changes to section 179

Prior law permitted taxpayers to deduct, for tax year 2025, 40% of the cost of qualified property placed in service during the tax year. The applicable percentage would decrease to 20% in 2026 and thereafter to 0%. The provision now permits 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.

Additionally, the provision provided for changes to section 179. Prior law permitted a taxpayer to deduct the cost of qualifying property under section 179. Taxpayers were able to 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 provision increased the amount a taxpayer may expense to $2,500,000 and increased the phase-out threshold to $4,000,000. As with prior law, the amounts in the provision are adjusted annually for inflation.

> **KPMG observation**
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> 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, provides potentially significant additional tax shield for investors in capital intensive businesses.

Deduction for domestic research and experimental expenditures

Taxpayers previously had to capitalize and amortize certain research and experimental (“R&E”) expenditures. This new provision permits permanent expensing of domestic R&E costs paid or incurred in tax years beginning after 2024. The provision provides for an election to (1) capitalize and amortize domestic R&E expenditures ratably over not less than 60 months, beginning with the month in which taxpayer first realizes benefits from the costs or (2) capitalize and deduct ratably over 10 years, beginning in the year paid or incurred under section 59(e). Taxpayers continue to be required to capitalize and amortize foreign R&E expenditures over 15 years.

> **KPMG observation**
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> Like the changes to bonus depreciation and section 179, the ability to deduct domestic R&E

expenditures provides 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). This provision permanently reinstated the addback for depreciation, depletion, and amortization to ATI.

KPMG observation

Restoring the DD&A addback to ATI results 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.

Additional individual-level changes

There are a number of additional changes at the individual level, including 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
- Tax credit for contributions of individuals to scholarship granting organizations

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"**

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