House Republicans pass tax bill, heads to the Senate

In a dramatic pre-dawn vote on May 22, 2025, the House of Representatives narrowly passed the One Big Beautiful Bill Act (the "Act") by a vote of 215 – 214, with Rep. Andy Harris (R-Md.) voting "present" and two other Republicans breaking ranks to join all Democrats in opposition. The razor-thin margin underscored the divisions within the GOP and the high-stakes maneuvering required to push the massive reconciliation package through the chamber. The vote was secured thanks to a manager's amendment to the expansive reconciliation package – an eleventh-hour series of late-breaking changes that proved critical to securing Republican near unanimous support ahead of the House vote. (For additional documents, see the Rules Committee page on the Act, H.R. 1)
URL: https://amendments-rules.house.gov/amendments/RCP_119-3_Managers_xml%20(002)250521201648156.pdf
URL: https://rules.house.gov/sites/evo-subsites/rules.house.gov/files/documents/rcp_119-3_final.pdf
URL: https://rules.house.gov/bill/119/hr-ORH-one-big-beautiful-bill-act

Following a round of applause on the House floor, House Republicans celebrated the bill's passage, with Speaker Mike Johnson (R-La.) among those praising the outcome. Johnson, who played a pivotal role in uniting the conference and navigating the bill through a divided chamber, framed the legislation as a landmark achievement for the GOP's economic and national security agenda.

"The media and the Democrats have consistently dismissed any possibility of House Republicans succeeding in our mission to enact President Trump's America First agenda. Once again, they have been proven wrong," he said.

"Today, the House has passed generational, nation-shaping legislation that reduces spending, permanently lowers taxes for families and job creators, secures the border, unleashes American energy dominance, restores peace through strength, and makes government work more efficiently and effectively for all Americans. House Democrats voted against all of it – which clearly proves they want tax hikes on their constituents, open borders, and Medicaid for illegal immigrants."

"We look forward to the Senate's timely consideration of this once-in-a-generation legislation and stand ready to continue our work together to deliver The One Big Beautiful Bill to the President's desk," Johnson added.

With the weight of the GOP's tax agenda on his shoulders, Ways and Means Committee Chairman Jason Smith (R-Mo.) hailed the bill's passage as a pivotal victory. As the architect of its tax provisions, Smith underscored the legislation's mission to cement the 2017 tax cuts and deliver meaningful relief to working families and small businesses.

"Today marks a major milestone in delivering lasting tax relief to the American people. The One, Big, Beautiful Bill locks in the successful 2017 Trump tax cuts [Tax Cuts and Jobs Act, TCJA, P.L. 115-97] and builds on that foundation with bold, pro-growth reforms that will strengthen families, workers, farmers, and small businesses," Smith said.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.htm

URL: https://republicans-waysandmeansforms.house.gov/news/email/show.aspx?ID=7IT3O5YYR5MMZUCT4IACANSZ7A

"Families stand to gain over $13,000 in take-home pay, and workers could see wage increases of more than $11,000. More than 7 million jobs will be secured in the next four years through enhanced small business relief and made-in-America incentives that reward hiring and investment here at home. Parents will benefit from an expanded, inflation-adjusted Child Tax Credit and an enhanced standard deduction. Family farmers will finally get peace of mind, with a doubled death tax exemption that protects their generational lands and livelihoods."

"We are delivering President Trump's promise of no tax on tips, overtime, auto loan interest, and tax relief for seniors which will put more money in the pockets of millions of Americans every year," he added.

Despite Republican celebrations, Democratic leaders swiftly condemned the bill's passage, warning of its potential harm to American families. In a joint statement, Minority Leader Hakeem Jeffries of New York, Whip Katherine Clark of Massachusetts, and Caucus Chair Pete Aguilar of California criticized the legislation as a betrayal of working families and a threat to essential services.

"House Republicans promised to lower costs. Instead, Donald Trump's One Big Ugly Bill will mean millions of families will pay higher premiums, copays and deductibles. Hospitals will close, nursing homes will shut down and communities will suffer. It will take food out of the mouths of children, seniors and veterans at a time when too many families are already struggling to live paycheck to paycheck," they said.
URL: https://democraticleader.house.gov/media/press-releases/joint-democratic-leadership-statement-passage-gop-tax-scam

The tax package is central to the GOP's economic and policy agenda and includes extensions of the TCJA, new tax relief for individuals and small businesses, and major reforms to energy policy, border security, and federal spending. The razor-thin vote reflected weeks of internal Republican negotiations and last-minute changes designed to unify the party's narrow majority. (For prior coverage, see *Tax News & Views*, Vol. 26, No. 21, May 22, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250522_1.html

The bill's passage followed a tense but successful vote on the rule governing floor debate, which passed earlier that morning, setting the stage for a tightly choreographed two-hour floor debate, with time divided among the Budget and Ways and Means Committee leaders. The final vote on the bill followed shortly after 6:00 a.m., capping a high-stakes legislative sprint driven by Speaker Johnson's self-proclaimed deadline of passing the bill by Memorial Day and bolstered by direct pressure from President Trump, who met with House Republicans twice – once on Capitol Hill and the other time at the White House in the final hours leading up to the vote.

Republicans make key changes to advance tax bill through House

As the tax and spending package advanced through the House, several key tax provisions were revised since the Ways and Means markup last week – largely to win over holdouts from various GOP factions. Among the most significant changes were an upward revision on the cap on the state and local tax (SALT) deduction and

new limits on clean energy tax credits. (For prior coverage on the section-by-section summary of the Ways and Means Committee-approved bill, see *Tax News & Views*, Vol. 26, No. 19, May 14, 2025.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2025/TNV/250514_1.html

State and local tax deduction: Under the House-passed bill, the cap on the SALT deduction would increase to $40,400 for tax years beginning after December 31, 2025 – up from the current $10,000 limit – with a phase-down beginning for individuals earning over $505,000 annually. For those above that threshold, the deduction would be reduced by 30 percent of the excess income, but not below $10,000. For married taxpayers filing separately, the income threshold is $252,500, and the deduction may not be reduced below $5,000.

This marks a shift from the earlier version approved by the Ways and Means Committee, which proposed a $30,000 cap for taxpayers earning up to $400,000.

Further, the SALT cap and modified adjusted gross income thresholds will be increased annually for tax years beginning after December 31, 2026, and before January 1, 2034. Such amounts will be equal to 101 percent of the dollar amount in effect for the preceding taxable year. For tax years beginning after December 31, 2033, the SALT cap and modified adjusted gross income thresholds would not be increased but also would not revert to a lower amount.

If no congressional action were taken by the end of this year, the pre-TCJA unlimited SALT deduction would be restored, but so too would a variety of pre-2017 features of the tax code, including higher marginal tax rates, a smaller child tax credit, a smaller standard deduction, and a more aggressive form of the Alternative Minimum Tax (AMT).

Energy tax credits:

Restrictions on clean electricity production credit: The original version of the bill would have phased out the Clean Electricity Production Credit under Section 45Y for facilities placed in service starting in 2029 through 2031. However, the proposed bill that passed the House will now terminate the section 45Y clean electricity production credit both (a) for any facility that begins construction more than 60 days after the bill's enactment, and (b) for any facility which is placed in service after 2028, except in the case of certain nuclear facilities described immediately below.

In the case of any advanced nuclear facility (as defined in section 45J(d)(2)), the clean electricity production credit is allowed only with respect to a nuclear facility that begins construction by the end of 2028. Advanced nuclear facilities that begin construction after December 31, 2028, will no longer be eligible for the section 45Y credit. Furthermore, a new provision added to the bill will allow the section 45Y clean electricity production credit in the case of an expansion of a nuclear facility with a reactor design approved by the Nuclear Regulatory Commission, but only if the expansion of such facility begins on or before December 31, 2028. No clean electricity production credit will be available for any expansion of a nuclear facility that begins after

2028. This is a more lenient treatment than these facilities received in the version of the bill as approved by the Ways and Means Committee.

In addition, if a taxpayer leases qualified solar water heating property, qualified solar electric property or qualified small wind energy property to a third party during the taxable year and the lessee would qualify for a residential clean energy credit under section 25D, if the lessee owned the property, then, under a new provision added to section 45Y(d), the owner of such property cannot claim the section 45Y credit with respect to such property for taxable years beginning after enactment.

The original version of the bill restricted taxpayers who received any material assistance from a prohibited foreign entity from accessing the section 45Y clean electricity production credit. While these rules on prohibited foreign entities were originally proposed to take effect with respect to any facility for which construction begins one year after the date of the bill's enactment, the revised version of the House bill accelerates application of the rules on material assistance from prohibited foreign entities to any facility which begins construction after December 31, 2025.

Finally, the House removed restrictions on the transferability of section 45Y credits under section 6418 from the final version of the bill that passed the House on May 22, 2025. However, the aforementioned changes to the credit effectively limit the period of time during which transferability is available.

Restrictions on clean electricity investment credit: The original version of the bill would have phased out section 48E's clean electricity investment credit for qualified facilities or energy storage technology placed in service staring in 2029 through 2031. However, the proposed bill that passed the House on May 22 will now terminate the section 48E clean electricity investment credit both (a) for any qualified facility or energy storage technology that begins construction more than 60 days after the bill's enactment, and (b) for any such facility or energy storage technology which is placed in service after 2028, except in the case of certain nuclear facilities described below.

In the case of any advanced nuclear facility (as defined in section 45J(d)(2)), the section 48E clean electricity production credit is allowed only with respect to a nuclear facility that begins construction by December 31, 2028. Advanced nuclear facilities that begin construction after 2028 will no longer be eligible for the section 48E credit.

In addition, if a taxpayer leases qualified solar water heating property, qualified solar electric property or qualified small wind energy property to a third party during the taxable year and the lessee would qualify for a residential clean energy credit under section 25D(d)(1), (2) or (4), respectively, if the lessee owned such property, then a new provision under section 48E(e) would prevent the owner of such property from claiming the section 48E credit with respect thereto for taxable years beginning after enactment.

While the original version of the House bill restricted taxpayers who received any material assistance from a prohibited foreign entity from receiving a section 48E clean electricity investment credit with respect to any facility or energy storage technology for which construction begins one year after the date of the bill's enactment, the revised version of the House bill accelerates application of the rules on material assistance from prohibited foreign entities to any facility or energy storage technology which begins construction after 2025.

Finally, the House removed restrictions on the transferability of section 48E credits under section 6418 from the final version of the bill that passed the House on May 22, 2025. However, the aforementioned changes to the credit effectively limit the period of time during which transferability is available.

No phaseout of zero-emission nuclear power production credit: Section 45U provides a federal income tax credit for the production of zero-emission nuclear power. While the bill originally proposed a phase out of the section 45U credit, beginning after 2028, the version of bill that passed the House does not phase out the section 45U credit.

In lieu of the proposed phase out, the section 45U credit's termination for taxable years beginning after December 31, 2032, has been accelerated to terminate under the House bill for taxable years beginning after December 31, 2031.

Finally, while the original bill coming from Ways and Means would have eliminated the transferability election for section 45U credits under section 6418 for electricity produced and sold after December 31, 2027, the revised version of the bill that passed the House removed restrictions on transferability of the section 45U credit.

International

FDII, GILTI, and BEAT: The House-passed bill reduces the current percentage deductions related to a taxpayer's Global Intangible Low-Taxed Income (GILTI) inclusion (and related section 78 gross-up) and Foreign-Derived Intangible Income (FDII). The deduction related to GILTI (and the related section 78 gross-up) would be reduced to 49.2 percent for taxable years after 2025, while the deduction related to FDII would be reduced to 36.5 percent. Under current law, the percentage deductions for GILTI and FDII are 50 percent and 37.5 percent, respectively; however, if no congressional action is taken, the rates are scheduled to be reduced to 37.5 percent and 21.875 percent, respectively, for taxable years after 2025. The House-passed bill would also increase the Base Erosion and Anti-Abuse tax (BEAT) rate to 10.1 percent, up from the current 10 percent rate. If no action is taken, the rate will rise to 12.5 percent starting next year. These changes were likely done with an eye toward the need for the Senate, which intends to use a current policy baseline that assumes there is no cost to extending expiring pieces of the TCJA, to show that every position in reconciliation has an impact on spending or revenue.

Passthrough entities

Payments from partnerships to partners for property or services: Under section 707(a)(2), a contribution to, and distribution by, a partnership may be treated as a sale in certain circumstances, including a sale of partnership interests from one person to another. Current regulations include rules regarding sales of property to or by a partnership but not sales of partnership interests.

The House-passed legislation would amend section 707(a)(2) by replacing "Under regulations prescribed by the Secretary" with "Except as provided by the Secretary" as the introduction to the rules under section 707(a)(2). The amendment would apply to services performed, and property transferred, after the date of the enactment of the legislation. The amendment would not create any inference with respect to the proper treatment under section 707(a) involving payments from a partnership to a partner for services performed, or property transferred, on or before the date of the enactment of the legislation.

Other individual deductions, personal exemptions, and other items to note

Itemized deduction limitation: The itemized deduction limitation provision was modified to subject state and local tax deductions to a greater limitation than other allowable itemized deductions for taxpayers in (or approaching) the highest tax bracket.

Individual alternative minimum tax: The provision was modified to calculate inflation adjustments for the tax starting in 2025 rather than 2017. Thus, the provision would apparently cause the 2026 AMT exemption and phase-out threshold amounts to be equal to the original TCJA amounts, with no inflation adjustments for the intervening years.

No tax on tips: The definition of qualified tips was modified to exclude individuals who receive earned income in excess of the dollar amount in effect under section 414(q)(1)(B)(i), which would apparently permit an employee who is a 5 percent owner to qualify for the above-the-line deduction provided that the employee did not receive earned income in excess of the threshold. Under the prior version, individuals who are highly compensated employees (as defined in section 414(q)(1)) were also excluded.

Tax-exempt organizations

Scholarships received from certain organizations: Revisions added new section 139J exempting scholarship income received by dependents for qualifying elementary and secondary education expenses. This provision would apply to scholarship income received after December 31, 2025, and before January 1, 2030.

Expanding application of tax on excess compensation within tax-exempt organizations: The House-passed bill limits the definition of covered employee to include only "any employee (including any former employee) of an applicable tax-exempt organization." The prior version of the bill included related persons and governmental entities in this definition.

Increase in rate of tax on net investment income of certain private foundations: The House-passed bill clarifies that assets and net investment income of any related organization that are not available for the use or benefit of the private foundation shall not be taken into account in computing net investment income.

State tax

State tax conformity to federal legislation: Many state corporate income tax regimes are affected by federal tax law changes because states conform to the Internal Revenue Code ("IRC") for purposes of administrative ease by either incorporating the IRC in whole or in part, or by using federal taxable income as the starting point. Generally, states that incorporate the IRC either: (1) conform to the IRC as of a specific date ("Fixed Date Conformity"); or (2) automatically follow the version of the IRC in effect for the current tax year ("Rolling Conformity"). However, some states, like California, only selectively conform to specific IRC provisions ("Selective Conformity").

While Rolling Conformity states may choose to later decouple from any IRC provisions enacted by Congress through state legislative action, the Fixed Date Conformity states would continue to use a version of the IRC prior to the amendments in the tax bill unless and until they updated their conformity date. These differences can lead to different tax outcomes at the state level when compared to federal.

Specific provisions with potential state nonconformity: Many of the provisions which may create a federal/state disconnect in Fixed Date Conformity states remained unchanged in the House-passed version of the bill. However, with respect to the amendments to slightly reduce the current percentage deductions related to a taxpayer's GILTI inclusion and FDII percentages, certain states may continue to follow the lower deduction percentages prescribed in the current version of section 250 for years 2026 and later instead of the permanent 49.2 percent and 36.5 percent deduction amounts for GILTI and FDII respectively (ex., Arizona, Georgia, Minnesota). This will depend largely on how each affected state views whether adopting the IRC "in effect" as of a certain date includes future operative provisions contained in the IRC as of that fixed date. States have historically taken differing views.

State passthrough entity tax: In response to the SALT cap enacted as part of the TCJA, many states in the past few years have enacted Passthrough Entity Tax ("PTET") regimes where passthrough entities could elect to pay tax at the entity level on income that would be allowed as a credit against the owner's state personal income tax liability. While each state's regime has its own nuances, it is anticipated that state PTETs may be affected by the new sections highlighted above aimed at the ability of certain taxpayers to take credits for amounts paid under a PTET regime.

Since the release of the Ways and Means Committee's markup, the House-passed bill reflects several additional changes to other provisions – such as:

- The name of the Money Account for Growth and Advancement accounts has been changed from "MAGA Accounts" to "Trump Accounts;"
- The proposed repeal of the excise tax on indoor tanning services was removed;
- The provision treating name and logo royalties as unrelated taxable income has been removed; and
- The provision involving the termination of the tax-exempt status of terrorist organizations has been removed.

— This report was prepared by the tax professionals in Deloitte Tax LLP's Washington National Tax practice.