



Tax reconciliation bill (HR1) and its effect on individuals and businesses

Insights from the EY Center for Tax Policy

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Reconciling the provisions and planning

Objectives

- Differentiate between previous law and HR1 changes
- List important changes for 2025 and future tax years
- Identify key factors that impact individuals & small businesses; highlight tax planning considerations





1

Select provisions impacting individuals

Overview

TCJA extensions

- Individual rates
- Estate tax relief
- 199A deduction
- Higher levels for:
 - Standard deduction
 - Child Tax Credit
- TCJA pre-cliffs
 - Bonus depreciation
 - Interest deduction
 - Sec. 174 R&D
- International
 - GILTI
 - FDII
 - BEAT

- SALT cap \$40,000 but only for five years; PTET rules unchanged

- 199A stays 20%

- TCJA pre-cliff provisions made permanent: bonus depreciation, 163(j), 174 R&D

- TCJA international provisions changed
 - GILTI rate 14%
 - FDII rate 14%
 - BEAT 10.5% rate
- Section 899 retaliatory tax removed following global agreement

Trump tax proposals

- No tax on tips
- No tax on overtime
- No tax on auto loans
- Seniors' deduction
- Depreciation for factories

Revenue offsets

- IRA credit rollbacks
- Remittance tax
- Charitable items
- International tax
- Waste and fraud

- Tips, overtime deductions capped at \$25,000, \$12,500 respectively, with income limits, and only effective 2025-2028

- Many IRA energy credits terminated quickly
- Solar and wind facilities built in 2026-2027 qualify for clean electricity credit

- University endowment tax capped at 8%
- Above-the-line deduction of up to \$1,000/individuals and \$2,000/married couples for charitable contributions
- 0.5% floor on charitable contributions for taxpayers who elect to itemize

Extension of TCJA tax rates

The bill formerly known as the “One Big Beautiful Bill” Act (the Act) permanently extends the “tax cuts” enacted under the Tax Cuts and Jobs Act (TCJA). The Act will:

- Reduce regular individual income tax rate schedules with one additional year in the cost-of-living adjustments for certain tax brackets
- Increase standard deduction with new deduction amounts effective beginning in 2025
- Temporarily enhance deduction for certain seniors
- Eliminate the deduction for personal exemptions
- Increase alternative minimum tax (AMT) exemption and phaseout

Limitations on itemized deductions

Current law

- Temporary suspension/modification under the TCJA beginning in 2017 through 2025 of the:
 - Overall limitation on itemized deductions under section 68(f) (i.e., the “Pease” limitation)
 - Miscellaneous itemizations under section 67(g), including unreimbursed employee expenses, investment advisory fees, tax preparation fees, certain legal fees, hobby expenses and safe deposit box rentals
 - Personal casualty loss deductions limited to federal declared disaster areas
 - \$750,000 limitation on home mortgage acquisition indebtedness and suspension for interest payments made for new or existing home equity debt, unless the debt is related to the property securing the loan

Limitations on itemized deductions

New law

- Permanently removes the section 68 overall limitation and replaces it with a new 35% overall cap on the federal tax benefit of itemized deductions when offsetting ordinary income for those in the top 37% tax bracket (19% when offsetting capital gains) by reducing deductions by $2/37^{\text{ths}}$
 - Changes to section 68 removes exception for estate and trusts (paragraph (e)), which would subject trusts and estate to the same cap as other taxpayers
- Makes TCJA's suspension/modification of the following deductions permanent:
 - Miscellaneous itemized deductions
 - For trusts and estates, itemized deductions do not include trust administrations expenses under section 67(e), personal exemptions under section 642(b) and the income distribution deductions under either sections 651 or 661
 - \$750,000 limitation on home mortgage acquisition indebtedness and suspension of interest on home-equity indebtedness with a carve out for certain mortgage insurance premiums on acquisition indebtedness as qualified resident interest

Charitable contributions

Current law

- Taxpayers who itemize deductions to receive a deduction for charitable contributions, subject to a specified limitation based on the type of contribution gifted.

New law (effective for tax years beginning after 31 December 2025)

- New permanent “above-the-line” deduction for individual taxpayers who do not itemize deductions.
- New 0.5% of the taxpayer’s contribution base “floor” on any charitable contribution otherwise allowable
- Permanent extension of the increased 60% contribution limit for cash gifts to qualified charities
- New 1% floor on deduction of charitable contributions by corporations

State and local tax (SALT) deduction

Current law

- SALT deduction for individuals temporarily limited to \$10,000 (\$5,000 if married filing separately)
- Notice 2020-75 permits a pass-through entity to deduct SALT assessed at the entity level against its income and pass the deduction out as part of its non-separately stated income. In response, many states adopted pass-through entity tax (PTET) regimes

New law

- Permanently extends the \$10,000 SALT cap
- Temporarily increases the cap to \$40,000 (increased annually by 1%) beginning in 2025 through 2029. This increased amount phases out for individuals with adjusted gross income (AGI) over \$500,000/\$250,000 if married filing separately (increased annually by 1%)
- PTET regime remain unchanged

Limitation on wagering losses

Current law

- Losses from wagering transactions were allowed only to the extent of the gains from such transactions
- Losses included any deduction otherwise allowable that was incurred carrying on the wagering transactions

New law (effective in 2026)

- Amount of losses allowed as a deduction shall be equal to 90% of the amount of such incurred during the year AND shall only be allowed to the extent of gains from such transactions
- Losses still include any deduction otherwise allowable that was incurred carrying on the wagering transactions
- Example: Taxpayer has wagering gains of \$50,000 and wagering losses of \$52,000
 - In 2025, deductible wagering losses would be equal to \$50,000 and taxpayer would have no taxable gains
 - In 2026, deductible wagering losses would be equal to \$46,800 (90% of \$52,000) and taxpayer would have \$3,200 in taxable gains in 2026

Lifetime exemption

Current law

- 40% rate applies to property inherited through an estate/acquired by gift
- The first \$10m (plus inflation, currently \$13.99m) in transferred property (the basic exclusion) is exempt from any combination of estate, gift and generation-skipping transfer (GST) taxes

New law

- Permanently increases the estate, gift and GST tax exemption to \$15m beginning in 2026, indexed for inflation annually thereafter

A man in a white shirt stands in the center of a meeting room, holding and reviewing a document. He is surrounded by several people seated in modern office chairs, all appearing to be engaged in a discussion. The room is dimly lit, with a large potted plant visible on the right side. A dark grey semi-transparent banner is overlaid across the middle of the image, containing the number '2' in a large white circle on the left and the main title text on the right.

2

Provisions impacting closely held businesses and investments

Qualified property expensing (bonus depreciation)

Current law

- Phase-down of bonus depreciation for qualified property placed in service 2017 through 2026, starting at 100% bonus depreciation from 2017 through 2022, dropping 20% each subsequent year until phased out completely to 0% in 2027 (80% in 2023, 60% in 2024, etc.)
- “Certain aircraft” and “longer production” period property can delay phase down for one year, so, for example, 100% bonus depreciation was available in 2023

New law

- Permanently extends 100% bonus depreciation, available for eligible qualified property acquired and placed in service after 19 January 2025 (eligibility criteria otherwise same as current law)
- Written binding contract rule for determining acquisition date
- Special election for reduced bonus depreciation rates for property acquired after 19 January 2025 and placed in service in the first tax year ending after 19 January 2025
- Expanded to apply to “qualified production property,” such as certain US nonresidential real property (or portion thereof) that begins construction during certain windows of time

Business interest expense limitation

Current law

- Section 163(j) limits the business interest expense that may be deducted in a tax year to the sum of (i) the taxpayer's business interest income, as defined in section 163(j)(6); (ii) 30% of the taxpayer's ATI, as defined in section 163(j)(8); and (iii) the taxpayer's floor plan financing interest, as defined in section 163(j)(9)
- For tax years beginning before 1 January 2022, a taxpayer's ATI was based on earnings before interest, taxes, depreciation, and amortization (EBITDA). Thereafter, a taxpayer's ATI is computed *with regard* to any deduction allowable for depreciation, amortization or depletion (i.e., the section 163(j) limitation is generally based on earnings before interest and taxes (EBIT))
- Section 163(j)(8) does not address a US shareholder's treatment of CFC income inclusions under sections 78, 951(a) (Subpart F income) or 951A(a) (GILTI), the final section 163(j) regulations provide that such amounts (referred to as "specified deemed inclusions") are not included in the determination of the US shareholder's ATI
- In general, under the final section 163(j) regulations, section 163(j) applies *after* the application of provisions that subject business interest expense to disallowance, deferral, capitalization or other limitation

Business interest expense limitation

New law

- Makes permanent the addback of depreciation, amortization and depletion in computing the 30% limitation under section 163(j), effective for tax years beginning after 31 December 2024
- Excludes Subpart F and GILTI (and any associated Section 78 gross up) in computing the 30% limitation under section 163(j), effective for tax years beginning after 31 December 2025
 - The substitute adds clarification that the Section 245A deduction allowed by reason of section 964(e)(4) or 250(a)(1)(B) is also excluded in computing the 30% limitation
- New interest capitalization coordination rule that applies section 163(j) limitation before elective interest capitalization provisions, effective for tax years beginning after 31 December 2025

Expensing of domestic R&E

Current law

- Businesses must capitalize and amortize domestic research and experimentation (R&E) expenses over five years beginning after 31 December 2021 (15 years for foreign R&E)

New law

- Makes permanent expensing of domestic R&E, effective for expenditures incurred for tax years beginning after 31 December 2024 (option to cap and amortize periods under sections 174A or 59(e))
- Small businesses can elect to apply the provision retroactively to domestic R&E incurred in tax years beginning after 31 December 2021
- All taxpayers can elect to accelerate any unamortized R&E expenditures over a one-year or two-year period, beginning with the 2025 tax year
- Foreign R&E still 15-year amortization

Excess business loss deduction

Current law

- Individual taxpayers may only deduct \$610,000 of net business losses each year (\$305,000 if single)
- Any disallowed losses are treated as net operating losses (NOLs) and carry forward as such and can reduce taxable income in a subsequent year under the NOL utilization rules
- Limitation applied after basis, at-risk and passive activity loss limitations

Proposal in House and Senate Finance Committee bills

- Cause any post-2024 disallowed section 461(l) losses to “re-enter” the section 461(l) computation each year

New law

- Makes section 461(l) permanent *without* changes to post-2024 disallowed losses

Section 199A “pass-through” deduction

Current law

- 20% of domestic qualified business income deduction for individuals, trusts and estates
- Applies only to 2018 – 2025 tax years
- Phase-out applies when taxable income exceeds certain thresholds based on:
 - W-2 wages
 - Qualified property
 - Specified service trade or business

Section 199A “pass-through” deduction

New law (effective for tax years beginning after December 31, 2025)

- Qualified business deduction permanent at 20%
- Existing phase-out range increased from \$50,000 to \$75,000 (\$100,000 to \$150,000 for MFJ)
- New minimum deduction of \$400 (adjusted annually for inflation) for taxpayers with at least \$1,000 of QBI from one or more active trades or businesses
 - Taxpayer must materially participate in the business to benefit
 - This is the first time section 199A has been linked to section 469

Qualified small business stock

Current law

- Upon the sale of qualified small business stock, Section 1202(a) allows a noncorporate shareholder to exclude 50% of the gain from the sale of such stock that has been held for five years.
- The 50% exclusion percentage was increased to 75% for stock acquired from 18 February 2009 to 27 September 2010, and then again to 100% for stock acquired on or after 28 September 2010

New law

- The tax benefit under section 1202(a) is expanded for QSBS issued after 4 July 2025:
 - New tiered exclusion:
 - 50% after three years
 - 75% after four years
 - 100% after five years
- Aggregate gross asset threshold increased to \$75m, indexed annually for inflation
- Per-issuer cumulative exclusion increased to \$15m, indexed annually for inflation

Opportunity zones

Current law

- Opportunity Zones created under the TCJA to spur investment in distressed communities throughout the country by granting investors preferential tax treatment, including deferral and potential exclusion of capital gains if meeting certain requirements
- Investments in Opportunity Zones made after 31 December 2026 are not eligible for tax benefits

New law

- Creates rolling, 10-year Opportunity Zone designations, with the first determination period beginning on 1 July 2026, and the new census tracts designations going into effect on 1 January 2027
- Narrows the criteria for qualifying as a low-income community so that areas with a median income of 70% or less of statewide median income (rather than 80% or less under the TCJA Opportunity Zone program) are eligible for designation. Communities that are contiguous to a qualified Opportunity Zone but themselves are not low-income communities are no longer eligible for designation.
- Creates a new “qualified rural opportunity fund,” with certain benefits unique to funds holding at least 90% of their assets in qualified Opportunity Zone property (directly or via other ownership interest) located in a rural area.

A group of four diverse professionals (three men and one woman) are gathered around a table in a modern office setting. They are looking at documents and a laptop, appearing to be in a collaborative meeting. The background is slightly blurred, showing office equipment and a sign with the letters 'EY'.

3

Select international provisions impacting individuals

Downward attribution

Current law

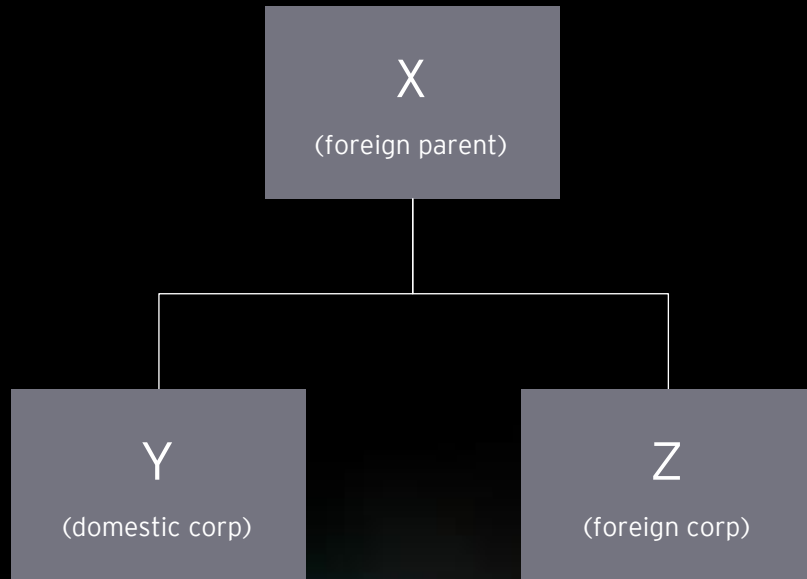
- Prior to the TCJA, section 958(b)(4) provided that the downward attribution provisions of section 318(a)(3)(A), (B) and (C) did not apply to treat a US person as owning the stock owned by a foreign person, thus generally limiting US shareholder status of CFCs
- The TCJA repealed section 958(b)(4), resulting in US persons being treated as US shareholders and foreign corporations being treated as CFCs, when they had not previously been considered as such

New law

- Section 958(b)(4) reinstated, limiting the attribution from foreign persons under the general attribution rules under section 318(a)(3)(A), (B) and (C) for purposes of Subpart F and GILTI inclusions
- However, section 951B limits the impact of the reinstatement of IRC Section 958(b)(4) by requiring downward attribution in certain structures, causing certain foreign controlled foreign corporations to be treated as CFCs

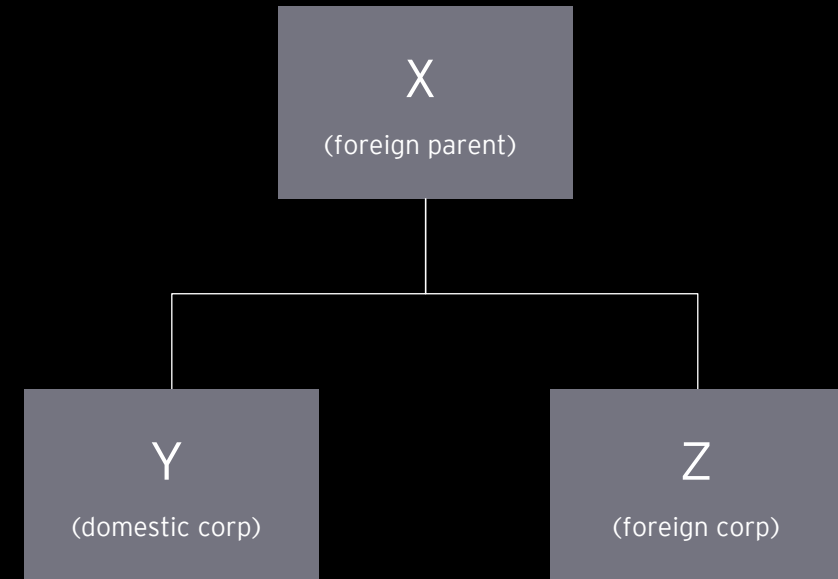
Downward attribution

Current law



- Due to the repeal of Section 958(b)(4), Y constructively owns the stock that X directly or indirectly owns in Z
- Y is a US shareholder of Z because Y “owns” 10% or more of the value of Z under the constructive attribution rules
- Z is a CFC because US shareholders (Y) “own” more than 50% of its value

New law



- With the reinstatement of Section 958(b)(4), the shares of Z are not attributed through X to Y.
- Y is not a US shareholder of Z
- Z is not a CFC

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Various other new provisions of interest

Various other provisions of potential interest

Additional child tax credit

- Credit increases to \$2,200 for each qualifying child beginning in 2025, and afterward as adjusted for inflation
- Begins to phase out after \$400,000 for married filing jointly and \$200,000 for all other filers

Trump savings accounts

- Allows for a tax-deferred investment account to be set for US children born between 2025 and 2028
- A parent must file an election with respect to an eligible child to receive a \$1,000 contribution from the federal government to fund the account
- Parents may make up to \$5,000 (adjusted for inflation) in annual contributions. Employers may contribute up to \$2,500 annually
- Funds in the account must be invested in certain low-cost index funds
- Account funds become available once the child reaches the age of 18
- The account will be treated in the same manner as an individual retirement account, except as provided in the statute or Treasury guidance

Various other provisions of potential interest

No tax on tips

- For tax years 2025 through 2028, non-itemized deduction taken on individual tax return
- Cash tips include cash, charged tips or from tip-sharing arrangements by an individual in an occupation that customarily and regularly received tips as of 31 December 2024
- Tips must be paid voluntarily (free from compulsion or consequence of nonpayment) and not subject to negotiation
- Allowable deduction capped at \$25,000
- Deduction begins to phase out after \$300,000 for married filing jointly and \$150,000 for all other filers

Various other provisions of potential interest

No tax on overtime

- For tax years 2025 through 2028, non-itemized deduction taken on individual tax return
- Qualified overtime compensation is overtime required by Section 7 of the Fair Labor Standards Act of 1938
- Allowable deduction capped at \$25,000 for married filing jointly and \$12,500 for all other filers
- Deduction begins to phase out after \$300,000 for married filing jointly and \$150,000 for all other filers
- Employers may provide a separate estimate of overtime reported for periods before 1 January 2026

Car loan interest

- For tax years through 2028, up to \$10,000 of qualified passenger vehicle loan interest is deductible, excluding interest on related party loans.
- Final assembly of the vehicle must occur within the United States
- Deduction is available in addition to the standard deduction
- Deduction begins to phase out after \$200,000 for married filing jointly and \$100,000 for all other filers



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Reconciling the provisions and planning

Key actions to consider now

Understand
your personal
tax situation

Take a
multiyear
approach to
your personal
tax planning

Assess how a
“permanent”
lifetime
exemption
affects your
planning

Consider and
watch for the
state-level
impacts of the
federal
modifications

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