

Big Tax Changes in the One Big Beautiful Bill Act

Update

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On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (the OBBBA), which makes permanent or modifies key provisions of the 2017 Tax Cuts and Jobs Act (the TCJA) and scales back numerous energy tax incentives enacted under the Inflation Reduction Act of 2022. The following is a summary of certain general business tax, clean energy tax credit and international tax provisions of the OBBBA. All section references are to the Internal Revenue Code of 1986, as amended.

General Business Tax

Bonus Depreciation (Section 168(k) and (n))

- *Permanence.* The OBBBA permanently reinstates 100 percent bonus depreciation under Section 168(k) for qualified property acquired after January 19, 2025.
- *Qualified Production Property.* New Section 168(n) allows an immediate deduction for 100 percent of the cost of “qualified production property.” Generally, qualified production property is any domestic manufacturing, refining, agricultural production or chemical production facility the construction of which begins after January 19, 2025 and before January 1, 2029 and that is placed in service after July 4, 2025 and before January 1, 2031.

Domestic Research and Experimental (R&E) Expenditures (Section 174A)

- *Domestic R&E.* The OBBBA restores immediate expensing of domestic R&E expenditures under new Section 174A for taxable years beginning after

Related People

Elizabeth L. McGinley

Partner

NEW YORK

+1.212.508.6173

elizabeth.mcginley@bracewell.com

J. Dean Hinderliter

Partner

DALLAS

+1.214.758.1004

dean.hinderliter@bracewell.com

Peter W. Rogers

Partner

DALLAS

+1.214.758.1022

peter.rogers@bracewell.com

Steve Campbell

Associate

DALLAS

+1.214.758.1028

steve.campbell@bracewell.com

Gabbie Hinderla

Associate

AUSTIN

+1.713.221.1158

gabriela.hinderla@bracewell.com

December 31, 2024. This reverses the five-year amortization requirement that took effect in 2022 under the TCJA. Section 174A does not allow expensing of amounts paid or incurred for the purpose of ascertaining the existence, location, extent or quality of any deposit of ore or other mineral (including oil and gas).

- **Capitalization.** Capitalization and amortization of domestic R&E expenditures remains available upon election.

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Business Interest Limitation (Section 163(j))

- **EBITDA Calculation Reinstated.** The OBBBA permanently returns the limitation on business interest deductibility to an EBITDA-based formula, reversing the more restrictive EBIT-based test in effect since 2022. This change takes effect for taxable years beginning after December 31, 2025.
- **Ordering.** The OBBBA provides that the Section 163(j) limitation is calculated prior to applying any interest capitalization provisions (subject to certain exceptions) and requires taxpayers to first apply their allowed business interest deduction against business interest that would otherwise be capitalized. This change takes effect for taxable years beginning after December 31, 2025.

Expansion of Qualifying Income for Publicly Traded Partnerships (Section 7704)

- **Clean Energy Expansion.** The OBBBA expands the definition of “qualifying income” under Section 7704 to include income from the transportation or storage of certain clean fuels, production of electricity from certain clean sources and other energy-transition infrastructure.

Corporate Alternative Minimum Tax (CAMT) (Section 56A)

- **Intangible Drilling and Development Costs.** Corporate operators of oil and gas assets can reduce adjusted financial statement income (AFSI) by any deductions for intangible drilling and development costs allowed under Section 263(c) and, correspondingly, are required to include in AFSI any depletion expense reflected in their applicable financial statements with respect to such intangible drilling and development costs. This change is relevant for purposes of determining whether a corporate taxpayer is subject to CAMT and, if so, the extent of its CAMT liability for taxable years beginning after December 31, 2025.

Partnership Transactions (Section 707(a)(2))

- **Self-execution.** The OBBBA confirms that Section 707(a)(2), which addresses disguised sales between partners and partnerships, is self-executing. This eliminates any ambiguity about the enforceability of the

disguised sales rules with respect to disguised sales of partnership interests in the absence of final regulations.

Deduction for Qualified Business Income (Section 199A)

- *Permanence.* The OBBBA makes permanent the 20 percent deduction for qualified business income.

Excess Business Loss Limitation (Section 461(l))

- *Permanence.* The OBBBA makes permanent the limitation on excess business losses for noncorporate taxpayers, which was set to expire after 2028. Excess losses will continue to be converted into net operating losses carried forward to future years.

Qualified Opportunity Zones (QOZs) and Qualified Opportunity Funds (QOFs) (Subchapter Z)

- *QOZ Renewal.* The OBBBA renews the QOZ program with new QOZ designations to be made on July 1, 2026 and each July 1st every 10 years thereafter. New QOZ designations will go into effect on January 1st of the year following the designation.
- *QOF Renewal.* Similarly, new QOFs will be established with respect to newly designated QOZs. Investors in QOFs will be able to defer capital gains for up to five years. In addition, taxpayers will receive a partial basis step-up in their investment if their holding period is at least five years and recognize no gain if their holding period is between 10 and 30 years.

Qualified Small Business Stock (QSBS) Gain Exclusion (Section 1202)

- *Holding Period.* Non-corporate taxpayers can exclude from taxable income gain on the disposition of QSBS if such stock was held for five years and certain other requirements are satisfied. The OBBBA changes the holding-period requirement for QSBS issued after July 4, 2025 to allow a 50 percent exclusion for QSBS held for three years, a 75 percent exclusion after four years and full exclusion after five years.
- *Cap Increases.* For QSBS issued after July 4, 2025, the OBBBA increases the maximum gain that can be excluded from the disposition of QSBS of a single issuer from \$10 million to \$15 million. In addition, the maximum gross asset threshold for a C corporation to be a qualified small business increased from \$50 million to \$75 million. The increased amounts are indexed for inflation for subsequent years. These changes apply to QSBS issued after July 4, 2025.

Clean Energy Tax Credits

Clean Electricity Production and Investment Credits (Sections 45Y and 48E)

- *Wind and Solar.* The OBBBA phases out the Section 45Y and 48E credits for wind and solar projects. Wind and solar projects that begin construction on or after July 5, 2026 must be placed in service by December 31, 2027 to qualify for the Section 45Y or 48E credit. Wind and solar projects that begin construction prior to July 5, 2026 are eligible for the Section 45Y or 48E credit under the rules that existed prior to the passage of the OBBBA.
- *Fuel Cells.* The OBBBA adds qualified fuel cell property to the property eligible for the Section 48E credit at a 30 percent rate. Fuel cell projects are not subject to the prevailing wage and apprenticeship requirements or the zero greenhouse gas emissions rate requirement. Fuel cell projects are not eligible for any credit adders.
- *Other Technologies.* The OBBBA modifies the phase-out rules under Sections 45Y and 48E for non-wind and non-solar projects. For any such projects that begin construction in 2034 and 2035, the Section 45Y and 48E credits are subject to a 25 percent and 50 percent reduction, respectively. Any such projects that begin construction in 2036 or later will not qualify for the Section 45Y or 48E credit.
- *Domestic Content Adder.* The OBBBA makes the domestic content percentage requirements under Section 48E consistent with those under Section 45Y for projects that begin construction on or after June 16, 2025. Prior to the passage of the OBBBA, the domestic content percentage requirement under Section 48E was 40 percent but under Section 45Y ranged from 40 percent to 55 percent depending on when construction began.

Clean Fuel Production Credit (Section 45Z)

- *Extension.* The Section 45Z credit is extended by two years to include transportation fuel sold through December 31, 2029.
- *Feedstock.* After December 31, 2025, transportation fuel must be exclusively derived from feedstock that is produced or grown in the United States, Mexico or Canada.
- *Emissions Rate.* The emissions rate for a transportation fuel may not be less than zero; however, an exception allows negative emissions rates for fuels derived from animal manure. Further, the emissions rate shall be adjusted as necessary to exclude any emissions attributed to indirect land use changes.

Such amendments apply to emissions rates published for transportation fuel produced after December 31, 2025.

- *Sustainable Aviation Fuel.* The value of the Section 45Z credit for sustainable aviation fuel is reduced from \$1.75 to \$1.00 for each gallon produced after December 31, 2025.
- *No Double Counting.* To qualify for the credit, the transportation fuel must not be produced from a fuel for which the Section 45Z credit was allowable.

Carbon Capture and Sequestration Credit (Section 45Q)

- *Rate Parity.* The base credit rate for carbon oxides captured from an industrial source and injected for enhanced oil or gas recovery or utilized is increased from \$12 to \$17 per metric ton so that it is equal to the base credit rate for permanent sequestration. Similarly, in the case of direct air capture facilities, the base credit rate for carbon oxides captured and injected for enhanced oil or gas recovery or utilized is increased from \$26 to \$36 per metric ton. Such increases apply to facilities or equipment placed in service after July 4, 2025.

Advanced Manufacturing Production Credit (Section 45X)

- *Wind Components.* The Section 45X credit is terminated for wind components produced and sold after December 31, 2027.
- *Metallurgical Coal.* Metallurgical coal that is suitable for the production of steel (regardless of whether production occurs inside or outside of the United States) was added as an applicable critical mineral. This change applies to taxable years beginning after July 4, 2025.
- *Phase-out.* The phase-out of the Section 45X credit was modified so that the credit (other than with respect to metallurgical coal) is subject to a 25 percent, 50 percent and 75 percent reduction in 2031, 2032 and 2033, respectively. The Section 45X credit terminates for metallurgical coal after 2029 and for other applicable critical minerals after 2033.
- *Battery Modules.* The definition of “battery module” was changed to require each module to be “comprised of all other essential equipment needed for battery functionality, such as current collector assemblies and voltage sense harnesses, or any other essential energy collection equipment.” This change applies to taxable years beginning after July 4, 2025.
- *Integrated Components.* The OBBBA allows manufacturers to claim the Section 45X credit on multiple primary components that are integrated, incorporated or assembled into secondary components if (a) the primary components are produced in the same facility as the secondary components, (b) the secondary components are sold to unrelated persons and (c) at least 65 percent of the direct material costs to produce the secondary components are attributable to primary components that are mined, produced or

manufactured in the United States. This change applies to taxable years beginning after December 31, 2026.

Clean Hydrogen Production Credit (Section 45V)

- *Termination.* The Section 45V credit is terminated for projects that begin construction after December 31, 2027.

Foreign Entity of Concern (FEOC) Rules

The OBBBA restricts taxpayers with connections to certain countries or foreign entities from claiming credits under Sections 45Q, 45U, 45X, 45Y, 45Z and 48E. The FEOC rules largely relate to China, Russia, Iran and North Korea (as well as certain listed foreign persons and entities, which are not discussed below). In general, a taxpayer is prohibited from claiming credits under any one of the following circumstances:

- The taxpayer is a “specified foreign entity.”
 - A specified foreign entity includes, among others, (a) the government of China, Russia, Iran or North Korea; (b) a citizen or national of one of those countries (provided that such person is not a U.S. citizen, national or resident); (c) an entity organized in, or having its principal place of business in, one of those countries; and (d) an entity owned more than 50 percent by persons described in clauses (a) through (c).
 - This restriction applies to the credits under Sections 45Q, 45U, 45X, 45Y, 45Z and 48E for taxable years beginning after July 4, 2025.
- The taxpayer is a “foreign-influenced entity.”
 - A foreign-influenced entity includes an entity with respect to which (a) a specified foreign entity has authority to appoint board members or officers, (b) a single specified foreign entity owns at least 25 percent of such entity, (c) multiple specified foreign entities own at least 40 percent of such entity or (d) at least 15 percent of the debt of such entity is held by specified foreign entities.
 - This restriction applies to the credits under Sections 45Q, 45X, 45Y and 48E for taxable years beginning after July 4, 2025 and to the credits under Sections 45U and 45Z for taxable years beginning after July 4, 2027.
- The taxpayer receives “material assistance” on a project from specified foreign entities or foreign-influenced entities.
 - A project is deemed to receive material assistance if the material assistance cost ratio for the project is less than the applicable threshold percentage. The threshold percentages increase over time and range from 40 percent to 90 percent depending on the year, credit and technology. The material assistance cost ratio is computed as a fraction, with the numerator equaling total direct costs attributable to manufactured products

and components not manufactured by specified foreign entities or foreign-influenced entities, and the denominator equaling total direct costs attributable to manufactured products and components.

- The Secretary of the Treasury is required to issue safe harbor tables by December 31, 2026 identifying total direct cost percentages attributable to manufactured products and components. Until the safe harbor tables are issued, taxpayers may rely on the percentages in the domestic content safe harbor tables in IRS Notice 2025-08, certifications from suppliers regarding direct costs and certifications from suppliers stating that manufactured products and components were not manufactured or produced by a specified foreign entity or foreign-influenced entity.
- For these purposes, a foreign-influenced entity also includes an entity that made payments to a specified foreign entity in the prior taxable year pursuant to a contract, agreement or arrangement that allows the specified foreign entity (or a related entity) to exercise “effective control” over a project or the production of any components (Specified Foreign Entity Payments).
- This restriction applies to the credits under Section 45Y and 48E for projects that begin construction after December 31, 2025 (on a project-by-project basis) and to the Section 45X credit for taxable years beginning after July 4, 2025.

In addition, if a taxpayer makes Specified Foreign Entity Payments within 10 years after a project claiming the Section 48E credit is placed in service, the full amount of the credit claimed is subject to recapture. This restriction applies to taxable years beginning after July 4, 2027.

International Tax

Global Intangible Low-Taxed Income (GILTI) (Now “Net CFC Tested Income” (NCTI)) (Section 904)

- *Rate.* The OBBBA modifies the global intangible low-taxed income inclusion rules such that a corporation’s effective GILTI rate will increase from 10.5 percent to 14 percent for taxable years beginning after December 31, 2025. This change preempts the increase in the GILTI rate to 13.125 percent that was scheduled to take effect.
- *QBAI.* Currently, a taxpayer can effectively exclude 10 percent of a controlled foreign corporation’s qualified business asset investment (QBAI) from the taxpayer’s GILTI inclusion calculation. The OBBBA eliminates this QBAI exclusion for taxable years beginning after December 31, 2025.

Foreign-Derived Intangible Income (FDII) (Now “Foreign-Derived Deduction Eligible Income” (FDDEI)) (Section 250)

- *Rate.* Similar to those modifications made to the GILTI regime, the OBBBA modifies the FDII rules such that a corporation’s effective FDII rate will increase from 13.125 percent to 14 percent for taxable years beginning after December 31, 2025. This change preempts the increase in the FDII rate to 16.4 percent that was scheduled to take effect.
- *QBAI.* Similar to QBAI with respect to GILTI, the OBBBA eliminates the QBAI exclusion for FDII for taxable years beginning after December 31, 2025.

Base Erosion and Anti-Abuse Tax (BEAT) (Section 59A)

- *Rate.* For taxable years beginning after December 31, 2025, the BEAT rate will increase from 10 percent to 10.5 percent. This change preempts the increase in the BEAT rate to 12.5 percent that was scheduled to take effect.