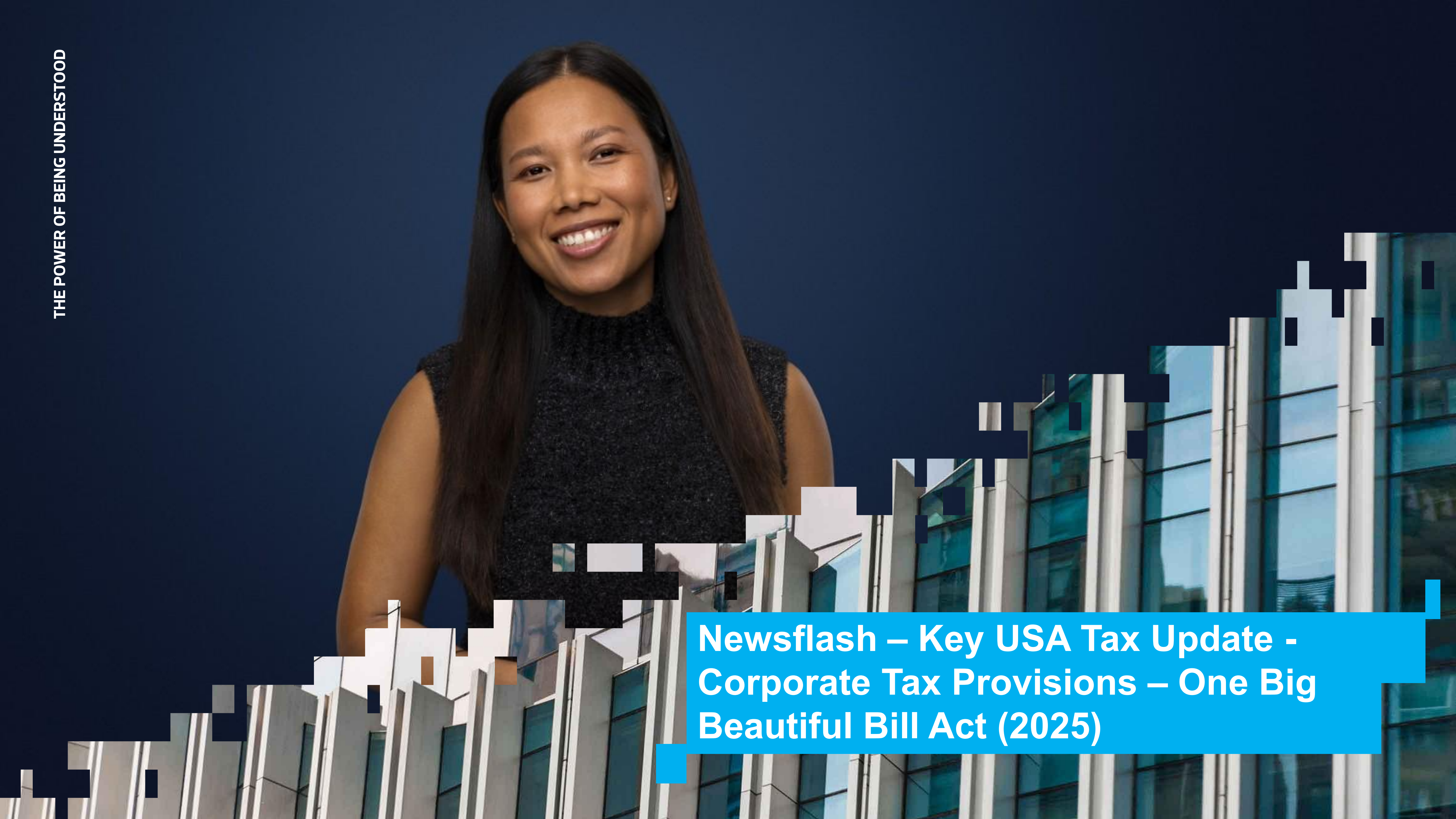

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Newsflash – Key USA Tax Update - Corporate Tax Provisions – One Big Beautiful Bill Act (2025)

Newsflash

Key USA Tax Update - Corporate Tax Provisions – One Big Beautiful Bill Act (2025)

For Circulation Only
24 June 2025

1.0 Background

On 22 May 2025, the U.S. House of Representatives ("the House") passed H.R. 1, the budget reconciliation legislation titled the **"One Big Beautiful Bill Act"** (hereinafter referred to as "the Bill"). The Bill now moves to the Senate for further deliberation, where it is expected to be taken up before the end of June 2025. While the Senate may introduce amendments, final enactment—subject to the approval of President Trump which is anticipated by **4 July 2025**.

The proposed legislation seeks to **permanently extend several key provisions** originally introduced under the **Tax Cuts and Jobs Act (TCJA) of 2017**, including major international tax provisions such as:

- **Global Intangible Low-Taxed Income (GILTI)**
- **Foreign-Derived Intangible Income (FDII)**
- **Base Erosion and Anti-Abuse Tax (BEAT)**

However, the Bill, as passed by the House, does **not propose any changes related to**:

- The corporate income tax rate
- The tax rate applicable to domestic manufacturers
- The treatment of carried interest
- The capital gains tax rate

2.0 Proposed Changes related to Business taxation provisions

2.1 Cross Border Implications

Heading	Current Law	Provisions of the bill which is passed by the House of Representatives
Extension of deduction for FDII and GILTI	• **FDII:** ○ Current Deduction: 37.5% of FDII ○ Revised Deduction (Post 31 December 2025): 21.875% • **GILTI:** ○ Current Deduction: 50% of GILTI inclusion ○ Revised Deduction (Post 31 December 2025): 37.5% • **Effective Date for Revised Deductions:** Taxable years beginning **after 31st December 2025**	This provision permanently increases the deduction for • **FDII** from 21.875% to **36.5%,** and • **GILTI** from 37.5% to **49.2%**, Effective for taxable years beginning after 31 December 2025.
Extension of base erosion minimum tax amount	The base erosion anti-abuse tax imposes a 10% minimum tax on corporations with annual gross receipts in excess of $500 million and base erosion payments above a certain threshold. For taxable years beginning after 31 December 2025, the 10 % rate will increase to 12.5 % and credits computing the tax will no longer be allowed.	This provision permanently reduces the rate from 12.5% to **10.1%** beginning 1 January 2026. The provision also permanently retains the current treatment of tax credits for taxable years beginning after 31 December 2025.
Section 899: Enforcement of Remedies Against Unfair Foreign Taxes		This provision targets unfair foreign taxes—defined as discriminatory or extraterritorial levies imposed by foreign governments on U.S. persons or foreign entities owned by them. An unfair foreign tax generally includes an undertaxed profits rule (UTPR), a digital services tax (DST) and certain other foreign taxes.

Heading	Current Law	Provisions of the bill which is passed by the House of Representatives
		The Secretary is required to publish a list of such taxes to assist withholding agents, who may rely on this list when applying the appropriate withholding rates. Agents demonstrating best-effort compliance are protected from penalties and interest through 01 January 2027. To counter these unfair taxes, the provision increases applicable U.S. tax rates on affected persons connected to the foreign jurisdiction—such as foreign governments, resident individuals and corporations, foreign private foundations, and entities they own. The rate is increased in 5% increments annually for as long as the unfair tax is in force, up to a cap of 20% above the relevant statutory rate. The provision also extends to certain U.S. entities owned by tax residents of jurisdictions imposing unfair taxes. These entities will be subject to modified tax rules, which: • Broaden the category of entities subject to the minimum tax, • Raise the applicable BEAT rate, 12.5% instead of 10.1% and • Curtail the benefits of certain tax credits, and • Expand the taxable base to include previously excluded payments.

2.2 Related to Business

<table>
<tr><th>Heading</th><th>Current Law</th><th>Proposed Changes</th></tr>
<tr><td>Extension of special depreciation allowance for certain property</td><td>Taxpayers typically deduct the cost of business property over time. However, for certain "qualified property" (e.g., equipment and machinery), immediate expensing is allowed. For property placed in service:
In 2025: 40% of the cost can be expensed immediately.
In 2026: 20% can be expensed immediately.</td><td>This provision allows 100% immediate expensing of qualified property acquired between 12 January 2025 and 31 December 2029.</td></tr>
<tr><td>Deduction of domestic research and experimental expenditures</td><td>Under Section 174(a), Specified Research and Experimental (SRE) expenditures incurred after 31 December 2021, must be capitalized and amortized—over 5 years for domestic research and 15 years for foreign research—starting from the midpoint of the year incurred. Disposal of related property does not allow immediate deduction; amortization must continue as scheduled.</td><td>Taxpayers may immediately deduct domestic research and experimental (R&E) costs incurred in taxable years that begin after 31 December 2024 and before 1 January 2030.

The measure:
Coordinates this immediate deduction with the research credit.
Clarifies that foreign R&E expenditures remain subject to existing capitalization rules.</td></tr>
<tr><td>Modified calculation of adjusted taxable income for purposes of business interest deduction</td><td>The deduction for business interest expense is generally limited to the sum of:
The taxpayer’s business interest income;
30% of the taxpayer’s adjusted taxable income (ATI), which aligns with EBIT; and
Floor plan financing interest.</td><td>For taxable years beginning after 31 December 2024, and before 1 January 2030, this provision raises the cap on business interest deductibility by redefining adjusted taxable income to exclude depreciation, amortization, and depletion. As a result, ATI aligns with EBITDA rather than EBIT.

Additionally, the definition of motor vehicle is permanently expanded to include certain trailers and campers designed to be towed by or affixed to motor vehicles, thereby allowing floor plan financing interest on such items to be deductible.</td></tr>
</table>

Heading	Current Law	Proposed Changes
	Floor plan financing interest refers to interest on debt used to acquire motor vehicles for sale or lease, secured by that inventory. *Motor vehicles* include self-propelled vehicles for public road use, boats, and farm machinery or equipment.	
Special depreciation allowance for qualified production property	Taxpayers are generally required to deduct the cost of nonresidential real property over a 39-year period.	This provision allows taxpayers to immediately deduct 100% of the cost of qualified production property in the year it is placed in service. Qualified property includes new factories, improvements to existing factories, and certain other nonresidential structures, provided they meet the following criteria: 1. Used as an integral part of a qualified production activity (e.g., manufacturing, refining, or agricultural/chemical production involving substantial transformation of tangible goods). 2. Located in the U.S. or a U.S. territory. 3. Original use begins with the taxpayer. 4. Construction begins between 01 January 2025 and 31 December 2029. 5. Placed in service by 01 January 2034. 6. The taxpayer elects to claim the immediate deduction.

Heading	Current Law	Proposed Changes
		Special rules apply to properties previously idle between 01 January 2021 and 12 May 2025, allowing broader eligibility—for example, rehabilitated abandoned factories. Portions of a property used for offices, administration, lodging, parking, sales, research, or software engineering are excluded. Recapture rules apply if the property's use changes within 10 years of being placed in service.
Increased dollar limitations for expensing of certain depreciable business assets	Taxpayers may elect to immediately expense the cost of qualifying property instead of recovering it through depreciation, subject to limits. • For 2025, the maximum expensing limit is **$1.25 million**, reduced dollar-for-dollar when total qualifying property placed in service exceeds **$3.13 million**. • These thresholds are adjusted annually for inflation (originally $1 million and $2.5 million in 2018). Qualifying property includes depreciable tangible personal property, off-the-shelf software, and qualified real property used in an active trade or business.	This provision increases the maximum amount a taxpayer may expense to $2.5 million, reduced by the amount by which the cost of qualifying property exceeds $4 million. The $2.5 million and $4 million amounts are adjusted for inflation for taxable years beginning after 2025. The proposal applies to property placed in service in taxable years beginning after 31 December 2024.
Increase in threshold for requiring information reporting with respect to certain payees	The reporting threshold for payments by a business for services performed by an independent contractor or subcontractor and for certain other payments is generally $600. In some cases, the reporting threshold is based on payments made during the taxable year.	This provision generally increases the threshold to $2,000 and adjusts it for inflation for taxable year beginning after 31 December 2024. The new threshold is based on payments during the calendar year. This provision applies to payments made after 31 December 2024.

Heading	Current Law	Proposed Changes
Increased gross receipts threshold for small manufacturing businesses	Generally, taxpayers with average annual gross receipts below $25 million over the prior three taxable years are eligible for several simplified tax accounting provisions. These include the ability to use the cash method of accounting, exemption from the limitation on business interest deductibility, exemption from inventory accounting requirements, and relief from certain capitalization rules. This threshold is indexed for inflation and stands at $31 million for 2025.	This provision raises the gross receipts threshold for manufacturing taxpayers from $25 million to $80 million, effective for taxable years beginning after 31 December 2025. The threshold is indexed for inflation and is expected to be approximately $100 million in 2026. To qualify as a "manufacturing taxpayer," a business must generally derive substantially all of its gross receipts over the prior three taxable years from the lease, rental, license, sale, exchange, or other disposition of tangible personal property that it has produced or manufactured.
Extension of deduction for qualified business income and permanent enhancement	Under current law, individuals may deduct up to 20% of qualified business income (QBI) from a sole proprietorship, partnership, or S corporation, as well as 20% of certain REIT dividends and publicly traded partnership income. The deduction is capped at 20% of taxable income minus net capital gains. For tax year 2025, threshold income levels are $394,600 for joint filers and $197,300 for others, adjusted annually for inflation. Above these thresholds, the QBI deduction is subject to following limitations: • Wages and capital-based limit (wage and investment limitation), and • Specified Service Trade or Business (SSTB) restriction.	This provision makes the QBI deduction permanent and increases the deduction rate from 20% to 23% for tax years beginning after 31 December 2025. Instead of phasing in over a fixed income range, the deduction is now reduced by 75 cents for every $1 of taxable income above the threshold, until the limitations are fully applied. This change mitigates the risk of excessively high marginal tax rates. Additional changes include: • An **extra year of inflation adjustment** in calculating the income threshold. • **Expansion of eligibility** to include certain income from **business development companies.**

Heading	Current Law	Proposed Changes
	These limits phase in over $100,000 (joint filers) or $50,000 (others), potentially resulting in marginal tax rates approaching 70% for some taxpayers. The QBI deduction is scheduled to expire after 31 December 2025.	Business Development Companies(as defined in the Investment Company Act of 1940) can now also claim this deduction.
Expanding the definition of rural emergency hospitals under the Medicare program	Only hospitals that were enrolled in Medicare as of December 27, 2020, are eligible to convert to the Rural Emergency Hospital (REH) designation.	This provision establishes a look-back period from 1 January 2014, to 26 December 2020, allowing qualifying rural hospitals that opened during that time but have since closed to reopen under the REH designation. However, such hospitals located less than 35 miles from the nearest hospital, Critical Access Hospital (CAH), or REH are ineligible for the 5% increase in outpatient payments. Additionally, facilities within 10 miles of the nearest hospital, CAH, or REH are not eligible to receive the REH facility fee.
Excessive employee renumeration from controlled group members and allocation of deduction	Under current law, publicly held corporations are denied a tax deduction for compensation paid to certain covered employees (typically the CEO, CFO, and the next three highest-paid officers) exceeding $1 million per year. The TCJA expanded the scope by eliminating the performance-based compensation exception and including more entities, like certain publicly traded partnerships, as covered corporations. The limitation applies to taxable years beginning after December 31, 2017. ARPA expanded the definition of 'covered employees' to include the five highest-compensated employees beyond the CEO, CFO, and three highest-paid officers, effective for tax years beginning after 31 December 2026.	Effective for tax years beginning after December 31, 2025, publicly held corporations within a controlled group must aggregate compensation paid to “specified covered employees” across all members to determine if the $1 million deduction limit is exceeded. Any excess amount is disallowed and allocated pro rata based on each member’s share of total compensation. “Specified covered employees” include the CEO, CFO, three other highest-paid officers, and any previously designated covered employees. Starting in 2027, this definition expands to include the five highest-paid employees across the group, regardless of title to certain excessive employee remuneration.

Heading	Current Law	Proposed Changes
	Unlike the original covered employees, these additional five are not subject to the 'once covered, always covered' rule and are determined annually based on deductible compensation.	
Exclusion of research income limited to publicly available research	All income from research performed by a nonprofit organization whose primary purpose is to carry on research that is freely available to the public, including income from private research, is exempt from unrelated business taxable income.	This provision amends IRC Section 512 to treat income from non-public research as unrelated business taxable income (UBTI) for tax-exempt organizations whose exempt purpose is to conduct and provide publicly available research.
Limitation on excess business losses of noncorporate taxpayers	For noncorporate taxpayers, no deduction is permitted for excess business losses in taxable years beginning before 01 January 2029. An “excess business loss” is defined as the amount by which business deductions (excluding net operating losses and qualified business income deductions) exceed business income, plus $313,000 for single filers ($626,000 for joint filers) in tax year 2025, indexed for inflation. Disallowed losses are generally treated as net operating losses and may be carried forward to future tax years.	This provision makes the limitation on excess business losses for noncorporate taxpayers permanent. It further provides that excess business losses disallowed in taxable years beginning after 31 December 2024, will be included in the calculation of excess business losses in subsequent tax years.

2.3 Related to energy credits

Heading	Current Law	Proposed Changes
Termination of clean vehicle credit	Taxpayers may claim a tax credit of up to $7,500 for clean new vehicles placed in service in a given taxable year. The maximum credit is comprised of two equal parts: the first $3,750 credit value is determined based on the critical mineral sourcing of the vehicle's battery and the second $3,750 credit value is determined based on the sourcing of the battery components. The credit is limited to incomes of $150,000 for single filers, $225,000 for head of household filers, and $300,000 for joint filers. The credit is available to vans with a Manufacturer's Suggested Retail Price (MSRP) of $80,000, SUVs with a MSRP of $80,000, pickup trucks with a MSRP of $80,000, and other vehicles with a MSRP of $55,000. The credit is set to expire 31 December 2032.	This provision accelerates the expiration to 31 December 2025. This provision also implements a special rule for taxable year 2026 that only allows vehicles produced by manufacturers that have not sold 200,000 new clean vehicles as of 31 December 2025, to qualify for the credit.
Phase-out and restrictions on clean electricity investment credit	Under current law, a credit is available for qualified investments in electricity-generating facilities or energy storage technologies, provided the facility is determined to have net-zero or negative greenhouse gas emissions. The base credit is 6% of the qualified investment, which increases to 30% if the taxpayer satisfies prevailing wage and apprenticeship requirements or qualifies for an exception. If the taxpayer lacks sufficient tax liability to fully utilize the credit, it may be transferred to an unrelated taxpayer. This credit currently does not have an expiration date..	This provision phases out the clean electricity investment credit and imposes restrictions on its availability. The credit is reduced as follows: • 20% reduction for facilities placed in service in 2029 • 40% reduction in 2030 • 60% reduction in 2031 • No credit available after 31 December 2031 Additionally, credit transferability is repealed for facilities whose construction begins more than two years after the bill's enactment. The provision also restricts credit eligibility for entities with foreign ties. Specifically:

Heading	Current Law	Proposed Changes
		1. No credit is allowed for facilities commencing construction one year after enactment if supported by material assistance from a prohibited foreign entity. 2. No credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity. 3. Starting two years post-enactment, no credit is allowed for foreign-influenced entities or if FDAP payments to prohibited foreign entities exceed 5% of project-related expenditures (or 15% in aggregate).
Repeal of transferability of clean fuel production credit	If a taxpayer does not have sufficient tax liability to utilize the clean fuel production credit, the credit may be transferred to an unrelated taxpayer.	The provision eliminates transferability for fuel produced after 31 December 2027.
Restrictions on carbon oxide sequestration credit	Under current law, taxpayers can claim a credit per metric ton of qualified carbon oxide captured and either securely stored or commercially used. For tax years after • 31 December 2016 and before 1 January 2027, the credit is \$17/ton for geological storage via tertiary injection and \$12/ton for other approved uses. • For direct air capture facilities placed in service after 31 December 2022, the credit rises to \$36/ton and \$26/ton, respectively.	This provision repeals transferability for carbon capture equipment where construction begins two years after the date of enactment of this bill. This provision restricts access to the credit for certain prohibited foreign entities. Specifically • No credit is allowed for taxable years beginning after enactment if the taxpayer is a specified foreign entity. No credit is allowed for tax years that begin two years after date of enactment for a foreign-influenced entity.

Heading	Current Law	Proposed Changes
	Credits apply for 12 years after equipment is placed in service, are inflation-adjusted after 2026, transferable if unused, and available to facilities that begin construction before 1 January 2033.	
Phase-out and restrictions on zero-emission nuclear power production credit	A credit is available for electricity produced by existing nuclear power plants—valued at 0.3 cents per kWh, or 1.5 cents per kWh if prevailing wage and apprenticeship standards are met. The credit phases down as market power prices exceed a $25/MWh benchmark. Unused credits may be transferred to unrelated taxpayers. The credit expires on 31 December 2032.	This provision phases out the zero-emission nuclear power production credit by reducing it by 20% in 2029, 40% in 2030, and 60% in 2031, with full elimination after 31 December 2031. It also disallows credit transferability for fuel produced after 31 December 2027. Furthermore, the credit is denied to specified foreign entities for tax years beginning after enactment, and to foreign-influenced entities for tax years beginning two years after enactment.
Termination of clean hydrogen production credit	Taxpayers can claim a credit for each kilogram of qualified clean hydrogen produced for sale or use over a 10-year period from the facility's initial service date. The credit ranges from 20% to 100% of $0.60 per kilogram, based on the production process's greenhouse gas emissions rate. If unused due to insufficient tax liability, the credit may be transferred to an unrelated party. This incentive applies to facilities that commence construction before 1 January 2033.	This provision accelerates the expiration by limiting eligibility to facilities that begin construction on or before 31 December 2025.
Phase-out and restrictions on advanced manufacturing production credit	Taxpayers may claim a credit for manufacturing eligible inverters, solar, wind, and battery components, as well as for producing critical minerals. Credit amounts vary by component as outlined in the tax code. If the taxpayer lacks sufficient tax liability, the credit may be transferred to an unrelated party. The credit phases down as follows: • **2030**: 25% reduction	This provision modifies and accelerates the termination of the advanced manufacturing tax credit: **Termination Timeline**: • Credits for wind energy components end after 31 December 2027. • Transferability of the credit is repealed for components sold after 31 December 2027.

Heading	Current Law	Proposed Changes
	• **2031**: 50% reduction • **2032**: 75% reduction • **Post-2032**: No credit allowed, except for critical mineral production, which remains permanently eligible.	• Credits for all other components end after 31 December 2031. **Restrictions on Foreign Involvement, no credit is allowed if:** • Components are manufactured (one year after enactment) with material assistance from a prohibited foreign entity. • The taxpayer is a specified foreign entity (effective immediately upon enactment). • Two years after enactment, the taxpayer is a foreign-influenced entity or makes FDAP payments exceeding 5% (or 15% in aggregate) of related expenditures to a prohibited foreign entity. Components are produced under a licensing agreement with a prohibited foreign entity valued over $1 million (effective two years after enactment).
Phase-out of credit for certain energy property	Most technologies previously eligible for the IRC Section 48 energy tax credit expired after 31 December 2024. However, geothermal heat pumps that begin construction before 1 January 2035, remain eligible for the Section 48 investment tax credit.	This provision aligns the expiration of the investment tax credit for geothermal heat pumps with the clean electricity investment tax credit. The credit is gradually phased down: • 20% reduction applies to facilities placed in service in 2029, • 40% in 2030, 60% in 2031, and • no credit is available after 31 December 2031.

Heading	Current Law	Proposed Changes
		Additionally, the provision restricts credit eligibility for certain foreign entities: • No credit is allowed for tax years beginning after enactment if the taxpayer is a specified foreign entity. • No credit is allowed for tax years beginning two years after enactment if the taxpayer is a foreign-influenced entity.
Extension and modification of clean fuel production credit	Taxpayers may claim a credit for producing transportation fuel, including sustainable aviation fuel, provided the fuel meets specific greenhouse gas emission standards. The credit amount is calculated by multiplying the applicable rate per gallon by an emissions factor—$0.20 per gallon for nonaviation fuel and $0.35 per gallon for sustainable aviation fuel. These amounts are multiplied by five if the taxpayer satisfies prevailing wage and apprenticeship requirements or qualifies for an exception. The credit is available for fuel sold before January 1, 2028.	This provision modifies the clean fuel production credit by limiting eligibility to fuel derived from feedstocks produced or grown in the United States and excluding indirect land use changes from lifecycle greenhouse gas emissions calculations. It extends the credit through December 31, 2031, and requires the Secretary of the Treasury to establish specific emission rates for certain manure-based feedstocks. The provision eliminates credit transferability for fuel produced after December 31, 2027. Additionally, it restricts credit eligibility for foreign entities: no credit is allowed for specified foreign entities for taxable years beginning after enactment, and for foreign-influenced entities, the credit is disallowed for taxable years beginning two years after enactment.

3.0 Scope and Limitations

This note is intended to provide a overview of the proposed changes introduced by the United States through the One Big Beautiful Bill Act and has been compiled based on our limited understanding of the same. The contents of this note are subject to revalidation by legal advisors in the US. After review of this note, the same should be discussed with us to determine a further course of action. The data coverage in this note is subject to revalidation of facts mentioned hereinabove. No part of this note may be reproduced without our prior written consent. The note contains our views on the subject matter based on the facts explained to us. Our views may differ depending upon changes in facts, circumstances or legal provisions. Governmental or judicial authorities may or may not subscribe to the views expressed herein. Under no circumstances shall our liability, if any, arising from the use of this note exceed the amount of fees paid to us in connection with the specific matter or the actual damages suffered, whichever is lower.

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For further information please contact:
RSM Astute Consulting Pvt. Ltd.
8th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021.
T: (91-22) 6108 5555 / 6121 4444
F: (91-22) 2287 5771
E: emails@rsmindia.in
W: www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur, and Vijayanagar.

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24 June 2025