Morgan Stanley

WEALTH MANAGEMENT

US Policy Pulse

OBBBA Cheat Sheet

Global Investment Office | July 14, 2025

In partnership with Morgan Stanley Government Relations, we outline some of the most frequently discussed tax provisions included in the One Big Beautiful Bill Act (OBBBA). **Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for potential tax or other implications that may result from acting on a particular recommendation.**

Key Takeaways:

– The OBBBA adds roughly 0.3%–0.8% of fiscal stimulus to GDP growth for 2025–2028.
– In 2029, fiscal drag begins to kick in, as some individual tax cuts expire and most spending cuts begin.
– The bill adds $3.3 trillion in deficits over 10 years to America’s debt pile, which is currently $36 trillion and 120% of GDP.
– Annual budget deficits are expected to remain at 6%–7% of GDP for the next decade (2–2.5 times pre-GFC levels).
– Total annual interest payments on US debt are 20% of tax revenues and could breach 5% of nominal GDP as soon as 2027.
– Medicaid-related cuts could impact medical coverage for up to 17 million Americans, pressuring rural hospitals and the credit quality of certain state and nonprofit hospital municipal bonds.
– The law raised the debt limit by $5 trillion, which could delay the need to address the debt limit again until late 2026 or early 2027.

Notable Provisions:

Individual Rates

– Permanently extends current individual tax rates, including the 37% top ordinary income tax rate, effective after Dec. 31, 2025.

Estate and Gift Tax Exemption

– Permanently extends increased estate tax and gift tax exemption amounts, with an increase in unified estate and gift tax exemption to an inflation-adjusted $15 million for single filers and $30 million for married couples filing jointly, effective after Dec. 31, 2025.

Individual State and Local Tax (SALT) Deduction

– Retroactively boosts the individual SALT deduction limitation from $10,000 to $40,000 for 2025, followed by 1% increases from 2026 through 2029.
– Beginning in 2030, the SALT cap would revert to $10,000.
– The full deduction can be claimed by individuals and married couples filing jointly with modified adjusted gross income (MAGI) less than $500,000 per year. The deduction is then phased out by 30% of the amount by which MAGI exceeds $500,000, with a minimum $10,000 deduction.

Standard Deduction

– Permanently extends the increased standard deduction enacted under the Tax Cuts and Jobs Act (TCJA) and increases the amount to $15,750 for a single filer, $23,625 for a head of household and $31,500 for married couples filing jointly, indexed for inflation, effective after Dec. 31, 2024.

Overall Limitation on Itemized Deductions

– For individuals taxed at the top 37% rate, the value of allowable itemized deductions would be capped at 35%, effective after Dec. 31, 2025.

Child Tax Credit

– Permanently increases the child tax credit (CTC) from its current rate of $2,000 to $2,200 starting in 2025 and indexed to inflation thereafter.
– The tax credit phases out for single filers earning more than $200,000 and for joint filers earning more than $400,000.
– Taxpayers and qualifying children must have a social security number in order to claim the tax credit.

Remittance Transfers Tax

– The remittance transfers tax was finalized at 1% and applies to all people regardless of status for transfers initiated at institutions not subject to the Bank Secrecy Act.
– The tax will only apply “to any remittance transfer for which the sender provides cash, a money order, a cashier’s check or any other similar physical instrument to the remittance transfer provider.”
– The text adds thrifts to the exempt banks list, meaning that remittances sent from accounts held in or by almost all banks are exempt from the remittance tax.
  • Specifically, remittances sent from accounts held in or by insured banks; commercial banks or trust companies; private bankers; agencies or branches of a foreign bank in the US; thrift institutions and broker/dealers (and/or broker/dealers in securities or commodities) are exempt.
– Transfers funded with a debit card or a credit card issued in the US are also exempt.

University Endowment Excise Tax

– Replaces the current flat 1.4% excise tax with a three-tier rate system, with a top rate of 8%.
– Exempts educational institutions with fewer than 3,000 students from the endowment excise tax.

Charitable Contributions

– Deductions for corporate charitable contributions are only permitted to the extent that aggregate corporate charitable contributions exceed 1% of a taxpayer’s taxable income and do not exceed 10% of the taxpayer’s taxable income for tax years beginning after Dec. 31, 2025.
– Imposes a 0.5% floor on charitable contributions for taxpayers who elect to itemize for tax years after Dec. 31, 2025.
– Creates a permanent deduction for charitable contributions for taxpayers who do not elect to itemize. Non-itemizers can claim a deduction of up to $1,000 for single filers and $2,000 for married couples filing jointly for certain charitable contributions.

20% Deduction for Pass-Through Businesses (Section 199A)

– Makes the current section 199A deduction rate of 20% permanent.
– Expands the deduction limit phase-in range, increasing it to $75,000 for single filers and $150,000 for married couples filing jointly, effective after Dec. 31, 2025.

Bonus Depreciation (IRC 168(k))

- Permanently allows for 100% bonus depreciation for property acquired and placed in service on or after Jan. 19, 2025.

R&D/R&E Expenditures (IRC 174)

- Permanently allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after Dec. 31, 2024.
- Small business taxpayers with annual gross revenue of $31 million or less are permitted to apply the change retroactively to 2022.
- Foreign R&D expenditures must continue to be capitalized over 15 years.

Interest Expense Calculation (IRC 163(j))

- Permanently reinstates the more generous EBITDA limitations on the deductibility of business interest expenses under Section 163(j) for tax years beginning after Dec. 31, 2024.

Section 179 Expensing

- Increases the maximum amount a taxpayer may expense under section 179 to $2.5 million and increases the phaseout threshold amount to $4 million.
- The threshold amounts are adjusted for inflation for taxable years beginning after Dec. 31, 2025.
- Applies to property placed in service in taxable years beginning after Dec. 31, 2024.

IRA Energy Tax Credits

- Tax credits for wind and solar projects under IRC sections 45Y and 48E terminate for facilities placed in service after 2027, unless project construction begins within a year of enactment (safe harbor provision).
- Extends phaseout for hydropower, nuclear and geothermal credits, which are now scheduled to occur between 2034 and 2036.
- The credit for commercial clean vehicles terminates after Sept. 30, 2025.
- Section 45V clean hydrogen production credits are extended through 2027. Terminates for facilities beginning construction after Dec. 31, 2027.
- The section 48D advanced manufacturing investment tax credit for semiconductors and renewable energy would be raised to 35% for property placed in service after 2025.

Notable International Tax Provisions

- GILTI: Renames Global Intangible Low-Taxed Income (GILTI) to Net CFC Tested Income and establishes a 12.6%–14.0% rate after foreign tax credit treatment.
- FDII: Renames Foreign-Derived Intangible Income (FDII) to Foreign-Derived Deduction Eligible Income (FDDEI) and establishes a 14% rate.
- BEAT: Raises the BEAT rate to 10.5% and preserves current policy on allowability of US tax credits under BEAT.
- CFC Look-Through: Makes the CFC look-through rule permanent.

Opportunity Zones

- Makes Opportunity Zone policy permanent and introduces various enhancements, which go into effect Jan. 1, 2027.

Low-Income Housing Tax Credits (LIHTCs)

- Permanently increases the state housing credit ceiling by 12% and lowers the bond-financing threshold to 25% for projects financed by bonds starting in 2026.

New Markets Tax Credit (NMTC)

- Permanently extends the NMTC program and sets a $5 billion annual allocation of tax credits, adjusted for inflation for tax years after Dec. 31, 2025.

Health Savings Accounts (HSA)

- Permits bronze and catastrophic marketplace plans to be eligible for HSA contributions, treating the plans as high-deductible health plans under the law, effective for plan years beginning after Dec. 31, 2024.
- Makes HSA account eligibility permanent for certain telehealth services and direct primary care arrangements, for plan years beginning after Dec. 31, 2025.

No Tax on Car Loan Interest

- Exempts interest on car loans through 2028, only if the original use of the vehicle commences with the taxpayer (i.e., new cars). Requires vehicles to be for personal use and assembled in the US.
- Information reporting rules apply regarding applicable passenger vehicle loan interest received in a trade or business.
- Phases out for married couples with income in excess of $200,000, or for individuals with income in excess of $100,000.
- Other limitations and exceptions apply.

No Tax on Tips

- Maximum deduction of $25,000 for qualified tips received by itemizers and non-itemizers, effective for tax years beginning after Dec. 31, 2024; expires Dec. 31, 2028.
- Income and occupation limitations apply.

No Tax on Overtime

- Maximum deduction of $12,500 ($25,000 for married couples filing jointly) for itemizers and non-itemizers, effective tax years beginning after Dec. 31, 2024; expires Dec. 31, 2028.
- Phases out for single filers with incomes over $150,000 and for those married couples filing jointly with income greater than $300,000.

Bonus Deduction for Seniors

- Enacts a $6,000 deduction for individuals aged 65 or older for tax years after Dec. 31, 2024; expires Dec. 31, 2028.
- The deduction phases out when MAGI exceeds $75,000 for single filers and $150,000 for married couples filing jointly.

Trump Accounts

- Creates new tax-advantaged Trump Accounts for beneficiaries younger than age 18, with a contribution limit for any taxable year of $5,000.
- Under a pilot program, the US Treasury will pay a one-time credit of $1,000 to the Trump Account of each qualifying child born from 2025 to 2028.
- The beneficiary must be a US citizen with a Social Security number.

What Wasn't Included (*or was removed*)?

- Changes to treatment of SALT for businesses and corporations, including pass-throughs.
- Extension of section 199A deduction to dividends of business development companies (BDCs).
- Section 899 "revenge tax."
- Excise tax on solar/wind facilities receiving material assistance from prohibited foreign entities.
- Private foundation excise tax increase.
- Changes to top marginal income tax rates on individuals.
- Changes to federal tax exemption for municipal bonds.
- Changes to the treatment of carried interest.
- Changes to capital gains tax rates.
- Increases to the stock buyback excise tax rate.
- Significant changes to deductibility of executive compensation (IRC section 162(m)).