Tax Cuts and Investment Incentives: Highlights of the One Big Beautiful Bill

On July 4, President Trump signed the One Big Beautiful Bill Act (OBBBA) after the legislation was passed by Congress the day before. The Congressional Budget Office (CBO) estimates that the law will add nearly $3.3 trillion to the national debt over 10 years, though the CBO analysis assumes that the 2017 Tax Cut and Jobs Act (TCJA) expires at the end of 2025 as scheduled, rather than being extended. Compared with current policy, the CBO estimates that the OBBBA will decrease deficits by approximately $508 billion over the next decade. While analysts can debate the bill's long-term fiscal impacts, one thing is clear: the legislation does little to alter the unsustainable trajectory of the national debt and might worsen it at the margin. As such, over time, upward pressure could be seen on US Treasury bond term premium, the extra yield investors demand to hold long-term bonds compared to shorter-term ones. The law is seen as modestly stimulative from a fiscal perspective this year and next before turning restrictive.

Here are some of the key provisions of the bill that may be of interest to investors:

Corporate taxes

Investors may not yet have fully appreciated the potential tailwind to earnings from the expensing provisions.

- While the statutory corporate tax rate remains unchanged at 21%, the new law allows for **100% bonus depreciation of domestic capital expenditures** on manufacturing equipment and structures, and for software for four years, retroactive to the start of this year.
- The measure provides for the permanent **immediate expensing of research and development**. Analysts project that provisions will **lower the effective corporate tax rate to around 12% to 14%**.
- Historically, lower effective corporate tax rates have led to increased capital expenditures, which bodes well for future profitability and enhanced productivity. Rising productivity generally leads to faster economic growth.

Tax cut extensions and additions

The law makes permanent the TCJA tax cuts and adds a number of new ones.

- The **OBBBA makes permanent** the reduced marginal tax rates first enacted in the TCJA in 2017.
- The law raises the **Child Tax Credit to $2,200** and introduces a **$6,000 deduction for seniors** meant to cushion the blow of income taxes on their Social Security benefits. That deduction expires in 2028.
- **Up to $25,000 in tips and up to $12,500 in overtime income** will also be excluded from taxes for those under certain income thresholds.
- **The standard deduction was raised to $15,750 for a single filer and $31,500 for joint filers**, through 2028.
- Up to **$10,000 annually in interest on auto loans** for cars assembled in the US would be eligible for deduction for those filing jointly with a modified adjusted gross income of $200,000. That provision expires at the end of 2028.

State and local tax (SALT) deductions

The increase in the SALT deduction is intended to limit the double taxation of income already taxed by state and local governments.

- The deductibility of state and local taxes (SALT) has been part of the tax code for over a century. It allows taxpayers who itemize deductions to subtract certain state and local taxes from their federal taxable income. **The OBBBA raises the cap on deductibility from $10,000 to $40,000**.
- **There is a phaseout starting at $500,000 in income for joint filers**, and it phases out completely above $600,000. There is also a 1% adjustment to the income limit each year to account for inflation. The SALT deduction is set to expire after five years if not extended by a future Congress.
- SALT reform **mainly impacts residents of high tax states**, such as California, New York and New Jersey.

Debt ceiling increase

The National Debt has increased under every president since Herbert Hoover.

- The OBBBA **increases the US debt ceiling by $5 trillion**. The Treasury was set to hit the debt ceiling as soon as August.
- Extending the debt ceiling **avoids a potential government shutdown** and a political showdown that could have pushed the US to the brink of default as similar battles have in the past. Increasing the debt ceiling also helps create room for funding this bill, which could expand the deficit in the near term.

Offsets to help limit deficits

Approximately 64% of Medicaid recipients ages 19 to 64 already work; 44% work full time.

- The main offsets to spending in the bill come in the form of cuts to funding for the **Supplemental Nutrition Assistance Program** (SNAP) and changes to **Medicaid eligibility** and coverage in Affordable Care Act **(ACA) marketplaces**. The bill also **repeals or reforms tax credits for electric vehicles** and other aspects of the Inflation Reduction Act.
- Wind and solar will qualify for credits only if placed in service before the end of 2027.
- SNAP funding will be cut by reducing federal contributions, expanding work requirements for recipients and forcing states to bear more of the program's costs.
- For Medicaid, the bill includes **work requirements** for able-bodied adults ages 19 to 64, **reduces the funding states receive from the federal government** and includes **penalties for states that offer ACA coverage to undocumented migrants**.

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