Accounting for income taxes implications of “One Big Beautiful Bill Act”

KPMG analysis and observations

This report reflects the legislation signed into law by the president on July 4, 2025 (Pub. L. No. 119-21) and was last updated July 10, 2025.

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Introduction

The House of Representatives on May 22, 2025, passed H.R. 1 (House bill), the budget reconciliation bill known as the "One Big Beautiful Bill Act" (OBBBA) (read *TaxNewsFlash*). On July 1, 2025, the Senate passed its version of H.R. 1 (Senate bill), which made various amendments to the bill, including changes to the tax subtitle that was included in the House bill (read *TaxNewsFlash*). On July 3, 2025, the House passed the Senate bill without amendment, and the bill was signed into law by President Trump on July 4, 2025 (Pub. L. No. 119-21).[1]

This analysis of the legislation generally describes current law (meaning the law prior to enactment of the legislation), the House bill, and the amended Senate bill ultimately passed by the House and signed by the president.

Both the House and Senate bills would generally make permanent the tax provisions of the TCJA. Both bills also would temporarily provide for tax benefits promised by the president for tip income, overtime pay, and auto loan interest, and introduce a host of revenue-raising provisions. However, the enacted Senate bill differs from the House bill in several ways, as described below.

Among the important business provisions of the enacted Senate bill are provisions that:

- Reinstate and make permanent expensing of R&D costs, the higher EBITDA cap on the deduction for interest, and 100% bonus depreciation (the House bill would only extend these provisions for five years)
- Make permanent the section 199A deduction for passthrough business income (at the current 20% rate instead of the higher 23% rate of the House bill)
- Renew and reform the Opportunity Zone program
- Add a 100% first-year depreciation deduction for real property used in a production activity (the House bill included a similar proposal)

Note that the House bill included a proposed retaliatory tax on certain foreign corporations under new section 899 that was removed in the enacted Senate bill following the announcement of an agreement with the other G7 countries regarding the tax (read *TaxNewsFlash*).

The enacted Senate bill also includes revenue-raising provisions that:

- Repeal or phase out energy tax credits created by the Inflation Reduction Act (IRA) (though in some cases extending the credits further than the House bill)
- Make extensive reforms to the U.S. international tax regime, including to foreign-derived deduction eligible income (FDDEI), global intangible low-taxed income (GILT), and the base erosion anti-abuse tax (BEAT), and permanently extend the CFC look-through rule of 954(c)(6)

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[1] The Joint Committee on Taxation (JCT) has provided a number of documents estimating the revenue effects of the various versions of the bill:

- JCX-26-25R, which estimates the revenue effects of the provisions of the bill as passed by the House on May 22, 2025
- JCX-35-25, which estimates the Senate-approved bill using a present law baseline (the same baseline used for the estimates for the House bill provided above) that assumes that tax provisions of current law expire according to their terms
- JCX-34-25, which estimates the Senate-approved bill using a "current policy baseline" as adopted by the Senate, which assumes that tax policies currently in effect (such as the lower Tax Cuts and Jobs Act (TCJA) individual tax rates) are permanent and therefore extending those provisions has no revenue effect

- Temporarily increase the $10,000 cap on the state and local tax (SALT) deduction to $40,000, with no significant changes to the treatment of passthrough entity taxes
- Impose a 1% tax on remittances to a recipient outside the United States (would have been 3.5% under the House bill)
- Increase taxes on college endowments (but at lower rates than those of the House bill and omitting a provision on private foundations)
- Bar the IRS from making payment on certain employee retention credit claims filed after January 31, 2024

The provisions included in the bill may impact an entity's accounting for income taxes process and the measurement of income taxes related balances. The tax effects of certain changes in tax laws are reflected in the financial statements beginning in the interim period that includes the July 4, 2025 date of enactment while others may impact the financial statements in a later period in which the laws become effective.

As entities assess the impact of the provisions, there may be elements for which it is not entirely clear how the taxing authority or a court will interpret the provisions. Accordingly, entities should also consider the impact the provisions have on accounting for uncertainty in income taxes as enacted. If tax positions arise that are expected to be reported on a tax return that are not highly certain to be sustained upon examination based on the technical merits, an entity should assess the tax position in accordance with the recognition and measurement criteria within ASC 740 to determine the appropriate amount of tax benefit to be reflected within the financial statements.

This report highlights selected items included in the bill and discusses related accounting for income taxes implications, but it is not all inclusive. This is one of a series of reports that KPMG has prepared on the bill, which can all be found here.

Changes in tax laws

The tax effect of changes in tax laws on income taxes receivable (payable) for the current year is recognized in the estimated annual effective tax rate in the period that includes the July 4, 2025, enactment date, even if the change is effective in a later reporting period. To the extent income taxes receivable (payable) of prior years are adjusted as a result of changes in tax laws, such impacts are recognized discretely in income tax expense (benefit) from continuing operations as of the date of enactment.

The tax effect of changes in tax laws on deferred taxes is a discrete event recognized in the interim period that includes the July 4, 2025, enactment date of the change, even though the changes may not be effective until future periods. The intraperiod tax allocation of the tax effect of changes in tax laws on the measurement of deferred tax assets (liabilities), including the reevaluation of a valuation allowance for deferred tax assets, should be based on enactment date temporary differences and allocated entirely to income tax expense (benefit) from continuing operations.

KPMG observation

The bill does not include a change to the standard corporate income tax rate; accordingly, for many entities, the most significant change to deferred taxes may be adjustments to the valuation allowance.

Even though deferred taxes are not generally determined on a daily basis, reasonable effort should be made to estimate temporary differences and the related deferred tax amounts, including valuation allowances, at the July 4, 2025 enactment date as part of establishing the amount of adjustment to allocate to continuing operations.

While the adjustments to deferred taxes as a result of changes in tax laws computed using enactment date temporary differences are required to determine the intraperiod tax allocation to continuing operations and an amount to be disclosed, for interim period income taxes calculations an accounting policy may prescribe which date's deferred taxes are used in determining the discrete amount. KPMG tax professionals note that an entity may determine the discrete amount associated with ordinary income items based on the deferred taxes as of either the July 4, 2025 enactment date or the amounts at the beginning of the year. Refer to paragraph 5.017 of the KPMG Handbook: *Accounting for income taxes* for additional detail.

The allocation of income tax expense (benefit) directly to continuing operations may result in residual tax effects within other comprehensive income. Residual tax effects are generally released when the item giving rise to the tax effect is disposed of, liquidated or terminated and the release should be consistent with an entity's existing policy on releasing such effects. An entity should disclose its accounting policy for releasing income tax effects from accumulated other comprehensive income.

Increased depreciation allowances for certain property

The bill permanently extends and modifies the additional first-year depreciation deduction to 100% for property acquired after January 19, 2025, as well as for specified plants planted or grafted after January 19, 2025.

Additionally, the bill allows taxpayers an additional first-year depreciation deduction equal to 100% of the adjusted basis of qualified production property that meets certain requirements. Further, the bill increases the maximum amount a taxpayer may expense under section 179 to $2,500.000, reduced by the amount by which the cost of qualifying property exceeds $4,000,000 (indexed for inflation for tax years beginning after 2025) for property placed in service in tax years beginning after December 31, 2024.

Deduction of U.S. research and experimental expenditures

The bill provides optionality between expensing or amortizing U.S. research expenses. Taxpayers can immediately deduct domestic research or experimental expenditures paid or incurred in all tax years beginning after December 31, 2024. For taxpayers that elect to capitalize and amortize U.S. research expenditures (for a period of not less than 60-months), amortization begins in the month in which the taxpayer first realizes benefits from the research expenditures (rather than using a mid-year convention for the year such expenses are paid or incurred under current law). Research or experimental expenditures attributable to research that is conducted outside the U.S. will continue to be capitalized and amortized over 15 years under section 174.

Small business taxpayers with average annual gross receipts less than $31,000,000 are generally permitted to apply this change retroactively with amended returns or a cumulative section 481(a) adjustment for tax years beginning after December 31, 2021. Furthermore, all taxpayers that made domestic research or experimental expenditures after December 31, 2021, and before January 1, 2025, can elect to accelerate the remaining deductions for such expenditures over a one- or a two-year period.

The bill also includes rules that coordinate the immediate deductibility of domestic research or experimental expenditures with the research credit, clarify the treatment of foreign research or experimental expenditures, and contain other coordinating changes.

Modified calculation of adjusted taxable income for purposes of business interest deduction

The bill permanently increases the limit on the deductibility of business interest expense for tax years beginning after December 31, 2024, by providing that adjusted taxable income is computed in a manner similar to EBITDA; however, it excludes subpart F and net CFC tested income inclusions along with the associated section 78 gross-ups from adjusted taxable income.

KPMG observation

While the above provisions may have a limited impact on income taxes related accounts as of the July 4, 2025, enactment date, an entity needs to consider the impact of the provisions on future taxable income (loss). If an entity anticipates adjustments to future taxable income (loss) as a result of the provisions, existing valuation allowance judgments need to be reassessed to determine if a change in judgment on the realizability of existing deferred tax assets occurs. Whether, and to what extent, the changes will impact an entity may depend on whether the entity evaluates future taxable income exclusive of reversing items under the with-and-without approach or the replacement approach. Refer to paragraph 4.048 of the KPMG Handbook: *Accounting for income taxes* for additional detail.

To the extent the changes in tax laws impact income taxes receivable (payable) for the current year upon enactment, they are reflected within the estimated annual effective tax rate in the interim period that includes the July 4, 2025, enactment date.

While certain changes may be treated as a change in method of accounting under section 481, if there is no risk of a taxing authority initiated change and the evidence establishes that the entity is fully committed to the change, the impact may be accounted for based on intent prior to reporting the election on an income tax return or filing Form 3115 to change the tax accounting method (which would also take into account any and all ancillary effects).

Further, the new provisions will need to be incorporated into the scheduling of the reversal of existing temporary differences in order to determine whether deferred tax assets are realizable. If an entity is relying on both reversing taxable temporary differences and future taxable income exclusive of reversing items to realize its deferred tax assets, the impact may be affected by whether those sources of income are evaluated in combination or using an additive approach. Refer to paragraph 4.007a of the KPMG Handbook: *Accounting for income taxes* for additional detail.

Modifications to GILTI and foreign-derived intangible income (FDII)

The bill decreases the deduction for corporations for tax years beginning after December 31, 2025, to 40% for net CFC tested income (NCTI), which replaces GILTI, and 33.34% for FDDEI, which replaces FDII, resulting in an effective tax rate of 14% for both FDDEI and NCTI (after considering the FTC haircut related to NCTI). Additionally, the bill introduces a new provision that modifies the definition of deduction eligible income.

KPMG observation

In January 2018, the Financial Accounting Standards Board (FASB) staff issued five Staff Q&As addressing various financial accounting and reporting implementation issues related to TCJA. In one of the Staff Q&As, the FASB staff noted that ASC 740 is not clear as it relates to the accounting for GILTI and established that entities can apply a policy election to either provide deferred taxes related to GILTI or account for taxes on GILTI as a period cost when incurred. KPMG tax professionals believe the policy election an entity has adopted related to GILTI shall also apply to NCTI.

For entities that have elected to provide deferred taxes related to GILTI, the impact of the changes in tax law are likely to affect the measurement of deferred taxes. The impact should be reflected in the interim period that includes the July 4, 2025 enactment date and is allocated to income tax expense (benefit) from continuing operations.

Entities should also analyze the impact of the changes to the GILTI and FDII regimes on its valuation allowance assessment. ASC 740 requires an entity to consider all available evidence, both positive and negative, to determine whether based on the weight of that evidence, it has sufficient taxable income to realize its deferred tax assets. An entity may need to reconsider its reliance on future taxable income exclusive of reversing items as a source of income given the GILTI and FDII regime changes.

Similar to FDII, KPMG tax professionals note that the tax benefit associated with FDDEI is reflected as a special deduction and therefore does not result in an adjustment to the statutory rate utilized in the measurement of deferred taxes. Further, as the changes to the GILTI and FDII regimes are effective in a future period, assuming an entity has a policy election to account for GILTI as a period cost, the annual effective tax rate will reflect the changes in the applicable preferential rates in the period in which the laws become effective.

Modifications to BEAT

The bill increases the permanent BEAT rate from 10% to 10.5% for tax years beginning after December 31, 2025.

KPMG observation

Consistent with the FASB staff Q&A released after enactment of the TCJA, entities should measure deferred taxes based on the regular tax rate and account for the incremental tax owed under the BEAT system as it is incurred. Further, an entity does not need to evaluate the effect of potentially paying BEAT in future years when assessing the realizability of its deferred tax assets under the regular tax system; however, KPMG tax professionals believe an entity may elect to do so as an accounting policy election that should be consistently applied. Refer to paragraphs 3.072d and 4.116d of the KPMG Handbook: *Accounting for income taxes* for additional detail.

Limitation on deduction of charitable contributions

The bill permits a deduction for charitable contributions only if, and to the extent that, such contributions exceed 1% of the corporation's taxable income, as defined. If corporate contributions do not exceed 10% of taxable income there is no carryforward of contributions disallowed.

KPMG observation

The limitation may create a new class of permanently nondeductible expenses for many entities.

Accelerated termination of certain tax credits

While the bill accelerates the termination of certain tax credits, the transferability of those credits is not terminated unless the transferee is a specified foreign entity.

KPMG observation

The future reduction in tax credits generated may result in an increased ability to utilize existing deferred tax assets and an entity's valuation allowance judgment.

For investments in pass-through entities accounted for under the proportional amortization method (PAM) that generate tax credits that are impacted by the bill, the investor should reassess whether the PAM qualifying criteria are met and whether a revision to the PAM schedule is necessary.

Refer to chapter 7 of the KPMG Handbook: *Tax credits* for additional detail.

Financial statement disclosures

KPMG observation

With final legislation enacted on July 4, 2025, entities need to consider disclosure of the expected effects of enactment in the notes to the financial statements, management discussion and analysis (MD&A), and risk factors.

Within the notes to annual financial statements, entities are required to disclose income tax expense (benefit) arising from adjustments of deferred tax assets (liabilities) for changes in tax laws that have been enacted. Additionally, US-domiciled public business entities are required to disclose the US federal effect of changes in tax laws in a separate category in the annual effective tax rate reconciliation following the adoption of ASU 2023-09, *Improvements to Income Tax Disclosures*.

For many entities, as the tax law is enacted subsequent to the end of a financial reporting period but prior to the issuance of the financial statements, entities may need to disclose the nature of the event and an estimate of its financial statement effect or a statement that such an estimate cannot be made. If the legislation was enacted in an interim period, the reasons for significant variations in the customary relationship between income tax expense (benefit) and pretax income (loss) should be disclosed. Further, to the extent estimated amounts have been recognized, entities may need to provide transparency around the nature of the estimates and the reasonably possible adjustments to those amounts.

Within MD&A, entities may consider disclosing changes in expected future effective tax rates or cash flows from income taxes based on the provisions as enacted.

Additionally, to the extent future regulatory, administrative, or legislative actions could have a materially adverse effect, additional disclosure within risk factors may be necessary.

Conclusion

As noted above, this document discusses selected areas of accounting for income taxes that may be impacted by the bill, but it is not all inclusive. An entity's specific facts and circumstances should be assessed in determining the accounting for income taxes impact of the bill.

Related content

For additional information on the accounting for income taxes considerations of changes in tax laws, refer to sections 3, 4, 5, and 10 of the KPMG Handbook: *Accounting for income taxes*.

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