Debevoise & Plimpton

The Debrief

TCJA 2.0: Endgame for the Beautiful Bill

July 3, 2025

The Senate passed the tax bill on July 1 by a vote of 51-50 following the longest "vote-a-rama" session in Senate history. The House then passed the same bill on July 3 by a vote of 218-214, allowing it to go the President to be signed into law by the targeted Fourth of July deadline.

While the final bill largely followed the original Senate version,[1] there are notable changes, summarized below.

REMEDIES AGAINST UNFAIR FOREIGN TAXES

The most notable change in the final bill is the full removal of Section 899, the controversial "revenge tax," which would have raised tax rates applicable to individuals and entities with ties to governments that enacted "unfair taxes," such as digital services taxes ("DSTs") and the Pillar 2 undertaxed payment rule ("UTPR"), that could affect U.S. taxpayers. The change was motivated by the announcement of a deal with the G7 to exclude U.S.-parented groups from Pillar 2 taxes under a "side-by-side" tax system. Dropping Section 899 from the bill removes a key source of uncertainty in cross-border transactions and investments.

While the G7 agreement does not address DSTs and does not include other non-G7 countries that have implemented a UTPR, Republicans may be of the view that there is sufficient momentum and leverage to reduce or eliminate the impact of those taxes on U.S. groups in other jurisdictions. As a case in point, Canada announced on June 29 that it would repeal its DST to allow trade talks with the United States to restart.

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[1] For a comprehensive discussion of the original Senate version, please see our June 24 Debevoise In Depth which can be accessed here.

INTERNATIONAL

BEAT

The final bill would permanently increase the BEAT rate from 10% to 10.5% (down from 14% in the original Senate proposal) for taxable years beginning after December 31, 2025. The bill also removes other BEAT changes from the original Senate proposal, including a proposed reduction to the de minimis base erosion percentage from 3% to 2%, the addition of a BEAT high tax exception, and the treatment of capitalized interest expenses as base erosion payments.

Foreign Tax Credits

The bill generally retains the approach of the original Senate proposal to foreign tax credits, including by increasing GILTI (now NCTI) foreign tax credits from 80% to 90% and adding taxpayer favorable changes that limit the deductions of a U.S. taxpayer that are allocated to income in the separate GILTI foreign tax credit category.

Controlled Foreign Corporations ("CFC")

The bill, consistent with the original Senate proposal, would reinstate Section 958(b)(4) for most purposes, blocking downward stock ownership attribution from a foreign person to a U.S. person for purposes of determining CFC status of a foreign corporation. The Senate bill also adds new rules for foreign-controlled foreign corporations (FCFC) as in the original Senate proposal.

ENERGY CREDIT PULLBACK

The final bill denies wind, solar and certain other energy production and investment credits to specified foreign entities (including foreign nationals) from covered foreign countries, notably China. It also denies these credits to any other entity in which specified foreign entities have impermissibly high equity ownership (25% ownership by a single specified foreign entity or 40% in the aggregate) or debt ownership (15% ownership in the aggregate). In addition, the Senate bill imposes a "material assistance" prohibition on these credits if the cost of manufactured products (including components) sourced from China and other covered foreign countries exceeds a threshold percentage of total costs of manufactured products (including components), which threshold becomes more difficult to satisfy over time. This restriction only applies for projects that begin construction after December 31, 2025.

The bill **does not include** the last-minute excise tax proposal that would have applied to wind and solar projects that include materials sourced from China or other covered foreign countries.

The bill also accelerates the timeline for termination of wind and solar clean electricity production and investment credits by requiring that such projects be placed into service before the end of 2027. However, the new accelerated termination rule only applies to projects that begin construction after the date which is twelve months after the enactment of the bill.

SALT DEDUCTION CAP AND PTET

SALT Cap

The final bill temporarily increases the SALT deduction cap. The cap would increase to $40,000 for 2025, with a 1% step up each year through 2029, before reverting to $10,000 in 2030. The higher cap would be reduced by 30% of the excess of the taxpayer's modified adjusted income over $500,000 (with a 1% step up each year through 2029) but in no event below $10,000.

PTET

The bill does not include any changes to current law in connection with the ability of partners to take deductions for PTET payments made by partnerships or other pass-through entities.

PRIVATE UNIVERSITY ENDOWMENT TAX

The final bill would exempt colleges and universities with fewer than 3,000 tuition-paying students (up from 500) from the excise tax on endowments and would include international students in determining the institution's student adjusted endowment, which will meaningfully reduce the number of institutions subject to the top rate of 8%.

LITIGATION FINANCING TAX

The Senate Parliamentarian struck the litigation financing tax in its entirety from the final Senate bill. Accordingly, the litigation financing tax is not in the final bill.

REMITTANCE TAX

The final bill would reduce the excise tax imposed on remittance transfers to non-U.S. persons by persons within the United States from a 3.5% rate to a 1% rate.

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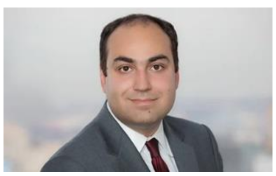

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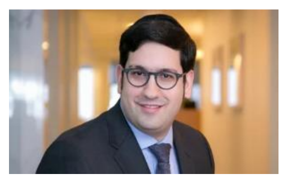

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