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Technical Line

Accounting and financial reporting implications of H.R. 1, also known as the 'One Big Beautiful Bill Act'

In this issue:

What you need to know

- Companies need to consider how the new tax legislation signed into law by President Trump on 4 July 2025, commonly referred to as the One Big Beautiful Bill Act (the Act), affects the accounting for income taxes and disclosures.
- Companies are required to account for the income tax effects of the Act in the period that includes the 4 July 2025 enactment date.
- Companies should make any necessary changes to their deferred tax assets and liabilities, and reassess the realizability of their deferred tax assets in the period that includes the 4 July 2025 enactment date.
- Companies should update their estimated annual effective tax rate for interim reporting purposes beginning in the interim reporting period that includes the Act's enactment date.
- Companies also should make appropriate disclosures about the change in tax law as a subsequent event in their 30 June 2025 financial statements, if applicable.

Overview

President Donald Trump signed the tax legislation known as the One Big Beautiful Bill Act (the Act) into law on 4 July 2025. The Act extends or reinstates certain provisions of the 2017 Tax Cuts and Jobs Act (TCJA), includes tax relief measures, modifies certain energy tax credits granted under the Inflation Reduction Act (IRA) and sets various limits on tax deductions, among other key provisions.

Companies should carefully assess the effects of the tax law changes in the Act on their accounting for income taxes and disclosures. This publication summarizes the key provisions of the Act and incorporates our views on its accounting and financial reporting implications.

Summary of the key provisions

Key changes to US tax law made by the Act are summarized below.

Federal

- 100% bonus depreciation is allowed on a permanent basis for property acquired and placed in service on or after 19 January 2025.
- Companies are permitted to immediately expense costs incurred for new factories, certain improvements to existing factories and certain other structures in the year placed in service. Construction must begin after 19 January 2025 but before 1 January 2029 and be placed in service before 1 January 2031.
- Companies are permitted, on a permanent basis, to expense, rather than amortize over a five-year period, domestic research and development (R&D) costs (under Section 174A of the Internal Revenue Code (IRC)) paid or incurred in tax years beginning after 31 December 2024. Companies can also elect to expense in the current year or over a two-year period, domestic R&D expenses capitalized for tax purposes after 31 December 2021 but before 1 January 2025.
- The earnings before interest, taxes, depreciation and amortization (EBITDA) limitation for the calculation of the IRC Section 163(j) interest deduction is permanently reinstated for tax years beginning after 31 December 2024 and also adjusts that calculation.
- An aggregation rule was added to IRC Section 162(m) for amounts paid by different members of a controlled group for purposes of computing the $1 million compensation limit for tax years beginning after 31 December 2025.
- Corporate charitable deductions in tax years beginning after 31 December 2025 will be limited, as the Act establishes a floor of 1% of taxable income and a limitation of 10% of taxable income in any taxable year. Amounts limited due to the 10% of taxable income limitation will be eligible for carryforward for five years.

International

- The global intangible low-taxed income (GILTI) deduction rate under IRC Section 250 is permanently set to 40% for tax years beginning after 31 December 2025. The Act also makes changes to the computation of GILTI and GILTI foreign tax credits.[1]
- The deduction rate under IRC Section 250 applicable to foreign-derived intangible income (FDII) is permanently set to 33.34% for tax years beginning after 31 December 2025. The Act also makes changes to the computation of FDII.[1]
- The base erosion anti-abuse tax (BEAT) rate is permanently set to 10.5%. The Act eliminates the unfavorable treatment of R&D and certain other credits that would have been applicable for tax years beginning after 31 December 2025.

Energy tax credits

- Certain energy tax credits that were implemented under the IRA are repealed or will be phased out.

Accounting for tax law changes in the appropriate period

Accounting Standards Codification (ASC) 740, *Income Taxes*, requires companies to recognize the effects of changes in tax rates and laws on deferred tax balances in the period when the legislation is enacted. US income tax laws are considered enacted on the date that the President signs the legislation. The Act was enacted on 4 July 2025, the date it was signed into law by President Trump.

Companies are required to record the total effect of tax law changes on deferred tax balances, including related valuation allowances, as a component of tax expense related to continuing operations for the period in which the law was enacted, even if the assets and liabilities relate to discontinued operations, a prior business combination or items of accumulated other comprehensive income. That is, the effect of a change in tax laws or rates on deferred tax balances, including related valuation allowances, should be recognized as a discrete event as of 4 July 2025 and should not be allocated to subsequent interim periods by adjusting the estimated annual effective tax rate (EAETR).

The tax effect of a change in tax laws or rates on estimated taxes payable or refundable for the current year should be reflected in the computation of the annual effective tax rate beginning in the first interim period that includes 4 July 2025. This is the case even if the tax law change is effective in a later interim period of the annual period that includes the enactment date. Refer to section 8.1, Changes in tax laws and rates, and section 20.3, Effect of new tax legislation, of our Financial reporting developments (FRD) publication, ***Income Taxes***.

The effect of a change in tax laws or rates on deferred tax and valuation allowance balances should be recognized as a discrete event as of 4 July 2025.

Additionally, any change in assumptions related to the permanent reinvestment of prior years' offshore earnings or existing deferred tax liabilities for basis differences in foreign subsidiaries resulting from the Act should be recorded as a discrete item in the quarter that includes 4 July 2025.

Valuation allowance considerations

Companies should reevaluate previous valuation allowance conclusions in the period that includes the enactment date; 4 July 2025. In performing the assessment, companies should carefully evaluate any changes in reversal patterns of existing temporary differences and the impact of future taxable temporary differences that may originate in the current year as a result of the additional tax deductions available through the Act.

In addition, companies that rely on future taxable income projections as a source of income to realize deferred tax assets should consider the interplay between the various provisions of the Act in their existing future taxable income projections and resulting valuation allowances, making sure that the various effective dates are appropriately factored in their computations. This will include the impact of the revised IRC Section 163(j) interest expense limitation rules, the expanded Section 162(m) limitation and changes to net controlled foreign corporation tested income, foreign-derived deduction eligible income (and BEAT deductions in its projections of future taxable income.

Subsequent events

If a company's fiscal year (or interim period) ended before 4 July 2025 but the company had not issued its financial statements for the period, it should make appropriate disclosures regarding the change in tax law as a subsequent event. Under ASC 740, a company should not include the effect of a new tax law in its financial statements earlier than the period that includes the date of the enactment.

Accounting considerations for the key provisions

The following sections address the key provisions of the Act and related accounting considerations.

Bonus depreciation, Section 174 R&D expense and Section 163(j) interest limitations

The Act allows 100% bonus depreciation for property acquired and placed in service on or after 19 January 2025. The Act also allows immediate expensing of costs incurred for construction of certain new US factories, certain improvements to existing US factories and certain other US structures in the year they are placed in service. Construction must begin after 19 January 2025 but before 1 January 2029, and be placed in service before 1 January 2031.

The Act makes permanent the allowance for expensing, rather than amortizing over a five-year period, IRC Section 174 domestic R&D amounts paid or incurred in tax years beginning after 31 December 2024.Taxpayers may choose to (1) deduct domestic R&D expenses, (2) capitalize and recover domestic R&D expenses ratably over the useful life of the research (no less than 60 months) beginning with the month in which the taxpayer first realizes the benefit of the expenditures or (3) apply the existing IRC Section 59(e) 10-year amortization election to domestic R&D amounts. Taxpayers are required to reduce domestic R&D expenses (whether immediately deducted or capitalized and amortized) by the amount of their IRC Section 41 research credits for tax years beginning after 31 December 2024, unless an election is made to claim a reduced credit under IRC Section 280C(c)(2).

The Act also allows taxpayers that capitalized domestic R&D expenditures after 31 December 2021 but before 1 January 2025 to elect to deduct any remaining unamortized amounts in the first tax year beginning after 31 December 2024, or ratably over the two-tax year period starting with the first tax year that begins after 31 December 2024. The election will be treated as a change in method of accounting that is implemented on a cut-off basis (i.e., there will be no IRC Section 481(a) adjustment). While the Act provides for the election to deduct previously capitalized domestic R&D expenses over a one- or two-year period, it is yet unclear how taxpayers will be allowed to affect that election and further guidance will be needed from Treasury. The statute language makes clear that the election is available, and that the change in treatment "shall be treated as made with the consent of the Secretary". Thus, unless further guidance is provided on whether, or when, a 3115 filing will be required, we believe it would be appropriate for taxpayers to account for their intent to make the election, and all ancillary effects, in the quarter in which the company determines to make the election.

In addition, the Act permanently reinstates the EBITDA limitation for the calculation of the IRC Section 163(j) interest deduction for tax years beginning after 31 December 2024. For tax years beginning after 31 December 2025, the Act has a new ordering rule under which the IRC Section 163(j) limitation is calculated prior to the capitalization of any interest. However, interest required to be capitalized under IRC Section 263(g) or 263A(f) is excluded from this limitation as it is not considered business interest under IRC Section 163(j). The business interest allowed under IRC Section 163(j) is applied first to the capitalized interest and then to deducted interest. The Act also excludes subpart F and GILTI, along with any associated gross-up under Section 78, from adjusted taxable income for purposes of IRC Section 163(j).

Companies planning to elect to either (1) immediately deduct property or factory-related expenses (2) deduct domestic R&D expenses in the current year or (3) deduct prior amounts capitalized should understand and account for changes in deferred tax assets and liabilities that occur as a result of the change in tax law.

In addition, changes to the IRC Section 163(j) taxable income limitation for the deduction of interest expense may impact deferred tax assets in the event a company has interest limitation carryovers. Any adjustment to deferred taxes should be reported in the interim period that includes the enactment date; 4 July 2025.

Companies also should consider the effect of these federal provisions on their taxes currently payable or refundable, including any ancillary effects of these provisions on the current EAETR, such as the potential for Corporate Alternative Minimum Tax.

Section 162(m) limitation

The Act adds a rule to IRC Section 162(m) which requires aggregation of compensation paid by each member of a controlled group for purposes of determining whether a "covered employee" meets the $1 million per year compensation deduction limitation. The deduction limitation applies to tax years beginning after 31 December 2025. For tax years beginning after 31 December 2025, entities will need to determine whether the aggregation rule will reduce the permissible compensation deduction of their covered employees' accrued compensation.

In the interim period including the date of enactment, companies should remeasure deferred tax amounts for existing deferred share-based compensation (e.g., stock option grants, restricted stock units) as of the date of enactment to account for the impact this tax law change may have on projected employee limitations.

Charitable contributions made by corporations

The Act adds a deduction limitation to the charitable contributions made by most corporations. Corporations will only be permitted a deduction if the charitable contributions exceed 1% of taxable income but are not more than 10% of taxable income. If the charitable contributions exceed 10% of taxable income in a given year, the excess amount can be carried forward up to five years.

The deduction limitation applies to tax years beginning after 31 December 2025. For taxable years beginning after 31 December 2025, corporations that make contributions in excess of 10% of taxable income for the taxable year will record deferred tax assets for any carryforward amount and assess for realizability.

Global intangible low-taxed income

Under IRC Section 951A, a US shareholder of a controlled foreign corporation (CFC) must include in gross income its GILTI. GILTI is the excess of a US shareholder's aggregate net CFC tested income over its net deemed tangible income return (NDTIR).

For tax years beginning before 1 January 2026, IRC Section 250 allows a domestic corporation to deduct 50% of its GILTI (resulting in a 10.5% effective rate before foreign tax credit considerations). Prior to enactment of the Act, the GILTI Section 250 deduction rate was set to decrease to 37.5% for tax years beginning after 31 December 2025. The Act permanently sets the GILTI Section 250 deduction rate at 40% (resulting in a 12.6% effective rate before foreign tax credit considerations) for tax years beginning after 31 December 2025.

The Act also eliminates the NDTIR, thus causing the inclusion in gross income to equal the US shareholder's aggregate net CFC tested income. Accordingly, the Act renames IRC Section 951A to refer to net CFC tested income (NCTI) rather than GILTI for future years. Additionally, for tax years beginning after 31 December 2025, the Act increases the foreign tax credit to allow 90% of foreign taxes properly attributable to tested income (up from 80%) and reduces the deductions allocable to GILTI for purposes of the foreign tax credit limitation.

Upon enactment of the TCJA, Companies had to make a policy election to either (1) account for taxes on GILTI as period costs, similar to special deductions or (2) recognize deferred tax assets and liabilities when basis differences exist that are expected to affect the amount of the GILTI inclusion when the basis differences reverse.

If a company elected to recognize GILTI deferred tax assets and liabilities, the effects of adjusting the deferred tax assets and liabilities should be recorded as of the 4 July 2025 enactment date. If a company elected to recognize taxes on GILTI as period costs, the impacts from the changes to GILTI, including, change in GILTI Section 250 deduction rate, elimination of NDTIR, and changes impacting the calculation of GILTI foreign tax credits, would be accounted for as a period cost in future periods when the changes are effective (i.e., for tax years beginning after 31 December 2025). Refer to section 14.3.6.2, Accounting for GILTI deferred taxes, of our FRD, ***Income Taxes***, for further information if electing to account for GILTI in deferred taxes.

Foreign-derived intangible income and Base erosion and anti-abuse tax

For tax years beginning before 1 January 2026, IRC Section 250 allows a domestic corporation to deduct 37.5% of the corporation's FDII, which is generally income earned from the sale, lease or license of goods and the provision of services, in each case outside the US.

Prior to enactment of the Act, the IRC Section 250 deduction applicable to FDII would have decreased to 21.875% (16.406% rate) for taxable years beginning after 31 December 2025. The Act permanently sets the applicable IRC Section 250 deduction rate at 33.34% (14% rate) for taxable years beginning after 31 December 2025.

The Act also eliminates the deemed tangible income return and renames the applicable provision foreign-derived deduction eligible income (FDDEI) for future years. In addition, the Act revises the expenses allocable to FDII and excludes from FDII, income from the sale or disposition of intangible property from certain transactions after 16 June 2025. Refer to section 5.9.1, Foreign-derived intangible income incentive, of our FRD, ***Income Taxes***, for further information on FDII accounting.

Companies that meet certain thresholds are required to pay a minimum BEAT on certain payments from corporations subject to US tax to related foreign persons. The minimum BEAT is based on the excess of a percentage of the corporation's modified taxable income over its regular tax liability for the year reduced by certain credits, but the amount cannot be less than zero.

Prior to enactment of the Act, the applicable BEAT rate was 10% and was set to increase to 12.5% for tax years beginning after 31 December 2025. The Act permanently sets the BEAT tax rate to 10.5% for tax years beginning after 31 December 2025, and it eliminates the unfavorable treatment of R&D and certain other credits that would have been applicable for tax years beginning after 31 December 2025 under TCJA. Refer to section 5.6.1, Accounting considerations for BEAT provisions, of our FRD, ***Income Taxes***, for further information.

Neither FDII nor BEAT represent temporary differences under ASC 740 accounting, and the changes in the Act for both are prospective for years beginning after 31 December 2025. As a result, there should be no impact on deferred taxes or the current income tax provisions for the reporting period including the date of enactment. Refer to the Valuation allowance considerations section above for discussion of the impact of these provisions that should be considered in the interim period that includes the enactment date.

One-month deferral for CFCs

IRC Section 898 generally requires a CFC to use the tax year of its majority US shareholder. However, prior to the enactment of the Act, Section 898(c)(2) permitted a CFC to elect a tax year beginning one month earlier than the majority US shareholder's tax year. The Act repeals the one-month deferral election. A transition rule will require a CFC's first tax year beginning after 30 November 2025 to end at the same time as the first "required" year (generally that of its majority US shareholder) ending after that date. Therefore, CFCs with a tax year ending on 30 November 2025 and a one-month deferral election will automatically have a short tax year ending on 31 December 2025.

Companies with CFCs that have a one-month deferral tax year-end should consider the impact of the transition rule and one-month short period on their current year estimated GILTI, subpart F, and foreign tax credit calculations relevant to computation of their EAETR. They should account for any changes to the estimate in the interim period including the date of enactment. The Act does not address how foreign taxes of the affected CFCs should be allocated as a result of this change but authorizes the Secretary of the Treasury to issue guidance on allocating foreign taxes between the short year and the succeeding tax year.

Because the Act does not explicitly address how a company should allocate the foreign taxes of the CFC to the one-month short period, companies need to assess the allocation on a more-likely-than-not basis for ASC 740 purposes for including the impact on GILTI, subpart F and foreign tax credit calculations in the adjusted EAETR calculation.

Other CFC and Foreign Tax Credit changes

Under IRC Section 954(c)(6), dividends, interest, rents and royalties received or accrued by a CFC from a related CFC are generally not treated as subpart F income, provided that certain requirements are met. Prior to the Act, the provision applied to tax years of foreign corporations beginning before 1 January 2026. The Act makes permanent the "look-through exception" under IRC Section 954(c)(6).

For tax years beginning after 31 December 2025, the Act eliminates the reference to IRC Section 960(b) from Section 78 such that the taxes deemed paid by a domestic corporation related to distributions of previously taxed earnings and profits (PTEP) are not treated as IRC Section 78-deemed dividends.

In addition, the Act imposes a new 90% limitation on foreign taxes paid or accrued with respect to distributions of PTEP relating to GILTI inclusions, including IRC Section 960(b) deemed paid taxes, applicable to foreign income taxes paid or accrued (or deemed paid under IRC Section 960(b)) with respect to PTEP distributions relating to GILTI inclusions after 28 June 2025.

Companies should consider the changes to CFC and foreign tax credit rules in determining deferred taxes related to existing basis differences for foreign subsidiaries. Additionally, companies should revisit assumptions regarding the permanent reinvestment of offshore earnings or existing basis differences in foreign subsidiaries resulting from changes made by the Act.

Energy tax credits

The Act repeals or phases out certain energy tax credits that were enacted under the IRA. Companies need to review the Act to understand how the provisions impact their ability to earn tax credits under the IRA in the future. The Act does not repeal energy tax credits that have already been earned as of the enactment date, but it may repeal tax credits that a company expected to earn later in its fiscal year including the date of enactment. Companies should evaluate the impact of tax credits that they had planned to generate or purchase and revise their estimated interim tax rate as necessary.

How we see it

Entities will need to assess their facts and circumstances to determine the income tax accounting impact of the Act. This includes assessing the effects of tax law changes on deferred taxes and determining whether a reevaluation of their existing valuation allowance is necessary in the interim period including the enactment date (i.e., 4 July 2025).

State tax considerations

Most state income tax laws use federal taxable income as a starting point for determining state income tax. While some states automatically adopt federal tax law changes, others conform their laws with federal laws on specific dates. States also may choose to decouple from new federal tax provisions.

The estimated effective tax rate should reflect both enacted federal and state income tax laws. Therefore, companies should understand the conformity rules in the states in which they operate and monitor any changes in state tax law so they can appropriately account for the effects of changes in tax law separate and apart from their EAETR.

Companies need to consider how to respond to the following situations involving state conformity:

Companies need to carefully consider how the Act may affect their income tax disclosures required under ASC 740.

- If the state automatically adopts federal tax changes but subsequently enacts a new tax law to decouple from them, we believe a company should account for the decoupling tax law as a tax law change in the period of enactment.
- If the state does not automatically adopt federal tax changes and subsequently enacts new legislation to conform with them, we believe a company should account for the enactment of the law as a change in tax law in the period of enactment.

Disclosures

ASC 740 requires companies to disclose the effects of adjustments to deferred tax amounts for enacted changes in tax laws or rates. Companies also need to carefully consider how other aspects of the Act may affect each of the income tax disclosures required under ASC 740. Refer to section 18, Financial statement presentation and disclosures, of our FRD, ***Income Taxes***, for further information.

Additional SEC disclosure considerations

When the effects of tax law changes are or will be material to a registrant, the registrant should consider the disclosure implications in preparing its management's discussion and analysis under Item 303 of Regulation S-K, including its discussion of results of operations and liquidity and capital resources.

Internal control considerations

Companies should evaluate whether changes to their existing processes and controls are necessary to account for the effects of the Act. Companies need effective internal controls to make sure that the accounting implications of the tax provision calculations are accurately recorded and disclosed in their financial statements.

Additionally, companies should evaluate whether they need any new information to account for the effects of the tax law changes and whether they will use any new information in their internal controls. If new information will be used in internal controls, companies need to consider the effectiveness of their controls over the completeness and accuracy of that new information.

Next steps

The Act makes significant changes to US tax law and entities will need to account for the effects of the Act in the interim period that includes the enactment date (i.e., 4 July 2025). As their next steps, entities should:

- Evaluate whether and how each provision of the Act may affect an entity, including when such effects may occur based on provision effective dates
- Determine and account for the effects of the Act on the current year EAETR for the remainder of the fiscal year
- Determine and account for the effects of the Act on deferred tax assets and deferred tax liabilities
- Perform a valuation allowance reassessment and account for any necessary changes, being careful to incorporate the interplay of the many provisions of the Act
- Determine the effects of the Act on income tax disclosures required under ASC 740 and other required disclosures
- Consider whether existing internal controls are appropriate to account for the effects of the Act

Endnotes:

[1] The Act renames IRC Section 951A to refer to net CFC tested income (NCTI) rather than global intangible low-taxed income (GILTI) and IRC Section 250 deduction to foreign-derived deduction eligible income (FDDEI) rather than foreign-derived intangible income (FDII) for years beginning after 31 December 2025. For simplicity purposes, we have continued the use of GILTI and FDII throughout this document.