PRI Principles for Responsible Investment

POLICY BRIEFING

POLICY BRIEFING: "ONE BIG BEAUTIFUL BILL ACT" RECONCILIATION PACKAGE

PRI Association

Registered office: 5th floor, 25 Camperdown Street
London, UK, E1 8DZ   Company no. 7207947
T: +44 (0) 20 3714 3220   W: www.unpri.org   E:info@unpri.org

RESOURCES

- H.R.1: One Big Beautiful Bill Act (July 1, 2025)
- Congressional Budget Office Analysis (July 1, 2025)

For questions relating to this brief, contact Will Sullivan, Senior US Policy Analyst, William.Sullivan@unpri.org.

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

The purpose of this briefing is to provide a high-level overview of certain provisions in the "One Big Beautiful Bill Act," or the "reconciliation package," that may pertain to PRI signatories.

The reconciliation package was signed into law on 4 July 2025. The bill makes broad changes to federal tax and spending priorities including adjustments to business and international tax rules, modifications to energy incentives, and changes to social safety net programs.

The intended audience for this document is PRI signatories who want to better understand certain provisions in the reconciliation package that could be relevant to them.

For any questions regarding the application of this law to your practices, readers should consult their legal counsel.

BILL OVERVIEW

The “One Big Beautiful Bill Act” (“the bill”, “the reconciliation package” or “the package”) creates significant changes to the federal government’s budget and policy framework. It was passed through Congress using the budget reconciliation process, which allows certain budget-related bills affecting taxes, spending, or the federal debt limit to be approved in the Senate with a simple majority, rather than the 60-vote threshold required to overcome a filibuster.

The bill covers a wide range of areas, including adjustments to business and international tax rules, modifications to energy incentives, and changes to social safety net programs. These provisions collectively represent a substantial shift in federal spending and revenue policies. The below summarizes key provisions in the reconciliation package that could be relevant for signatories, including:

- General tax provisions
- Clean energy tax provisions
- Other provisions of note

GENERAL TAX PROVISIONS

Section 899 “retaliatory taxes” eliminated from bill text

- The original House version of the bill added Section 899 to the tax code, which would have increased US federal income taxes and withholding tax rates by up to 20% on foreign individuals or companies from countries with “unfair foreign taxes.”
- An “unfair foreign tax” referred to an undertaxed profits rule, a digital services tax, a diverted profits tax, or an extraterritorial tax / discriminatory tax that disproportionately impacts US corporations. Countries that would have been impacted by this include much of the European Union, Australia, Indonesia, Japan, South Korea, Turkey, and the United Kingdom.
- The Senate eliminated this provision from the reconciliation package after Treasury Secretary Scott Bessent requested its removal following an agreement made between the US and fellow G7 members. Under the “side by side” solution, G7 countries will exclude US companies from the Organization for Economic Cooperation and Development (OECD) Pillar II’s Undertaxed Profits Rule and Income Inclusion Rule, meaning US multinationals will not face additional foreign taxes abroad due to existing US minimum tax rules.

Tiered rate structure and additional taxable income introduced for university endowment funds

- The reconciliation package increases taxes for university endowment funds, which was previously a flat 1.4% excise tax. The rate structure is now tiered and based on a school’s “student adjusted endowment” – a ratio that equals the school’s investment assets per student. Schools with less than 3,000 tuition-paying students are not subject to the excise tax regardless of endowment size. The rate structure is as follows:

School’s Student Adjusted Endowment	Tax Rate
Between $500,000 and $750,000	1.4%
Between $750,000 and $2,000,000	4%
Above $2,000,000	8%

- The package also introduces new taxable items of income previously excluded from taxation, including student loan interest and royalty from intellectual property developed using federal funds.
- Both of these changes are set to take effect on January 1, 2026.

Global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII) permanently maintained

- Please note that these provisions only pertain to Controlled Foreign Corporations (CFCs). These are foreign companies of which US shareholders own more than 50% of the company's stock by vote or value.
- The reconciliation package renamed both of these provisions and simplified the calculation by removing the deduction for a normal return on tangible assets with Qualified Business Asset Investment (QBAI) or Deemed Tangible Income Return (DTIR). This means that all foreign income is subject to tax rates.
- GILTI is a rule that requires US investors who own certain foreign companies to pay tax on part of the profits earned by those companies abroad. The reconciliation package renames GILTI to "net CFC tested income" (NCTI). Additionally, the legislation sets a permanent effective tax rate on NCTI for US companies at 12.6%.
- FDII is a tax benefit for US companies that earn income by providing goods or services to customers outside the United States. It allows these companies to deduct a portion of their profits from foreign sales that go beyond a standard return (10%) on their physical assets. The reconciliation package reduces renamed FDII to "foreign derived deduction eligible income" (FDDEI), which reduces and permanently holds a 33.34% deduction cap for FDII thus resulting in a 14% effective tax rate on FDDEI.
- It is important to note that GILTI/NCTI, FDII/FDDEI, and the base erosion and anti-abuse tax (BEAT) rates were scheduled under the Tax Cuts and Jobs Act of 2017 (TCJA) to increase to between 13.125 to 16.406%, 16.406%, and 12.5% respectively after 2025. As such, the reconciliation package ultimately reduces the international effective tax rates.

State and local tax (SALT) deductions increased through 2029

- Individual state and local tax deductions are increased to a $40,000 cap beginning in 2025 and last through the end of 2029 (with a phasedown reducing the cap to a minimum of $10,000 for taxpayers with income above $500,000). For all taxable years beginning after 2029, SALT deductions will be permanently capped at $10,000.
- The reconciliation package does not include a limitation on SALT deductions for corporations.

Increased deduction for business interests made permanent

- Under previous law, the deduction for business interest expense was generally capped at 30% of a business' adjusted taxable income (ATI), which was calculated using EBIT (earnings before interest and taxes).
- The reconciliation package permanently changes the ATI calculation to use EBITDA (earnings before interest, taxes, depreciation, and amortization), which will result in a higher ATI and therefore allow for a higher interest deduction.

Opportunity zones made permanent

- Under the TCJA, certain areas based off census data that met the definition of a "low-income community" were designated as "opportunity zones". Certain qualified investments made in these zones were eligible for certain tax benefits. The reconciliation package establishes a permanent opportunity zone policy with rolling 10-year designation updates.

Advanced manufacturing investment credit enhanced for semiconductors

- Under previous law, manufacturers of semiconductors and related manufacturing equipment were eligible for a tax credit equal to 25% of the qualified investment in an advanced manufacturing facility that began construction prior to January 1, 2027. The reconciliation package increases the credit rate to 35%, applicable to facilities placed in service after December 31, 2025. Note that facilities that commence construction after on or after January 1, 2027 are not eligible for the tax credit.

Real estate investment trust subsidiary asset threshold increased

- The reconciliation package raises the limit on the percentage of assets that real estate investment trusts (REITs) can hold through taxable REIT subsidiaries from 20% to 25%. This change takes effect on January 1, 2026.

CLEAN ENERGY TAX PROVISIONS

Solar and wind energy tax credits to be phased out

- After much debate on the severity of cuts to the solar and wind energy production and investment tax credits of the Inflation Reduction Act (IRA), the reconciliation package allows the credits to remain for projects that begin construction on or before July 4, 2026, regardless of when the facility is placed in service.
- Projects that begin construction after that one-year period must be placed in service by December 31, 2027, to qualify.
- A project is deemed to have begun construction if it meets one of two qualifications. The first is to "incur" at least 5% of the total project cost, which is usually in the form of delivery of equipment or services. The other is to start "physical work of a significant nature" at the project site, which is subjective and left to the Treasury Department and Department of the Interior to determine.
- On July 7, 2025, the President issued an executive order directing the Treasury Department to publish guidance on the "begin construction rules" with respect to wind and solar projects within 45 days.

Tax credits for electric vehicles and energy efficiency to expire

- Tax credits for new and previously owned electric vehicles, including commercial vehicles, expire effective October 1, 2025. However, tax credits for electric vehicle charging infrastructure will expire effective July 1, 2026.
- Energy efficient home improvement credits and residential clean energy credits expire effective January 1, 2026.
- Energy efficient commercial building tax deductions and new energy efficient home credits effective July 1, 2026.

Certain clean energy tax credits extended

- Clean hydrogen and biofuels production tax credits are extended through 2027 and 2031, respectively.

- Tax credits for geothermal, hydropower, nuclear, and carbon capture projects remain through 2032, with timelines for qualified carbon capture facilities depending on commencement of construction.

Foreign entities of concern (FEOC) restrictions expanded

- The reconciliation bill expands FEOC restrictions to cover nearly all tax credit eligibility. The expanded FEOC rules deny credits to projects that are owned, controlled, influenced, or financially tied to foreign companies within "covered nations," which generally includes China, Russia, Iran, and North Korea.

Clean energy excise tax removed from bill text

- The Senate removed the clean energy excise tax from the reconciliation package, which would have been imposed on solar and wind energy projects constructed with a certain percentage of materials sourced from "prohibited foreign countries," such as China.

OTHER PROVISIONS OF NOTE

Changes made to Medicaid, the Affordable Care Act, and the Children's Health Insurance Program

- The reconciliation package restricts state use of provider taxes to finance Medicaid, limits eligibility to citizens and certain lawfully present immigrants, cuts federal funding for emergency Medicaid services provided to unlawfully present immigrants, and further reduces state-directed payments to hospitals and other providers. These provisions are expected to cut gross federal Medicaid and Children's Health Insurance Program (CHIP) spending by over $1 trillion over the next ten years.
- The package also requires states to establish community engagement requirements (i.e., work requirements) as a condition of eligibility for most able-bodied adults enrolled in the Medicaid expansion program.
- The Congressional Budget Office estimated that these changes will increase the number of Americans without health insurance by 10 million by 2034.

New requirements added for Supplemental Nutrition Assistance Program (SNAP) eligibility

- Under previous law, certain individuals were limited to three months of SNAP benefits every three years unless they worked for 20 hours per week or qualified for an exemption. The reconciliation package expands this requirement to individuals aged 55 – 64, parents of minors aged 14 and up, and veterans.
- The bill also requires states to pay a portion of benefit costs, potentially as high as 15%, with the actual rate depending on states' payment error rate. States that cannot pay their share may have to cut SNAP benefits or opt out of the program entirely.

Impacts on federal debt

- While the precise figure is unknown, the Congressional Budget Office estimates the reconciliation package will add $3.4 trillion to federal debt by 2034.