Article

The "One Big Beautiful Act" (OBBBA)

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The Act - Drivers & Key Provisions

Reasons for Enactment

Preventing TCJA Sunsets:

A primary driver was to avoid the expiration of the Tax Cuts and Jobs Act (TCJA) of 2017 provisions, which included a tax rate reversion from **37.0% to 39.6%** and the expiration of the 20% Qualified Business Income (QBI) deduction for pass-throughs.

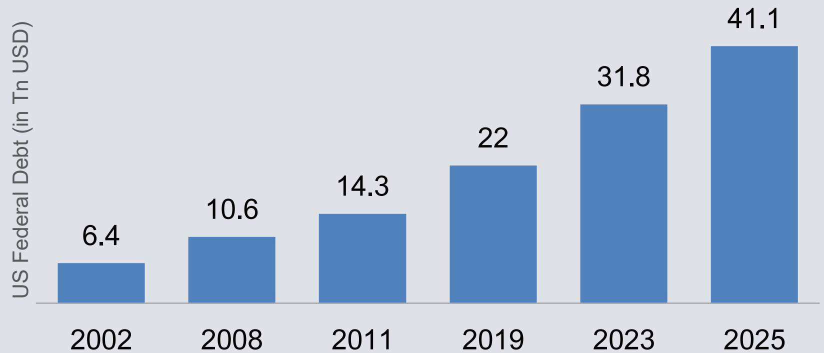
Averting Fiscal Cliffs & Ensuring Certainty:

The act was designed to prevent a scheduled $4.46 trillion tax increase and provide fiscal certainty by addressing the debt ceiling, avoiding a political standoff that could disrupt the economy.

Delivering on Political Promises:

The legislation is a vehicle to deliver on campaign promises for permanent tax relief, bolstering defense and border security, and rolling back previous clean energy policies

Historical Debt Ceiling Context



Source: CBO

Key Economic Provisions

Permanent & Expanded Tax Relief:

- → Permanently extended individual & corporate TCJA cuts.
- → Raised the State and Local Tax (SALT) deduction cap from $10,000 to $40,000 (expiring in 2030).
- → Permanently locked in the 20% QBI deduction for pass- through businesses.
- → Added new deductions for tips, overtime, dependent care, and a $6,000 Social Security bonus for seniors.
- → Made permanent pro-investment provisions like full expensing for equipment and R&D.

Spending Adjustments & Offsets:

To partially offset revenue losses, the act tightens eligibility for Medicaid and Supplemental Nutrition Assistance Program (SNAP), introducing stricter work requirements. Congressional Budget Office (CBO) estimates these changes will reduce spending by **$1.4 trillion** over the decade.

Defense & Border Security Funding:

Allocated $173 billion for defense and $176 billion for immigration and border security over ten years, including funding for a border wall and enhanced missile defense.

Clean Energy Policy Reversal:

Scaled back, phased out, or trimmed key clean-energy tax credits from the IRA, reversing federal incentives for solar, wind, and electric vehicles.

Federal Environmental Funding Cuts:

The bill Retracts billions in unused federal funds for climate and conservation programs, shrinking government efforts to protect the environment.

Short- & Medium-Term Macro Implications (2025-2027)

Economic Growth & Inflation

CBO's dynamic score projects a near-term boost to aggregate demand. Real GDP is expected to see modest growth, particularly between 2025-2027, with retail and manufacturing sectors growing **+0.3% to +0.7%**. This stimulus, however, comes with a risk of mild inflation and prompts the Federal Reserve to slow interest rate cuts. CBO projects interest rates will be **14 to 80 bps** higher than they otherwise would be. The average annual GDP growth improvement is estimated at a modest **4 bps** over the decade.

Labor & Social Impact

Tax incentives are expected to slightly increase workforce participation by **+0.1% to +0.2%**. However, this is offset by significant negative impacts. Medicaid and SNAP cuts are projected to cause the loss of **1.2 million** jobs nationwide by 2029 as healthcare providers and food-related businesses lose revenue. This includes a contraction in healthcare employment and a considerable decrease in low-income jobs.

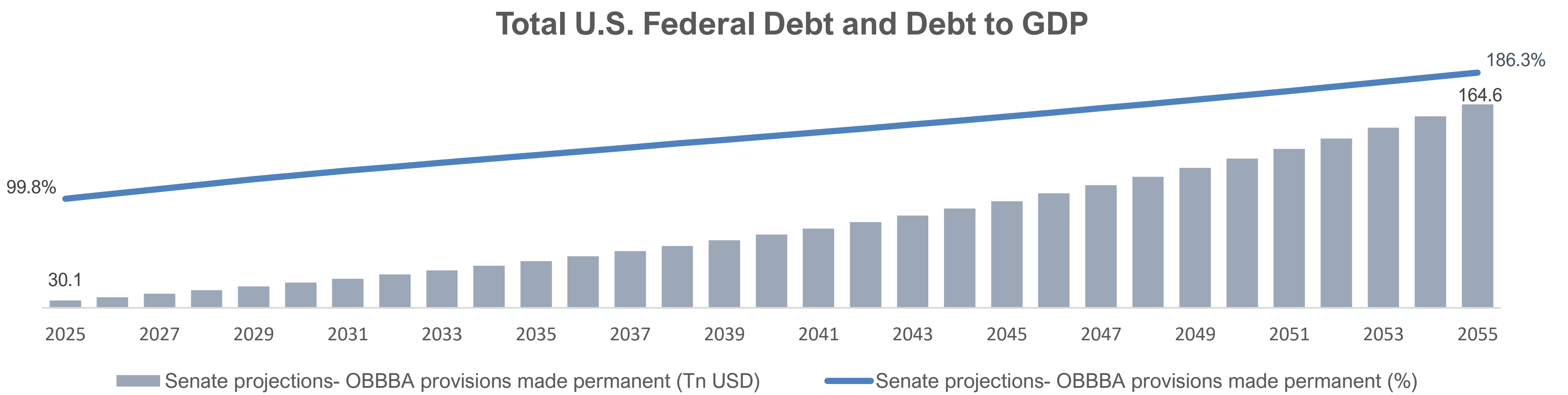
Budget Deficit & Debt

The act will cause a significant increase in the national debt. CBO conventionally scores the cost at **$4.1 trillion** through 2034, including interest. The deficit will be front-loaded, increasing by $500 billion in 2026 and $635 billion in 2027. The TCJA extension accounts for 70% of this new deficit, with annual revenues projected to fall by 8-10%. The debt ceiling is raised by $5 trillion to accommodate this new borrowing.

Immediate Social & Healthcare Impacts

The tightening of Medicaid eligibility is expected to lead to a **5-10% increase** in emergency room visits as individuals lose coverage and delay preventive care. The cuts to safety net programs are insufficient to cover the full fiscal gap of the tax cuts, creating immediate strain on state budgets and healthcare providers who must absorb the cost of uncompensated care.

Long-Term Fiscal & Economic Impact



Source: CBO

Fiscal Instability

The country is expected to encounter recurring, high-stakes debt ceiling crises, creating a cycle of fiscal instability as the debt-to-GDP ratio soars as per CBO.

Economic Growth

Persistent high deficits are projected to slow long-term GDP growth as government borrowing are expected to discourage private investment due to rising interest rates.

Structural Deficit

The permanent tax cuts create a high structural deficit. The CRFB estimates the act will add **$19 trillion** to the debt over 30 years.

Impact on Key Industries

HEADWINDS FOR EVs:
Sunsets the $7,500 new & $4,000 used EV tax credits, raising costs consumers. Eliminates incentives for charging infra. EV makers like Tesla face significant headwinds.

EDGE FOR ICE: Legacy automakers (GM, Ford) benefit from relaxed CAFE standards and a new **$10,000** interest deduction for loans on U.S.-assembled ICE vehicles. GM projects a **2.0-5.5%** revenue increase.

SYSTEM-WIDE PRESSURE ON HEALTHCARE:
A projected **$1 trillion** reduction in federal healthcare spending creates immense strain, increasing uncompensated care costs for hospitals by **$50-$100 billion**.

SKILLED NURSING FALLOUT: The act's spending cuts directly impact skilled nursing facilities (SNFs), leading to financial distress for major providers and creating fallout for healthcare REITs who face tenant bankruptcies.

SEVERE ROLLBACK:
By eliminating key IRA tax credits, OBBBA creates major headwinds for solar, wind, and green hydrogen. Projections suggest a **25-40%** decline in clean energy deployment

INVESTMENT CHILL: The policy reversal will chill long-term investment, jeopardize hundreds of thousands of manufacturing jobs, and disrupt the development of domestic green supply chains.

BOOST FOR CAPEX:
Making full expensing for equipment and R&D credits permanent will boost domestic investment, spur innovation, and enhance global competitiveness..

FINANCIAL REPORTING SHIFT: The act simplifies long-term tax strategy but requires immediate remeasurement of deferred tax assets and liabilities, impacting balance sheets.

BENEFIT IN HIGH-TAX STATES:
Increasing the SALT deduction cap provides significant tax relief to homeowners in states with high property and income taxes, potentially boosting housing demand in those markets.

PRESSURE FROM RATES: The increased federal borrowing could make mortgage costlier, potentially dampening the housing market overall and offsetting some of the benefits from the SALT cap increase.

DIRECT FUNDING INJECTION:
The allocation of $173 billion will provide a massive stimulus to the sector. Major defense contractors and their extensive supply chains will see increased orders and revenue.

BOOST FOR R&D AND PRODUCTION: The funding is targeted at specific programs like enhanced missile defense, shipbuilding, and munitions procurement, which will accelerate R&D, expand production capacity, and lead to job growth in specialized manufacturing hubs.

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