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TAX NEWS

PODCAST: THE ONE BIG BEAUTIFUL BILL

Special episode on U.S. tax policy – July 2025

Zoe Andrews	Welcome to this special edition of Slaughter and May's "Tax News" podcast, recorded on the 24th of June, in which we focus (once again) on U.S. tax policy - and more specifically on the One Big Beautiful Bill that's currently before the U.S. Congress. Tanja Velling and I, Zoe Andrews, are delighted to be rejoined by Arvind Ravichandran, a partner in the Tax Department at Cravath, Swaine & Moore LLP. BREAKING NEWS: I can confirm that since recording this podcast, the U.S. Treasury has announced an understanding has been reached with the G7 that Pillar 2 taxes will not be applied to U.S. companies. In exchange, the Treasury has requested that section 899 be removed from the Bill. It will now be for the G7 to ensure that the OECD Inclusive Framework implements this understanding. So it looks like section 899 will likely not be a big deal (as we discussed). So, back to the podcast! Arvind, welcome. Would you like to briefly introduce yourself and your practice?
Arvind Ravichandran	Sure. Thank you very much for having me. This is Arvind Ravichandran. As mentioned, I'm a partner here in the tax department at Cravath and my practice spans the full range of M&A transactions, private equity fund investments, financings, restructurings and the like. And in addition, very happy to be able to participate in the policy process. Although that is not a main part of my practice, it's an enjoyable part of being a tax lawyer.
Tanja Velling	Well, then I expect you must have been busy, especially over the last month or so, with thousands of pages of draft legislation coming out… and we're grateful that you found the time to go through it with us! When we spoke last year - towards the end of last year - the Republicans had just won a trifecta - so, Donald Trump had been elected President again, and the Republicans had won control of both Chambers of Congress and, somewhat unusually, with a larger majority in the Upper Chamber, the Senate, than in the Lower Chamber which is called the "House of Representatives". And I'm curious to learn more about how this has shaped (and may continue to shape) the One Big Beautiful Bill. But, taking a step back, in a nutshell, what is the One Big Beautiful Bill?
Arvind Ravichandran	It is the Bill by which the House, the Senate Republicans and President Trump intend to enact legislative priorities that are permitted to be enacted through Reconciliation. Reconciliation is a legislative process that allows the Senate to pass legislation without being subject to our filibuster which allows a minority party, so long as they have 40 seats, to block legislation - and the Democrats have 47 seats and so they are eligible to use the filibuster to block

	legislation they disagree with. Reconciliation is one of the few ways that you can pass a Bill in the Senate that is not subject to the filibuster. Why is it called the One Big Beautiful Bill? There was a question about whether the Senate Republicans and the House Republicans would use two Reconciliation Bills to pass the legislative priorities of the President and the Republicans. That was a debate several months ago, and President Trump insisted that they use one Bill and he wanted to put lots of priorities in it. And so that's how it became One Big - and of course, the priorities are Beautiful - One Big Beautiful Bill.
Zoe Andrews	One measure that's keeping us in the UK awake at night is the proposed new Section 899 - some refer to it as a "revenge tax" or the "foreign investor tax". Well, I say "the" new section; there are, in fact, now two versions, aren't there? One as passed by the House and one more recently introduced in the Senate. Could you explain to us what Section 899 does and how the House and Senate version differ?
Arvind Ravichandran	It's important here to step back for a moment. The United States feels that several taxes that have been introduced in foreign countries are inappropriately taxing returns that are properly subject solely to U.S. taxation. So, one of the main ones has been the UTPR, the Undertaxed Profits Rule of Pillar Two. Another example is the digital services tax. Section 899 is intended to be a tool that permits the Administration to negotiate, to have a strong sort of posture to go to these countries and say look, you need to not impose a UTPR or the DST (and then there's authority to include similar taxes) on U.S. companies because, if you do, here are the bad consequences that will follow. And those bad consequences are: • increased withholding rates on various types of portfolio investment in the U.S.; • an increase in what we call our "BEAT" (which is our Base Erosion and Anti avoidance Tax - it's intended to get at circumstances where a U.S. company is shifting income abroad to related parties), that will be at a much higher rate imposed, much more directly; and • also our exemption for foreign governments that are generally exempt from any U.S. tax on portfolio investment regardless of treaty, that exemption would be removed also. We call that Section 892. That's particularly relevant for foreign countries that have pension funds that are investing in the U.S. as well as sovereign wealth funds that are investing in the U.S..
Zoe Andrews	And how do the House and Senate versions of Section 899 differ?
Arvind Ravichandran	The Senate and the House Bill differ predominantly in that the Senate Bill, they kind of heard what people said about the House Bill and they tried to narrow it a little bit. There's naturally here going to be a trade off because this provision is well regarded by the Republicans, it is considered a policy priority to ensure that we are protecting the U.S. tax base. So, we need to make sure the provision has teeth, otherwise it's not effective. But at the same time there is an

	understanding and a desire not to discourage really passive portfolio investment. So, there's necessarily a trade-off there and we've seen that in the differences between the House and the Senate Bill. For example, the House Bill had sort of a footnote that said portfolio interest (which is the primary exemption for tax for debt investments into the United States for most non-bank holders), that was noted in the House draft as the Bill wasn't supposed to apply to that. The Senate made it absolutely clear. The Senate Bill said no, 899 does not increase withholding tax rates on portfolio interest. Similarly, the Senate Bill distinguished between what it called an extraterritorial tax and an unfair tax, and the increased rates only apply to an extraterritorial tax. What's the extraterritorial tax? The UTPR. Importantly, a digital services tax is not an extraterritorial tax, and so that means that those increased rates that I talked about earlier, on withholding, they don't apply to that. The BEAT change, the 892 change still applies, but the withholding rates don't apply there.
Zoe Andrews	And when would section 899 start to apply?
Arvind Ravichandran	Sure. So, this was another change that the Senate made. They effectively delayed the implementation by about a year. So practically, 2027 before any of the increased taxes kick in.
Zoe Andrews	What is the impact of s899 withholding on loan agreements already in effect?
Arvind Ravichandran	The typical way that a private credit agreement, a term loan or revolver credit facility works is that the borrower offers lenders what we call “yield protection”. So effectively, if there is a change in law after the lender enters the system and that causes the lender to be subject to additional taxes, the borrower grosses up the lender for those additional taxes so that the lender is basically indifferent to the incremental change in law; their yield is effectively protected. One of the key things is that the borrowers don't actually really pay the gross up. Really, what the gross up does is, it triggers a borrower’s right to what we call “yank a bank” - pull a bank, pull a lender from the structure and find a different lender who is not subject to that increased tax. Section 899 is very relevant for these agreements because it's a potential increase in withholding rates for various lenders. And so, it is exactly the thing that these provisions are intended to do. Right now, honestly, the market is still figuring this out. As of, you know, today, there's not a standard form provision that applies. We're seeing folks thinking about, look, the private credit market - most of those guys rely on portfolio interest and we know portfolio interest is exempt, so Section 899 is less relevant for them. In contrast, in a revolver market and in a market where banks are more relevant, the banks are not eligible to rely on our portfolio interest rule. They often instead rely on what we call “effectively connected income” or “ECI”; some rely on treaties as well. Both of those rates are potentially subject to increase under the Section 899. And so, when you have a lender group that is more tilted towards banks, you could see more focus on this issue. As I mentioned, this hasn't really yet settled in the market and I think it sort of remains to be seen how it does settle. It is often coming up in the yield protection context but really it's about

	finding capital. And my own view - again this is not where the documents have necessarily settled and I don't think this is necessarily where the documents will settle - but my own view is that, to kind of think about it, is: if 899 is a problem for one jurisdiction, that's probably a cost for that lender to bear. But if 899 ends up being something that the U.S. uses as a very broad-based tool to go after, you know, almost the entire world, then that really feels like something that the borrower really ought to bear. But again, neither of those things has been settled, and I think the market continues to figure out what to do. And, to some degree, to the extent that the implementation of the provision is delayed, for any loans that can be renewed (and even if they can't really be renewed, if there's a possibility to amend them easily), people can kind of kick the can down the road for a year and see how things develop, right? If the UTPR just kind of goes away for the U.S., then that solves that issue.
Zoe Andrews	Let’s talk about that a bit more - how the UTPR might go away for the U.S.?
Arvind Ravichandran	Part of the rationale for why the Senate kind of distinguished the UTPR from the digital services taxes and the others is that the UTPR is moving, I think, in a direction to resolution much more quickly. We're prognosticating here, but practically I don't think there's a belief in the world that 899 is going to apply because a UTPR is applied. I just think that's not realistic. The reason for that is that, what the Trump administration has been pushing towards is what they call “two parallel systems”. And the idea is: the U.S. has its 21% statutory rate and then it's got its GILTI rate - and we're going to talk about the GILTI changes in the Senate Bill in a moment because they're relevant here - they have both of these rates, and so, if you're in the U.S., you're not in a system that's a tax haven system. You're not in a system where you can really avoid worldwide tax by shifting your income around. And so, the theory is: we should have two systems - one system is Pillar Two; one system is the U.S. - and you can be in either system, and either system kind of avoids the sort of income shifting issues, but they're going to sit in parallel. And so, I think, the Trump Administration, it's well known that they are pushing for this. And it seems like the OECD is relatively receptive to this idea as well. And, I think, the upshot to that is: it seems like we're headed to a world where, again, if you’re U.S., you're in the U.S. system and, if you're not U.S., you're in the Pillar Two system, and they're just going to kind of exist side-by-side.
Zoe Andrews	So, you don't think we should be worrying too much about Section 899? It'll sort itself out?
Arvind Ravichandran	Certainly not on Pillar Two grounds. I do think that that is going to sort itself out relatively quickly. And again, one of the reasons that the increased rates, I think, did not apply to digital services taxes is that that's a much harder question. And I do think that that is just more open in how that will be negotiated and how it will sort itself out. I think everyone really has less of an instinct on what to do there.
Tanja Velling	And you just mentioned that there are some changes in the Bill to GILTI which might make it more likely that there will be this sort of two-system solution. What are those changes?

Arvind Ravichandran	In the Senate Bill, there were a few changes to the GILTI deduction. So right now, our GILTI tax rate is between 10.5% and 13.125% depending on foreign tax credits. The Senate Bill has sort of changed a couple things. Now, the GILTI rate, because of the way the foreign tax credit number is used as well as the deduction, is going up to 14%. When you think about that relative to Pillar Two, Pillar Two is a 15% rate. It's a 1% higher rate, but there's a substance-based income exclusion. We're getting rid of our exclusion. We used to have something called “QBAI”, “qualified business asset investment”, which was 10% of tangible assets in a local jurisdiction. The Senate Bill is getting rid of that also. So, if you compare the two: we've got a 14% rate, it's worldwide (not country-by-country), but there's no exclusion; whereas Pillar Two: 15% rate, country-by-country, has an SBIE exclusion. They sound pretty similar, right? So, when we go back to our theme of two parallel systems, we could say, look, this is our system, this is how we've decided to try to make sure people aren't profit shifting across the world. That's a different system, but it's a similar system and you all ought to be OK with it.
Tanja Velling	So, we will have to wait and see how the negotiations at the OECD will play out.
Arvind Ravichandran	Yes
Tanja Velling	And so, I suppose, for now, we should leave Section 899 to one side and look at the Bill a bit more broadly. When we spoke last year, you mentioned that there could be different options for the design of the next big piece of U.S. tax legislation, with options ranging from a “transformative” Bill that would fundamentally reshape the approach to U.S. tax policy. And at the other end of the spectrum, you might have a smaller Bill with just very few measures reflecting that there might be difficulties in reaching political agreement. The Bill that there is now, what sort of Bill is it?
Arvind Ravichandran	This is very much closer to a transformative Bill and the reason for that is a large number of provisions are permanent. The reduction in the individual tax rates is permanent. Many of the business benefits, the immediate expensing, domestic R&D expenditures, the 163(j) (our interest limitation rules being subject to the EBITDA number rather than EBIT): also permanent. So, a large amount of permanent changes in the Bill. In addition, the Bill reflects a clear “America First” policy and we see that in Section 899 which we just discussed. We see that in the international provisions also that we just discussed. But also in some of the provisions that, you know, will get less attention from, you know, our community, but are certainly relevant. There's an increase in the child tax credit which is made permanent; we're also seeing, you know, some minor provisions such as benefits for rural communities, and then also the campaign priorities. No tax on tips, no tax on overtime, reduced taxation on seniors, no tax on auto loan interest. All of those things are also in this Bill. Those are not permanent, and we'll talk about that in a moment, but they are still very clearly in the Bill.

Zoe Andrews	I'd like to understand a little bit more about how the differences between these, the Senate version and the House version of the Bill can be resolved, and for that, could you remind us about the process for passing the Bill and how this could impact deliberations in the House and Senate?
Arvind Ravichandran	Here it's actually important to talk a little bit about the reconciliation process and deficits and scoring. As a refresher, the reconciliation process, as I mentioned earlier, permits you to pass legislation without the filibuster, subject to various rules. And one of the rules is that, in advance of the actual text, what the Senate does and what the House does is: they vote on what the maximum kind of increase to the budget deficit over a particular period is permitted. So, somewhat unusually - I actually can't recall this happening - the reconciliation bill is being scored for deficit purposes differently in the House and in the Senate. So the difference is something between current law and current policy. So why does that matter? If you have laws that are going to expire (like the TCJA's provisions on individual tax rates, on immediate expensing, on 163(j), et cetera), when you compare the two, current policy kind of pretends that those expirations never happen, whereas current law pretends the expirations do happen. That's a very, very important difference because, in the Senate, the scoring for the Senate Bill is a deficit increase of roughly $500 billion. And that reflects the fact that extending many of these tax cuts is not in fact a change; it's assumed to kind of be in the system. In contrast, in the House, the scoring is closer to $3 trillion/$3.5 trillion. And why is that? It's because extending these cuts is not considered as part of the baseline. They're considered as new cuts, and that difference has manifested itself in a few different ways that reflect the battle lines that are being drawn in what the House and the Senate are negotiating.
Tanja Velling	And what would be the process for this negotiation?
Arvind Ravichandran	Historically, what used to happen is something called conference. So, Senate would pass one Bill; House would pass another Bill; House leadership, Senate leadership would get into a room and they would conference. They would look at the differences between the provisions, pick one or modify one or the other, come up with a Bill, and then that Bill would pass through the Senate again - so, it'd have to get voted on again - and it would also pass through the House again. That has become disfavoured and practically, if the intent is to meet the President's July 4th deadline, it is impossible at this point to do the conference. And instead, what you might see is effectively a pre-conference. So, what that means is that the House will be telling the Senate: this is what we're going to pass, and this is what we're not OK with. The Senate will pass the Bill and then the House will pass the exact same Bill, and as a result, there is no difference. The House will pass the same Bill, the Senate doesn't have to vote again, and then it will go to the President for signature. One possibility that hasn't really been discussed a great deal yet, but it may happen is: formal passage may be delayed past July 4th, right? Just to reiterate, the President has said, on numerous occasions, that he wants the Bill to be signed by him by July 4th because, when he signs it, that's when it's officially law. He wants to sign it by July 4th. It is possible, in my mind, that,

	just based on the timing, you may see the President able to announce a deal on July 4th, but maybe the formal passage and signature is July 5th or July 6th. So that's to be determined.
Zoe Andrews	What are the most contentious measures in the Bill that may need further negotiation?
Arvind Ravichandran	The SALT cap is one of the main ones and this reflects…well, we talked earlier about the unusual character of this Congress in that the House has a smaller majority than the Senate - that actually, by the way, is kind of not true anymore because, since we had our last podcast, three Democrats in the House have passed away, and so the House majority is actually 220 Republican, 212 Democrat. And that's actually why the House version of this One Big Beautiful Bill, you may recall, passed with 215 votes. You might say, well, how is that possible if there were 215 Democrats that were going to vote against it? Well, the answer is three of them have passed away. But to return to the original point: in the House, there is a contingent of House members who are from States that have higher State income taxes. Meanwhile, there really aren't any Republican Senators that represent one of these higher tax States. New York and California are the main examples of this. The upshot of that is, one of the main differences between the House and the Senate is our SALT deduction, our SALT cap. This also requires a little bit of a refresher on U.S. politics. We have two levels effectively of a government that are imposing tax. We have our federal government that imposes an income tax, and then we have States many, not all, many of which also impose their own income tax and historically State income taxes have been deductible against federal income taxes. And that can be a very valuable benefit because, in the higher tax States, there is a very substantial amount of State income tax. Some of these rates can be 13%, for example, at the State level. And so what we have is, we have Republicans in the House - and there's enough of them that view this deduction to be very important - whereas you have Senators that really are not terribly interested in this deduction. And the issue is that this is a very expensive deduction. So, we talked earlier about how we have to hit our Budget Resolution numbers in order to pass the Reconciliation Bill. This SALT deduction is potentially very, very, very expensive, which makes it hard do that. So that SALT deduction is one area of disagreement. The second and this is not really in our area, in tax, but it's one that's attracted a large amount of attention, is reforms to Medicaid. So, Medicaid is our U.S. health care programme, originally for really children and the indigent. Over the years it's expanded to a variety of other classes and, candidly, the political debate is about whether that expansion is desirable or worthwhile, and so there has been a debate between the House and the Senate about the extent to which reforms of that programme are acceptable. It's outside of tax, so not something directly that we are experts in, but those numbers are big. We talked earlier about how we have to get to a certain number; well, a lot of the reductions to the deficit, a lot of the sort of "savings" in the Bill, that is coming from the Medicaid reforms. So, to the extent that gets negotiated one way or another, some of the tax provisions may have to change in order to make sure that there's enough revenue or there isn't too much spending. And then the third area of disagreement (and this also, candidly, has actually kind of faded to the background, it's become the least relevant) is on the energy tax credits. As you know, the Inflation Reduction Act passed under Joe Biden introduced a wide variety of tax credits in the clean energy space to encourage investment and development in that area. That became a hot button political issue very quickly. The House wants to more aggressively cut back on the credits; the Senate wanted to preserve a few more, and we saw in the Senate Finance Bill, they actually eliminated a number of credits, but for some of the clean investment and clean production

	credit, there was a slower phase out. That's a deficit issue and it's also a little bit of a principle issue as between the two. Those are the three big ones and all of those I think, are headed in a direction of resolution, you know, pretty quickly.
Tanja Velling	So, if we now asked you to get out your crystal ball, what do you think is likely to happen in U.S. tax policy in the short, medium and long term?
Arvind Ravichandran	One of the things that we talked about last time is how, when the first election ends, the next one already begins. And politically, that's relevant here. We've talked, in the prior podcast, also about how often the President's party loses the House of Representatives at least, and sometimes the Senate also, in the midterm elections which are coming up in 2026 and that's obviously a target for what people have in mind, politically. And that's certainly been talked about in connection with this Bill also. What is interesting in our case is: the Republicans are certainly not conceding that they're going to lose the House in 2026. That's clearly kind of influencing the Bill overall. The fact that this is not being viewed as a "let's get what we need to get done now because we're not going to be in power in 2026", but rather as a basis of, you know, this is a Bill that we want to run on and that we want to defend, that we want to be very active about. There's no political science literature I'm aware of that ties complicated tax reform to reelection chances. So, nobody knows exactly how the two will work together, but we can see that sense in how these are all being positioned. In addition to this point about the next election starting when the first election ends, one of the things that's happened in the last few years in the tax world is: the next tax Bill is previewed in the current tax Bill. How does that work? Well, what you look at is what provisions are temporary and what provisions did people talk about but didn't include in the Bill. So here, I talked about how so many provisions are permanent, but not all of them are permanent. Our political provisions are no tax on tips, no tax on overtime, no auto loan interest - that is temporary. That's due to expire. I believe, the expiration is 2028, so not the 2026 midterms, but the next presidential election. And also, our clean energy credits, those phase out, but the phase-outs don't all start right away. Many of the phase-outs are delayed until 2027, 2028, 2029. So, there is a clear set of provisions that are going to expire, that are politically popular and that are going to have to be discussed in the future - just as what happened with this, our TCJA, as we discussed last time, was set to expire next year and that created the impetus to pass this Bill now in order to kind of solve that problem. Here, we've got a handful of provisions that are doing that. Similarly, several provisions that were talked about, but weren't included in the Bill, might become relevant in the future because all of these provisions I just talked about cost money. So, when you have provisions that cost money, you've got to find a place to raise money.

	So, what are examples of those? • Carried interest. Right, carried interest was talked about quite a bit in connection with this Bill; the Senate version and the House version did not include any changes to the carried interest rules, so those continue to be favourable in the U.S. But that may be another opportunity for increased revenue in the future. • Another one that was talked about that really didn't get very far: a SALT cap on corporations. We talked about the one on individuals; a similar one on corporations could also be used as a revenue raiser. It was talked about very early in the process, but didn't really get very much traction as things developed. That's another potential revenue raiser. So, you know, again the next tax Bill starts when this one is going to get passed. All of these provisions, I think, by and large, are delayed. So, I don't think we're going to see anything in 2026 that'll be a major tax change. And again, many of the provisions that, I think, are widely regarded as beneficial or even, you know, just kind of fundamental to our structure (like our GILTI changes and our BEAT changes), those are highly unlikely to continue to be changed. Those will be kind of permanent going forward, but these other provisions are the ones where, I think, the next set of battle lines will be drawn. So, I'll see you again in four years to talk about no tax on tips and no tax on overtime.
Tanja Velling	Probably! We have this in the UK now as well; as soon as one Budget has finished, there seems to be speculation about the next set of tax policy changes. So, I guess, that bit at least is familiar to us as well. Thank you very much for all your insights today and taking us through the One Big Beautiful Bill.
Arvind Ravichandran	Terrific. Thank you so much for having me.
Zoe Andrews	And that leaves me to thank you for listening. If you have any questions, please contact Tanja or me, or your usual Slaughter and May contact. Further insights from the Slaughter and May Tax department can be found on the European Tax Blog - www.europeantax.blog.

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