

## Parsing the One Big Beautiful Bill Act (OBBBA): Big in Scale, Broad in Impact

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### Introduction

Recently, the One Big Beautiful Bill Act (OBBBA), a budget reconciliation package, was passed by Congress. It contains sweeping tax cuts and spending changes that could stimulate economic growth and corporate profits, while simultaneously widening the federal deficit, fanning inflation, and ultimately keeping interest rates higher. In the following update, we break down the OBBBA's key provisions and assess their potential impact on the economy, financial markets, and fiscal outlook.

### What are the key provisions of the bill?

At approximately 900 pages, the OBBBA is expansive. The table below provides a brief overview of four major themes in the OBBBA: tax policy changes, spending increases, spending cuts/offsets, and adjustments to the debt ceiling. The table below provides a high-level overview of some of the important provisions. It's important to note in the table below, there are many preliminary estimates and that the data is not finalized.

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Category	Details & Estimates
Tax Policy Changes	<ul style="list-style-type: none"> <li>→ Permanent extension of the Tax Cuts and Jobs Act (TCJA) provisions for individuals and corporations<sup>1</sup></li> <li>→ Temporary adjustments to the State and Local Tax (SALT) cap including raising the cap from \$10k to \$40k in 2025<sup>2</sup></li> <li>→ New deductions (tips, overtime pay, and auto loan interest)</li> <li>→ Increases estate tax exemption to \$15 million</li> <li>→ Expanded child tax credit/tax credit for seniors</li> <li>→ All tax policy changes total roughly \$5 trillion</li> </ul>
Spending Increases	<ul style="list-style-type: none"> <li>→ \$170B for border security and immigration enforcement</li> <li>→ \$150-170B for defense</li> <li>→ Limited increase in discretionary spending</li> <li>→ All spending increases total an estimated \$500-600 billion</li> </ul>
Spending Cuts/Offsets	<ul style="list-style-type: none"> <li>→ ~\$1.1T from Medicaid and Affordable Care Act subsidy changes</li> <li>→ \$540 billion from the rollback of climate and energy provisions in the Inflation Reduction Act</li> <li>→ Additional savings from student loan reforms, Supplemental Nutrition Assistance Program (SNAP) eligibility requirements, and other revenue measures<sup>3</sup></li> <li>→ All spending cuts and offsets total an estimated \$2.5 trillion<sup>4</sup></li> </ul>
Debt Ceiling	<ul style="list-style-type: none"> <li>→ Raised federal debt ceiling by \$5 trillion, providing borrowing authority likely sufficient into 2026</li> </ul>

<sup>1</sup> Source: Congress.gov, "Tax Cuts and Jobs Act" budget passed in 2017.

<sup>2</sup> Source: Bipartisan Policy Center, "How Does the 2025 Tax Law Change the SALT Deduction," June 9, 2025. Other provisions address lowering the cap over several years for high income households.

<sup>3</sup> Source: USDA Food & Nutrition Services, as of August 21, 2025. SNAP is Supplemental Nutrition Assistance Program.

<sup>4</sup> Source: Committee For A Responsible Federal Budget, (CRFB) "What's In the One Big Beautiful Bill Act?" as of July 22, 2025.

## Fiscal impacts: deficits, debt, and interest rates

The OBBBA is expected to materially worsen the US fiscal situation by increasing the country's deficit, raising the overall debt burden, and potentially putting upward pressure on interest rates. The Congressional Budget Office (CBO) projects that the OBBBA will increase deficits by \$3.4 trillion throughout the 2025-2034 period, including a \$700 billion increase in interest costs, bringing the total fiscal impact to \$4.1 trillion for the period.<sup>5</sup> This represents a substantial increase in borrowing above current fiscal projections, with annual deficits expected to be \$600 billion higher in 2027 than they would have been without the bill, which is equivalent to roughly 2% of GDP.

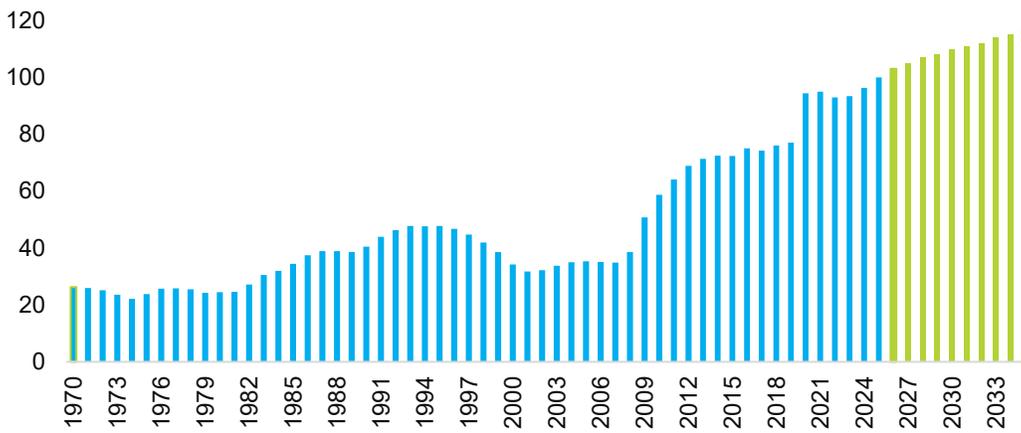
Between 2025 and 2034, the bill is expected to add an average of 1.1% of GDP per year to the deficit, in addition to the deficits the CBO already projected.<sup>6</sup> Before the passage of the OBBBA, the US debt/GDP ratio was already on an upward trend with forecasts for it to rise from the current level of around 100% of GDP to 118% of GDP by 2033.<sup>7</sup> Now, the OBBBA's policies are expected to accelerate this trajectory and by 2034 public debt is forecasted to reach around 124% of GDP.<sup>8</sup>

<sup>5</sup> Source: CRFB, "Final OBBBA Score Confirms Long Road Fiscal Recovery" as of July 22, 2025.

<sup>6</sup> Source: CRFB, "What's In the One Big Beautiful Bill Act?" as of July 22, 2025.

<sup>7</sup> Ibid.

<sup>8</sup> Source: CBO, "H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate)" as of March 2025.



**FIGURE 1**  
**Publicly Held Debt as**  
**Percentage of GDP with CBO**  
**Forecast (%GDP)**

Source: FRED as of August 14, 2025 and CBO forecast as of March 2025.

NOTE: Green is estimated.

This surge in government debt comes at a time of higher interest rates, compounding the fiscal impact. Over the 40 years up to 2022, we experienced debt levels rising with a backdrop of generally falling interest rates. These lower rates made the rising debt level more tolerable. However, higher debt levels coupled with higher interest rates will be harder to bear. For example, the average interest rate on US Treasury securities rose from about 1.6% in 2021 to 3.2% in 2025, effectively doubling over four years. This increase has had a dramatic impact on the federal interest expense. For example, in fiscal year 2025, the federal government is projected to spend over \$1 trillion on interest payments alone.<sup>9</sup> This represents approximately 3.6% of GDP, up from 1.6% of GDP in 2020, and it is expected to continue rising. The CBO projects that the net interest cost could increase to as high as 4.1% of GDP by 2035.<sup>10</sup> These persistently large and growing deficits could put further upward pressure on rates, creating a vicious cycle: higher deficits lead to increased Treasury issuance, which raises fiscal risk, and prompts investors to demand higher yields for the increased risk. These higher yields, in turn, increase the cost of servicing the debt, worsening the deficit and perpetuating the cycle.

<sup>9</sup> Source: US Department of Treasury as of August 2025.

<sup>10</sup> Source: CBO, as of March 2025.

## Potential economic and policy impacts

In the short term, we could see a boost to growth as most of these new tax cuts take place next year.<sup>11</sup> Higher tariffs could offset some or all these benefits for consumers and corporations though. Also, potentially higher interest rates from the Fed taking a slower approach to cutting given higher growth/inflation could counter some of the short-term benefits of the bill. At the very least, the OBBBA provides somewhat of a cushion to the economy and reduces the chances of a recession.

<sup>11</sup> Source: CBO, as of March 2025.

The potential short-term boost to growth from the bill combined with tariffs could keep inflation elevated. Lower levels of immigration along with deportations could add to these pressures as a reduced labor force could lead to an imbalance between the supply and demand for labor, resulting in wage pressures.

## Conclusion

The One Big Beautiful Bill Act delivers immediate economic stimulus through expansive tax cuts and targeted spending, while simultaneously amplifying long-term fiscal risks. Its provisions are likely to support near-term growth and corporate profitability, potentially cushioning the economy against recessionary pressures. However, the accompanying surge in deficits and debt—especially in a higher interest rate environment—raises serious concerns about inflation, monetary policy constraints, and the sustainability of federal finances.

One of the potential market effects of the OBBBA is a rise in US Treasury yields and increased bond issuance, as the government will need to issue trillions of dollars in additional securities over the next decade to fund the bill's tax cuts and spending measures. As bond issuance increases, long-term interest rates are expected to rise more than short-term rates, leading to a steepening of the yield curve. This could increase borrowing costs across the economy and weigh on economic growth.

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