Section 899 – The sting in the tail of the One Big Beautiful Bill

Bottom line: On page 959 of the 1037-pager US reconciliation bill cited as the One Big Beautiful Bill Act of 2025 (OBBBA), sits Section 899 which garnered market attention given its scope to impact financial markets directly and has scope to reshape capital flows. This supports our long-held belief that protectionism goes beyond trade to include capital, people, and information. While the OBBBA has cleared the House and is with the Senate for debate and voting, and there is a lot that is still unknown, we discuss the key aspects of Section 899 and its implications for various asset classes based on the information available.

- **OBBBA, which has made its way to the US Senate for voting, contains Section 899.**
- **Section 899 allows US to impose new taxes of up to 20% on foreigners with US investments.**
- **While a lot is still unknown about the final shape OBBBA could take, in this note we discuss…**
- **… geopolitical, macroeconomic, and asset class-wise potential implications of Section 899.**

One Big Beautiful Bill

The One Big Beautiful Bill aims to extend Trump-era tax cuts while introducing new relief measures. According to the US House Committee on Ways & Means, this bill promises up to 5.2% economic growth over four years, 7.4 million jobs saved or created, and a 14.5% increase in investment. Families could see up to USD13,300 more in take-home pay, while workers may gain up to USD11,600 in wages. The bill also expands tax relief, eliminating taxes on overtime and tips, and increasing deductions for seniors. However, as per the Committee for a Responsible Federal Budget, this act – depending on the extent to which it is implemented and whether the provisions within are made permanent – could add anywhere between USD3trn and USD5trn to the total debt stock of the US (exhibit 1).

This bill cleared the house but faces hurdles in the senate. Some of the sticking points include Medicaid & SNAP cuts, SALT deductions, debt ceiling and spending cuts, clean energy tax credits, and child tax credit expansion. With the aim to finalise this before July 4 and with only three GOP defections allowed, negotiations remain intense.

While only 21% of bills that made it past committee in 2021-23 were enacted eventually, GovTrack gives a higher chance (of 55%) for OBBBA to become law. Higher odds are explained by the fact that this bill was introduced in the first year of Congress, the Chair of a committee is also the sponsor, and the bill was referred to House budget.

Exhibit 1: The One Big Beautiful Bill Act could add anywhere between USD3trn-USD5trn to the US debt pile

Provision (Numbers in USD Billion)	Deficit Increase (-) / Decrease (+) (FY2025-FY2034)	In case permanent without offsets
Ways and Means Committee	-3,754	-5,220
Extend & Expand TCJA Individual Provisions	*-3,899*	
Revive TCJA Business Provisions	*-270*	
New Tax Cuts and Spending	*-662*	
Offsets	*1,079*	
Armed Services Committee	-144	-410
Homeland Security Committee	-79	-120
Judiciary Committee	-9	-90
Energy and Commerce Committee*	1,086	
Education and Workforce Committee	349	
Agriculture Committee	238	
Transportation and Infrastructure Committee	37	
Natural Resources Committee	18	
Oversight Committee	12	
Financial Services Committee	5	
Interactions	-175	
Primary deficit impact	**-2,400**	**-4,300**
Interest	**-551**	**-736**
Total debt impact with interest	**-3,000**	**-5,000**

Source: Committee for a Responsible Federal Budget

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Section 899

OBBBA includes a retaliatory tax provision, Section 899, allowing the US to impose up to 20% in additional taxes on foreign governments, companies, and individuals investing in the US. It targets countries (called discriminatory foreign countries (DFCs)) deemed to impose unfair taxes on US businesses, particularly digital services taxes (DST), under taxed payment rule taxes (UTPR), and diverted profit taxes (DPT). The bill also expands the Base Erosion and Anti-Abuse Tax (BEAT), raising corporate taxation on foreign-owned US subsidiaries. This section also allows the US Treasury to classify any other taxes – like extraterritorial, discriminatory – as unfair. Based on the current regimes, many of the major European countries, Canada, and a few frontier markets have DST. UTPR implementers include EU members alongside UK, Australia, New Zealand, South Korea, and Thailand. Australia and the UK have DPT. In our view, UAE and other GCC countries are unlikely to face direct impact from this legislation.

The rule applies to a broad spectrum of US-source income, particularly passive income paid by entities incorporated in the US. This includes dividends, rents, royalties, and other Fixed, Determinable, Annual, or Periodic (FDAP) income. However, it excludes income that is explicitly exempt from US taxation, such as portfolio interest. Consequently, interest on Treasury securities and most other US bonds remain unaffected by these new taxes. The rule also encompasses US-source corporate profits directed to a DFC, thereby effectively increasing the corporate tax rate for companies with cross-border structures that typically result in net capital outflows from the US, such as large international multinational corporations. The discussion below covers Section 899's implications but does not provide tax or legal advice.

- **Geopolitical:** This development fits into our broader view of rise in protectionism encompassing not only trade but also capital, people, and information (see our note A deglobalising world and our 'Yellow brick road'). This measure could escalate tensions, turning a trade war into a capital war, affecting investor appetite for US assets. However, it could also be used by the US administration as a tool in negotiating trade deals with all its trading partners, particularly with Europe, before July 9th.
- **Macroeconomic:** Theoretically, taxing any capital income discourages new capital flows into the country and therefore reduces productivity growth and eventually economic growth over a period. However, in practice the effect of Section 899 on the US could be small and, in many cases, negligible. Of course, the worst-case scenario is the US imposing an incremental tax of more than 20% to foreign direct investment from all foreign investors – we see very small chance of this happening.
- **FX:** The direct impact on the USD should be felt through the channel of foreign direct investment (FDI) flows. According to J.P. Morgan Global Research, a 15% drop in FDI historically resulted in a 2.0-2.5% drop in the trade-weighted USD index. Impact from portfolio flows could be limited given that a substantial portion of fixed income securities are exempted and the dividend yields remain low. Higher tariffs could offset some risks, forcing overseas corporations to choose between costly US investments or expensive exports.
- **Fixed income:** Section 899 has a minimal direct impact on foreign holdings of US Treasuries but may increase term premiums due to concerns over budget deficits and trade tensions. It primarily affects foreign corporations with US subsidiaries, not debt investors. While credit spreads remain stable, profitability declines could impact corporate credit profiles in certain cases. Overall, for fixed income, broader implications depend on investor sentiment and indirect impact through policy and profits.
- **Equities:** This development may accelerate diversification into international markets (USD19trn or c20% of US equities are owned by foreigners). The US, a major weight in global equity benchmark indices, could see reduced representation as index providers may adjust index weights. High-yield sectors like financials, staples, energy, utilities, and REITs may be negatively impacted in the near-term. Asset managers could see a negative business impact. In the medium to long term, relief from digital taxes could benefit US tech.
- **Private Markets:** A full implementation of Section 899 (which is still uncertain) could see foreign investors in private credit funds facing higher withholding tax on US interest income. Non-US lenders may scale back US exposure, making financing more expensive for borrowers. Collateralized loan obligations could see higher costs and reduced liquidity due to tax penalties. Private funds may restructure vehicles to mitigate tax exposure, shifting capital flows.

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