

A BALANCING ACT:

The OBBBA's ambitious agenda and America's fiscal future

By Co-Chief Investment Officer [Gary Pzegeo, CFA](#)

True to its name, the One Big Beautiful Bill Act (OBBBA, or the Act), is certainly big. It covers a wide range of programs and comes at an equally large cost, with consequences for the federal deficit. Signed into law by President Trump on Independence Day, 2025, this legislation is a cornerstone of Trump's second-term agenda. Shortly after, on July 9, our Wealth Strategies team published a [summary of the key tax provisions for individuals](#). Now that the dust has settled, we are providing an overview of the Act's major provisions and their implications for the economy and markets.

Major components of the Act

Individual tax breaks: At the center of the legislation is the extension to the 2017 Tax Cuts and Jobs Act, which was originally slated to sunset at year's end. Revenue reduction to the Treasury in the form of lower income tax rates is estimated at \$3.2 trillion and is the largest piece of the legislation. The tax provisions also incorporate several new elements that reflect promises made during Trump's 2024 presidential campaign, such as tax breaks on tip wages and overtime—though these benefits are temporary and set to expire in 2028. These changes are expected to provide short-term relief for many households, but the temporary nature may create uncertainty for long-term financial planning.

Immediate expensing on qualified business investment and changes to the international tax regime: The legislation includes provisions designed to boost domestic business investment and international competitiveness. The bill permanently restores 100% depreciation for certain investments and provides temporary 100% expensing of qualifying structures. Additionally, the Act permanently restores immediate expensing for domestic research and development (R&D) expenses, with small businesses able to retroactively expense R&D back to December 31, 2021.

On the international front, the bill makes substantial changes to the tax treatment of multinational corporations. These changes are designed to encourage domestic investment while maintaining competitive tax rates for U.S. companies operating globally. However, some analysts warn these changes could also incentivize profit sharing or create new complexities for multinational firms.

Rollbacks of clean energy tax credits: The Act limits a number of tax credits established to foster investment in clean energy and electric vehicles for both individuals and businesses. Supporters argue this will reduce government spending, while critics warn it could slow the transition to renewable energy.

Cuts to Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and limits to student loan subsidies:

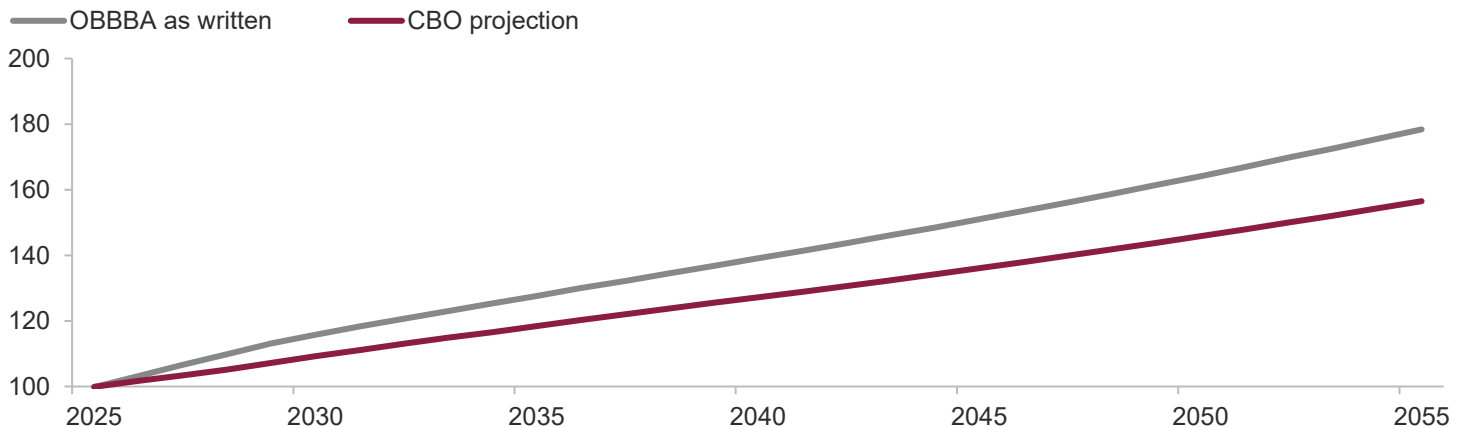
The legislation includes restrictions on Medicaid, imposing work requirements for able-bodied adults and increasing hurdles for eligibility. The Act also alters Medicaid's financing structure by shifting costs from federal to state governments. SNAP underwent similar restructuring, with costs shifted to states and an expansion of work requirements. These changes are expected to reduce federal spending but may increase the burden on state budgets and potentially limit access for vulnerable populations.

What's the cost?

The Congressional Budget Office (CBO) estimates the OBBBA will result in a \$3.4 trillion increase in the federal budget deficit over a 10-year time horizon. The amount is unevenly distributed over that time frame due to a mixture of budget restrictions and political maneuvering. Spending is front-loaded and cuts are back-end loaded. This sets the stage for another heated round of negotiations around extending tax cuts in 2028 and/or reversing spending cuts before they take effect later in the budget window. If either or both strategies prevail, the ultimate cost of OBBBA could increase further.

Absent a change to either revenues or spending, \$3.4 trillion of deficit expansion would lead to an increase in debt held by the public from 98% in 2024 to 128% in 2035 and would rise further to 175% by 2054.¹ Most budget analysis assumes little to no disruption to credit or foreign exchange markets, which has been a safe assumption in the U.S. in recent years despite the expansion of deficits. Other developed markets (U.K. 2022, France 2024, Japan 2025) have experienced brief spells of budget and political-related volatility, and the U.S. could face a similar challenge if investors go on a “buyers strike” to protest fiscal policies. The CBO projections build in a 3.6% interest cost assumption in 2035, which may be a reasonable base case but could be low if a viable alternative for U.S. Treasuries develops in the coming years. Rising debt levels could also limit the government's fiscal flexibility in responding to future economic downturns.

Exhibit 1: Debt to global domestic product (GDP) (percent)



Source: The Budget Lab at Yale, as of July 17, 2025.

Despite projections of deeper deficits, bond market reaction to greater levels of Treasury issuance has been restrained. The Act did include a provision to raise the debt ceiling, which may help to remove a recurring source of market disruption. A number of other factors are at play, and current low levels of interest rate volatility may not be a sign of acceptance of the Act.

First, markets were bracing for impact. Bond yields increased and prices fell leading up to the budget negotiations in anticipation of the outcome. Secondly, economic data has been softer, and markets are offsetting supply concerns with lower growth expectations. Importantly, there are at least two significant offsets to the risks the Act present to the U.S. fiscal outlook.

Potential offset from tariff revenues: It is early, but customs revenues for the first few months of the post-Liberation Day announcement have been running at an annualized rate of \$300 billion, which would largely offset the shortfall predicted by the CBO's analysis of the Act. That comes with at least two very large caveats: first, administrations and therefore policies will likely change a few times between now and the end of the budget window; and second, spending patterns could adjust to the higher cost structure, leading to a lower realized level of customs revenues over time.

Pro-growth initiatives of OBBBA: The economic implications of the OBBBA's allowance of immediate expensing of investments are substantial. By allowing companies to immediately deduct R&D expenses rather than spreading them over multiple years, the OBBBA improves cash flow for innovation-intensive businesses and could generate more cost-effective investment opportunities for all businesses. However, the long-term impact on productivity and economic growth remains uncertain and will depend on how businesses respond to the new incentives.

Summary

On its face, higher deficits as projected by the CBO and other budget watchdogs appear to heighten risks of U.S. fiscal sustainability. The near-term benefits of customs revenues to the Treasury and capital spending incentives lessen, but do not eliminate, those risks. We expect markets will determine if and when a meaningful policy response will be required, and we will continue to watch Treasury market liquidity indicators and foreign ownership of U.S. debt, among other metrics, for warning signs. As the full effects of the OBBBA unfold, ongoing analysis and vigilance will be essential to understanding its impact on the nation's fiscal health and economic trajectory.

*For more information on state of the economy and financial markets,
please reach out to a member of your CIBC Private Wealth team.*

1. The Budget Lab at Yale.

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