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CLIENT ALERT

Breaking Down the “One Big Beautiful Bill Act”: What It Means for You

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On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (the “OBBBA”) into law, marking a significant shift in the federal tax landscape. The legislation extends many of the key provisions of the 2017 Tax Cuts and Jobs Act (the “TCJA”), which were previously set to expire at the end of this year, and introduces several new tax measures. Below is a summary of some of the key provisions for individuals, families and business owners.

Key Provisions of the OBBBA

1. **Estate, Gift and Generation-Skipping Transfer (“GST”) Tax Exemptions:** Effective January 1, 2026, the federal estate, gift and GST tax exemptions increase to $15 million per individual (or $30 million per married couple) and will be inflation-adjusted in future years. (The exemptions were previously scheduled to decrease to $5 million per individual (or $10 million per married couple), indexed for inflation, starting in 2026.)

2. **Individual Income Tax Rates:** The OBBBA permanently extends the TCJA's reduced tax brackets for individuals and trusts:

Category	Current Rates (%)	Pre-TCJA Rates (%)
Individual	10, 12, 22, 24, 32, 35, 37	10, 15, 25, 28, 33, 35, 39.6
Trust and Estate	10, 24, 35, 37	15, 28, 31, 36, 39.6

3. **Charitable Deductions:** Beginning in 2026:

    a. Standard deduction filers may deduct up to $2,000 (joint filers) or $1,000 (single filers) in charitable contributions.

    b. Itemizers may deduct charitable contributions only to the extent that they exceed 0.5% of their adjusted gross income ("AGI").

4. **SALT Cap:** From 2025 through 2029, the state and local tax ("SALT") deduction cap increases to $40,000 (joint filers) and $20,000 (single filers). A 30% phaseout applies to joint filers with an AGI over $500,000, but the deduction cannot fall below $10,000. For example, a couple with $550,000 AGI would see their $40,000 deduction reduced by $15,000, resulting in a $25,000 deduction.

5. **Miscellaneous Itemized Deductions:** The temporary suspension of miscellaneous itemized deductions (including for investment expenses) enacted by the TCJA is made permanent.

6. **Education Expenses:** Beginning in 2026, 529 plans may be used for (among other things):

    a. K–12 tuition (up to $20,000 per child annually);

    b. Supplies, tutoring and educational extracurricular activities; and

    c. Registered apprenticeship and credentialing programs.

7. **Bonus Depreciation:** 100% bonus depreciation is permanently allowed for qualifying business property placed in service after January 19, 2025.

8. **Qualified Business Income ("QBI") Deduction:** The OBBBA makes the QBI deduction of 20% permanent, as eligible taxpayers can continue to reduce the effective tax rate on pass-through income of S corporations, partnerships, LLCs and sole proprietorships (subject to existing income and wage/asset limitations).

9. **Pass-Through Entity Tax ("PTET"):** PTET (which was eliminated in early drafts of the OBBBA) remains unchanged, continuing to allow business owners to deduct state taxes at the entity level, thereby bypassing the SALT cap on personal returns.

10. **Qualified Small Business Stock ("QSBS"):** The cap on the gain exclusion on the sale of QSBS increases from $10 million to $15 million, indexed for inflation. Previously, the holding period to qualify for the 100% tax exclusion was five years. However, the OBBBA introduces a phase-in approach to the exclusion between years three and five as follows:

a. 50% exclusion after a three-year holding period;

b. 75% exclusion after four years; and

c. 100% exclusion after five years.

<u>Planning Considerations Under the OBBBA</u>

1. **Maximize Gifting Opportunities:** With the gift and GST tax exemptions reaching historic highs, now may be an opportune time to make strategic, tax-free transfers to heirs through dynasty trusts or other estate-planning vehicles. Future political changes could always reduce the exemptions, so acting now can lock in significant tax savings, ultimately preserving family wealth for future generations. In addition, early gifting may be particularly advantageous if the assets in question are likely to appreciate significantly. However, this must be balanced against the potential capital gains tax savings associated with receiving a basis step-up at death. Every situation is unique, and we'd be happy to review your specific circumstances and help evaluate the most effective approach.

2. **Prefunding Charitable Gifts:** To avoid the 0.5% floor on charitable deductions noted above, clients may wish to consider prefunding their charitable gifts in 2025. This can be accomplished either by accelerating planned multi-year gifts or by contributing to a private foundation or a donor-advised fund ("DAF") in 2025, with subsequent distributions made from said DAF over time.

3. **Consider the Use of Non-Grantor Trusts:** For some clients, the use of non-grantor trusts could provide income tax savings (such as through the ability to leverage use of the SALT deduction or the QSBS exclusion).

Please reach out if you would like to further discuss your planning opportunities.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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