Advanced Planning News Flash

Actionable Insights 360: The Big Beautiful Bill **July 2025**

BBB Tax Reform Insights

On July 4, 2025, the Trump Administration and Congress enacted the One Big Beautiful Bill Act (BBB). Changes made by the BBB impact virtually every sector of the economy. The BBB changed both tax and non-tax laws. To help in evaluating the impact of the BBB, it is important to understand both what did not change as well as what did. What follows is an overview of certain key tax portions of the legislation.

Summary of Certain Key Items

1. **Estate and Gift Taxation** – Modified the federal estate and gift tax exemptions to an inflation adjusted $15 million per individual for estates and gifts made after December 31, 2025.

2. **Income Tax Rates** – Income tax rates remain the same (including top 37% rate), but income thresholds are indexed for inflation. The corporate 21% income tax rate remains unchanged.

3. **Capital Gains Tax Rates** – No changes.

4. **Expiring Tax Cuts and Jobs Act Provisions** – Generally made permanent.

5. **Salt and Local Taxes (SALT) Cap** – Temporarily raised to $40,000 per year through 2028, but deduction phased out for people earning more than $500,000 per year ($250,000 per year for married filing separate). Available state pass through entity tax regimes currently remain available as a potential workaround.

6. **Trump Accounts** – Created tax-exempt savings accounts for certain minors allowing up to $5,000, subject to an annual cost of living adjustment increase, to be contributed each calendar year. A one-time $1,000 credit will be available for each qualifying child born after Dec. 31, 2024, and before Jan. 1, 2029.

7. **Individual Standard/Itemized Deductions** – Made standard deduction amount permanent with some helpful adjustments. Also capped itemized deductions at $0.35/$1.00 for people in the top tax bracket.

8. **Charitable Contributions** – For people who itemize deductions, a charitable contribution deduction is allowed only in excess of 0.5% of the taxpayer's contribution base for the taxable year. Also reinstated a partial charitable contribution deduction for people that do not itemize - $1,000 (single) and $2,000 (joint).

9. **Section 199A** – Permanently allowed deduction for qualified business income from a pass-through entity at 20%.

10. **QSBS/Section 1202** – Made permanent taxpayer favorable changes generally for new qualifying C corporation stock issued after July 4, 2025.

11. **Qualified Opportunity Zones** – Permanently renews and expands qualified opportunity zone program.

Getting Granular with Estate and Gift Taxation

Background: The BBB makes permanent the “bonus exemption” passed in the 2017 Tax Cuts and Jobs Act (TCJA). This change builds on the temporary increase enacted by the TCJA, which doubled the base exemption from $5 million to $10 million per individual, but was scheduled to sunset at the end of 2025 and revert to an inflation-adjusted $7 million per individual.

Previous Law: For 2025, the federal estate, gift, and generation-skipping transfer (GST) tax exemption is $13.99 million per individual.

Updated Law: Starting in 2026, the exemption increases to $15 million per individual, with annual inflation adjustments starting in 2027. The legislation did not change the 40% transfer tax rate, portability, the step-up in basis at death and the annual gift tax exclusion.

Note: The pending sunset of the TCJA prompted a surge in wealth transfer tax planning as families sought to utilize the temporary bonus exemption. While the new permanently increased exemption reduces short-term time pressure, it does not change the core objective of transfer tax planning: removing future asset appreciation from the family’s taxable estate. There is a time value to money - the sooner wealth transfers occur; the more future growth avoids future taxation – compounding transfer tax savings. Life insurance will continue to play a central role in the portfolio of transfer tax planning strategies. While the expanded exemption may provide some tax relief there may still be changes in law and liquidity planning will be needed.

SALT Cap

Background: Prior to the changes made by the TCJA, people could deduct from their federal gross income the full amount of their state, local and foreign taxes paid.

Previous Law: Under the TCJA, an individual’s itemized deductions for state, local and foreign taxes paid was limited each year to $10,000 (or $5,000 per individual if married filing separately). In the subsequent years, 36 states enacted workarounds for people who are partners in partnerships or shareholders in S corporations to allow the entity to pay an entity-level state income tax and pass the resulting tax benefit along to its partners/shareholders.

Updated Law: In the BBB, the SALT deduction cap was raised to $40,000 per year through 2028, but the deduction is phased out for people earning more than $500,000 per year ($250,000 per year for married filing separate). The phaseout, however, will still allow a minimum $10,000 yearly itemized SALT deduction. The state workaround remains available under the BBB for partners/S corporation shareholders.

Note: The SALT cap increase helps some taxpayers; however, high income earners are expected to be limited to a $10,000 annual itemized SALT deduction amount. Most heavily impacted: people residing in high tax jurisdictions like California, New Jersey and New York. We expect those people will continue migrating to no tax/low tax jurisdictions like Florida and Texas.

QSBS/Section 1202

Background: Many individual and partnership investors look for opportunities to invest in small business stock which would meet the numerous requirements of Section 1202 to avoid paying some (or any) capital gains taxes on the future sale of such stock.

Previous Law: Prior to the BBB, an investor was required to invest in such stock at a time when the value of corporation's assets did not exceed $50 million and hold the stock at least 5 years before selling it. If these and other requirements were met, upon the sale of such stock, an investor could avoid paying tax on the greater of (i) $10 million of taxable gain, or (ii) gain in the amount of 10 times the investor's aggregate adjusted basis in the sold stock.

Updated Law: Following enactment of the BBB and generally applicable for new issuances of qualifying stock after July 4, 2025, (a) the $50 million asset value threshold was increased to $75 million and will be inflation adjusted, (b) the 5-year minimum holding period was relaxed to allow for a 3-year or 4-year holding period to qualify for a partial gain exclusion benefit, and (c) the $10 million gain exclusion amount was increased to $15 million and will be inflation indexed.

Note: The pro-taxpayer changes to this provision tells investors that the Section 1202 gain exclusion benefit remains a viable option. Additionally, in evaluating any new investment, the QSBS option should be explored.

Most, but not all, of the changes made to tax laws by the BBB take effect beginning Jan. 1, 2026; however, some changes took effect on July 4, 2025, while others have a retroactive effective date. Given the myriad of effective dates and the sweeping tax impact, we recommend continuing to monitor all developments.

Additionally, a number of proposed provisions in both the House of Representative's and Senate's versions of the BBB were tabled prior to passage of the BBB because of the so-called "Byrd Rule". Some of these provisions are likely to be included in future legislation. It is possible for there to be one or more additional reconciliation bills containing additional tax law changes (including improvements to the BBB) in later 2025 and 2026.

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