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Tax Reform 2025: What's in the "One Big Beautiful Bill"?

Over the past few months, Congress has been debating the U.S. budget and how to fund it through tax policy. The so-called "One Big Beautiful Bill" aims to make permanent many of the previous Trump tax provisions from the Tax Cuts and Jobs Act (TCJA) passed in 2017. On July 1, the Senate passed its version of the bill, followed by the House on July 3rd, sending it to the President's desk for signature on America's 249th birthday.

> The legislation seeks to make key provisions of the TCJA permanent, while introducing new income-based limitations and scheduled expirations.

But the real question is: "What does this mean for your taxes"?

Even though the bill locks in many of the TCJA tax provisions without changes, some of the key elements are to be phased out based on income levels or have a timeframe where they revert to the previous law. Below are a few highlights that individual taxpayers should be aware of.

Tax Brackets:

Tax brackets under the One Big Beautiful Bill will be maintained. These brackets will continue to increase each year for inflation. The brackets are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Standard and Itemized Deductions:

Standard Deduction – Increases by $750 dollars for single filers or $1,500 dollars for joint filers. The total amounts will become $15,750 for single filers and $31,500 for joint filers.

Senior Deduction* – For individual taxpayers who are 65 and older, a $6,000 dollar deduction will apply. This deduction phases out when Modified Adjusted Gross Income exceeds $75,000 ($150,000 for joint filers). This provision is temporary and expires after 2028.

Charitable Contributions* – For those that do not itemize, $1,000 ($2,000 joint) dollar deduction will be allowed in addition to taking the standard deduction.

State and Local Taxes (SALT) – The cap on state and local taxes is increased to $40,000 and will adjust by 1% annually. The deduction begins to phase out between $500K – $600K (also increases 1% each year) until back to $10,000. Starting in 2030, this provision will revert to $10,000 for all taxpayers. The increase in the SALT deduction is applicable for tax year 2025.

Car Loan Interest* – Taxpayers who pay interest on qualified vehicles with final assembly in the U.S. will be allowed to exclude $10,000 from personal interest (meaning it will be deductible). The $10,000 deduction will be allowed for tax years 2025 – 2029. This provision has a phase out of $200 dollars for every $1,000 dollars over modified adjusted gross income of $100K for single filers and $200K for joint filers. This deduction will not be an itemized deduction so individuals or joint filers will be able to take the deduction regardless of if they take the standard deduction or itemize.

Overall Limitation of Itemized Deductions* – The bill eliminates the Pease limitation that was a cap on itemized deductions prior to the TCJA but now puts in place an overall limitation on the tax benefit of itemized deductions. Itemized deductions will be reduced by 2/37 (roughly 5.4%) of the lesser of 1) the amounts of itemized deductions or 2) the amount of the taxpayer's taxable income that exceeds the start of the 37% bracket.

Estate Taxes:

Lifetime Exclusion Amount – The Lifetime Exclusion Amount will increase to $15 million per person. This means individuals whose gross estate is less than $15 million ($30 million for couples) at their death will not have a taxable estate. This is an increase from the $13.99 million per person today.

Additional Provisions:

Bonus Depreciation – Extended through 2029. This allows qualified property that is placed in service after January 19, 2025, to receive a 100% depreciation deduction. Real estate investors will benefit greatly from this provision; however, the basis of their property is reduced faster and may cause greater amounts to be subject to depreciation recapture.

Qualified Business Income (QBI) Deduction – The One Big Beautiful Bill has made the QBI deduction permanent and maintains the 20% deduction for qualified business income.

Qualified Opportunity Zones (QOZ) – QOZs were originally introduced by the TCJA in 2017. QOZ funds allow investors to take capital gains and invest them in a qualified opportunity zone to defer the tax paid on the original investment. If the investment was held for 10 years, the taxpayer would receive a step-up in basis in the QOZ investment at that time. The new legislation renews the taxpayer's ability to participate in QOZ investments.

Pass Through Entity Deduction – This is referring to the ability to deduct state and local taxes at the entity level for pass through entities. An earlier version of the bill attempted to eliminate the ability to do this, but it will remain unchanged.

Education/Tax Advantaged Savings Accounts:

Trump Accounts* – A newly proposed type of tax-free savings account for minors, similar to an IRA. Withdrawals are not allowed until the beneficiary turns 18. Investments must be in mutual funds or ETFs with total fees and expenses not exceeding 0.1% of the account balance. Additionally, the mutual fund or index needs to be invested in the S&P 500, or an index primarily comprised of United States companies. Contributions cannot exceed $5,000 dollars a year. Contribution amounts are increased annually for CPI.

529 Plans – The limitation on elementary and secondary education has been increased from $10,000 to $20,000. The qualified expenses have also been expanded to the following: "Tuition, Curriculum and curricular materials, Books or other instructional materials, Online educational materials, Tuition for tutoring

or educational classes outside of the home, Fees for a nationally standardized norm-referenced achievement test, an advanced placement examination, or any examinations related to college or university admission, Fees for dual enrollment in an institution of higher education, Educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies."

This tax bill has presented many "firsts" for some of the provisions that have been included in the bill and includes very specific language on who or what qualifies for the various tax benefits.

Please reach out to your wealth advisor if you have any questions about how these tax changes may impact your personal tax circumstances.

**New tax provisions introduced in One Big Beautiful Bill.*

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Sources:
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