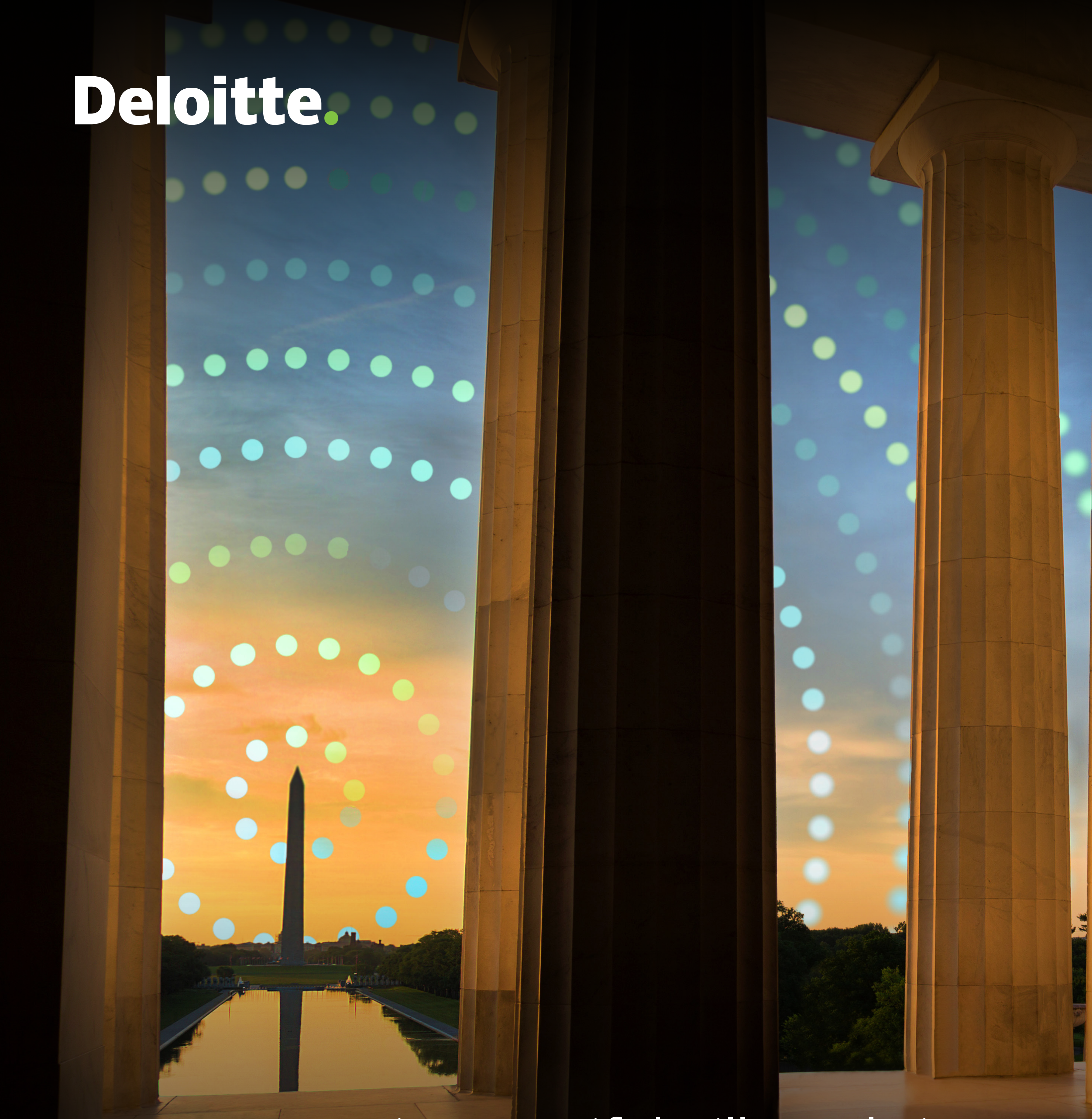

GOP’s ‘One Big Beautiful Bill Act’ brings permanence to many tax provisions affecting private wealth taxpayers

July 2025

Overview

On July 4, President Trump signed into law the legislation formally titled "An Act to provide for reconciliation pursuant to title II of H.Con.Res.14" ("the Act")—commonly referred to as the One Big Beautiful Bill Act (OBBBA)—a landmark bill that makes permanent many of the expired and expiring tax provisions originally enacted in the Tax Cuts and Jobs Act of 2017 (TCJA). These provisions—most of which were scheduled to expire at the end of 2025—will now remain in effect permanently, providing long-term tax planning certainty for individuals and businesses.

Supported by strictly Republican majorities in both the House and Senate and passed under the filibuster-proof "budget reconciliation" process, the OBBBA not only solidifies key elements of the TCJA and introduces a range of new benefits, but also includes revenue-raising provisions, which—in addition to sweeping changes to certain spending programs including Medicaid and food stamps—help balance some of its multitrillion-dollar fiscal impact. These include the repeal or limitation of certain clean energy tax credits, an excise tax on certain remittances sent abroad, a new limitation on the value of itemized deductions, and the permanent extension of various temporary revenue-raisers from the TCJA including the repeal of personal exemptions, tighter limits on the mortgage interest deduction, and the repeal of miscellaneous itemized deductions.

The OBBBA includes many noteworthy provisions, including:

Permanent TCJA rate structure: The Act permanently extends the TCJA's individual rate structure—including its 37% top rate—beyond December 31, 2025. [Note: The TCJA enshrined the lower 21% corporate rate on a permanent basis, and that rate was unaffected by the OBBBA.] At the same time, the standard deduction is boosted slightly in 2025 and inflation-adjusted from that higher level.

Permanent Section 199A deduction: The 20% deduction on the "qualified business income" (QBI) of certain pass-through businesses is made permanent. The Act also modifies several aspects of the Sec. 199A deduction in a taxpayer-favorable manner, including expanding the provision's taxable income phase-in range and providing for a minimum deduction for active QBI.

Permanent alternative minimum tax (AMT) exemption and phaseout thresholds: The higher exemption amounts and phaseout thresholds put in place by the TCJA would be made permanent under the Act. However, the intervening inflation adjustments to the original TCJA phaseout thresholds (but not the AMT exemption amounts) would effectively be eliminated and readjusted for inflation beginning in 2027.

Higher cap on individual SALT deductions, for a while: In a nod to a small but vocal contingent of House Republicans representing suburban districts in New York, New Jersey, and California, the TCJA's $10,000 cap on the itemized deduction for state and local income and property taxes (SALT) will be increased in the current 2025 tax year to $40,000—subject to a phaseout beginning at $500,000 of modified adjusted gross income—but only through 2029, after which time the cap will revert to $10,000 on a permanent basis. There are no changes to pass-through entity tax regimes (PTET) established by numerous states in the Act; however, the viability of PTET workarounds rests on Notice 2020-75 and therefore potentially remains subject to change by Treasury.

New 35% limit on the benefit of itemized deductions: Under the Act, the pre-TCJA "Pease" limitation on itemized deductions is permanently repealed. However, in its place, the Act establishes a new provision that would effectively limit the tax value of itemized deductions, including SALT, to 35 cents on the dollar, thereby clipping their benefit for top-bracket taxpayers. This limitation would not take effect until tax year 2026.

A 0.5% floor on deduction of contributions made by individuals who elect to itemize: The Act imposes a reduction in charitable contributions for individuals who itemize deductions. The reduction is equal to 0.5% of the individual's contribution base. For example, an individual with a contribution base of $1 million who makes a charitable contribution of $100,000 would be able to deduct $95,000. Additionally, the provision permanently extends the 60% limitation for cash gifts made to qualified charities.

Permanent limit on "excess business losses" of noncorporate taxpayers: The Act permanently extends the TCJA's limitation on the deduction for noncorporate taxpayers' excess business losses (EBLs) under Section 461(l) beyond its previous expiration at the end of 2028. Notably, the OBBBA also retains the TCJA's rule that allows EBLs disallowed in one year to be carried forward as net operating losses (NOLs) in subsequent years.

Permanent estate tax relief: The basic exclusion amount for purposes of the estate, gift, and generation-skipping tax (GST) would be made permanent, slightly increased beyond what it would otherwise be in 2026 (that is, to $15 million per taxpayer) and inflation-adjusted from that higher level.

Expansion of capital gain exclusion for qualified small business stock: The Act would expand the current exclusion under Sec. 1202 for capital gains associated with the holding of qualified small business stock (QSBS). Whereas under current law, a taxpayer may exclude from gross income up to $10 million on the sale of QSBS held more than five years, the OBBBA would also allow partial exclusions of 50% and 75%, respectively, for QSBS held more than three and four years. Additionally, the scope of companies considered "small" under Sec. 1202 would also be expanded.

New deductions for tips, overtime, seniors, and auto loan interest: The Act fulfills several of President Trump's campaign promises, including by providing new deductions for tip and overtime income, an enhanced additional standard deduction for seniors, and a deduction for interest on loans secured by automobiles for which final assembly occurs in the US. These limited deductions—which were enacted on a temporary basis through 2028—would be phased out on MAGI over $150,000 single or $300,000 joint in the case of tips and overtime, and over $100,000 single or $200,000 joint in the case of auto interest.

Notable business provisions: While much of the TCJA's expiring policy was on the individual side of the tax code, the OBBBA also makes permanent several important business provisions that have expired or were scheduled to phase out, including 100% bonus depreciation, the expensing of domestic research expenditures under Sec. 174, and the relaxed net business interest expense limitation under Sec. 163(j).

In addition, the Act allows 100% first-year depreciation on "qualified production property" (e.g., manufacturing facilities) placed in service before 2031, permanently expands the low-income housing tax credit, and permanently extends—on a rolling 10-year cycle—the opportunity for deferral and exclusion of capital gain income reinvested into Qualified Opportunity Zones.

Left on the cutting-room floor

Also notable are several tax proposals that did not make it into the OBBBA, as enacted, several of which were—at various stages of the process—under serious consideration by lawmakers.

Among those ideas cast aside were policies that would have tightened or repealed the preferential treatment of carried interest income, increased the excise tax on the net investment income of private foundations, limited amortization of "acquired intangibles" under Sec. 197 for professional sports team owners, and placed new restrictions on state-level PTET regimes that have become increasingly utilized to circumvent the limit on individual SALT deductions.

On the business side, Republicans jettisoned proposals to cap corporate SALT deductibility, lift the current 1% excise tax on net stock buybacks, and institute a new so-called "revenge" tax under proposed Sec. 899 that would have ratcheted up tax rates on companies and individuals situated in countries deemed to have tax systems that impose "unfair foreign taxes" on US taxpayers.

What comes next in Washington?

With enactment of the OBBBA now in the rearview mirror, attention in Washington—on the fiscal front—now shifts to the annual appropriations process and ensuring the federal government is funded beyond September 30—that is, the end of fiscal year 2025—when the current continuing resolution (CR) keeping the government's doors open is set to expire.

At present, Republicans and Democrats appear to be on a collision course as it relates to fiscal 2026 appropriations. For his part, President Trump has proposed to cut $163 billion—or more than 20%—from domestic accounts while at the same time boosting funding on defense programs. House Republicans have largely fallen in line with Trump's vision. During July, Republican lawmakers also successfully rescinded, on a party-line basis, roughly $9 billion in already-approved fiscal 2025 funding—targeting spending on foreign aid and public broadcasting.

Democrats, meanwhile, are staunchly opposed to the GOP's rescissions and Trump's proposed domestic spending cuts and would prefer to see such spending increased next fiscal year or, at a minimum, held constant.

Importantly, appropriations legislation requires at least 60 votes (or a three-fifths majority) to pass the Senate—meaning Democratic support, by definition, will be required to keep the government funded past September 30.

Megabill redux?: On the tax and spending front, there is also increasing talk among congressional Republicans about the possibility of utilizing the budget reconciliation process to move additional filibuster-protected legislation later this year and/or in 2026 while the GOP continues to hold majorities in both the House and Senate. [Of course, the outcome of the November 2026 midterm elections will determine whether Republicans will continue to harness the power of reconciliation during the latter half of President Trump's second term or whether instead we will return to some form of divided government in which bipartisanship will be key to moving tax and spending bills.]

It is too early to know if Republicans will go down the reconciliation road again during the 119th Congress and, if they do, what policies they would seek to enact. Several GOP lawmakers have suggested that certain policies deemed by the Senate parliamentarian to be noncompliant with the rules of budget reconciliation—and thus removed from earlier iterations of the OBBBA—could potentially be reworked and moved as part of a future reconciliation effort.

Treasury gets to work on implementation: It will also be a very active stretch at the Treasury Department and the IRS, as regulators work to update forms and instructions and to fill in the policy blanks on myriad provisions of the Act, several of which—for example, in the cases of the new deductions for tips, overtime, and certain auto loan interest—take effect in the current tax year.

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