ONE BIG BEAUTIFUL BILL EXPANDS KEY TAX INCENTIVES INCLUDING SECTION 1202 QUALIFIED SMALL BUSINESS STOCK AND QUALIFIED OPPORTUNITY ZONES, MAKES OTHER SIGNIFICANT TAX LAW CHANGES

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The reconciliation bill, known as the "One Big Beautiful Bill" (the "BBB"), was recently signed into law on July 4th. The BBB, among many other things, made significant changes in tax law, building on the foundations created by the 2017 Tax Cuts and Jobs Act ("TCJA"). Below is a list of the most significant tax provisions contained in the BBB.

Qualified Small Business Stock ("QSBS")

Section 1202 of the Internal Revenue Code was expanded to add additional benefits for QSBS as follows:

The QSBS exclusion (previously 100% exclusion for QSBS held at least 5 years) is expanded as follows:

- Stock held at least 3 years and less than 4 years: 50% gain exclusion
- Stock held at least 4 years and less than 5 years: 75% gain exclusion, and
- Stock held at least 5 years: 100% gain exclusion

Additional changes for QSBS include:

- The exclusion limit was raised to a lifetime limit of $15 million per taxpayer, per issuer (indexed for inflation beginning in 2027).
- The corporate gross asset limit to qualify for QSBS was raised from $50 million to $75 million.

Qualified Opportunity Zones ("QOZs")

The BBB makes QOZs permanent and provides important modifications to the QOZ program. Most new QOZ benefits begin January 1, 2027.

- Capital gains reinvested in a QOZ project can be deferred until the earlier of five years after QOZ investment or the date the QOZ investment is sold or otherwise disposed.
- Provides additional benefits for rural QOZs.
- New Opportunity Zones will be identified every 10 years.

- Additional reporting requirements will apply.

Estate and Gift Tax Exemption

The 2026 exemption will be $15 million for single filers and $30 million for MFJ, with those amounts indexed annually for inflation.

Many TCJA Provisions are Now PERMANENT

Section 199A Deduction for Qualified Business Income ("QBI"):

- The QBI deduction for pass-through entities is now permanent.
- Limit remains 20% of qualified pass-through income.
- Applicable thresholds still apply as well.
- Phase-in range expanded to $50,000 for individual filers and $100,000 for MFJ.
- Taxpayers reporting a minimum of $1,000 of QBI are now eligible for a minimum deduction of $400.

Individual Tax Rates: The TCJA's tax rates are now permanent and 10%, 12%, and 22% brackets will be adjusted for inflation for one additional year.

Standard Deduction: For 2025, the standard deduction will be $31,500 for married-filing-jointly ("MFJ"), $23,625 for head of household, and $15,750 for single filers.

Child Tax Credits: The 2026 child tax credit will be capped at $2,200 in 2026 and will be adjusted for inflation for each following year.

Personal Exemption: No personal exemption is allowed for any filer.

Alternative Minimum Tax: The phaseout thresholds are back to the 2018 level, with a $500,000 limit for single filers and $1,000,000 for MFJ.

Section 179 Expensing: The increased dollar limitations for certain depreciable assets are not permanent.

Other Items That Were Eliminated by the TCJA Were REINSTATED

Bonus Depreciation: The full expensing of certain business investments is now permanent.

Section 163(j) Interest Deduction Limitation: The more generous EBIDTA limits are now permanent.

Research and Development Expensing: Expensing for domestic research and development is now permanent. Businesses with gross receipts below $31 million can now retroactively expense expenditures incurred after December 31, 2021. Other businesses can accelerate remaining deductions for the years 2022–2025 over a one- or two-year period.

The BBB Introduced New Provisions Aimed to Middle-Class Relief

Deduction for Tip Income: The “No Tax on Tips” promise turned into an above-the-line deduction on tip income for the years 2025–2028, capped at $25,000 and reduced for individuals with income above $150,000 per year ($300,000 for MFJ).

Deduction for Overtime Income: Similarly, the “No Tax on Overtime” promise resulted in an above-the-line deduction for the years 2025–2028 of up to $12,500 for individuals and reduced for those with income above $150,000 per year. Joint filers are granted a $25,000 deduction, but there is an income cutoff at $300,000.

Car Loan Interest Deduction: Up to $10,000 of interest paid on loans for new cars that are assembled in the U.S. can be deducted for each year from 2025 to 2028 (with income-based phaseouts).

Deductions for Seniors: Seniors earning up to $75,000 per year ($150,000 for MFJ) have been granted an above-the-line deduction of $6,000 for the years 2025–2028.

Retirement Accounts for Children: Parents can set up new individual retirement accounts for qualifying children with an annual contribution of $5,000 (indexed for inflation). For U.S. citizens born after 2024 and before 2029, the BBB provides for a credit to established accounts with an initial government contribution of $1,000.

Many Deductions Were Affected by the BBB

Above-the-Line Charitable Deduction: A permanent above-the-line deduction of $1,000 for charitable contributions ($2,000 for MFJ) has been provided for filers who do not itemize.

.5% Floor for Charitable Deductions: Charitable contributions must now be at least .5% of a filer’s taxable income to be taken as itemized deductions.

Corporate Charitable Deductions: The corporate charitable deduction now has a minimum floor amount of 1% of the corporation’s taxable income instead of a 10% of income limit on the deduction.

Limitation on Individual Itemized Deductions: The amount of itemized deductions allowed for individuals is reduced by 2/37ths of the lesser of:

(1) the amount of itemized deductions, or

(2) the amount of taxable income of the taxpayer for the taxable year that exceeds the dollar amount at which the 37% tax rate bracket begins with respect to the taxpayer.

Other Changes to Itemized Deductions:

- **State and Local Tax (SALT):** The itemized deduction for state and local taxes has been raised to $40,000 for 2025 with an annual 1% increase until 2029 and a phase out for individuals earning more than $500,000. The deduction is set to return to a flat maximum of $10,000 in 2030.
- Miscellaneous Itemized Deductions (except for educator expenses), which were suspended by the TCJA, were permanently eliminated.
- The time limitation to the deduction for personal casualty losses is now permanent.
- The moving expense deduction was expanded to apply to employees or new appointees of the intelligence community that relocate due to a change in assignment.

Mortgage Interest Deduction: The individual $375,000 cap ($750,000 for MFJ) to mortgage acquisition debt that could qualify for the qualified residence interest deduction was made permanent. The exclusion of interest on-home equity indebtedness from the definition of qualified residence interest is also now permanent.

The BBB Added Some Employee Benefits Provisions and Modified Others

Dependent care assistance programs: The amount of eligible dependent care expenses that employees can exclude from income for dependent care assistance, such as through a Dependent Care Flexible Spending Account, increases from $5,000 to up to $7,500 beginning in 2026. The $7,500 limit is not indexed for changes in the cost of living.

Student Loans: The Act allows an employee's tax exclusion of $5,250 per year for employer repayment of student loans, indexed for changes in the cost of living beginning in 2026.

Affordable Care Act Marketplace Participation: The Act includes changes to the Affordable Care Act premium tax credit eligibility and verification rules.

Medicaid Coverage: The Act imposes additional burdens on Medicare enrollees, including (1) new work, school, or volunteer requirements, (2) more frequent eligibility verification, and (3) cost-sharing for higher-income participants.

Other Provisions Added or Modified by the BBB

Changes to Green Energy Credits: Multiple clean energy credits were eliminated, and new wind and solar facilities must be placed in service before 2028 to qualify for the clean energy production credit.

Business Credits and Deductions: The advanced manufacturing investment credit has been increased by 10%, from 25% to 35% of the qualified investment, and Section 167(a) depreciation deduction now allows for full depreciation of the qualified property (up to the adjusted basis) for the year the property comes into service.

International Tax Deductions: The foreign-derived intangible income deduction was lowered to 33.34%, while the global intangible low-taxed income deduction was lowered to 40%.

University Endowment Excise Tax: A new excise tax is now imposed on colleges and universities which receive a "student adjusted endowment" ("SAE"):

- 1.4% for SAE between $500,000 and $750,000
- 4% for SAE between $750,001 and $2 million
- 8% for SAE over $2 million

Excess Business Losses:

- The limitation for excess businesses losses was made permanent.
- The carryforward treatment is now mandated for Excess Business Losses ("EBL"), and any amounts over the threshold of $305,000 for single filers ($610,000 for MFJ) are recharacterized as Net Operating Losses.

Form 1099 Filing Threshold: Increased to $2,000 (from $600).

The sweeping changes introduced by the BBB have far-reaching implications for individuals, families, and businesses. If you have questions about how these updates may affect your estate plan, business strategy, or personal tax situation, we're here to help. Please contact us to discuss how to take advantage of new opportunities and ensure compliance under the updated law.

DISCLAIMER: This summary is provided for informational purposes only and does not constitute legal, tax, or financial advice. The application of tax laws can vary based on individual circumstances, and the provisions of the "One Big Beautiful Bill" are complex and may evolve through future guidance or regulation. Readers are strongly encouraged to consult with a qualified attorney or tax advisor before acting on any of the information contained herein.

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