Shumaker

JULY 24, 2025 | PUBLICATION

Client Alert: The One Big Beautiful Bill: Major Tax Reforms That Could Reshape Your Planning

The One Big Beautiful Bill (OBBB), signed into law on July 4, 2025, introduced major changes impacting individual, estate, state, local, real estate, and business tax rules. Understanding these updates is key for tax planning.

SERVICE LINE

Corporate, Tax & Transactions

RELATED PROFESSIONALS

Jon P. Skelton
Thomas A. Cotter
Michael S. McGowan
Hannah Clarke Campbell
Preston A. Whittemore
Rhett N. Butler
Chloe A. Denney
Luis A. Silva
Warren P. Kean

MEDIA CONTACT

Wendy M. Byrne
wbyrne@shumaker.com

Business Provisions

- Exclusion of Gain on the Sale or Exchange of Qualified Small Business Stock (QSBS). The OBBB strengthens the tax benefits for QSBS under Section 1202 of the Internal Revenue Code (Code), though notably, the changes apply to stock acquired after July 4, 2025. The five-year holding period requirement is replaced by a tiered system and begins to apply once the stock has been held for three years. Under the OBBB, 50 percent of the gain would be excluded for QSBS stock held for at least three years, 75 percent for four years, and 100 percent for five years or more. Additionally, the lifetime exclusion gain cap has been increased from $10 million to $15 million, and the $50 million “qualified small business” gross asset limit has increased to $75 million.
- Increased Expensing Limits under Code Section 179. The OBBB increases the immediate expensing limit under Code Section 179 for qualifying property from $1,000,000 to $2,500,000. This limit is reduced by the amount by which the cost of qualifying property placed in service exceeds $4,000,000. This change applies to property placed in service after December 31, 2024. Both amounts are subject to inflation adjustments.
- Permanent Extension of the Qualified Business Income Deduction under Code Section 199A. The OBBB permanently extends the 20 percent qualified business income deduction (QBID) under Code Section 199A. Under the previous version of Code Section 199A, the phase-in range for applying deduction limitations and for specified service trades or businesses was $50,000 ($100,000 for joint filers) over the threshold amount. The OBBB increases this range to $75,000 ($150,000 for joint filers), which increases the availability of the deduction. Additionally, the OBBB adds a new $400 minimum deduction for taxpayers whose aggregate qualified business income for all active trades or businesses is at least $1,000, subject to inflation adjustments.

- Immediate Expensing of Domestic Research and Experimental Expenditures. The OBBB reinstates immediate expensing for domestic research or experimental expenditures paid or incurred by the taxpayer during the taxable year in connection with a trade or business. Generally, this applies to expenses incurred in taxable years beginning after December 31, 2024, but certain eligible taxpayers may elect to retroactively deduct previously capitalized expenses for years beginning after December 31, 2021. For those taxpayers that do not wish to take an immediate deduction, the OBBB provides an election to capitalize and amortize expenses over a period of not less than 60 months.
- Business Interest Deduction Limitation under Code Section 163(j). Under the Tax Cuts and Jobs Act, enacted in 2017 (TCJA), Code Section 163(j) generally limited the interest expense deduction for a trade or business to 30 percent of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). After January 1, 2022, the limit was reduced to 30 percent of business EBITDA. The OBBB restores the EBITDA-based business expense limitation for taxable years beginning after December 31, 2024. Additionally, OBBB provides for several other new changes related to Code Section 163(j), including new ordering rules that impact how Code Section 163(j) is calculated.
- Excess Business Losses. The excess business loss limitation limits the ability of noncorporate taxpayers (such as individuals, trusts, and estates) to deduct business losses in excess of certain thresholds ($313,000 in 2025) against their nonbusiness income (e.g., wages, interest, dividends, or capital gains). The OBBB repeals the sunset provision for the excess business loss limitation, amends Code Section 461(l) to make the rule permanent for tax years beginning after December 31, 2025, and provides that any disallowed losses are carried forward as net operating losses. In addition, the OBBB codifies technical clarifications from prior IRS guidance, including the requirement to aggregate all trade or business income and deductions from pass-through entities owned by the taxpayer and the application of the limit at the individual level (even if losses are passed through from multiple sources).
- Bonus Depreciation. The OBBB restores 100 percent bonus depreciation for qualifying property under the TCJA. It also created a new category of property eligible for 100 percent depreciation defined as “qualified production property.” One-hundred percent bonus depreciation applies to property acquired and placed in service after January 19, 2025.

Disguised Sales Under Code Section 707(a)(2). The OBBB removes language in Code Section 707(a)(2) requiring regulations to be prescribed for interpreting the disguised sale rules, which are implicated when partnerships make certain distributions or allocations to partners. This change effectively treats Code Section 707 as self-executing, eliminating the argument that the Treasury Department must issue regulations to recharacterize allocations and distributions as payments for property or services (disguised sales). The OBBB also adds the phrase “except as otherwise provided,” leaving open the possibility that further guidance may be issued regarding exceptions.

Real Estate Investment Provisions

- Opportunity Zones (OZ). The OZ Program was made permanent. For investments made after January 1, 2027, it provides for a five-year gain deferral period after which there will be a basis step up equal to 10 percent of the deferred gain or 30 percent if the investment is in a newly defined requirements for a qualified rural opportunity fund. If the investment is held for 10 years, the basis is stepped up to fair market value at the time the investment is sold or exchanged.
- Low-income Housing Tax Credit (LIHTC). Beginning in 2026, the state allocation ceiling for LIHTCs was increased to 12 percent, and the bond financing threshold was lowered to 25 percent for projects financed with bonds starting in 2026.
- New Markets Tax Credit (NMTC). The NMTC program has been permanently extended and allows for five-year carryover of any unused limitation.
- Sale of Farmland Property. The tax on gain from the sale of qualifying farmland to a qualified farmer

occurring after December 31, 2025, can be paid over a period of four years. Qualifying farmland must have been used for farming for the 10 years prior to the sale and must be subject to restrictions on non-farm use for 10 years after the sale.

Individual Provisions

- Tax Brackets. The Act makes the lower individual income tax rates and wider tax brackets introduced by the TCJA permanent, preventing a scheduled tax rate increase after 2025. For example, the top individual rate will remain at 37 percent (instead of reverting to 39.6 percent), and the marriage penalty relief for most brackets continues. This means that married couples filing jointly will typically not face higher taxes compared to filing as singles.
- Standard Deduction and Person Exemptions. Personal exemptions have been permanently repealed and the standard deduction has been permanently increased and enhanced for 2025 and beyond: $30,000 for joint filers, $22,500 for heads of household, and $15,000 for singles in 2025, with further increases to $31,500, $23,625, and $15,750, respectively, for 2026 and after. Because these higher amounts mean fewer taxpayers will benefit from itemizing, consider bunching itemized deductions into a single year to exceed the standard deduction, then take the standard deduction in alternate years.
- Increase in Limitation on Deduction for State and Local Taxes. The limit on the deduction for state and local taxes, typically referred to as the "SALT Cap," has been increased on a temporary basis from $10,000 to $40,000 for married persons filing jointly ($20,00 for single persons and married filing separately). The SALT Cap will increase to $40,400 ($20,200 for single persons and married filing separately) for 2026, and then will increase one percent per year until 2030, when it will revert to the current level of $10,000. The increased SALT Cap will be phased out incrementally starting at $500,000 in modified adjusted gross income (MAGI) ($250,000 for single persons and married filing separately), with it being fully phased out at MAGI of $600,000 ($300,000 for single and married filing separately). The OBBB left in place the ability to avoid the SALT Cap altogether by paying state pass-through entity tax via use of an S corporation or partnership.
- Limitation on Itemized Deductions. Starting in 2026, the Pease limitation, which reduced itemized deductions for high earners, is permanently repealed. High-income taxpayers will see a much smaller 2/37 reduction apply to the lesser of their itemized deductions or the amount by which their taxable income exceeds the 37 percent tax bracket threshold. With this change, bunching deductible expenses into a single year can be effective, since the reduction is generally less severe than under the old Pease rules.
- Alternative Minimum Tax (AMT). The AMT exemption amounts are permanently increased for 2026 and beyond, but the phaseout rate for higher-income taxpayers doubles from 25 percent to 50 Percent. Taxpayers should review their AMT exposure and consider strategies, such as timing income or exercising options in lower-income years, to avoid unexpected AMT liability.
- Casualty Loss Deductions. Starting in 2026, personal casualty loss deductions are permanently limited to losses from federally declared disasters (and certain state-declared disasters). If you experience a loss due to a qualifying disaster, be sure to keep detailed records.
- Moving Expenses. Moving expenses are now permanently non-deductible for most taxpayers, and any employer reimbursement for moving costs is fully taxable as income. If you expect to relocate for work, consider negotiating with your employer to cover the additional taxes you'll owe. Only active-duty military members moving under orders and, starting in 2026, certain intelligence community employees remain eligible to deduct or exclude qualified moving expenses, so these individuals should track and document all eligible costs for tax purposes.
- No Tax on Tips or Overtime Pay.
    - The OBB establishes deductions for overtime pay and tip income subject to certain limits. Tip

income is deductible only up to a limit of $25,000 annually per individual, regardless of the total amount of tips reported. The limit on the deduction for overtime pay is $12,500 for individuals and $25,000 for married filing jointly.
    - Both the deduction for overtime pay and tip income are subject to phase-out based on MAGI. For individuals with MAGI above $150,000 (single filers) or $300,000 (joint filers), the tip income deduction is phased out by $100 for every $1,000 of MAGI.
    - Both deductions are temporary, expiring after 2028.
- Expansion 529 Plan.
    - Changes to 529 savings plans allow families to use tax-free distributions for a much broader range of K-12 education expenses, including not just tuition but also curriculum, books, online materials, tutoring, standardized test fees, dual enrollment, and educational therapies for students with disabilities. Starting in 2026, the annual limit for K-12 distributions doubles from $10,000 to $20,000 per beneficiary. To maximize tax savings, consider timing 529 withdrawals to match qualified expenses within the same tax year, and coordinate with other education tax credits to avoid overlap.
    - 529 plan distributions can now be used tax-free for a wider range of education expenses, including not only college costs but also "qualified postsecondary credentialing expenses." This means you can use 529 funds for tuition, fees, books, supplies, and equipment required for enrollment in recognized certificate, licensing, or apprenticeship programs even if they are not traditional degree programs.
- Trump Accounts. Taxpayers can open a new tax-deferred investment account for children, called a "Trump account," for each eligible child. Taxpayers can contribute up to $5,000 per year in after-tax dollars for each child, and funds must be invested in a diversified U.S. equity index fund. For children born between Jan. 1, 2025, and Dec. 31, 2028, the federal government will automatically contribute $1,000 to each account.
- Lifetime Estate and Gift Tax Exemption. The current estate and lifetime gift exemption for 2025 was $13,990,000 per person, and prior to enactment of the OBBB, it was scheduled to sunset and be reduced by 50 percent for tax years beginning after December 31, 2025, to approximately $7,000,000 per person (indexed for inflation). The OBBB permanently increases the estate and lifetime gift exemption to $15,000,000 for individuals and a combined $30,000,000 for married couples starting in 2026 (indexed for inflation).

This alert offers a high-level summary of key provisions in the OBBB. It is not intended to be a comprehensive overview of all changes included in the legislation. If you would like to understand how the OBBB may affect your specific situation, please contact Jon Skelton, Tom Cotter, Mike McGowan, , or a member of Shumaker's Corporate, Tax & Transactions Service Line. We would be happy to provide a more detailed analysis tailored to your needs.

Shumaker