

Simplicity Advanced Planning Update

Summary of Key Tax Provisions in the OBBB Act

H.R. 1, known as the One Big Beautiful Bill Act (OBBBA), was signed into law by the president on July 4th, 2025. The Act contains numerous tax provisions financial professionals should be aware of. In the coming weeks our advanced planning team will be developing additional content to help advisors communicate with their clients and create new opportunities. In the meantime, we thought it would be valuable to provide the following summary of the tax provisions that may have the greatest impact on your clients.

Income Tax Planning:

1. The Act extends the income tax rates contained in the 2017 Tax Act. The highest income tax rate remains 37%. The tax rates have been extended indefinitely.
2. The standard deduction for single filers increases to \$15,750 in 2025, \$31,500 for joint filers, an increase of \$750 and \$1,500 respectively. The standard deduction will be adjusted for inflation annually starting in 2026.
3. State and local tax deduction (SALT) – The SALT deduction is increased from \$10,000 to \$40,000 for 5 years (reverts to \$10,000 in 2030), with a 1% inflation adjustment after 2025. The deduction starts to phase out for taxpayers with adjusted gross income above \$500,000. Effective in 2025.

Planning Note: The SALT deduction is available to non-grantor trusts. This will create an opportunity for those with substantial state and local taxes (think real estate property taxes), and a desire to transfer wealth, to minimize taxes by utilizing multiple non-grantor trusts (best practice is for each trust to have a different beneficiary).

4. Itemized deductions are capped at 35%. A taxpayer in the 37% tax bracket is limited to a deduction of 35%. For example, if a taxpayer made a \$10,000 charitable donation, their tax savings would be limited to \$3,500 (instead of \$3,700). The cap does not apply to deductions for IRC Sec. 199A qualified business income deduction (see more on 199A below).
5. Alternative Minimum Tax (AMT) – Permanently extends the increased exemption amounts provided for in the 2017 Tax Act. Changes the exemption phaseout thresholds back to \$500,000 (\$1 million for joint return) and phases the exemption out quicker.
6. Child tax credit increased from \$2,000 to \$2,200 starting in 2026. Phases out after AGI reaches \$400k.
7. Allows taxpayers an above-the-line deduction up to \$10,000 for auto loan interest on the purchase of new cars made in the U.S. Phased out for taxpayers with AGI of \$100,000 (\$200,000 joint filers). Available for tax years 2025 to 2028.
8. Zero tax bracket for overtime – Allows taxpayers an above-the-line deduction for overtime compensation received, capped at \$12,500 for single filers (\$25,000 joint filers). Phases out with AGI over \$150,000 (\$300,000 joint filers). Available for tax years 2025 to 2028.
9. Taxation on tips – Allows taxpayers an above-the-line deduction for tips received in an occupation which customarily and regularly received tips. Deduction is capped at \$25,000 and phases out with AGI over \$150,000 (\$300,000 joint filers). Available for tax years 2025 to 2028.

Financial Planning

1. Long term care – Increases the amount of pre-tax dollars that may be contributed to a dependent care assistance program (IRC Sec. 129) from \$5,000 to \$7,500, effective in 2026.
2. 529 plans – Expands permissible tax-exempt distributions from Sec. 529 education savings plans to educational expenses in connection with enrollment or attendance at an elementary or secondary school (k-12). Increases the amount that may be contributed to a 529 plan from \$10,000 to \$20,000. Also broadens qualified expenses for post-secondary education.
3. Able Accounts (Achieving a Better Life Experience) – Extends and makes permanent a number of expiring provisions including higher contribution levels for individuals with disabilities who are employed.
4. IRAs for Minors (“Trump Accounts”) – New account for the exclusive benefit of an individual under age 18. For tax purposes the accounts are treated similar to an IRA under IRC Sec. 408(a). Must be invested in a mutual fund or exchange traded fund that tracks the return of a qualified index. Maximum annual contribution of \$5,000. Includes a \$1,000 government “seed” contribution. Children born between January 1st, 2025, and January 1st, 2029, are automatically enrolled.
5. 5) A new above-the-line \$6,000 deduction available to taxpayers age 65 and older. Deduction phases out for individuals with AGI above \$75,000 and married couples with AGI above \$150,000 and is only available for tax years 2025 through 2028. While not directly linked to social security the intent with this new deduction was to alleviate the tax burden on seniors.

Estate Planning

1. The estate/gift tax exemption is set at \$15 million (\$30 million for a married couple) starting in 2026 and will be indexed for inflation starting in 2027.
2. Of note for estate planners, there are no changes to the step-up-in-basis rules of IRC Sec. 1014.

Observation: For the first time in the past 25 years the increased exemption is not set to expire and/or revert to prior exemption amounts. A future Congress could always pass laws to reduce the exemption, but this does provide a level of certainty for estate planners.

Planning note: This is a one-year increase in the exemption of just over \$1 million (\$2 million for a married couple) which provides numerous gifting opportunities for high-net-worth families. Financial advisors may want to discuss the wealth transfer opportunities this presents. For example, families who have implemented sizeable private loans or private split dollar plans may consider forgiving a portion of the outstanding loan equal to the increased exemption. A business owner may want to consider gifting additional ownership interests in the business down to the next generation. And every year after 2026 the exemption will be indexed. Assuming a 2.5% inflation rate, that's an increase in the exemption of \$750,000 for a married couple. So even families that have used up all their exemption will have a substantial amount of new exemption they could use to make premium payments to an irrevocable life insurance trust free of gift taxes.

Business Planning

1. IRC Sec. 199A allows owners of pass-through business entities to deduct a portion of their “qualified business income”. This was first introduced in the 2017 Tax Act as a means of creating a more level tax playing field between C corporations and pass-through entities. H.R. 1 retains the 20% deduction and makes it permanent. The phase-in limit ranges are expanded to provide an advantage to higher income pass-through business owners.
2. IRC Sec. 1202 allows owners of qualified small business stock (QSBS) to avoid paying capital gains when their stock is sold. Previously the maximum capital gain that could be excluded was \$10 million. That cap has been increased to \$15 million. The maximum gross assets a business may have to be considered a “qualified small business now” has increased from \$50 million to \$75 million. In addition, instead of requiring QSBS be held for at least 5 years the new legislation allows stock held for at least 3 years to qualify for a 50% exclusion of capital gain, stock held for 4 years qualified for a 75% exclusion, and stock held for 5 years may exclude 100%.

Planning note: This may cause many new and existing business owners to reconsider their business form, with a likely increase in the number of C corporations. Any change in the business entity form should trigger a review of their buy-sell agreements. There are many provisions that may need to be redrafted and/or the type of buy-sell agreement may need to be changed (i.e. stock redemption to cross-purchase).

3. 100% bonus depreciation made permanent – A business may depreciate 100% of the purchase price of an asset in the year of purchase. The new law also expands the depreciation rules to allow a 100% depreciation on qualified production property (certain non-residential real estate in the U.S.) through 2029. Applies to property placed in service after January 19th, 2025.
4. The cap on section 179 business deductions has increased from \$1m to \$2.5 million. The phase-out threshold also rises to \$4 million, enabling more businesses to take full advantage of these deductions.
5. H.R. 1 makes substantial changes to opportunity zones. New opportunity zones will be available starting January 1st, 2027. Existing opportunity zones will still only be able to defer taxes on gains until December 31st, 2026. This limits the advantages of investments in new opportunity zones until 2027. The Act creates additional tax benefits for opportunity zones in rural areas.
6. Executive compensation for non-profit employers - IRC Sec. 4960 levies an excise tax of 21% on compensation above \$1 million paid to certain employees of non-profit employers. Starting in 2026, H.R. 1 changes the definition of “covered employee” to mean any employee of an applicable tax-exempt organization and any former employee of such an organization who was such an employee during any taxable year beginning after December 31, 2016. Previously this excise tax only applied to the five most highly compensated employees of the organization.

Planning note: This creates an opportunity to review executive compensation plans provided by tax-exempt employers. 457(f) non-qualified deferred compensation plan distributions are taxable, and therefore deemed to be compensation, in the year they are vested (i.e. no substantial risk of forfeiture). This often creates substantial compensation in one tax year. With the expanded definition of which employees the Sec. 4960 excise tax applies to, it will be important for non-profit employers to explore their options.

Charitable Planning

1. IRC Sec. 170(p) provides an above-the-line charitable deduction for those who do not itemize. Effective for tax years starting in 2026, individuals who do not itemize may claim a \$1,000 deduction for their charitable gifts (\$2,000 for joint filers). Contributions to donor advised funds and private foundations are not eligible.
2. When calculating a taxpayer's charitable income tax deduction, an amount equal to .5% of their AGI will not be deductible. Only amounts above that floor will be eligible for a charitable deduction. Any charitable deductions disallowed due to this floor may be carried forward 5 years.
3. Itemized deductions are capped at 35%. A taxpayer in the 37% tax bracket is limited to a deduction of 35%. For example, if a taxpayer made a \$10,000 charitable donation, their tax savings would be limited to \$3,500 (instead of \$3,700).
4. The 2017 Tax Act increased the percentage of a charitable gift of cash that could be deducted in any tax year from 50% to 60%. That increase was set to expire in 2026 but has now been permanently extended.
5. Excise tax on private universities and colleges – The 2017 Tax Act introduced a 1.4% excise tax on the net investment income of a school's endowment. The excise tax applies to certain private universities and colleges with at least 3,000 students when their endowment to student ratio exceeds a stated limit. H.R. 1 adds two new levels of excise tax (a 4% rate and an 8% rate) for those schools with higher endowment to student ratios. The new excise taxes go into effect in 2026.

Planning note: The tax laws related to planned charitable giving are complex and even a minor error can create substantial negative tax implications for the donor. The new laws contained in H.R. 1 create additional limitations and therefore additional complexities, especially for larger charitable gifts and families in higher tax brackets. This presents an opportunity for financial advisors to add value to high-net-worth families interested in charitable giving and to build working relationships with planned giving professionals at charitable organizations.