CUMMINGS & LOCKWOOD LLC

"ONE BIG BEAUTIFUL BILL ACT" - SUMMARY OF TAX PROVISIONS EFFECTING INDIVIDUALS AND BUSINESSES

July 21, 2025

On July 4, President Trump signed the “One Big Beautiful Bill Act” (OBBBA) into law. The OBBBA includes $4.5 trillion in net tax cuts achieved by making several existing federal tax provisions permanent, repealing or modifying other federal tax provisions, and introducing new federal tax provisions. Key individual and business tax provisions of the OBBBA include:

Individual Taxes

- Tax rate and brackets enacted under the Tax Cuts and Jobs Act (TCJA) are made permanent and the inflation adjustment for the 10%, 12% and 22% tax brackets is extended for an additional year;
- The standard deduction enacted under the TCJA is made permanent and is increased to $15,750 for single filers and $31,500 for married filing jointly filers beginning in the year 2025. The deduction is inflation adjusted thereafter;
- The cap on the state and local tax deduction is temporarily increased to $40,000 (from $10,000) for years 2025-2029 for taxpayers with modified adjusted gross income (AGI) of $500,000 or less. The modified AGI threshold will be increased by 1% for each of the years 2026-2029 and gradually phases out for taxpayers with modified AGI over the threshold amount (but not below $10,000). The legislation does not limit or otherwise affect the deduction for taxpayers who benefit from a state’s pass-through entity tax;
- The capital gain exclusion for the sale of qualified small business stock (IRC § 1202) is increased from $10MM to $15MM per shareholder. In addition, the permitted gross assets limit for qualifying as a “qualified small business” is increased from $50MM to $75MM. Both the gain exclusion and gross assets amounts will be annually indexed for inflation for years after 2026. A partial gain exclusion is also now allowed for a holding period of less than 5 years:
  - 50% exclusion for stock held at least 3 years
  - 75% exclusion for stock held for at least 4 years
  - 100% exclusion for stock held for at least 5 years

All of these changes generally apply to qualified small business stock issued after July 4, 2025;

- Beginning in the year 2026, individuals who itemize deductions can only take charitable contribution deductions to the extent the contributions exceed 0.5% of AGI. Individuals who do not itemize can claim up to a $1,000 charitable contribution deduction ($2,000 for married filing jointly);
- The $750,000 mortgage interest deduction limitation for home mortgage interest is made permanent;
- The limitation on the use of excess business losses to offset nonbusiness income is made permanent;
- Temporarily makes up to $25,000 of tip income for individuals in certain professions and $12,500 ($25,000 for joint filers) of overtime income deductible for the years 2025-2028. Both deductions gradually phase out for

- individuals with modified AGI exceeding $150,000 ($300,000 for married filing jointly). The income remains subject to payroll taxes;
- Temporarily makes up to $10,000 of new car loan interest deductible for the vears 2025-2028 for new cars with final assembly in the U.S. The deduction gradually phases out for individuals with modified AGI exceeding $100,000 ($200,000 for married filing jointly);
- Permanently eliminates miscellaneous items deductions (e.g., unreimbursed employee expenses, tax preparation expenses) except for unreimbursed educator expenses;
- Permanently eliminates personal exemptions except that seniors (age 65 and older) are temporarily allowed a $6,000 deduction for the years 2025-2028. The additional deduction is subject to a gradual phase out for seniors with modified AGI in excess of $75,000 ($150,000 for married filing jointly); and
- Establishes Trump investment accounts for U.S. citizen children, which are eligible to receive annual after-tax contributions of up to $5,000 per year (subject to annual inflation adjustment) until the beneficiary reaches 18 years old and also will receive a $1,000 “baby bonus” from the federal government for children born between the years 2025-2028. Account beneficiaries can withdraw the funds once they turn 18 years old and funds withdrawn for qualifying purposes (e.g., higher education expenses, first-time home purchase or small business loan/expense) are subject to capital gains taxes rather than higher ordinary income rates.

Estate, Gift and GST Taxes

Effective January 1, 2026, the unified estate, gift and generation-skipping tax basic exclusion amount is increased to $15MM per person, indexed for inflation. The increase is permanent.

Business Taxes

- The IRC Section 199A qualified small business income deduction is made permanent and the deduction limit phase-in range is increased from $50,000 to $75,000 for single filers and from $100,000 to $150,000 for married filing jointly filers;
- Corporations may only take charitable contribution deductions to the extent the contributions exceed 1% of the corporation’s taxable income;
- IRS Form 1099-K reporting threshold for reporting payments received from third-party payment processors (e.g., Venmo, PayPal, Ticketmaster, etc.) is restored to $20,000 and 200 transactions retroactive to the year 2022;
- IRS Form 1099-MISC/NEC reporting threshold is increased from $600 to $2,000 starting in the year 2026 and is indexed for inflation for years thereafter;
- Permanent restoration of immediate expensing for all domestic research and development for years after 2024, including the ability to retroactively expense previously capitalized R&D costs incurred in years 2022-2024 for certain small businesses;
- Permanent reinstatement of 100% bonus depreciation for short-lived assets acquired after January 19, 2025; and
- For property placed into service after December 31, 2024, immediate expensing is allowed under IRC § 179 for the cost of qualifying property up to $2.5MM (up from $1MM) with a phaseout threshold that begins to reduce the deductible amount when costs exceed $4MM (up from $2.5MM). Both amounts are adjusted annually for inflation.

Tax reform can create significant uncertainties but can also present tax planning opportunities for both individuals and businesses. If you have any questions regarding this alert, please contact your Cummings & Lockwood attorney.