

## Private Client Alert

July 2025

# The One Big Beautiful Bill Act: Breaking Down Key Changes In The New Tax Legislation

The enactment of the One Big Beautiful Bill Act (OBBBA) has ushered in significant tax legislation based predominantly on the Trump administration's stated priorities.

The key areas include:

- **GIFT, ESTATE AND GENERATION-SKIPPING TRANSFER (GST) TAXES** - The permanent extension and increase in the gift, estate, and generation-skipping transfer tax exemptions under the Tax Cuts and Jobs Act (TCJA), which would have expired in 2026;
- **CAP ON SALT DEDUCTION** - A temporary increase in the cap on the state and local income tax (SALT) deduction;
- **SELECT INDIVIDUAL INCOME TAX PROVISIONS** - The permanent extension of many of the TCJA's individual income tax provisions that also would have sunset in 2026;
- **QUALIFIED BUSINESS INCOME (SEC. 199A) DEDUCTION** - Modifications to the deduction rules for qualified business income (QBI) of pass-through entities;
- **QUALIFIED SMALL BUSINESS STOCK EXCLUSION** - The expansion of the exclusion for gain recognized on the sale of qualified small business stock (QSBS); and
- **SELECT EXEMPT ORGANIZATION INCOME TAX PROVISIONS** - Changes to provisions affecting tax-exempt organizations.



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Below we summarize some of these key changes and note potential considerations for planning in light of these new rules.

## KEY CHANGES FOR INDIVIDUALS

### GIFT, ESTATE AND GENERATION-SKIPPING TRANSFER (GST) TAXES

	TCJA in 2025	OBBBA
<b>Rates and Exemptions</b>	40% max tax rate. Exemptions at \$13.99 million per individual, inflation-indexed. Sunsets in 2026 to an estimated \$7.2 million.	Permanently raises exemptions to \$15 million in 2026, inflation-indexed thereafter.

**Comment:** Apart from the permanent increase in the exemption amounts, the rules related to gift, estate and GST taxes remain largely unchanged from the TCJA. The larger exemption amounts will continue to facilitate significant wealth transfers, and high net worth families may want to reevaluate their estate plans to ensure they are taking full advantage of these exemptions.

Families whose assets currently fall under the new exemption amount also should consider additional planning. As history has shown, “permanency” is a relative term when it comes to tax legislation, and these transfer tax changes could be reversed by a future Congress and administration. There also are numerous nontax reasons for estate planning, including providing creditor protection and financial and asset management for beneficiaries, implementing a business succession plan, addressing any required special needs planning for disabled beneficiaries, promoting philanthropic goals, etc. In addition, several states still impose state estate taxes, and we may see increases in other state taxes to generate additional revenue in response to changes in government spending, federal funding and economic conditions. Properly structured and funded irrevocable trusts can still provide benefits for state and local tax planning.

### CAP ON SALT DEDUCTION

	TCJA in 2025	OBBBA
<b>Deduction Limits</b>	\$10,000 maximum deduction for single and joint filers. Sunsets in 2026, which would allow larger itemized SALT deductions.	Temporarily raised to \$40,000 in 2025, \$40,400 in 2026 and then 1% annual increases over the prior year for 2027, 2028 and 2029. Reverts to \$10,000 in 2030. Phases down (but not below \$10,000) for those with modified adjusted gross income ( <b>AGI</b> ) over \$500,000 in 2025 and \$505,000 in 2026, and then increased 1% annually in each of the three following years. No limits on pass-through entities using SALT cap workarounds enacted by various states. Deduction is subject to new limit on itemized deductions.

**Comment:** The TCJA’s cap on the SALT deduction has been a hot-button issue for individuals who reside in high-tax states like California and New York. Despite OBBBA’s temporary increase in the cap from \$10,000 to \$40,000 until 2030, high-income taxpayers may see limited benefits due to the phasedown for taxpayers with modified AGI in excess of \$500,000 and the additional limits imposed on itemized deductions for top bracket taxpayers, as discussed below.

OBBBA does not limit the use of the state-level pass-through entity tax (**PTET**) as a SALT cap workaround, although earlier versions of the bill in both the House and Senate had placed limitations on these workarounds. Generally, with a PTET regime, pass-through entities like partnerships, LLCs and S corporations can pay state income taxes at the entity level. Since the SALT deduction cap generally applies to individuals and not entities, the pass-through entity can deduct

the full amount of the state tax paid, thus reducing the taxable income allocated to the pass-through entity owners and effectively bypassing the \$10,000 SALT limit that would have applied if the individual had paid the taxes directly. The pass-through entity owners then receive a state tax credit equivalent to the amount of tax paid at the entity level. We may see more states retain or implement PTET regimes under OBBBA.

In trust planning, trustees of existing nongrantor trusts may consider distributing less income to trust beneficiaries to capture the full SALT deduction within the trust. Individuals with grantor trusts also may want to compare the potential benefit of turning off grantor trust status to allow the trust to take the SALT deduction versus the flexibility and other planning advantages provided by grantor trust status, including the ability to swap trust assets or engage in loan or sale transactions with the grantor trust without triggering income tax recognition.

## SELECT INDIVIDUAL INCOME TAX PROVISIONS

	TCJA in 2025	OBBBA
<b>Tax Rates</b>	Rates at 10%, 12%, 22%, 24%, 32%, 35% and 37%, each with higher income thresholds (top rate applies at \$751,600 for joint filers), inflation-indexed. Sunsets to higher pre-TCJA rates and lower bracket thresholds in 2026.	TCJA rates made permanent as of 2026. Extra year of inflation adjustment to the lower three brackets.
<b>Standard Deduction &amp; Personal Exemption</b>	\$15,000 for single filers and \$30,000 for joint filers. Personal exemption repealed. Sunsets in 2026 to \$8,350 for single filers and \$16,700 for joint filers, with return of personal exemption.	TCJA standard deduction made permanent and raised in 2025 (\$15,750 – single filers; \$31,500 – joint filers), as inflation-indexed. Personal exemption remains repealed.
<b>Mortgage Interest Deduction</b>	\$750,000 limit on mortgage debt eligible for interest deduction. No deduction for interest on home equity lines. Sunsets in 2026, when limit increases to \$1 million, and interest of up to \$100,000 of home equity debt allowed.	TCJA rules made permanent as of 2026. Certain mortgage insurance premiums on acquisition debt treated as qualified residence interest.
<b>Misc. Itemized Deductions</b>	No miscellaneous itemized deductions (e.g., investment fee, tax preparation fees, etc.). Sunsets in 2026, with miscellaneous itemized deductions allowed in excess of 2% of AGI.	TCJA rules made permanent as of 2026, but unreimbursed employee expenses for eligible educators removed as miscellaneous itemized deductions.
<b>Charitable Income Tax Deduction</b>	Itemizers can deduct a portion of charitable contributions, subject to limitations based on type of contribution, such as a limit of 60% of AGI for cash gifts to public charities. Sunsets in 2026 to pre-TCJA law (e.g., limit of 50% of AGI for cash gifts to public charities).	As of 2026, itemizers can deduct charitable contributions only to the extent they exceed 0.5% of the taxpayer's contribution base. Carryforwards also allowed only if this 0.5% threshold is met. 60% AGI limit for cash gifts to public charities is retained. Non-itemizers can deduct up to \$1,000 (single filers) and \$2,000 (joint filers) for charitable contributions.

<b>General Limits on Itemized Deductions</b>	Repealed the "Pease" limitation, which reduced itemized deductions by 3% of the specified AGI threshold, with the reduction capped at up to 80% of a taxpayer's itemized deductions. Sunsets in 2026, and Pease limitation is restored.	As of 2026, Pease limitation is repealed. New limit reduces all itemized deductions, including SALT, by 2/37 of the lesser of (i) total itemized deductions or (ii) amount of taxable income in excess of 37% bracket threshold. Does not apply to determination of the deduction for qualified business income from pass-through entities.
<b>AMT</b>	Higher AMT exemptions for individuals (\$88,100 for single filers and \$137,000 for joint filers) and increased income levels for phaseout (\$626,350 for single filers and \$1,252,700 for joint filers). Preference items (like SALT deduction) remain repealed or reduced. Sunsets in 2026 to lower pre-TCJA AMT exemptions and phaseouts (likely eliminating potential benefits of SALT cap removal).	Permanently extends TCJA's individual AMT exemption amounts in 2026, as inflation-indexed. Thresholds for phaseout of the exemption revert to 2018 levels (\$500,000 – single filers; \$1 million – joint filers), inflation-indexed thereafter. Phaseout is increased from 25% to 50% of amount by which taxpayer's AMT income exceeds the applicable exemption phaseout threshold.

**Comment:** The extension of the individual tax rates and standard deduction may particularly benefit higher-income earners and those considering Roth IRA conversions or income acceleration strategies. The elimination of miscellaneous itemized deductions and the overall cap on itemized deductions for top-bracket taxpayers will increase the importance of the timing of income recognition and the taking of deductions to minimize the cap's impact.

## QUALIFIED BUSINESS INCOME (SEC. 199A) DEDUCTION

	<b>TCJA in 2025</b>	<b>OBBBA</b>
<b>Qualified Business Income (aka SEC. 199A) Deduction</b>	Qualifying business owners of pass-through entities (LLCs, partnerships, S corporations) can deduct up to 20% of QBI. Sunsets in 2026, resulting in some pass-through entities being taxed at higher rates than C corporations.	As of 2026, deduction made permanent at 20% of QBI. Expands deduction limit phase-ins from \$50,000 to \$75,000 (single filers) and from \$100,000 to \$150,000 (joint filers), including for specified service trades or businesses and pass-through entities subject to wage and investment limitations.  Adds minimum deduction of \$400, inflation-indexed, for taxpayers with \$1,000+ of QBI.

**Comment:** Owners of pass-through entities that may benefit from the QBI deduction will want to review their entity and compensation structure to identify opportunities to maximize QBI. The changes to the QBI rules may allow more service business owners to take the QBI deduction; however, the income phaseouts still apply at relatively low thresholds, so the deduction may not be material for higher earners.

## QUALIFIED SMALL BUSINESS STOCK EXCLUSION

	TCJA in 2025	OBBBA
<b>QSBS Exclusion</b>	<p>Gain from sale of QSBS held for more than five years is 100% excluded for QSBS acquired after Sept. 27, 2010, and 50% or 75% excluded for stock acquired before that date. Not treated as an AMT preference item for post-2010 acquisitions.</p> <p>Exclusion is capped at \$10 million per issuer of QSBS, subject to a greater exclusion based on 10 times the taxpayer's "basis" in the QSBS. No exclusion applies if the corporation's aggregate gross assets exceed \$50 million at any time from formation through QSBS's original issuance to taxpayer.</p>	<p>For QSBS acquired after the date that OBBBA is enacted, the following changes will apply:</p> <p>Tiered gain exclusion for QSBS originally issued post-OBBBA as follows: 50% for QSBS held for three years, 75% for four years and 100% for five years.</p> <p>Continued treatment as a non-AMT preference item for post-2010 acquisitions.</p> <p>Expands exclusion by raising per-issuer cap to \$15 million, inflation-indexed, subject to a greater exclusion based on 10 times the taxpayer's "basis" in the QSBS. A taxpayer whose QSBS exclusion exceeds this cap is not eligible for added inflation adjustments as to that specific issuer.</p> <p>Increases the aggregate gross asset limitation for issuing corporation to \$75 million, inflation-indexed.</p>

**Comment:** Expansion of the QSBS gain exclusion, combined with the higher gift and GST tax exemption, may provide additional opportunities for planning with QSBS, including funding of nongrantor trusts with QSBS that may be eligible to take their own QSBS exclusion on the sale of the QSBS.

## KEY CHANGES OR TAX-EXEMPT ORGANIZATIONS

### SELECT EXEMPT ORGANIZATION INCOME TAX PROVISIONS

	TCJA in 2025	OBBBA
<b>Executive Compensation Excise Tax under Internal Revenue Code (IRC) §4960</b>	Required any nonprofit with employees earning over \$1 million in compensation to pay a 21% excise tax on the amount of compensation over \$1 million for its top five earners.	Extends the excise tax to apply to all earners of a nonprofit receiving over \$1 million in compensation, rather than just the top five earners.
<b>Excise Tax on Investment Income of Private Colleges and Universities under IRC §4968</b>	Imposed an excise tax of 1.4% on net investment income of private colleges and universities that have at least 500 tuition-paying students and at least \$500,000 in assets per student.	<p>Creates a tiered tax regime dependent on an institution's "student adjusted endowment" for private colleges and universities that have at least 3,000 tuition-paying students and at least \$500,000 in its student-adjusted endowment. The rates are:</p> <ul style="list-style-type: none"> <li>■ 1.4% for endowments of at least \$500,000 but less than \$750,000</li> <li>■ 4% for endowments of at least \$750,000 but less than \$2 million</li> <li>■ 8% for endowments of at least \$2 million</li> </ul>

**Comment:** OBBBA, as enacted, deleted many provisions found in earlier versions of the legislation that would have more aggressively affected tax-exempt organizations. In particular, the final bill eliminated provisions that would have increased the net investment income tax on private foundations under IRC §4940, modified several unrelated business taxable income rules, and dramatically increased the tax on colleges and universities while also limiting their ability to

count foreign students in determining their per-student endowment size. With the removal of those provisions, OBBBA's overall impact on tax-exempt organizations was narrowed to expanding the tax on the compensation of certain nonprofit employees earning over \$1 million and providing a more modest increase to the net investment income tax on colleges and universities.

Through OBBBA's changes to IRC §4968, Congress seeks to more aggressively monitor and regulate private universities' endowments, but this trend is not new. Congress has attempted to pass several bills in recent years that targeted educational institutions with large endowments, such as the Woke Endowment Security Tax Act of 2023, which would have imposed a 6% excise tax on private educational institutions with endowments of at least \$12.2 billion and on educational institutions with state college contracts and endowments of at least \$9 billion, and the Protecting Endowments from Our Adversaries Act of 2024, which would have imposed a 50% or 100% excise tax on universities on the acquisition of, or receipt of income from, certain listed investments.

It is important to note that the changes to the executive compensation excise tax under IRC §4960, which expand the definition of "covered employee" for purposes of the tax, are retroactive and require organizations to look at any employee (as opposed to the five highest-compensated employees) or former employee who was an employee during any taxable year beginning after Dec. 31, 2016. Although there still may be nuances associated with identifying who is an employee for purposes of the tax, this provision has the greatest impact on those organizations that pay compensation of over \$1 million to a significant number of employees, as it requires them to pay tax on the compensation of a broader group of individuals and largely limits any advance planning such organizations might typically undertake to limit the effect of the tax.

**WHAT TO DO NOW**

There will be much review and analysis of the potential opportunities and effects of this new legislation, and Loeb will continue to provide updates on these developments. As always, if you would like to discuss how OBBBA affects your personal, business or exempt-organization planning and how to move forward in light of these changes, please contact your Loeb attorney.

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