CHIEF INVESTMENT OFFICE
NATIONAL WEALTH STRATEGIES

Tax Alert

President Signs Reconciliation Bill with Significant Tax Changes

All data, projections and opinions are as of July 23, 2025 and subject to change.

INTRODUCTION

After Republicans regained the presidency and full control of Congress in the 2024 elections, they began coordinating an ambitious legislative package to extend key provisions of the 2017 Tax Cuts and Jobs Act (TCJA). The tax bill crafted by House Republicans, submitted through the fast-track reconciliation process, also addressed defense spending, border security, and the debt ceiling, as well as campaign promises such as tax breaks on overtime and tips. The bill was consolidated with spending cuts and passed the House by a one-vote margin on May 22, 2025.

The Senate soon followed with its own version of a reconciliation bill, which it passed on July 1, 2025 (51-50) after the Vice President cast the tie-breaking vote. The Senate bill retained the extension of the 2017 Tax Cuts and Jobs Act (TJCA) but changed or eliminated other tax provisions to comply with strict Senate budget reconciliation rules. The Senate also emphasized permanency in lieu of many House provisions that were temporary. For instance, pro-growth business tax changes made temporary by the House were made permanent under the Senate bill. The Senate also narrowed the tax breaks for overtime and tips. The savings achieved by doing so were spent on making permanent several other tax provisions.

In early July the House approved the Senate's version of the bill by a 218-214 vote and the President signed the reconciliation bill on July 4, 2025, meeting his self-declared ambitious deadline. The reconciliation bill, commonly referred to as the One Big, Beautiful Bill was stripped of its moniker and was simply given the formal name of an Act to provide for Reconciliation (the "Act").

PRESIDENT TRUMP SIGNS ONE BIG BEAUTIFUL BILL

On July 4, 2025, President Trump signed the landmark so-called One Big Beautiful Bill into law. Passed through budget reconciliation, the sweeping legislation delivers major reform and changes across tax, energy, immigration, and national security—marking a bold step in his second-term agenda.

Tax changes include an extension of the 2017 TCJA, campaign promises, a phase-out of green energy tax credits and new Trump accounts for minors.

FISCAL IMPACT

Fiscal projections and deficit impact surrounding the Act has resulted in much confusion. Confusion stems from the fact that the Senate is generally scoring the Act on a current policy baseline, while the House is scoring the Act on a current law baseline. A current policy baseline generally reflects only incremental tax costs when compared to our current year's tax policies.

The Congressional Budget Office, the official scorer, determined the Act would reduce the deficit by $400 billion over the budget window (from 2025 to 2034: the 10-year budget window) when scored on a current policy baseline.

Looking at the Act from a current law perspective tells a different story. When scored on a current law basis the Act would result in a deficit increase of about $3.4 trillion [$4.5 trillion in tax cuts less $1.1 trillion in spending cuts] over the budget window.[1]

[1] The Act also raises revenue by tightening tax rules, enacting new taxes, and eliminating or phasing out many provisions of the 2022 Inflation Reduction Act (IRA). Various non-tax spending cuts are also included in the Act. An estimated $1.1 trillion in revenue is raised by such actions, bringing the net cost of the bill to $3.4 trillion.

Please see last page for important disclosure information.

Additional interest expense on the deficit-financed amounts could increase outlays by more than $500 billion during the budget window. These estimates do not consider additional tariff revenue which could materially offset the overall cost.

The Act generally extends the TCJA provisions with slight adjustments and tweaks which are likely intended to comply with reconciliation rules. Some additional tax breaks are added that would take immediate effect (2025) which could increase refunds or decrease tax liabilities in 2026 before votes are cast in midterm elections. The Act also makes good on many of the president's campaign promises, most on a temporary basis.

We summarize and highlight many of the tax provisions below.

EXTENDS 2017 TAX CUTS AND JOBS ACT

- **Rates and Brackets:** Tax rates remain the same, but most tax brackets are modified by adjusting the inflation base from 2017 to 2016, effective in 2026.
- **Standard deduction:** Permanently extended and increased the standard deduction commencing in 2025 by $1,500 (couples) and $750 (individuals). Enhanced standard deduction will be $31,500 for couples and $15,750 for individuals, and subject to future inflation adjustments.
- **Temporary personal exemption for seniors:** $6,000 deduction (exemption) for those age 65 and older (phasing out for Modified Adjusted Gross Income (MAGI) above $150,000 couples, $75,000 individuals) for tax years 2025 to 2028. Phases out by 6% of income over threshold ($75,000 to $175,000 for individuals and $150,000 to $250,000 for couples). Allowed even for taxpayers who itemize deductions.[2]
- **Limit on tax benefit of itemized deductions for upper income taxpayers:** The Act limits itemized deductions for taxpayers in the 37% bracket by treating them as though they were in the 35% bracket for purposes of all itemized deductions. Effective 2026.
- **Child Tax Credit:** Permanently raises the maximum child tax credit to $2,200 from $2,000 beginning in 2025 (indexed for inflation after 2025). The refundable portion of the credit also would be increased to $1,400 (and adjusted for inflation).
- **Estate taxes:** Permanently raises the estate, gift and generation-skipping tax exemption to $15 million in 2026, adjusted for inflation going forward.
- **Qualified Business Income (pass-through deduction):** Permanently extends 20% pass-through deduction. Other modifications include changing the phase-out range for upper income taxpayers and other taxpayer friendly modifications. New, inflation-adjusted, $400 minimum deduction for small business owners with at least $1,000 of qualified business income Effective 2026.
- **Alternative Minimum Tax (AMT):** Permanently extends the increased AMT exemption amounts but reverts the phaseout thresholds back to 2018 levels ($500,000 for individuals and $1 million for couples). Exemption will then phase-out at a quicker pace (50% for each dollar of income over the threshold). Effective beginning in 2026.
- **Charitable deduction:** Charitable deduction allowed for non-itemizers up to $2,000 ($1,000 for individuals) commencing in 2026 and made permanent thereafter. Must be cash contributions to a charity other than a donor advised fund or a supporting organization. For itemizers, a new 0.5% floor is imposed on charitable contributions (i.e., charitable gifts reduced by 0.5% of contribution base). Modification also continues the 60% contribution rules for cash gifts.
- **1099-K (retroactive) increase in threshold:** Modifies reporting requirements by making it applicable for payees with transactions totaling more than $20,000 (on more than 200 transactions).
- **Opportunity Zones (OZ):** Capital gain for new OZ investments deferred for five years after the investment in qualified opportunity zone fund. New basis adjustment provisions of 10% (30% for rural OZs) provided investment was held for five years. Added special rules for new qualified rural opportunity zones. Applies to investments in OZ funds after December 31, 2026. Added information reporting requirements for OZ businesses (applicable to existing and future OZ investments), funds and investors and penalty provisions for failing to report.

CAMPAIGN PROMISES

- **Eliminates income taxes on tips:** Temporary new provision (2025 to 2028) allowing a non-itemized deduction for qualified tips: 'qualified tips' means any cash tip received by an individual in an occupation which traditionally and customarily received tips on or before December 31, 2024, as provided by the Secretary. Tips must be (i) paid voluntarily and (ii) not related to a "specified service trade or business. Qualified tip income deduction is capped at $25,000 and will phase out for taxpayers with modified adjusted gross income above $150,000 for individuals and $300,000 for couples: phase-out is $100 for each $1,000 over these amounts.
- **No tax on overtime income:** Temporary new provision (2025 to 2028) allowing a non-itemized deduction for qualified overtime compensation: overtime compensation paid to an individual required under the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which such individual is employed. Excludes qualified tips, and overtime for highly compensated individuals. The deduction is capped at $12,500 for individuals ($25,000 for couples filing a joint return) and phased out for taxpayers in the same manner as "qualified tips." Overtime compensation will be required to be reported on W-2 compensation statements (with special flexible rules for 2025).
- **Deduction for car loan interest:** Temporary new provision (2025 to 2028) allowing a non-itemized deduction for qualified passenger vehicle loan interest: interest paid or accrued to a non-related party during the taxable year on indebtedness

[2] This provision has been cited as fulfilling the President's campaign proposal to eliminate tax on Social Security benefits. Directly exempting seniors' Social Security benefits from income tax would risk running afoul of the budget reconciliation rules. Creating an additional deduction for individuals over age 65 and subject to income-based phase-outs was intended to benefit those who predominantly rely on Social Security benefits while staying within the reconciliation rules.

incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use. Excludes personal cash loan secured by previously purchased vehicle, lease financing, and commercial vehicles. Interest deduction is capped at $10,000 per year and will phase out for taxpayers with modified adjusted gross income above $100,000 for individuals and $200,000 for couples: phase-out is $200 for each $1,000 over these amounts. Vehicle must have final assembly in U.S., among other limitations.

- **State and local tax (SALT) deduction modified:** Temporary increase (2025 – 2029) in cap on SALT deduction from $10,000 to $40,000 for all taxpayers except married filing separate (additional increase of $30,000 phases out beginning at modified adjusted gross income over $500,000 and fully eliminated at $600,000 (e.g. phase-out by 30% of income over the threshold)). SALT cap for married filing separate taxpayers increased from $5,000 to $20,000 (additional $15,000 phases out beginning at $250,000 and eliminated at $300,000). Deduction caps (and phase-out ranges) further increased by 1% from 2026 to 2029. Increased caps sunset at the end of 2029 and revert to $10,000 limit in 2030.
- **Pass-Through Entity Taxes:** Act leaves the SALT workaround for pass-through entities in place without change.

PRO-GROWTH BUSINESS ITEMS

- **Bonus Depreciation:** Permanent full expensing (bonus depreciation deduction) for property acquired or placed in service after January 19, 2025.
- **Research & Development (R&D) Expensing:** Immediate deductibility for domestic R&D expenses incurred in taxable years beginning after December 31, 2024 (thus retroactive for all of 2025). Special R&D expensing on a retroactive basis back to 2022 for small businesses and a special expensing election for R&D expenses for 2022, 2023 and 2024.
- **Business Interest Deduction:** Liberalize interest deduction rules for business interest beginning in 2025. Reinstates earnings before interest, taxes, depreciation, and amortization (EBITDA) for purposes of Internal Revenue Code (IRC) § 163(j) when calculating adjusted taxable income to determine amount of interest that can be deducted in a taxable year. Retroactive to beginning of 2025 and made permanent.
- **Depreciation for Structures and Factories:** Special new elective depreciation deduction for 100% of basis of "Qualified Production Property" (e.g., non-residential real property used for the manufacturing, production ("Production" is limited to agricultural production and chemical production) or refining of tangible personal property; many other details apply). Does not include any portion of real property devoted to offices or other functions unrelated to manufacturing. Applies to construction from January 20, 2025, through end of 2028, provided property is placed in service before 2031.
- **Section 179 Expensing:** Section 179 immediate expensing amount increased up to $2.5 million with phase out for purchases beginning at $4 million. Effective for 2025 and adjusted for inflation thereafter.

INFLATION REDUCTION ACT (GREEN ENERGY) TAX MODIFICATIONS

- **Electric Vehicles (EV):** Termination of EV tax credit for previously owned electric vehicles acquired after September 30, 2025. Termination of consumer EV tax credit and commercial EV tax credit for vehicles acquired after September 30, 2025.
- **Residential Taxpayer Credits:** Repeal of energy efficient home improvement tax credit for property placed in service after December 31, 2025. Repeal of residential clean energy tax credit for property placed in service after December 31, 2025. Repeal of new energy efficient home credit for homes acquired after June 30, 2026.
- **§45Y Clean Electricity Production Credit:** Phase out of clean energy production credit for wind and solar projects beginning construction after twelve months from date of enactment (July 4, 2026). If construction commences before such date, project must be "placed-in-service" by December 31, 2027. For other forms of production, credit is phased out through end of 2035 (with the credit decreases during that period). Significant new restrictions for prohibited foreign entities.
- **§48E Clean Electricity Investment Credit:** Phase out of clean energy investment credit for wind and solar projects beginning construction after twelve months from date of enactment (July 4, 2026). If construction commences before such date, project must be "placed-in-service" by December 31, 2027. For other forms of investment, credit is phased out through end of 2035 (with the credit decreases during that period). Significant new restrictions for prohibited foreign entities.
- **§45U Nuclear Credit:** Credit value retained but restricted for certain prohibited foreign entities.
- **§45V Clean Hydrogen Credit:** Credit repealed for facilities beginning construction after December 31, 2027.

OTHER PAY-FORS

- **Endowment tax:** University/College endowment tax increased on a tiered basis by adding the following two tiers to the current tax: for endowments between $750,000 and $1,999,999 per student, a 4% rate; for endowments over $2 million per student, an 8% rate. Current rates for endowments between $500,000 and $749,999 per student endowment remain at 1.4%. Tax will only be imposed on schools with at least 3,000 students. Effect for tax years beginning after December 31, 2025.
- **1% floor on deduction of charitable contributions made by corporations:** Corporate charitable contributions remain deductible but only to the extent that the contributions exceed 1% of the taxpayer's taxable income. Applies to tax years beginning after December 31, 2025.
- **Employee Retention Tax Credit:** Enforcement provisions added. Internal Revenue Service (IRS) cannot issue payment for unpaid claims for credits unless claim was filed on or before January 31, 2024.

OTHER

- **Expansion of qualified small business stock benefits (QSBS):** Expands QSBS rules to permit 50% gain exclusion for QSBS stock held three years; 75% exclusion for QSBS stock held four years and continues the 100% exclusion for such stock held five or more years. For QSBS stock acquired after the date of enactment (July 4, 2025), the maximum exclusion would jump to $15 million in 2026 (up from $10 million) and thereafter indexed for inflation. In certain cases, the exclusion could be higher. Gross asset test for corporations increased to $75 million (and inflation adjusted).
- **529 savings plans:** Expand eligible education expenses that can be paid from 529 savings plans.
- **New Trump Accounts for children:** New savings accounts for those under age 18, beginning in 2026 and cash contributions only. Maximum $5,000 annual contribution, eligible to be made by parents, relatives, and other taxable entities, non-profits, and government entities. Onetime government credit of $1,000 for certain individuals (born 2025 to 2028). Account will be treated like a traditional Individual Retirement Account (IRA) after age 18. See call-out box below with expanded explanation.
- **Health Savings Account (HSA) changes:** Bronze level and catastrophic plans purchased through Affordable Care Act (ACA) Exchanges would be treated as high-deductible health plans enabling individuals covered by such plans to contribute to HSAs if they otherwise satisfy the eligibility requirements. Individuals participating in certain direct primary care service arrangements could contribute to HSAs if they otherwise satisfy the eligibility requirements, and direct primary care service fees could be paid from HSAs on a tax-favored basis.
- **Excess business losses:** Excess business losses rules for non-corporate taxpayers extended permanently.
- **New 1% remittance tax:** Remittance (excise) tax for payments from certain taxpayers to foreign persons at rate of 1% of amount paid. Tax does not apply for transfers from certain financial institutions and transfers funded with a debit or credit card issued in the United States.
- **Debt Limit:** Statutory debt limit increased by $5 trillion.

IMPACT ON UPPER INCOME TAXPAYERS

The impact of the Act on upper income taxpayers will be heavily dependent on how one earns their income. We believe the most appropriate comparison for tax purposes is to judge the impact of potential tax by comparing 2026 and subsequent tax years with 2025. Much of the public commentary pointing to a significant tax cut for high income taxpayers compares 2026 (and later tax years) with an assumption that the 2017 TCJA would sunset. While that may be an appropriate way at looking at long-term fiscal and deficit impacts, it appears more appropriate to compare the future tax impact with the current tax year since that is how many taxpayers will experience the impact of the Act.

A high-income wage earner (earning $1 million or more) will likely see a modest tax increase due to the new limitation on charitable deductions and the limitations on the benefit provided by itemized deductions. At this income range, the benefit of a higher SALT deduction cap would be nonexistent due to its full phase-out. While such a taxpayer could benefit from a higher estate tax exemption, that would depend on net worth, rather than net-income (although the two are often correlated).

A high-income business owner could see significant tax benefits if the business is a pass-through entity and can benefit from bonus depreciation, full depreciation for structures or any other expanded business tax benefits, which would reduce current taxable income (but at a cost of increasing future taxable income). If not, the taxpayer should be in a similar position to a high-income wage earner (who may see a modest tax increase).

A high-income taxpayer could see significant tax benefits if income was derived from investments in Qualified Small Business Stock, which could provide the taxpayers a far bigger capital gains exclusion along with a shorter holding period for such an investment.

Unmarried wage earners earning up to about $250,000 (or married couples earning up to $500,000) living in a state that imposes a state income tax could see a significant tax benefit. The ability to deduct up to an additional $30,000 of state taxes alone could result in a benefit of about $10,000 ($30,000 x 32%). Due to various additional tax deductions for moderate income taxpayers (for these purposes assuming a range of $150,000 to $300,000), the tax benefits could also be significant depending on the age of the taxpayers and the character of the income. After passage of the TCJA, many taxpayers switched from itemized deductions to using the standard deduction. The degree of benefit will depend on how much of the increased SALT deduction will simply absorb the difference between their current itemized deductions and their standard deduction.

"Trump Accounts"—IRC § 530A: Trump Accounts (trust) for an individual would be exempt from current tax and treated in a manner similar to an IRA (however, no deduction is available for funding a Trump account). Change would be effective for 2025, but contributions cannot start earlier than July 4, 2026 (contributions can be made if beneficiary has not attained age 18), must be in cash and cannot exceed $5,000 per year (indexed for inflation in future years). Employers could be eligible to make contributions up to $2,500 per year for an employee's dependent. No distributions may be made before the year in which beneficiary attains age 18. Generally, the account can only be invested in low-cost mutual funds and exchange-traded funds which track a well-established index of U.S. Equities (or which invests in an equivalent diversified portfolio of U.S. Equities). Distributions of amounts contributed are generally not taxed, but income is. If the Trump account beneficiary dies before the year attaining age 18, the named beneficiary of the account will be taxable on the value of the account (less certain contributions). After age 18, the Trump account will be treated as an IRA which would enable limited penalty-free distributions for medical expenses, birth or adoption expenses, higher education costs, first-time home purchases, unreimbursed medical expenses and other limited reasons. Pilot program: Government will contribute $1,000 for an eligible individual (someone born between 2025 and 2028, who is a US citizen at birth).

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