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Your Guide to the Tax Implications of the One Big Beautiful Bill



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The Tax Cuts and Jobs Act ("TCJA"), which was signed into law on December 22, 2017, made some of the most significant changes to the tax law since the Tax Reform Act of 1986. Absent further legislation, many of the provisions under the TCJA were set to expire in the next couple of years. The One Big Beautiful Bill Act ("OBBBA"), which was signed into law on July 4, 2025, makes permanent many of the tax provisions that were set to expire under the TCJA, with certain enhancements. In addition, the OBBBA makes certain changes to other tax provisions not addressed in the TCJA. Below are some of the key extensions or changes enacted under the OBBBA:

BUSINESS PROVISIONS:

- Qualified Business Income Deduction
- Bonus Depreciation and Section 179 Expense
- Qualified Small Business Stock ([click here for prior coverage](#))
- Section 163(j) Limitation on Business Interest
- Limitation on Excess Business Losses of Noncorporate Taxpayers
- Qualified Opportunity Zones (also applicable to individual taxpayers)

INDIVIDUAL PROVISIONS:

- Federal Estate and Gift Tax Exemption
- Itemizers' Charitable Deductions
- SALT Deduction
- Miscellaneous Itemized Deductions
- Increased Standard Deduction
- Non-Itemizers' Charitable Deductions

- Reduced Income Tax Rates
- Clean Energy Credit

BUSINESS PROVISIONS

Qualified Business Income Deduction

The TCJA enacted a new deduction, called the “qualified business income deduction” (“QBI Deduction”), which was applicable to owners of businesses (other than corporations) and was intended to provide tax relief to non-corporate business owners that was similar to the tax relief being provided to corporations under the TCJA. (The TCJA reduced the corporate income tax rate to 21%). The calculation to determine the QBI Deduction is complex but is generally the lesser of (a) 20% of the taxpayer’s “qualified business income” and (b) 20% of the taxpayer’s taxable income less capital gain. In addition, a taxable income over certain threshold amounts from certain businesses limit the QBI Deduction.

The QBI Deduction was set to expire after December 31, 2025. The OBBBA permanently extends the QBI Deduction and increases the threshold taxable income limitations. It also adds a minimum deduction of \$400 for taxpayers with at least \$1,000 of “qualified business income.” As a result, taxpayers can continue to benefit from the QBI Deduction in future years.

Bonus Depreciation and Section 179 Expense

The TCJA allowed a 100% depreciation deduction for property placed in service after September 27, 2017, and before January 1, 2023. The 100% bonus depreciation percentage was subject to a phase down for property placed in service after January 1, 2023, with no bonus depreciation being available after 2026. For example, absent any changes in law, if a business were to place property into service in 2025 prior to the passage of the OBBBA, a 40% bonus depreciation would have been available.

Similarly, under the TCJA a business was able to immediately expense certain depreciable property (“Section 179 Property”). The maximum amount of Section 179 Property that a business could expense was capped under the TCJA at \$1,000,000, reduced by the amount of the cost of the property in excess of \$2,500,000.

The OBBBA extends and makes permanent the 100% bonus depreciation deduction for property acquired and placed into service after January 19, 2025. The OBBBA also increases the Section 179 Property dollar thresholds from \$1,000,000 to \$2,500,000, and from \$2,500,000 to \$4,000,000 for property placed into service for taxable years beginning after December 31, 2024. As a result, a business can expense 100% of Section 179 Property placed in service after December 31, 2024, up to \$2,500,000 (reduced by the cost of the property in excess of \$4,000,000).

A business should consider whether bonus depreciation or Section 179 expense is more advantageous. A consideration is that bonus depreciation must be applied to each asset class, whereas Section 179 may be applied on an asset-by-asset basis. Going forward, a business does not need to place a property in service quickly in order to take advantage of a greater bonus depreciation and has the ability to utilize a greater Section 179 expense.

Section 163(j) Limitation on Business Interest

Section 163(j) is a provision of the Code that limits a taxpayer’s deductible business interest expense. As discussed in the article linked here, under the TCJA, Section 163(j) was extended to limit the deductibility of business interest of all businesses, not just corporations. Generally, the limitation is calculated as follows:

- 30% of the business’s adjusted taxable income (“ATI”) *plus*
- business interest income *plus*
- floor plan financing interest

The way ATI is calculated has changed over the years. Beginning on January 1, 2018, through December 31, 2021, a taxpayer computed ATI using the taxpayer's earnings before interest, taxes, depreciation and amortization ("EBITDA"). Beginning on January 1, 2022, a taxpayer computed ATI using the taxpayer's earnings before interest and taxes ("EBIT") only.

The OBBBA makes permanent the modified calculation of ATI using EBITDA. These OBBBA amendments are effective for taxable years beginning after December 31, 2024.

The OBBBA also implements new Section 163(j)(10), which requires the calculation of the business interest deduction limitation to include certain capitalized interest and to apply the limitation to the capitalized interest first, then to the aggregate amount of interest which would be deducted. The new Section 163(j)(10) is applicable to taxable years beginning after December 31, 2025.

The change from EBIT to EBITDA expands a taxpayer's base for business interest deductibility, potentially allowing for a greater amount of deductible business interest expense.

Limitation on Excess Business Losses of Noncorporate Taxpayers

Section 461(l) imposes a limitation on a non-corporate taxpayer's ability to deduct "excess business losses." Generally, a taxpayer's deductions cannot exceed income or gain from the taxpayer's trades or businesses plus an income threshold amount (for 2025, \$313,000 for single filers and \$626,000 for joint return filers). Any disallowed losses are treated as a net operating loss and carry forward to subsequent taxable years.

The limitation was set to expire for taxable years beginning after December 31, 2028. The OBBBA makes permanent the limitation on excess business losses. The OBBBA also adjusts the income threshold for inflation, which applies to taxable years beginning after December 31, 2025. As a result of these amendments, taxpayers continue to be limited in their ability to offset income from other sources with business losses.

Qualified Opportunity Zones

The Qualified Opportunity Zone ("QOZ") provisions under the TCJA were enacted to encourage taxpayers to invest in economically distressed communities. QOZs offered taxpayers the availability to defer recognizing capital gain by investing that capital gain into a Qualified Opportunity Fund ("QOF"), an investment vehicle for the purposes of investing in QOZ property. Under the TCJA, the deferred gain is required to be recognized for the 2026 taxable year, unless gain was recognized in an earlier disposition. The gain deferral mechanism offered by investing in QOZs was set to expire on December 31, 2026.

The OBBBA permanently extends QOZs and provides that capital gain may be deferred by investing in a QOF after December 31, 2026. Any QOF investments made prior to December 31, 2026, continue to be subject to the pre-OBBBA rules, and gain will be triggered on December 31, 2026.

Capital gain is required to be recognized on the earlier of the date of disposition or five years after the date the investment in the QOF was made. If the investment is held for five years, the capital gain required to be recognized is reduced to 90% of the capital gain. If the investment is held for more than 10 and less than 30 years, any further appreciation on the investment is not taxable.

The OBBBA also provides a mechanism for the designation of QOZs on a 10-year rolling basis, as well as imposing information reporting requirements on the QOFs, subject to penalties, including certain information on the QOZ property, the value of QOZ property and identifying information on any investor who disposes of an investment in the QOF.

The extension of the QOZ provisions is welcome news as it will continue to allow taxpayers a mechanism to defer all or a portion of their capital gain for up to five years, as well as the ability to exclude appreciation on the investment if held for at least 10 years.

INDIVIDUAL PROVISIONS

Federal Estate and Gift Tax Exemption

The TCJA doubled the amount U.S. citizens and residents are permitted to transfer during lifetime or at death without incurring federal gift or estate taxes (known as the basic exclusion amount) to \$10,000,000 in 2017 (and required the amount to be adjusted annually for inflation each year thereafter). The basic exclusion amount for 2025 is \$13,990,000 per person. The basic exclusion amount was scheduled to revert to the pre-TCJA amount at the end of 2025, which would have been \$5,000,000, adjusted annually for inflation (which would have brought the exclusion amount to approximately \$7,000,000 in 2026).

The OBBBA permanently raised the basic exclusion amount starting in 2026 to \$15,000,000 per person, adjusted annually for inflation. While the OBBBA raised the federal estate and gift tax exemption, the Illinois estate tax exemption remains unchanged at \$4,000,000, so Illinois residents whose estates exceed \$4,000,000 will remain subject to the Illinois estate tax.

Itemizers' Charitable Deductions

Under current law, individual taxpayers are able to fully deduct their charitable contributions subject to a cap based on various factors, including the type of charitable contribution and the taxpayer's adjusted gross income ("AGI").

The OBBBA creates a new floor on itemizing taxpayers' charitable deductions equal to 0.5% of the taxpayer's AGI. In other words, itemizing taxpayers must contribute an amount equal to at least 0.5% of their AGI before claiming any charitable deductions. The OBBBA allows carryforwards of the disallowed portion if certain requirements are met. The 0.5% floor is effective with the 2026 tax year. Taxpayers should review whether it is advantageous to make certain charitable contributions this taxable year.

The OBBBA extends and makes permanent the 60% AGI threshold on cash contributions to public charities, effective with the 2026 tax year, and clarifies that the 60% limit on cash contributions is intended to be applied after the 50% limit on noncash contributions. See discussion below for new "Non-Itemizers' Charitable Deductions."

SALT Deduction

The TCJA capped the individual deduction for state and local taxes ("SALT") at \$10,000 for married taxpayers filing jointly and non-married taxpayers and \$5,000 for married taxpayers filing separately. The cap was scheduled to sunset at the end of 2025.

The OBBBA increases the SALT deduction cap to \$40,000 for 2025 and 2026, and 101% of the previous year's cap for 2027, 2028 and 2029. It then reverts to the \$10,000 cap for years 2030 and following. The deduction is phased down for married taxpayers filing jointly with AGI (with certain modifications) greater than \$500,000 for 2025 and \$505,000 for 2026 (half of those thresholds for non-married taxpayers or married taxpayers filing separately), and 101% of the previous year's threshold for 2027, 2028 and 2029. For taxpayers with modified AGI above the specified amounts, the cap is reduced by 30% of the excess of modified adjusted gross income over the threshold amount but not below \$10,000. Therefore, in 2025, the deduction phases down to \$10,000 for married taxpayers filing jointly with modified AGI of \$600,000 or greater.

Miscellaneous Itemized Deductions

Prior to the TCJA, taxpayers who itemized their deductions could deduct miscellaneous deductions (such as home office expenses and tax preparation expenses) that exceeded 2% of their AGI. The TCJA temporarily suspended those deductions for tax years 2018 through 2025. The suspension was scheduled to sunset at the end of 2025, which would have made miscellaneous itemized deductions available again. However, the OBBBA made the suspension of miscellaneous itemized deductions permanent.

Increased Standard Deduction

The TCJA significantly increased the standard deduction. For 2025, the inflation-adjusted standard deduction amounts are: \$30,000 for joint filers and surviving spouses, \$22,500 for heads of household, and \$15,000 for singles and married taxpayers filing separately. The standard deduction amounts were scheduled to revert to pre-TCJA amounts for tax years 2026 and beyond.

With the passage of the OBBBA, the basic standard deduction for tax years 2026 and beyond is set at \$31,500 for married taxpayers filing jointly, \$23,625 for heads of household, and \$15,750 for singles and married taxpayers filing separately, all adjusted annually for inflation.

Non-Itemizers' Charitable Deductions

Charitable contributions are generally only deductible by taxpayers who itemize their deductions. In 2020 and 2021, a temporary charitable contribution deduction (subject to a cap) for contributions made to a public charity was available for taxpayers that utilized the standard deduction.

The OBBBA permanently reinstates the temporary charitable contribution deduction that was in effect for the 2021 tax year, with increased amounts (up to \$2,000 for married taxpayers filing jointly and \$1,000 for non-married taxpayers or married taxpayers filing separately), effective beginning with the 2026 tax year.

Reduced Income Tax Rates

The TCJA reduced the income tax rates and modified the number of income tax brackets for individuals and trusts and estates. TCJA rates for individuals and trusts and estates ranged from 10% to 37%. Those rates were scheduled to sunset at the end of 2025, which would have resulted in pre-TCJA rates and brackets—which ranged from 10% to 39.6% for individuals and 15% to 39.6% for trusts and estates—applying again. The TCJA also eliminated most of the “marriage penalty” by setting the joint filing tax brackets at twice the single tax bracket amounts, although not for the top tax bracket. Additionally, the TCJA modified the breakpoints at which the net capital gains and qualified dividends tax rates (which remained unmodified at 0%, 15% and 20%) apply.

The OBBBA made TCJA income tax rate reductions and bracket modifications, marriage penalty reduction, and modified breakpoints for net capital gains and qualified dividends permanent.

Clean Energy Credit

Taxpayers previously were eligible for a credit for residential clean energy credit for expenditures. The OBBBA has terminated this credit for any expenditures after December 31, 2025, so taxpayers considering such expenditures should make them prior to the end of the year to take advantage of the credit.

If you have any questions on the tax changes in the OBBBA, [please contact a member of the Tax Planning and Structuring Practice.](#)