

# Highlights of The One Big Beautiful Bill Act

This bill extends most aspects of the original TCJA that were set to sunset in 2026, while introducing a variety of new provisions that – in most cases – come with a brief window of opportunity.

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With a flurry of activity leading into the July 4 holiday weekend, Congress agreed on the terms of a budget reconciliation bill that accomplished two main objectives of the current administration – addressing the looming sunset of tax provisions included in the TCJA of 2017 and fulfilling many of President Trump’s campaign promises.

The bill, unofficially referred to as “The One Big Beautiful Bill Act”, or the OBBBA, provides taxpayers certainty that most of the laws we’ve become accustomed to over the last several years are now in place indefinitely, rather than reverting to 2017 law after this year. This includes our current tax rates and brackets for all forms of income, the expanded child tax credit, the rules on tax deductions, business incentives and more. These changes are often described as permanent, but they can always be modified by a future Congress, although that seems unlikely for the foreseeable future.

That is not the case with many of the new provisions in the bill, however. Changes such as deductions for tip and overtime income, the deduction for auto loan interest, the expanded SALT deduction and others all expire just a few years from now. This adds a high degree of complexity – and again, future uncertainty – to our tax code. Most of these newer items will reduce the net tax cost for lower income households, while other changes will increase costs for some higher income households. However, the net impact of all these changes could be offset by other changes in the bill, such as those affecting health care benefits.

This bill differs in some substantial ways from the version the House originally passed in May. For example, most of the proposals to expand Health Savings Accounts were left out of the final bill, but the OBBBA did include expansions to the Qualified Small Business Stock exclusion and a number of other items not addressed in previous proposals.

The following is a summary of the key provisions affecting individuals and businesses. Reforms affecting international taxation and foreign sourced income, most Medicare reforms, changes affecting energy producers and others are outside the scope of this summary.

## CHANGES TO INCOME, TAXES AND CREDITS RELATED TO THE TCJA

Most notably, this bill maintains the current **income tax rates and brackets**. Had the scheduled sunset occurred, the tax rate on nearly all levels of income would have increased roughly 1-4%. Instead, the current top rate of 37%, and all other rates and bracket ranges, will remain in place indefinitely. Following are several other items that were scheduled to sunset but were extended, and in some cases modified, under the OBBBA:

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- The **Qualified Business Income** (QBI) deduction remains in place, allowing owners of pass-through businesses to continue to exempt a portion of their income from tax. This provision maintains the current 20% deduction amount (earlier versions of the OBBBA had increased this to 23%), but expands the phaseout range slightly beginning in 2026, allowing more taxpayers to qualify for the deduction. Lastly, a new \$400 minimum deduction was added for business owners with at least \$1,000 of qualifying income in 2026, with inflation adjustments thereafter.
- The **lifetime gift and estate tax exemption** will increase to \$15 million per person in 2026, rather than decreasing to approximately \$7 million had sunset occurred after 2025. This amount will continue to grow with inflation.
  - Individuals with a net worth between \$7 and \$15 million (and couples between \$14 and \$30 million) were faced with a difficult decision regarding this potential decrease in the exemption. However, with this increase those taxpayers will have less need to consider large transfers of wealth during 2025. Estate planning remains an important item for all taxpayers, but planning around the estate tax itself is an issue for only the highest net worth families.
- The changes to the **Alternative Minimum Tax** (AMT) were mostly kept in place, although a pair of changes beginning in 2026 will ultimately increase the number of people subject to this tax. The OBBBA keeps the higher AMT exemption amount in place, but for 2026 lowers the income level at which the exemption begins to phase out while increasing the rate at which it phases out.
  - For 2025, the AMT exemption is phased out for a couple with income between \$1,252,700 to \$1,800,700. For 2026, this will fall to a range of approximately \$1,000,000 to \$1,275,000. For singles, the new range will be approximately \$500,000 to \$672,200.
  - As a result, couples with income over \$1 million in 2026 are more likely to owe additional tax under the AMT.
- The enhanced **child credit** not only remains in place but will increase from \$2,000 to \$2,200 for 2025. This amount will be inflation-adjusted beginning in 2026.
- Employer reimbursements for bicycle commuting expenses will remain fully taxable beyond 2025.

### CHANGES TO DEDUCTIONS RELATED TO THE TCJA

- Prior to the TCJA, a personal exemption was available to all taxpayers (subject to a phaseout). That has now been permanently removed. However, a new exemption for those over age 65 was added (see the section on **New Deductions Created Under the OBBBA** below).
- The enhanced **standard deduction** will not only remain in place but will be increased for 2025 and inflation adjusted for 2026 and beyond. For couples filing jointly, the 2025 standard deduction will be \$31,500 (up from \$30,000), and for singles \$15,750 (up from \$15,000).
- One of the most watched items in this process has been what would happen to the deduction for **state and local taxes** (SALT). The TCJA limited this deduction to \$10,000, and expanding that had been a priority for many in Washington. The OBBBA increases the limit to \$40,000 for 2025, then further increases it by 1% per year through 2029 before returning to \$10,000 in 2030.
  - The \$30,000 increase above the \$10,000 base amount is reduced by 30% of Modified Adjusted Gross Income (MAGI) above \$500,000 for all taxpayers. As a result, the entire increase is eliminated once MAGI reaches \$600,000. MAGI here is defined as AGI after adding back deductions for foreign earned income, foreign housing or income sourced from Guam, Puerto Rico and other US territories. For most taxpayers, MAGI will be the same as AGI.
  - Ordinary income above \$500,000 is generally taxed at 35% for both singles and couples. However, income over that level now causes a loss of the extra SALT deduction, making the effective rate on income between

\$500,000 and \$600,000 more than 45%. Extra consideration should be given to generating income that puts any taxpayer –single or married – in that phaseout range.

- Earlier versions of the OBBBA placed restrictions on techniques used to circumvent the \$10,000 SALT limit, such as **Pass Through Entity Taxes** (PTET) or charitable gifts used to reduce a state tax liability. The final bill, however, did not include any of those restrictions.
- The OBBBA permanently replaced the Pease limitation (a **phaseout of itemized deductions** which had been suspended under the TCJA) with a more limited version. The original version phased out itemized deductions for taxpayers with income over a certain threshold. This version limits the tax benefit of deductions to 35% by reducing the total amount of deductions claimed by those in the top 37% tax bracket. This only applies to those who itemize, not those who use the standard deduction, and is effective beginning in 2026.
  - Taxpayers in the top bracket both in 2025 and 2026 will find their deductions, in particular charitable contributions, provide a larger tax benefit this year than next. This is also true due to other changes affecting charitable gifts (see the section titled **Changes to Charitable Gifting** below). As a result, high-income taxpayers may benefit by accelerating 2026 charitable gifts into 2025.
- The **mortgage interest** deduction limits are unchanged from current rules, meaning homeowners can only deduct interest on qualifying loans up to \$750,000. The bill does bring back the deduction for Private Mortgage Insurance (PMI) in 2026, however. This deduction will be available to couples with AGI below \$100,000 and is phased out for those over \$110,000 (singles from \$50,000 to \$55,000).
- Deductions for **casualty losses** are still only allowed for declared disaster areas, but the definition will expand in 2026 to include certain state-declared disasters along with federal designations.
- Amounts paid for tax preparation, investment expenses, unreimbursed business expenses and other “**miscellaneous deductions**” will remain non-deductible.
- The deduction for **moving expenses** will remain disallowed except for members of the military and – as added by the OBBBA – members of the intelligence community beginning in 2026.
- The deduction for **gambling losses** will now be limited to 90% of actual losses, with that 90% amount still limited by the amount of gambling winnings, beginning in 2026.
- The deduction for **business losses** incurred by non-business taxpayers will continue to be limited to a specific dollar amount (\$626,000 for couples in 2025). This provision was scheduled to expire after 2028 but is now permanent.

### NEW DEDUCTIONS CREATED BY THE OBBBA

This bill includes three new deductions that address items President Trump pledged during his campaign. None of these are considered “itemized deductions,” so they are available to taxpayers who either use the standard deduction or itemize, but they are also not considered adjustments and therefore do not reduce AGI. Each comes with its own limits and eligibility requirements as follows, and all three are only available for 2025 through 2028. MAGI in all cases matches the definition used for the expanded SALT deduction.

- **Deduction for Tip Income** – This provision allows a deduction of up to \$25,000 in qualified tip income, for either single or joint filers (although married couples filing separately may not claim any deduction). The deduction begins phasing out for joint filers with MAGI over \$300,000 and is fully eliminated once MAGI exceeds \$550,000 (\$150,000 and \$400,000 for all others). It only applies to those who work in occupations traditionally associated with receiving tips, and the IRS will publish a list of such occupations within 90 days. Eligible tip income must be reported to the employee on a form provided by their employer or contractor, and this income will still be subject to employment taxes.

- **Deduction for Overtime Income** – This new deduction is limited to \$12,500 of qualifying overtime for a single filer, or \$25,000 for those filing jointly. Like the deduction for tip income, this phases out for joint filers with MAGI between \$300,000 and \$550,000 (\$150,000 to \$275,000 for all others). Qualifying overtime income means income above the employee's standard rate. For example, if an employee normally earns \$20 per hour, but is paid \$30 per hour for working overtime, the deduction is limited to the extra \$10 they were paid. The qualifying amount must be reported on the employee's W-2 and is still subject to employment taxes.
- **Deduction for Auto Loan Interest** – Lastly, taxpayers can deduct up to \$10,000 in interest on a loan used to purchase a qualifying vehicle. The deduction phases out for joint filers with MAGI between \$200,000 and \$250,000 (\$100,000 and \$150,000 for all others). Qualifying vehicles must be purchased (not leased) in 2025 through 2028, be for personal use only, and have their final assembly completed in the United States (among other rules).

One other new deduction was also included in the bill, but is more like the personal exemption that was permanently eliminated under the OBBBA:

- **Deduction for Seniors** – A new \$6,000 deduction applies to each taxpayer age 65 or over at the end of the year (married couples age 65+ are each eligible for this deduction) and partially address the President's pledge to make Social Security benefits tax-free. Each senior's deduction is reduced by 6% of MAGI over \$150,000 for joint filers and is fully phased out at MAGI of \$250,000 (\$75,000 and \$175,000 for those filing alone). This new deduction is available for 2025 through 2028 only. Because this deduction is applied after AGI, it will not help reduce income for purposes of the increased Medicare premiums under IRMAA.

### CHANGES TO CHARITABLE GIVING

- During the COVID period, Congress enacted a limited deduction for charitable gifts for those who don't itemize their deductions. This bill permanently reinstates that beginning in 2026 and increases the deduction to \$2,000 for joint filers, \$1,000 for all others. As before, the gift must be in cash and is only allowed if the taxpayer claims the standard deduction rather than itemizing. Gifts to a private foundation or donor advised fund cannot be used for this deduction.
  - While other changes to charitable giving may suggest accelerating gifts from 2026 into 2025, that's not always the case. Non-itemizers who defer gifts into 2026 will now receive a tax benefit not available in 2025.
- The tax deduction for charitable contributions has long been limited to a percentage of a taxpayer's AGI, ranging from 20% to 60% based on the type of gift and the recipient. The OBBBA has now added a floor on the deduction. Beginning in 2026, charitable contributions will only be deductible after they exceed 0.5% of AGI. For example, the first \$500 in charitable gifts for a taxpayer with AGI of \$100,000 will be non-deductible. This only applies to those who are itemizing and therefore does not affect the reinstated deduction described above.
  - This change and the limit on the tax benefit of donations described earlier both take effect in 2026. As a result, taxpayers in the top tax bracket or who itemize may choose to accelerate gifts into 2025 from 2026 in order to maximize their tax benefit. Contributions to a Donor Advised Fund can be an effective way to receive those tax benefits today while still controlling the final distribution of the gift to charities in the future.
- Cash gifts to public charities will continue to be deductible up to 60% of AGI. That had been scheduled to fall to 50% after 2025.
- The OBBBA creates a new tax credit for charitable gifts of cash to scholarship granting organizations that meet specific standards. The credit is equal to the gift made, up to \$1,700. Any amount claimed as a credit cannot also be claimed as a charitable contribution. This applies beginning in 2027.

### CHANGES TO EDUCATION BENEFITS

- The OBBBA offers several expansions to how 529 plan accounts can be used:
  - Paying elementary, secondary, religious and private school expenses beyond tuition is now allowed from a 529 plan. This includes books, online materials, tutoring, standardized tests, educational therapies and more. This change is effective for distributions occurring after the OBBBA was enacted (roughly July 4, 2025).
  - Also effective on that date, recognized postsecondary credentialing programs can now be paid for with 529 assets. This includes tuition, books, supplies and more, as well as the licensing exam and continuing education classes required to maintain the designation.
  - Beginning in 2026, a 529 can be used to pay up to \$20,000 of elementary or secondary tuition per year, up from \$10,000 currently.
- Employers can currently provide up to \$5,250 of educational assistance to employees tax-free, including payments toward student loans. That provision was scheduled to expire after this year but has now been made permanent. In addition, the \$5,250 overall limit will be adjusted for inflation after 2026.

### TRUMP SAVINGS ACCOUNT

The OBBBA creates a new type of IRA savings account for children. Originally called “MAGA Accounts”, these were later renamed to Trump accounts, and the rules they are subject to changed substantially from the initial version. The Treasury Department will provide guidance on which institutions can serve as trustees for these accounts and other details, so further updates are expected in the coming months.

- Accounts can only be opened for those under age 18, but not until 12 months after the bill is finalized (so roughly July 4, 2026).
- Contributions are limited to \$5,000 per year (with annual inflation adjustments after 2027) and are non-tax deductible. These contributions have no impact on the ability to make contributions to any other type of IRA.
  - Employers can also contribute up to \$2,500 to an account for an eligible employee or their dependent. This contribution is not taxable income to the recipient but counts toward the \$5,000 annual contribution limit.
  - Under a pilot program, the government will make an initial \$1,000 contribution to accounts for those born in 2025 through 2028.
  - “General funding contributions” can also be made by state, local or tribal governments or charitable organizations. Eligibility for these contributions is based on where the beneficiary lives (as determined by the IRS) and/or the year in which they were born.
- No additional contributions can be made beginning the year the account beneficiary turns age 18.
- Prior to the beneficiary reaching age 18, these accounts can only be invested in a mutual fund or ETF that tracks an equity index of primarily US companies. Indexes can be based on market capitalization, but not a particular market sector or industry.
- Regular contributions to a Trump account are considered basis in the account. Contributions under the government pilot program, those made by employers and general funding contributions, as well as the growth on all types of contributions, are all treated as earnings in the account. Like with Traditional IRAs, distributions from a Trump account come pro rata from the basis and earnings in the account.

- Distributions prior to the beneficiary's age 18 are generally not allowed.
  - If a beneficiary dies prior to age 18, earnings in the account are treated as taxable income to the person who inherits the account, and it ceases to be a Trump account.
  - Trump accounts can be rolled over to an ABLE account, but only in the year the beneficiary turns 17, and only if the entire balance is rolled over. These rollovers will not count toward the ABLE account contribution limit.
- Once the beneficiary reaches age 18, these are treated like a Traditional IRA, meaning distributions of earnings are taxed as ordinary income, taxable distributions prior to age 59½ are generally subject to a 10% penalty, and RMD rules apply when the beneficiary reaches age 75. However, these accounts are not aggregated with Traditional IRAs for purposes of any pro rata or RMD rules.
  - Unlike the original proposal for these accounts, there are no further restrictions on the timing or use of distributions from the account.

These accounts should be viewed as a way to begin a retirement account for those with no compensation income. Even those under 18 who do have such income can fund both the Trump account and either a Traditional or (more likely) a Roth IRA. Contributions made on behalf of the account beneficiary would be considered a gift, so gifts to other accounts for the same beneficiary – such as a 529 Plan or UTMA – may need to be adjusted to stay within the annual gift limitations.

### **OTHER CHANGES AFFECTING INDIVIDUALS**

- The tax credit for expenses related to adoptions was modified by making up to \$5,000 of the maximum \$10,000 credit refundable, meaning that portion of the credit is available for those whose tax liability is less than \$5,000.
- Currently, employers can provide dependent care assistance of up to \$5,000 to an employee tax-free. In 2026, that amount will increase to \$7,500.
- The tax credit for child and dependent care expenses incurred by working parents will increase from 35% to 50% of qualifying expenses, with a new phaseout schedule that reduces the rate to as low as 20%.

### **RENEWAL AND ENHANCEMENT OF OPPORTUNITY ZONES**

The Opportunity Zone (OZ) program created under the TCJA provided tax incentives for investing in underserved geographic areas around the country. Some of those tax incentives have since expired, but the OBBBA creates a new and permanent OZ program, covering new parts of the country and providing enhanced tax benefits beyond what the original version offered.

- The program would begin with a new round of opportunity zone designations, using revised standards and updated demographic data. This redesignation of qualifying areas would be done every 10 years, beginning July 1, 2026. Funds investing in the newest round of designated opportunity zones will be available after January 1, 2027.
- As with the original program, taxpayers who realize a capital gain will have 180 days to invest the gain into an OZ Fund. Doing so will allow the invested gain to be excluded from taxable income in that year. The gain will become taxable upon the earlier of the sale of the OZ Fund or five years.
  - The original OZ program said all deferred gains would be taxed as of December 31, 2026, and that remains in place for investments in the original program. This new program, however, eliminates that hard date in favor of a five-year tax deferral regardless of when the new investment is made.

- The investor's initial cost basis in the OZ Fund will be \$0. If the fund is held for five years, the basis will increase by 10% of the gain that was invested. In other words, 10% of the gain goes away after five years, with the other 90% taxable at that time.
  - A second form of OZ Fund, referred to as a Qualified Rural Opportunity Fund (QROF), is one that invests 90% of its assets in (or adjacent to) areas with fewer than 50,000 inhabitants. Investors in these QROFs will receive a basis adjustment of 30% of the gain that was invested in the fund after five years.
- As with the original program, OZ Fund and QROF investments that are held for at least 10 years (and up to 30 years) will have their basis adjusted to the market value upon sale. In other words, the first 30 years of appreciation in either type of Fund is tax-exempt upon sale. Any gain after the 30<sup>th</sup> year will be taxed upon sale.

With these new incentives taking effect in 2027, investors looking to take advantage of them may choose to defer recognition of larger capital gains until at least late 2026 (taking advantage of the 180-day window to invest).

### CHANGES TO THE SALE OF QUALIFIED SMALL BUSINESS STOCK

Owners of C Corporations that meet the definition of a "qualified small business" are eligible to exclude some portion of the gain realized when selling their stock. That portion has changed several times over the years, and now Congress has found a way to expand these rules again. Under the current rules, 100% of the gain on the sale of stock acquired after September 28, 2010 and held for five years is excluded from tax. Under the OBBBA, there is a new tiered structure for the exclusion, and it is only effective for stock acquired after the OBBBA was enacted (July 4, 2025):

- For stock acquired and held for at least 3 years after that date, 50% of the gain is excluded from income.
- For stock held for at least 4 years, 75% of the gain is excluded.
- For stock held for at least 5 years, 100% of the gain is excluded.

In addition to these new benefits for shorter holding periods, the maximum amount of gain applied against those percentages is increased from \$10 million to \$15 million. Also, the maximum asset level allowed to be deemed a small business will increase from \$50 million to \$75 million. These increases only apply to stock acquired/issued after the effective date of the OBBBA, and both of these amounts will be adjusted for inflation after 2026.

### CHANGES AFFECTING BUSINESSES

While most of the headline items in the OBBBA were aimed at individual taxpayers, there were several meaningful changes made that will directly affect business.

- The TCJA instituted a "bonus depreciation" program, allowing businesses to depreciate 100% of the cost of certain qualifying property in the year of the purchase, with that percentage gradually falling over time. For 2025, it was 40% and would reach 0% in 2027. The OBBBA permanently returns that bonus depreciation to 100% for any property acquired and placed in service during the first taxable year ending after January 19, 2025. Bonus depreciation is generally only available for items with a useful life of 20 years or less or one of several other specifically identified classes of property.
- Similarly, costs associated with qualified research and development can now be expensed in the year incurred, rather than capitalized and amortized over 15 years. Research conducted outside the US must continue to be amortized. This applies to qualifying expenses incurred in tax years beginning in 2025, although smaller businesses can retroactively elect this treatment to expenses incurred in tax years beginning in 2022 or later.
- The depreciation deduction allowed under Section 179 was increased again to \$2.5 million (up from \$1 million) and is now phased out once total purchases for the year exceed \$4 million (up from \$2.5 million).

- The rules for deducting interest expense were loosened, making it easier for businesses to deduct that expense.
- The tax credit available to businesses that offer childcare services will increase to 40% of qualified expenses, up from 25%, and the maximum credit will increase to \$500,000, up from \$150,000. Those amounts further increase to 50% and \$600,000 for certain small businesses. These changes apply to expenses paid after 2025, and the credit amounts will be inflation adjusted after 2026.
- The deduction for charitable gifts made by C Corporations has long been limited to 10% of their taxable income. Now, similar to the change for individuals, contributions are also only deductible to the extent they exceed 1% of the C Corporation's taxable income in tax years beginning in 2026. As a result, a C Corporation with \$1 million of taxable income would not be able to deduct their first \$10,000 of charitable gifts. This change does not apply to S Corporations and other business forms as those deductions flow through to the business owners.

### OTHER ITEMS

- Individuals claiming the premium tax credit to help offset the cost of medical insurance will in some cases receive an advance on that credit based on their estimated income. In cases where that advance payment was more than their actual allowed credit, the excess amount should be returned, although partial repayment had been allowed for those with income below 400% of the federal poverty level (FPL). This bill requires full repayment of those excess credits, with exceptions for those below 100% of the FPL, effective in 2026.
- Beginning in 2026, bronze and catastrophic health care plans purchased on the health insurance marketplace will be treated as "high-deductible health plans" for purposes of qualifying to contribute to a Health Savings Account.
  - Early versions of the OBBBA included several other enhancements to Health Savings Accounts, including an increased contribution amount and other eligibility changes. None of those items were included in the final bill.
- The current 1.4% excise tax on net investment income of private educational institutions will be replaced in 2026 with a graduated rate structure. The tax still applies to net investment income but varies based on the size of their endowment fund. The tax would begin at 1.4% for those with an adjusted endowment of at least \$500,000 per student and would gradually increase to 8% for those in excess of \$2 million per student.