One, Big, Beautiful Bill Act (OBBBA)

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PALLAS CAPITAL ADVISORS

Historic tax reform has arrived—again. On July 4, 2025, President Trump signed into law the One, Big, Beautiful Bill Act (OBBBA), a sweeping rewrite of the tax code. Whether you are a business owner, retiree, or working family, this law likely affects your tax picture for years to come.

Here's what you need to know

Most of the updates (totaling 887 pages!) affecting individual taxpayers aren't drastic. Rather, the bill locks in many of the 2017 Tax Cuts and Jobs Act's (TCJA) core provisions that were scheduled to sunset after 2025—helping avoid potential tax hikes and planning uncertainty for many Americans.

"The most important impact of this new law is the stability it brings to major tax rules, which has been lacking for years." said Charles Evangelakos, Founding Partner at Pallas Capital Advisors, LLC.

Several provisions essentially keep things as they are. The law does not change rules related to investment income or retirement savings. The maximum tax rate on long-term capital gains and qualified dividends stays at 20%, with an additional 3.8% surtax, and the current contribution limits and regulations for IRAs and 401(k) plans remain unchanged.

The alternative minimum tax (AMT) has been revised to prevent it from affecting millions of taxpayers starting in 2026. The 20% deduction for qualified business income from pass-through entities remains intact.

Additionally, certain deductions eliminated in 2017—such as the personal exemption, miscellaneous itemized deductions, and moving expenses for most filers—are now permanently repealed. The mortgage interest deduction continues to apply only to up to $750,000 of eligible mortgage debt, with no future inflation adjustment.

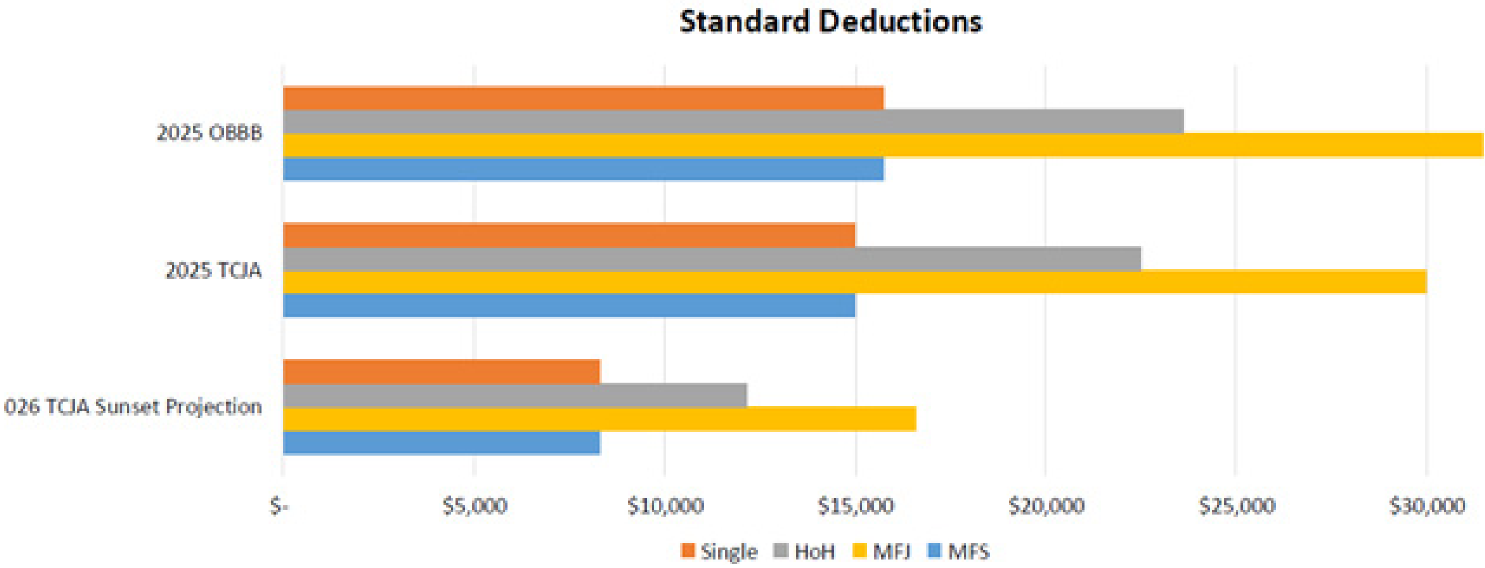
What are Some of the Major Changes in the New Tax Law?

- The existing income tax rates and brackets are now permanently extended. There are no changes to the tax rates for long-term capital gains or qualified dividends. The 2025 brackets are as follows and will be indexed for inflation annually:

TAX BRACKET	SINGLE	MARRIED FILING JOINTLY
10%	up to $11,925	$23,850
12%	$11,926 to $48,475	$23,851 to $96,950
22%	$48,476 to $103,350	$96,951 to $206,700
24%	$103,351 to $197,300	$206,701 to $394,600
32%	$197,301 to $250,525	$394,601 to $501,050
35%	$250,526 to $626,350	$501,051 to $751,600
37%	over $626,350	over $751,600

- The standard deduction, which was originally doubled under the TCJA, will remain in place permanently and will see a modest increase starting in 2025.

	2025 TCJA	2025 OBBBA
Single	15,000	15,750
HoH	22,500	23,625
MFJ	30,000	31,500
MFS	15,000	15,750



- The state and local tax (SALT) deduction cap is raised from $10,000 to $40,000 for the next five years, with a gradual phase-out once a taxpayer's income surpasses $500,000. However, all filers will still be able to deduct at least $10,000. For 2025, the cap will be $40,000, and in 2026 it will rise to $40,400. Future adjustments are scheduled as follows:

2025	$40,000
2026	$40,400
2027	$40,804
2028	$41,212
2029+	$10,000

- The bill incorporates the Trump campaign's pledges to eliminate taxes on tips and overtime pay, but these exemptions apply only to individuals earning less than $150,000 ($300,000 for joint filers). **These provisions are temporary and will expire after 2028.**
- Starting in 2026, the lifetime gift and estate tax exemption will rise to $15 million per individual and will be indexed for inflation. This higher threshold is now permanent. What this means is that wealth transfer planning will likely take a permanent back seat to income tax planning for the vast majority of taxpayers.
- Social Security taxes remain unchanged. However, there is a new $6,000 additional deduction for seniors (age 65+) earning less than $75,000 (or $150,000 for couples), which will be available through 2028.
- For C Corporation Business owners, the expanded Section 1202 Qualified Small Business Stock (QSBS) definition offers an opportunity for significant tax savings. More information on this topic can be found on the following pages.
- The Qualified Opportunity Zone program will be renewed and expanded, becoming a permanent part of the tax code beginning in 2027. This initiative offers tax breaks to investors who direct capital gains into IRS-designated economically distressed areas.
- Tax treatment for municipal and private activity bonds remains unchanged.
- A new tax-advantaged savings account, known as a "Trump account," is being introduced for individuals under age 18. These accounts can be used for various future expenses, such as education, home buying, or starting a business.

- Several green energy provisions are being cut short. To qualify for tax credits on new or used clean vehicles, the vehicle must now be placed in service by September 30, 2025, instead of the original 2032 deadline.
- The energy-efficient home improvement credit and the residential clean energy credit will now expire on December 31, 2025—seven to nine years earlier than previously scheduled.
- One of the more contentious aspects of the new law affects individuals who rely on Medicaid and related assistance programs. Eligibility rules for the Supplemental Nutrition Assistance Program (SNAP) are being tightened, requiring able-bodied adults under age 65 to work at least 80 hours per month. The only exception will be for those caring for children under 14. Before the law was signed, work requirements applied only to adults under 55, with exemptions for caregivers of children under 18. Starting in fiscal year 2028, some states will also be required to contribute to SNAP funding, which could place additional pressure on their budgets.

Want to know More?

Below is a more detailed summary of many key tax planning provisions of the OBBBA:

TCJA Expiration Date? Not so Fast.

PROVISIONS	DETAILS
Income tax rates and bracket	The familiar tax brackets will remain unchanged, with the 2017 rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37% still in effect. The 22% and 24% brackets are especially important for many taxpayers, as they cover income ranging roughly from $100,000 to $400,000 for married couples filing jointly, and about half that for single filers. This broad range of income taxed at similar rates can provide flexibility for planning strategies that may accelerate income recognition like Roth IRA conversions or exercising stock options.
Standard deduction	Also retained: the 2017 overhaul's near-doubling of the standard deduction, which is the amount taxpayers get to subtract from income if they don't itemize deductions on Schedule A. The standard deduction for 2025 will be $15,750 for single filers and $31,500 for married joint filers and rise with inflation after that, according to the Tax Foundation.
Increase in the SALT cap	The new law increases the Schedule A deduction limit for state and local taxes—from $10,000 to $40,000—for taxpayers with incomes up to $500,000, with the deduction gradually reducing back to $10,000 for higher earners. This change begins in tax year 2025 and is set to expire after 2029. Taxpayers who stand to gain from this expanded deduction should consider strategically timing other Schedule A deductions, like charitable gifts, to maximize their overall benefit. Those near the $500,000 income limit may want to explore ways to reduce their modified adjusted gross income—for example, by making Qualified Charitable Distributions (QCDs) directly from an IRA, if eligible.

Child tax credit	The legislation also makes permanent the $2,000 child tax credit enacted in 2017—and raises it a bit. Starting in 2025, the base amount will be $2,200 per child, according to the Tax Foundation. It will be indexed for inflation going forward. The Other Dependent Credit of $500 is made permanent. This includes dependents who do not qualify for the CTC, such as dependent children age 17 or older
Alternative minimum tax (AMT)	The higher AMT exemption and phase-out of the exemption established by the TCJA are made permanent; this avoids a dramatic expansion of the AMT applying to more taxpayers. However, the threshold at which the exemption starts to phase out is reduced from $1,252,700 to $1,000,000.
Itemized deductions	The scale-back of these deductions as a result of the TCJA are generally made permanent (mortgage interest deduction limited to $750,000 in debt, for example). However, the OBBBA restores the deductibility of mortgage insurance premiums.
Federal gift and estate tax exemption	The estate-and-gift tax has new clarity as well. For 2025, the exemption is $13.99 million per individual, but that was set to drop to about $7 million in 2026. The new law sets a permanent base of $15 million per person starting in 2026, with inflation adjustments after that.

New Tax Provisions

PROVISIONS	DETAILS
New restriction on itemized deductions	The value of itemized deductions is generally capped at the 35% tax bracket, which slightly reduces the tax savings for individuals in the top 37% income tax bracket.
New deduction for seniors age 65+	A $6,000 additional deduction is available to taxpayers with modified adjusted gross income (MAGI) of $75,000 or less ($150,000 or less for joint filers). Because the deduction is income-limited, it's important to carefully evaluate tax strategies—such as Roth conversions—that could increase taxable income and potentially disqualify a filer from receiving the deduction. This benefit (a compromise to the "no tax on social security" pledge) is available for tax years 2025 through 2028 and can be claimed whether the taxpayer uses the standard deduction or itemizes.
New "Trump accounts"	A new tax-advantaged savings account is being introduced for children under age 18. To qualify, the account must be opened by the time the child turns eight and can receive up to $5,000 in annual after-tax contributions.

	If the money is used for qualified purposes—such as education, buying a home, or starting a business—the earnings portion is taxed as a long-term capital gain upon withdrawal. Withdrawals become available when the child turns 18: up to 50% of the account can be accessed between ages 18 and 24, and the full balance between ages 25 and 30. After age 30, funds may be withdrawn for any reason without being treated as non-qualified. The law also establishes a pilot program in which the federal government will automatically open accounts and contribute $1,000 for each U.S. citizen born between 2025 and the end of 2028.
Charitable Deduction for non-itemizers	Starting in 2026, donors will be allowed to deduct $1,000 (single filers) and $2,000 (joint filers) if they don't itemize on Schedule A.
New limitation on itemized charitable deductions	A new limit on charitable donations for itemizers will also take effect next year (2026). It disallows a portion of the deduction equal to 0.5% of a filer's modified adjusted gross income. So a filer with $300,000 of MAGI would get no deduction for the first $1,500 of charitable donations on Schedule A. Givers who want to avoid it should consider accelerating donations into 2025. The 60% AGI limit for cash contributions to qualified charities is now permanent, supporting larger philanthropic gifts.

Promises, Promises?

During his campaign, President Trump called for several targeted tax breaks. All have been limited compared with what was promised, and each takes effect for 2025 and lapses at the end of 2028.

PROVISIONS	DETAILS
"No tax on tips."	The "no tax on tips" provision allows for a deduction up to $25,000 for single filers with income up to $150,000 and joint filers up to $300,000 before phasing out. The Treasury Department will compile a list of who qualifies. Tips from employment in a specified service business (under IRC § 199A) are not eligible. Examples include financial service professionals, consultants, accounting, legal professionals, etc.
"No tax on Social Security."	The "no tax on Social Security" proposal has been converted into a new $6,000 additional deduction for each individual age 65 or older. This deduction applies to single filers with income up to $75,000 and married couples filing jointly with income up to $150,000, with the benefit gradually phasing out above those levels. It comes on top of both the regular standard deduction and the existing senior additional standard deduction already in place.

"No tax on overtime pay."	The "no tax on overtime" provision allows a deduction up to $12,500 for single filers with income up to $150,000 and $25,000 for joint filers with income up to $300,000 for qualified overtime pay. Deduction available whether you itemize deductions or claim the standard deduction.
New deduction for auto loan interest	The "no tax on car loan interest" provision allows a deduction of up to $10,000 of interest on loans to purchase passenger cars. Deduction is subject to a phaseout once modified gross income exceeds $100,000 ($200,000 for married couples filing a joint tax return). Final assembly must occur in the US to be eligible, the vehicle must have at least 2 wheels, and have a gross weight of less than 14,000 lbs.

Education savings

PROVISIONS	DETAILS
Expansion of qualified expenses for 529 accounts	At present, 529 plan funds for K–12 education can only be used to cover tuition costs. The new provision broadens this to include additional expenses such as books, online learning materials, tutoring, and testing fees. For higher education, 529 funds can now also be applied to a wider range of costs, including expenses related to "qualified postsecondary credentialing programs.

What should business owners know?

PROVISIONS	DETAILS
Section 199A Deduction for qualified business income (QBI) made permanent	The 20% Qualified Business Income (QBI) deduction—available to eligible pass-through entities like partnerships, sole proprietors, and S corporations, will no longer expire at the end of 2025 and is now permanent. Beginning in 2026, the income phase-out thresholds for claiming the deduction will be slightly increased, offering added benefits to some business owners.

Section 1202 Qualified Small Business Stock (QSBS) Expansion	Expanded § 1202 QSBS treatment for C-corporations including many planning opportunities. Under current law, the 100% federal capital gain tax exclusion is available after a 5-year holding period; the legislation adds a tiered exclusion percentage for earlier sales: • After 3 years: 50% • After 4 years: 75% • After 5 years: 100% Legislation increases the exclusion limit from $10,000,000 to $15,000,000. It also increases the corporate asset cap from $50,000,000 to $75,000,000. Expanded § 1202 requires an examination of all new entities and the benefits of a C-Corp compared to an S-Corporation or partnership.
Qualified opportunity zones (QOZs) made permanent	Investing in Qualified Opportunity Zones (QOZs) enables taxpayers to defer paying taxes on capital gains by reinvesting the proceeds from the sale of certain assets. If the investment is held for a specified period, it may also reduce the amount of capital gain recognized when the funds are eventually withdrawn. Although the original QOZ program created under the TCJA is set to end in 2026, a new version featuring ongoing 10-year rolling opportunities will launch in 2027. The updated program also introduces an extra tax incentive for investments made in designated rural areas.
Bonus depreciation for certain property	Under current rules, business owners can deduct only 40% of the cost of qualified property purchases in 2025, with that deduction set to drop to 20% in 2026. As a result of the new legislation, for qualified property acquired on or after January 19, 2025, the deduction is permanently increased to cover 100% of the purchase cost.
Immediate expensing of new production facilities	Businesses are allowed to fully deduct the cost of constructing new U.S.-based manufacturing, production, or refining facilities if construction begins between January 20, 2025, and the end of 2028. This provision eliminates the need to spread out, or amortize, the deduction over multiple years for tax purposes.
Immediate expensing of research costs	Starting in 2025, businesses will be able to fully deduct qualified expenses for domestic research and experimental activities. Additionally, companies with average annual gross receipts of $31 million or less can apply this full expensing rule retroactively, beginning with the 2022 tax year.

Increased Section 179 deduction for small businesses	Section 179 enables eligible small businesses to immediately deduct the full cost of qualifying asset purchases, rather than depreciating those costs over multiple years. Starting in the 2025 tax year, the maximum deduction allowed under Section 179 will increase from \$1.25 million to \$2.5 million.

Tax Law Changes Warrant Close Attention

If you have read this far – nice work. Keep in mind this legislation is brand new, and expected future interpretation and guidance from the IRS could mean changes to the summary above.

Some provisions may offer strategic planning opportunities, such as timing income or deductions, to maximize benefits. Partnering with a qualified financial professional can help identify and implement strategies tailored to your specific needs.

Curious how these changes affect your 2025 strategy? Schedule a tax review before year-end to explore your options.

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