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Congress Passes Tax and Spending Bill

The House of Representatives has passed the "One Big Beautiful Bill" approved by the Senate on July 1. The bill will now go to President Trump, who is expected to sign it into law. The reconciliation bill extends or makes permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that were otherwise scheduled to expire at the end of 2025, and contains new tax provisions that were priorities of the Trump administration. Key tax provisions with broad applicability are addressed below.

Individuals

- **Current tax rates** enacted in the TCJA generally become permanent, with inflationary increases applied to certain tax brackets.
- **The increased standard deduction** enacted in the TCJA becomes permanent. The standard deduction for 2025 ($15,750 for single, $23,625 for heads of household, and $31,500 for married filing jointly) will be adjusted for inflation in subsequent years.
- **Qualified Business Income (QBI) deduction** becomes permanent, with the rate remaining at 20% (despite a higher rate contained in the original House-passed version of the bill). The deduction limit phase-in range is increased to $75,000 ($150,000 for joint returns) but includes a minimum deduction of $400 for taxpayers with at least $1,000 of QBI from active trades or businesses with material participation.
- **Estate and lifetime gift tax exemption amounts** are permanently increased. The exemption is $15 million ($30 million for married couples) in 2026 and will be indexed for inflation thereafter.
- **Alternative Minimum Tax (AMT) exemption** enacted in the TCJA becomes permanent. However, the exemption phaseout threshold reverts to $500,000 ($1 million for joint returns), and the phaseout is 50% of the amount by which AMT income exceeds the threshold (up from 25%).
- **Mortgage interest deduction** enacted in the TCJA is permanent, allowing a deduction of interest on the first $750,000 of acquisition debt on a qualified residence.
- **Distributions from Sec. 529 plans** will be tax-exempt if used for educational expenses associated with enrollment or attendance at an elementary or secondary school, or for additional qualified higher education expenses including qualified credentialing expenses.
- **The SALT cap or limitation on the federal deduction for state and local taxes** will temporarily increase to $40,000, adjusted for inflation, through 2029 for some lower income taxpayers but will revert to $10,000 for all taxpayers in 2030.

Businesses

- **Sec. 168 bonus depreciation** is permanently extended. For property acquired or placed in service on or after January 19, 2025, the allowance is increased to 100%.
- **Sec. 179 expensing** is allowed up to a maximum of $2.5 million, reduced by the amount by which the cost of qualifying property exceeds $4 million.
- **Domestic research and development (R&D) expenses** may be deducted immediately in tax years beginning after December 31, 2024. R&D conducted outside the United States must continue to be capitalized and amortized over 15 years.
    - **Small businesses** (gross receipts of $31 million or less) may apply the R&D deduction retroactively to tax years beginning after December 31, 2021.
    - **All businesses** that made domestic R&D expenditures between January 1, 2022 and December 31, 2024 may accelerate the remaining deductions for those expenditures over a one or two year period.
- **Business interest deduction limitation under Sec. 163(j)** is reinstated to EBITDA for tax years beginning after December 31, 2024. Accordingly, adjusted taxable income would be computed without regard to the deduction for depreciation, amortization, or depletion.
- **Sec. 45F employer-provided child care credit** increased from 25% to 40%, with the maximum amount of the credit increased from $150,000 to $500,000 ($600,000 for eligible small businesses.)
- **Excess business loss limitation under Sec. 461(l)** is permanently extended, as is, with carried over excess business losses converting to net operating losses in the subsequent tax year.

The bill contains many other tax-related provisions that may impact you or your business. We will continue to study the details contained in the legislation. Should you have specific questions, please reach out to your JTaylor tax advisor.