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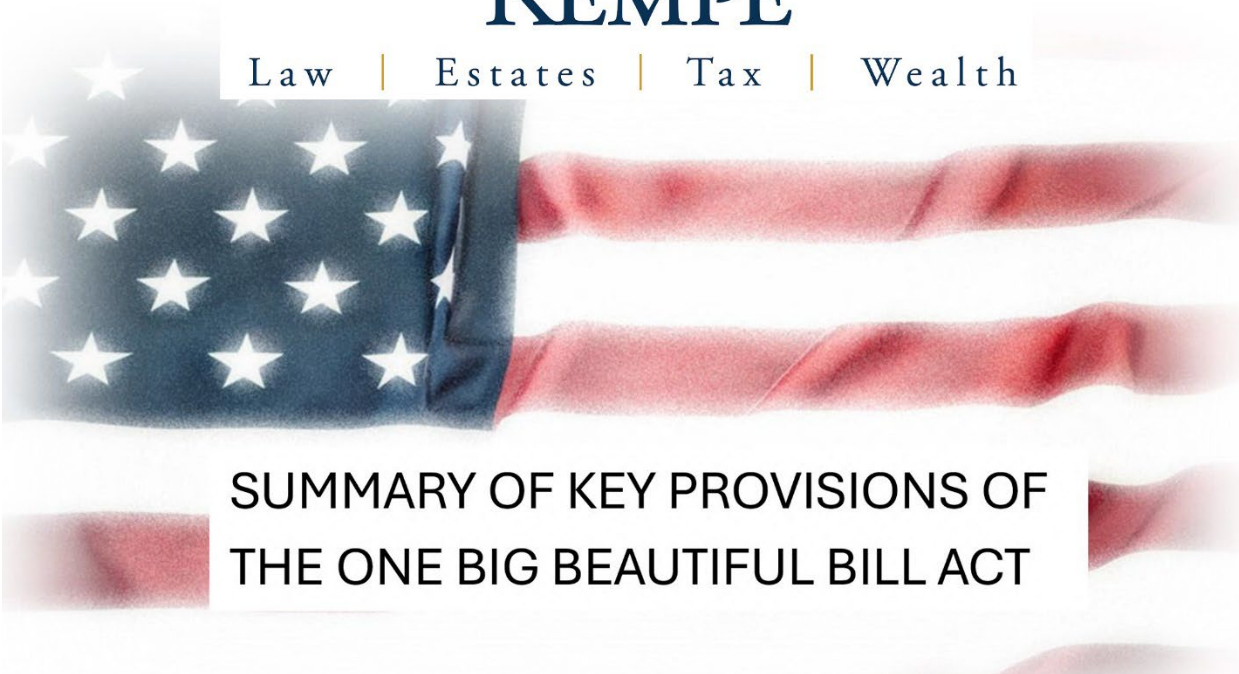

SUMMARY OF KEY PROVISIONS OF THE ONE BIG BEAUTIFUL BILL ACT

-Signed July 4, 2025-

The One Big Beautiful Bill (the "BBB") was passed by the House and Senate and placed on President Trump's desk for signature on the 3rd of July, 2025. It was signed today, July 4th, 2025. One of Trump's key agenda items, the BBB has evolved through months of budget reconciliation to avoid seldom used, in recent times, filibuster requirements. The Act fundamentally realigns federal priorities with a more domestically focused economic and social vision. This summary is not inclusive and picks and chooses those provisions that are most applicable to our clients' individual and business circumstances and dealings. It is subject to change as the laws become clear through regulations, amendment, or commentary and use.

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Estate Gift and Generation-Skipping Tax

The estate, gift, and generation-skipping tax exemptions were scheduled to expire at the end of 2025 and would have been reduced by approximately 50%. Presently, the exemptions are $13.99 million per person. The BBB increases them to $15 million effective January 1, 2026, adjusted for inflation thereafter, and makes them permanent.

Advanced estate planning for high wealth individuals (those expected to have estates over $30 million, or less if there is a change in administrations and reduction in the future) remains the same. In general, the historic mantra has been to exempt wealth from the wealth transfer tax (estate, gift, and generation skipping tax systems) at the earliest point possible. This mantra prevails, based upon the recognition that wealth transfer tax rates have traditionally been much higher than capital gains tax rates. The highest estate tax marginal rate in our Country's history has been 77%, while the highest capital gains tax rate has been 35%. Capital gains taxes are compared because generally, when gifts are made in advance of death to avoid wealth transfer taxes, the cost basis of the donor transfers to the donee, with one noteworthy exception: a current unresolved loophole that commonly and potentially negates that issue- the "grantor trust" loophole. Most gifts to trusts under customary advanced planning employ "grantor trusts"- a trust where the grantor is still considered the owner of the trust assets for income tax purposes, and who can enjoy the benefit of that cost basis and suffer the potential positive or negative income tax consequences. See *Rev. Rule. 85-13;* Tax Notes Grantor Trust

The Grantor Trust Loophole

The BBB did not address the so-called grantor trust basis loophole, that the Biden administration sought to close by legislation. The legislation did not pass. Instead, Treasury Secretary Yellen was pressured by several Senators to urge the IRS to issue their view. *Rev. Rul. 2023-2* was thereafter released and voiced the IRS's view that no basis adjustment occurs on previously gifted assets to a "grantor trust" on the death of the grantor, even though the IRS regulations and case law provides that assets are deemed owned by the grantor for income tax purposes. Nevertheless, the IRS view is not law and has no greater weight than the opinions of regarded tax attorneys and professors. We don't want to be an advisor who proclaims that the IRS view is correct, when no court has ruled so and could instead agree with the more reasonable view that favors a basis adjustment- an increase that eliminates capital gains on the death of the grantor. The IRS view is less well reasoned. Given the Supreme Court's recent *Loper Bright* decision overturning *Chevron* deference in favor of government agencies, a "reasonable basis" in law, if not "substantial authority" position, adverse to the IRS's view may be taken. See Kempelaw.com Grantor Trust Debate

When taking a reasonable basis position after the death of the grantor, we commonly advise heirs that want to take the position most in their favor, but who desire reassurance that no penalties will be imposed, to provide a disclosure using Form 8275. We have used this process successfully on many occasions, which in our minds requires a legal opinion. We have found that many accounting firms won't take this position and use Form 8275. Why? Accountants are prohibited from providing legal opinions on tax law, as they would be illegally practicing law. To submit a properly prepared Form 8275, a legal opinion is not only beneficial but required to properly disclose a reasonable basis (or substantial authority) "legal" opinion. As a result, many accounting firms will not take positions that require a reasonable basis legal opinion using Form 8275 as a matter of their internal policy.

Trump Accounts for Minors

Trump Accounts are specialized savings accounts designed for parents to invest in the futures of their children. They are regulated and treated much like IRAs.

- Account requirements: These accounts must be established as either a trust or custodial account before the child (the "beneficiary") turns 18 years old.
- Contributions: Contributions are limited to cash only, with an annual cap of $5,000 per child (indexed for inflation), and can continue until the beneficiary reaches age 18. Employers may also contribute $2,500 per beneficiary, indexed for inflation. Contributions may not be made until 12 months after enactment.
- Government Contribution: To encourage participation, the legislation includes a one-time federal credit of $1,000 for beneficiaries born between 2025 and 2028. This credit is automatically deposited into a Trump Account unless the taxpayer opts out on their tax return. If no account has been created and no election out has been indicated, the IRS will establish an account on the beneficiary's behalf, following the processing of the parent's tax return. This automatic enrollment feature could jumpstart savings for many families, particularly those who might not otherwise take the initiative to open an account.
- Account limit: Each child is allowed only one Trump Account. If multiple accounts are created for the same beneficiary, only the first one qualifies as legitimate and any additional accounts are subject to a steep 100% excise tax on any income they generate.
- Investment options: Funds can only be invested in stock of a regulated investment company that tracks a "well-established index" or a portfolio composed exclusively of US equities. While this restriction aims to promote long-term, stable growth through proven market indexes, it may limit flexibility compared to other savings options. A qualifying fund may not charge more than a .10% management fee.

- Return of investment: Any portion of a distribution that represents a return of the original contributions is not subject to tax, which aligns with the fact that contributions are made with after-tax dollars and are not deductible.
- Earnings: Any earnings or investment gains within the account are taxable to the beneficiary, regardless of how the funds are used.
- Qualified purposes: If the funds are used for qualified purposes (defined as higher education expenses, a small business or farm loan taken out by the beneficiary, or a first-time home purchase), then the resulting gains are taxed at capital gains rates rather than as ordinary income. Distributions may not be made until the beneficiary reaches age 18. After age 31, they lose the capital gains advantage.
- Penalties: There is an additional 10% penalty on nonqualified distributions to beneficiaries under the age of 31, which do not constitute qualified expenses.
- Advantages: Trump Accounts offer potential rate arbitrage, tax deferral, and a degree of investment security due to regulatory constraints. They also expand the definition of qualified expenses to include small business loans and first-time home purchases.
- Disadvantages: They fall short of the full tax-free growth and withdrawal benefits associated with 529 plans. Additionally, they lack some of the flexibility of 529 plans, such as the ability to repay student loans or roll over unused funds into a Roth IRA. The annual contribution cap of $5,000, even when adjusted for inflation, may also limit the long-term impact of these accounts compared to the more generous limits available under 529 plans.

Individual Income Tax Provisions

The BBB modifies and makes permanent several individual tax provisions that the "TCJA" (Trump's 2017 Tax Cuts and Jobs Act). Areas of focus and corresponding tax proposals include:

- Individual state and local tax deduction limitation ("SALT" cap): The SALT limitation (deduction for state and local taxes) is increased to $40,000 ($20,000 for married separate filers) and indexed for inflation through tax year 2029, after which the limitation would revert to $10,000 ($5,000 for married separate filers). The limitation is phased down for taxpayers with modified adjusted gross income over $500,000—under this phase down, the $40,000 limitation is reduced by 30% of the excess of modified adjusted gross income (AGI) over the threshold amount, not to be reduced below $10,000. For tax years after 2029, the limitation returns to $10,000.

- Pass-through entity tax ("PTET") elections: No new limitations are placed on pass-through entity taxes, which is often used as a workaround if the SALT limitation applies. The election allows state taxes to be paid and deducted at the entity level.
- Excess business loss (EBL) limitations: Makes permanent the current limitations on business losses allowed to offset other income treating EBLs as net operating losses ("NOLs").
- Personal income tax**:** Makes permanent the tax rates and brackets enacted by the TCJA effective Dec. 31, 2025, with certain inflation adjustments
- Standard deduction**:** Makes permanent the standard deductions enacted by the TCJA effective Dec. 31, 2025, and further increase to $15,750 for a single filer, $23,625 for a head of household filer, and $31,500 for married individuals filing jointly, adjusted for inflation for taxable years beginning after 2025
- Itemized deductions**:** Simplifies the overall limitation on itemized deductions. It also eliminates miscellaneous itemized deductions, except for expansion of itemized deductions for educator expenses. Creates a percentage cap on deductions for higher income individuals. Note: For some clients, creation of a Family Office that satisfies the factors set forth in Lender Management LLC, T.C. Memo. 2017-246, may overcome these limitations with proper structure and planning.
- Personal exemptions**:** Permanently eliminates personal exemptions other than a temporary $6,000 senior deduction for qualified individuals over the age of 65 with phaseouts for modified adjusted gross income exceeding $75,000 ($150,000 married filing jointly). The deduction is intended to reduce taxation of social security benefits and expires in 2028.
- Alternative minimum tax ("AMT"): Makes permanent the increased AMT exemption and phaseout thresholds, effective Dec. 31, 2025. Reverts the exemption phaseout thresholds to 2018 levels of $500,000 ($1,000,000 in the case of a joint return), indexed for inflation thereafter. Phaseouts have also been adjusted to phase out this exemption more quickly for high income taxpayers.
- Child tax credit**:** Makes permanent the TCJA increased child tax credit and makes permanent the additional child tax credit ($1,700 in 2025) adjusted for inflation thereafter. The nonrefundable child tax credit is increased to $2,200 effective in 2026.
- Charitable deductions**:** Starting in 2026, individuals who do not itemize deductions can claim a charitable deduction of up to $1,000 (or $2,000 for married couples filing jointly). For those who do itemize, charitable contributions are deductible to the extent they exceed 0.5% of adjusted gross income ("AGI"). The disallowed portion may be carried forward if the taxpayer has other charitable carryforwards

from the year. In addition, the 60% AGI limitation for cash contributions to public charities would be made permanent.

- Tips and overtime pay: Introduces above-the-line deductions for 2025–2028 tax years, up to certain dollar amounts, for tips ($25,000 per individual) and overtime compensation ($12,500 per individual or $25,000 for joint filers), phased out at certain adjusted gross income levels. Phase outs begin at $150,000 of modified adjusted gross income for individuals and $300,000 for married couples. Payroll taxes still apply.
- Qualified elementary and secondary scholarships tax credit: Establishes a tax credit for U.S. citizen or U.S.-resident individuals that is equal to the individual's qualified contributions to a "scholarship-granting organization," considering various requirements and restrictions.

Business Provisions

The BBB includes tax changes with wide-ranging business implications. Most notably, it restores favorable tax treatment of several types of business expenses. Areas of focus and the corresponding provisions include:

- Capital expenditures and investments**:** Reinstates 100% expensing of qualified assets in the year they were put into service—also known as bonus depreciation—for property acquired beginning Jan. 20, 2025. The provision is permanent. Another provision expands the scope of qualified assets to cover manufacturing buildings, but only for buildings placed in service before Jan. 1, 2031.
- Business interest**:** Restores TCJA's original, more favorable EBITDA-type calculation of the business interest deduction limit for tax years beginning in 2025. The provision is permanent. It also provides specific rules for how the business interest expense limitation interacts with other tax provisions that capitalize interest.
- Innovation and research and development**:** Allows for immediate expensing of domestic research costs, while providing an ability to accelerate the remaining unamortized amounts of previously capitalized research costs incurred in 2022 through 2024. The provision is permanent.
- Pass-through businesses**:** Makes permanent the section 199A qualified business income deduction, with no change to the current 20% deduction percentage. Additionally, the bill expands the limitation phase-in window from $50,000 for single filers ($100,000 for married filing jointly) to $75,000 for single filers ($150,000 for married filing jointly). The new itemized deduction threshold does not impact determination of deduction for QBI purposes.

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- Charitable contribution deduction: Places a 1% floor on corporate charitable deductions, allowing deductions only for contributions exceeding 1% of taxable income. It also adds a 0.5% floor for individual itemizers.
- Employer-provided meals: Amends the TCJA rule, effective for 2026, that will disallow deductions for various expenses related to on-premises employer-provided meals, so that certain businesses will be exempt from the disallowance.
- Moving expenses: Permanently repeals the income exclusion and deduction, except for certain members of the Armed Forces.
- Taxable real estate investment trust subsidiaries ("TRS"): Increases the percentage of a REIT's total assets that may be represented by securities of one or more TRSs from 20% to 25% effective for taxable years beginning after Dec. 31, 2025.

Taxation of Exempt Organizations and Charities

BBB provisions that would directly affect exempt organizations include:

- Increased private college and university endowment excise tax: The section 4968 endowment excise tax increases from 1.4% to as much as 8% for large endowments. The bill removes the qualified religious institution exemption and exclusion of foreign students. It also requires a school to have at least 3,000 tuition-paying students (up from 500 under current law) to be subject to the excise tax.
- Expanded definition of covered employee: Covered employees, for purposes of the section 4960 excise tax on excess remuneration, include all current and former employees of an applicable tax-exempt organization rather than the five highest compensated in each year. The bill further clarifies that the look-back for former employees is limited to taxable years beginning after Dec. 31, 2016.
- Corporate grantmaking: Corporations can deduct their charitable contributions from their taxable income up to a maximum of 10% of their taxable income.

Notably, the final version of the BBB does not include any changes to the private foundation excise taxes (i.e., net investment income tax or excess business holdings) or unrelated business taxable income (i.e., qualified transportation fringes or the research exclusion), which were proposed in the House Bill.

Other Notable Provisions

The BBA addresses a variety of issues, including but not limited to:

- Qualified small business stock (QSBS) provision of section 1202: Expands the section 1202 benefit in three ways:

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    - Provides a tiered gain exclusion for QSBS, allowing a 50% exclusion for shares held more than three years, a 75% exclusion for shares held more than four years, and a 100% exclusion for shares held more than five years.
    - Increases the per-issuer dollar cap from $10 million to $15 million (indexed to inflation beginning in 2027).
    - Increases the corporate-level gross assets ceiling from $50 million to $75 million (indexed to inflation beginning in 2027). The proposed changes would be generally effective with regard to stock issued or acquired on or after the date of enactment.

- Employee retention tax credits (ERTC): Expands the scope of existing penalties to address ERTC-specific misconduct after date of enactment, as well as expands 20% erroneous refund penalty under section 6676 to include employment tax refunds. The bill bars allowance of ERTC refunds for the third and fourth quarters of 2021 claimed after Jan. 31, 2024. It also extends the statute of limitations to six years from the date of the claim, giving the IRS significant additional time to make adjustments to ERTC claims for the third and fourth quarters of 2021 and related income tax deductions.

- Disaster relief and casualty losses: Makes permanent the TCJA rules related to casualty loss. The bill designates any federally-declared disasters through date of enactment as "qualified disaster losses" for personal property. Casualty losses from state-declared disasters (even if not federally declared) will qualify for personal property casualty loss deduction.

- Opportunity zones (OZ): Establishes a permanent OZ policy that builds off the original OZ structure. The bill creates rolling, 10-year OZ designations beginning on Jan. 1, 2027. It updates definitions of low-income community (LIC) and eliminates the ability for contiguous tracts that are not LICs to be designated as OZs. The bill narrows the LIC qualifications, expands the tax benefits and allows investors to receive incremental reduction in gain starting on the first anniversary of the investment. The bill creates special rules for investments in qualified rural opportunity funds. It also adds reporting requirements for the OZ program and provides funding to the IRS to carry out the requirements.

- Collected excise tax on remittance transfers: Establishes a 1% collected federal excise tax on certain electronic transfers of money sent from within the U.S. to a foreign country where the sender provides cash, money order, cashier's check or other similar physical instruments, with exception to tax for noncash transfers, such as those withdrawn from certain financial institutions or if such transfer is funded by a U.S.-issued debit or credit card.

- Taxes on transferring and making certain firearms: Effectively eliminates federal excise tax imposed on short barrel shotguns, short barrel rifles and silencers.

Notable Items Omitted

The final version of the BBB does not address the following tax items that have either been a focus of previous tax policy conversations or appeared in various drafts of the BBB in the House or Senate:

- Grantor trust basis adjustment under IRC §§ 1014 and 1015, as discussed above
- Corporate tax rate changes
- Tax rates for domestic manufacturers
- Carried interest
- Capital gains tax rates
- A higher tax rate for high income individuals
- Corporate SALT limitations
- Countering unfair foreign taxes (section 899). Section 899 was removed from the Senate bill after the Secretary of the U.S. Department of the Treasury announced a tax agreement with G7 countries regarding Pillar Two taxes, including the undertaxed profits rule (UTPR).
- Litigation financing excise tax
- Wind and solar facility excise tax

Summary

The BBB contains wide ranging tax reform, while satisfying Trump's pledge to extend the provisions of his 2017 TCJA. In the immediate term, individuals and businesses should seek a review of the impact on their financial positions and wealth planning to determine the extent and impact that this stimulating, supply side economics, legislative package can benefit them.

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