Wealth Planning Insights

New Tax Rules Ahead? Insights for High-Income Taxpayers

Stephen R. Akers
Senior Fiduciary Counsel

Stephen A. Baxley
Head of Tax and Financial Planning

Highlights

- Among other things, the recently passed House tax bill aims to extend key provisions of the 2017 tax law while introducing new measures that could meaningfully affect high-income individuals — particularly those with pass-through income, large itemized deductions, or multigenerational wealth transfer plans.
- Key tax provisions include a higher SALT deduction cap for many taxpayers and an increased deduction for qualified business income from flow-through entities. The estate and gift tax exclusion amount would rise to $15 million in 2026.
- The bill now heads to the Senate, where procedural rules and political negotiations could result in significant changes before final passage.

On May 22, the House of Representatives narrowly passed a reconciliation bill known as the One Big Beautiful Bill Act (BBB), following agreement on several contentious issues. Among its tax provisions, the bill extends expiring tax cuts and adds a few new measures, such as a temporary exemption from tax on tips and overtime pay. In our view, the legislation had a few surprises but no significant changes to existing law. A larger qualified business income deduction and a permanent increase to the lifetime exemption amount for estate tax and gift tax were unexpected and welcome changes for business owners and high-income taxpayers.

With few exceptions, the changes would become effective for tax year 2026. Most provisions are permanent, such that any future revisions would require new tax legislation. The bill now moves to the Senate, which could change some of its tax features before passage.

Key Income Tax Provisions

- **Tax rates**: The existing tax rate structure is retained with modestly higher income thresholds; the top rate remains at 37%.
- **AMT changes**: Increased alternative minimum tax (AMT) exemptions and phase-out thresholds remain in place, such that fewer taxpayers will be subject to AMT.
- **Mortgage interest limits**: Limitations on mortgage interest and home equity interest are made permanent. Deduction of mortgage interest is limited to indebtedness of $750,000 for new mortgages; no deduction is allowed for home equity loan interest.
- **Miscellaneous itemized deductions:** These deductions are permanently disallowed. This includes items such as investment management fees and income tax preparation fees.
- **SALT deduction cap:** The limitation on the deductibility of state and local income, sales, and property taxes (“SALT”) is increased to $40,000 for married individuals filing jointly ($20,000 for married taxpayers filing separately). The SALT deduction cap increases 1% per year for 10 years and then remains at that level. The increase is phased out beginning at income levels of $500,000 ($250,000 for married individuals filing separately) and is fully phased out at income levels of $600,000 ($300,000 for married

individuals filing separately). At these thresholds, the $10,000 deduction cap will still apply ($5,000 for married couples filing separately). This provision is effective for tax year 2025.

- **Qualified business income deduction**: The deduction for flow-through income is permanently raised from 20% to 23%. The top effective tax rate on this income is lowered to 28.49%.
- **State pass-through entity tax**: Most states have enacted a pass-through entity tax (PTET) as a workaround to the SALT deduction cap. BBB contains provisions to restrict the use of this approach focusing on specified service trades or businesses.
- **Itemized deductions**: The Pease provision, which limits itemized deductions for high-income taxpayers, is eliminated and replaced with a new reduction in the overall amount of allowable itemized deductions. This new provision limits the benefit of itemized deductions to 35% instead of the current 37% level. A further reduction applies to the tax benefit from allowable SALT deductions. The reduction would apply only to taxpayers in the top income tax bracket and is less punitive than the Pease provision.
- **Charitable contributions**: The 60% adjusted gross income (AGI) limitation on cash-based charitable contributions was not addressed in the legislation and would expire as scheduled at the end of 2025.
- **No changes to carried interest or municipal bond interest taxation.**
- **Private foundation excise tax.** The excise tax rate on net investment income is increased for larger private foundations:
  - 1.39% for assets under $50 million (unchanged)
  - 2.78% for $50 million to $250 million
  - 5% for $250 million to $5 billion
  - 10% over $5 billion

Estate and Gift Tax Exclusions Increased

Both the estate and gift exclusion amount and generation-skipping transfer (GST) tax exemption amount were scheduled to revert to $5 million in 2026 (about $7 million when indexed for inflation) from almost $14 million currently. Not only did the amount not decrease; it was increased slightly to $15 million in 2026. This is about $720,000 more than it would have been if the current provision were merely extended with an inflation adjustment. The $15 million exclusion amount would be adjusted for inflation after 2026 and would be made permanent.

Pivotal Next Step: Senate Action

The bill now moves to the Senate. The legislation uses a reconciliation process (allowed once each fiscal year), which means it can be adopted by the Senate with a simple majority of 51 votes rather than the typical 60 votes required for Senate action. Strict rules govern the reconciliation process, with the Byrd Rule in particular setting out what can and cannot be included in budget reconciliation bills.

We do not know at this time whether the Senate will develop its own full-substitute bill or amend the current version of the House bill. In any event, the Senate is expected to try to use a current-policy approach as a baseline to determine the fiscal impact of its bill. Because the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are current policy, extending those provisions past 2025, when they would otherwise expire, would be deemed to have no fiscal impact.

Whether or not this current-policy approach complies with the budget reconciliation process is an important determination. The Senate parliamentarian will decide and she has not ruled whether the current-policy approach complies with the Byrd Rule.

Even though the House acted rapidly in adopting the current legislation, it is not known whether the same will happen in the Senate. The stated goal of Republican leadership is to have the legislation completed by July 4, 2025. It may happen sooner than that, as with the House bill, or it may be bogged down in difficulties. Several senators have expressed concern that the spending cuts made in the House bill are too intense — especially for Medicaid cuts and for some cuts to clean-energy provisions — and others believe they are not deep enough.

If the Senate makes changes to the bill, the revised bill goes back to the House for an "up-or-down approval," essentially a yes-or-no vote. If the House does not approve, the House and Senate versions are referred to a conference committee to iron out differences. In short: This could all be resolved by July 4, 2025, or it may linger.

We will continue to closely monitor the process and keep you informed of important developments. If you have any questions, please contact your Bessemer advisor or tax advisory team.

About Bessemer Trust

Privately owned and independent, Bessemer Trust is a family office that has served individuals and families of substantial wealth for 118 years. Through comprehensive investment management, wealth planning, and family office services, we help clients achieve peace of mind for generations.