Wealth Planning Insights

2025 Tax Law Changes: Key Takeaways for High-Income Taxpayers

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Highlights

- The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, makes permanent many key provisions of the 2017 Tax Cuts and Jobs Act (TCJA) and introduces new measures affecting high-income taxpayers.
- Notable changes include a permanent increase in the estate and gift tax exemption to $15 million, a more generous (although temporary) SALT deduction cap, and a tiered exclusion for qualified small business stock.
- We outline key provisions of the law, including changes that affect income tax planning, business owners, charitable giving, and multigenerational wealth transfer strategies.

On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. The legislative package affects many policy areas, and tax reform is a central component. In large part, it extends and makes permanent key provisions in the 2017 Tax Cuts and Jobs Act (TCJA) while introducing several new measures likely to affect higher-income taxpayers. In this context, permanent simply means the provisions have no set expiration date — Congress could still change them through future legislation.

In our view, the bill includes notable provisions, particularly a permanent increase to the lifetime exemption amount for estate tax and gift tax and enhanced capital gains tax benefits for holders of qualified small business stock (QSBS).

We discuss key OBBBA provisions below. Unless otherwise noted, all changes to current law will become effective on January 1, 2026.

Estate, Gift, and Generation-Skipping Transfer Taxes

Among top-earning taxpayers, there has been interest in the future of the federal estate, gift, and generation-skipping transfer tax lifetime exemption amount (currently about $14 million per individual) — specifically, whether the exemption would be extended or revert to about $7 million in 2026. The new law not only extends the exemption but further increases it to $15 million in 2026 (to be adjusted annually for inflation). This provision is extended indefinitely and does not sunset after a period of time.

Income Tax Rates, Thresholds, and Phase-Outs

The top individual tax rate of 37% is now permanent. Without this change, it would have reverted to the higher pre-TCJA level of 39.6% in 2026.

Increased exemption amounts and phase-out thresholds for the alternative minimum tax (AMT) are similarly extended with modest changes. This should help maintain the relatively infrequent application of AMT we have seen since the TCJA became law.

Itemized Deductions and Other Changes

- The Pease provision, which reduces the amount of allowable itemized deductions for high-income taxpayers, was suspended by the TCJA and scheduled to return in 2026. The OBBBA replaces the Pease provision with a more modest limitation: The benefit is now capped at 35%, meaning each dollar of itemized deductions now reduces the filer's tax liability by no more than 35 cents. The reduction applies only to taxpayers in the top income tax bracket.
- Limitations on the deduction of mortgage interest and home equity loan interest are now permanent. Deduction of mortgage interest is limited to indebtedness of $750,000 for new mortgages. No deduction is allowed for home equity loan interest, with exceptions.
- Miscellaneous itemized deductions, including investment management and tax preparation fees, are permanently disallowed.
- The 60% adjusted gross income (AGI) limitation on cash-based charitable contributions is now permanent; however, a new floor will apply in determining total charitable deductions. Contributions will be deductible only to the extent they exceed 0.5% of income. Careful planning may be required where large contributions are contemplated in high-income years.
- The state and local income, sales, and property taxes (SALT) deduction cap is increased to $40,000 for married individuals filing jointly ($20,000 for married taxpayers filing separately) beginning in 2025.

  The increase begins to phase out for married individuals filing jointly with income starting at $500,000 ($250,000 for married individuals filing separately) and is completely phased out at $600,000 of income (in 2025). The phase-out will not reduce the deduction below $10,000.

  The SALT cap and phase-out thresholds increase by 1% every year. Importantly, this provision is not permanent. It is effective through tax year 2029 only, after which the SALT deduction limit is permanently reduced to $10,000.

> The OBBBA makes permanent — and in some cases expands — key tax provisions affecting high-income individuals, business owners, and wealth transfer strategies.

- Most states have enacted a pass-through entity tax (PTET) as a workaround to the SALT cap for certain business income. Although a restriction on the use of PTET was included in the House bill, it is not part of the OBBBA. A PTET election should be considered for eligible taxpayers in high-tax states.

Qualified Business Income Deduction

The TCJA introduced a 20% deduction for qualified business income from flow-through entities, such as partnerships, S corporations and limited liability companies (LLCs). This was set to expire at the end of 2025. The deduction is now permanent at the 20% level. This preserves a top effective tax rate of 29.6% on this flow-through income.

Qualified Small Business Stock

The OBBBA significantly enhances the tax benefits associated with qualified small business stock. Prior to this bill, gain on the sale of QSBS held for at least five years was eligible to be fully exempt from capital gains tax. A new three-tiered capital gain exclusion now applies:

- 50% for stock held at least three years
- 75% for stock held at least four years
- 100% for stock held at least five years (unchanged)

Additionally, the maximum capital gain exclusion is increased from $10 million to $15 million per issuer, with the possibility of higher exclusions if the gain exceeds 10 times stock basis.

Finally, for corporate issuers, the aggregate gross asset test for QSBS eligibility increases from $50 million to $75 million. The House version of the OBBBA did not address QSBS, so these changes are a surprise for investors in small businesses.

Business Provisions

Several business provisions that had expired are now permanent and are generally effective beginning in 2025:

- Immediate expensing of certain business property
- Full expensing of domestic research and development expenditures (also referred to in the tax code as research and experimental expenditures)
- Relaxation of the limitation on deductions of business interest expense

Looking Ahead

The One Big Beautiful Bill Act delivers a broad package of tax provisions affecting high-income individuals and business owners. While most changes are straightforward — notably expanded QSBS rules, preservation of PTET, and the increase in the estate and gift tax exemption — others, such as new charitable deduction limitations, may add planning complexity. That said, the bill's passage provides clarity that can help inform meaningful tax and estate planning decisions.

We will continue to monitor legislative developments in the months ahead and keep you informed. If you have any questions, please contact your Bessemer advisor or tax advisory team.

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