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THE ESTATE AND INCOME TAX IMPACT OF THE ONE BIG BEAUTIFUL BILL ACT

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On July 4th President Trump signed into law The One Big Beautiful Bill Act ("OBBBA"), a wide-ranging tax initiative that, in its broadest sense, extended many of the expiring provisions from the 2017 Tax Cuts and Jobs Act ("TCJA").

From an estate planning perspective, the headlining change is the gift, estate, and generation skipping transfer tax exemptions being made "permanent" at $15 million dollars per individual. This eliminates the uncertainty about whether the enhanced exemption under the TCJA would be reduced to $5 million dollars (adjusted for inflation) on January 1, 2026. The permanent nature of this exemption only denotes that there is no expiration date built into the change and subsequent legislation could alter the exemption in the future.

Not every change of the OBBBA is permanent and many expire at certain dates; at the same time some OBBBA changes are phased-out at certain income levels. The below will summarize the other key estate and income tax changes.

The OBBBA has permanently increased the standard deduction from $30,000 to $31,500 for married taxpayers filing jointly.

The SALT deduction cap enacted by the TCJA is increased from $10,000 to $40,000 (adjusted for inflation), however this deduction will revert back to $10,000 in 2030 and in the interim the enhanced deduction is reduced for taxpayers with income exceeding $500,000. This will directly impact taxpayers in high property tax states, like New Jersey and New York.

One highly publicized change is the deduction on qualified tips. The OBBBA provides a deduction of up to $25,000 for qualified tips received by a taxpayer in an occupation that customarily and regularly receives tips. This change, however, is not permanent, expiring after 2028, and phases-out when the income of married taxpayers filing jointly exceeds $300,000.

Some taxpayers are eligible for a deduction of up to 20% of qualified business income (QBI) from pass-through entities such as partnerships and limited liability companies. This benefit is made permanent by the OBBBA. It is important to keep in mind that the QBI deduction phases-out for certain service businesses. Specified Service Trades or Businesses (SSTBs) which include legal services, accounting and financial services, and health services, are subject to this phase-out when SSTB income of married taxpayers filing jointly exceeds $150,000 (increased from $100,000 under the TCJA).

The OBBBA also gives a deduction of up to $25,000 for married taxpayers filing jointly on qualified overtime compensation. This deduction expires after 2028 and is phased-out for those taxpayers with income exceeding $300,000.

An additional deduction for taxpayers over the age of 65 has been added. This deduction is set at $12,000 for married taxpayers filing jointly, begins to phase-out when their income reaches $150,000, and expires after 2028. This will help seniors reduce the income on their Social Security benefits.

These are just some of the estate and income tax related changes under the OBBBA. However, because of the complexity, varying rules, and the temporary nature of these changes, it is important to speak with your advisors about tax and estate planning techniques to consider, including, but not limited to, Spousal Lifetime Access Trusts (SLATs), Grantor Retained Annuity Trusts (GRATs), Irrevocable Life Insurance Trusts (ILITs), and Charitable Remainder Trusts (CRTs). For example, we have seen two large sweeping federal tax acts passed in less than a decade. Couple this with the phase-in, phase-outs, and the sunsetting of many changes, it seems that the need to build in flexibility to your estate, tax, and privately owned business plans is now more important than ever.

If you have any questions or require additional information, please contact any member of Schenck Price's Tax Trusts and Estates Practice Group, which can be found by visiting the law firm's website at www.spsk.com.