



MBL Advisors



Billy Morton



Taylor Wade, CFP®

MBL Legislative Alert 25-1: One Big Beautiful Summary

Precisely on time for President Trump to sign it into law on Independence Day, the narrowest of Congressional margins delivered sweeping legislation known as One Big Beautiful Bill. As the name would suggest, the OB BB covers a lot of ground. What follows here is a Cliffs Notes version to highlight some of the provisions we believe are notable for our firm's clients. Much has already been written by accounting firms, financial news agencies, and others. So this is not intended to be an exhaustive review, but merely a quick reference guide on some of the provisions of the legislation most likely to impact our clients.

Dan Clifton at Strategas Research Partners will sometimes refer to components of legislation like this as “spinach” (the stuff we *have to* eat) and “candy” (the stuff we *want to* eat). Since it's summer, we're going to start with dessert and highlight the candy first.

The Candy

Permanent 20% QBI Deduction:

The Qualified Business Income deduction, a major win from the 2017 tax reform, is now made permanent. For owners of eligible pass-through entities like LLCs and S corporations, this means continued eligibility for a 20% deduction on qualified income. Planning opportunities around entity structure and income thresholds remain very much alive thanks to the permanence of 199A.

QSBS Capital Gains Exclusion Expansion:

The gain exclusion for Qualified Small Business Stock (QSBS) under Section 1202 was significantly expanded. The 100% exclusion still applies, and the bill raises cumulative per-taxpayer caps and broadens eligibility by increasing the gross asset threshold and softening some active business requirements. Founders and early-stage investors should take note.

One important qualifier here is that these expansions are only available to new QSBS beginning in 2026. So for existing owners of QSBS, the current 1202 rules will still apply. That means, the 5 year clock still must run in full, and the basis exemption is still capped at the greater of \$10mm or 10x basis.

For QSBS acquired after July 4, 2025, three major changes apply:

1. **Shortened Holding Period:** The holding period required before being eligible for tax benefits has been shortened from 5 years to a phase-in beginning in year 3. QSBS shares that have been issued after the effective date of the OBBB can now follow the following holding period requirements.
 - **Years 1-2:** Shares sold within 2 years of issuance receive no tax benefit.
 - **Year 3** – QSBS shares sold after 3 years of issuance can exclude **50%** of capital gains recognized.
 - **Year 4** – QSBS shares sold after 4 years of issuance can exclude **75%** of capital gain recognized.
 - **Year 5** – QSBS shares sold after 5 years of issuance can exclude **100%** of capital gain recognized.
2. **Increase in Gross Asset Valuation:** In an effort to expand the universe of eligible companies, the OBBB increased the limit of the size of businesses that are eligible to issue QSBS stock. Previously, businesses with aggregate gross assets in excess of \$50 million at the issuance of QSBS were not eligible for the Code 1202 exemption. That limitation has been increased to \$75 million and will adjust annually for inflation.
3. **Increase in Cap on Capital Gains:** Prior to the OBBB, eligible taxpayers were permitted to exclude capital gains on QSBS stock up to the greater of \$10 million or 10x their adjusted basis in the stock. The OBBB has now increased that exclusion to \$15 million or 10x the adjusted basis in the stock. Similar to the increase in gross asset valuation, the flat cap on capital gains is also set to adjust for inflation on an annual basis.

It's worth reiterating that for companies formed prior to the enactment of OBBB is subject to the same TCJA-era rules requiring 5-years for any participation, a \$50mm ceiling for eligibility and a \$10mm basis exclusion. The new expanded QSBS rules under this legislation are only for newly formed eligible businesses.

Estate and Gift Tax Exemption Increased to \$15 Million:

Many income tax laws are impactful to be sure. But possibly the most impactful development relates to transfer tax (i.e., estate and gift tax) planning: the OBBB increases the federal estate, gift, and generation-skipping transfer (GST) tax exemption to \$15 million per person starting in 2026 (with inflation indexing beginning in 2027). This replaces the prior plan to let the current ~\$13.9 million exemption sunset and drop by half. The result is more certainty and more opportunity for legacy planning, lifetime gifts, and trust funding.

Many might say that the combination of permanence and the exemption continuing to increase instead of getting slashed should obviate any urgency around transfer tax planning. We would argue that “permanence” is a word that should be used mildly in the context of federal estate and gift taxes, as this remains a political football that gets tossed around with every change of administration and Congressional majority. The opposite of a “third rail” in politics, it’s a favorite issue for debate. So we will continue to encourage

our clients to strike while the iron is hot. As one WSJ article put it, “the changes are permanent, at least until Congress alters the law again.”

Enhanced Charitable Giving Provisions:

Charitable donors will benefit from:

- A permanent 60% AGI limit for cash contributions to public charities
- A streamlined (and slightly reduced) private foundation excise tax
- New guidance permitting CRTs to accept digital assets (subject to valuation and custodial rules)

Permanent TCJA Marginal Tax Rates:

The TCJA’s individual income tax rates are now permanently extended. This means no return to a highest marginal rate of 39.6% next year.

PTE Workaround for SALT Deductions:

While much has been made of the increased SALT cap from \$10k to \$40k, the AGI phaseouts tied to the SALT cap increases make this a net neutral provision for anyone with AGI of \$600k or more. So, if viewed alone, we would likely have SALT provisions listed below in the “Pretzels” section since high income earners will be in the exact same position as they were before OBBB, with a \$10k SALT cap.

However, we’re listing it as Candy because of the 11th hour back-room detail that caught most tax practitioners by surprise, which is the fact that Congress did NOT choose to close the PTE workaround (dare we say loophole) that many of our business owner clients have used at the state level. We wrote a couple of years ago about that planning opportunity for owners of closely held pass-through businesses to sidestep the \$10,000 SALT deduction with pass-through entity (PTE) elections. [NC PTE Tax Election](#).

Every single draft of the OBBB until the final version was structured to eliminate the PTE workaround beginning in 2026. But Christmas came early for PTE owners in states that have enacted PTE legislation when that provision was found missing in the final version of the OBBB.

Bonus Depreciation:

Bonus depreciation, alternatively referred to as accelerated depreciation, was introduced in TCJA with a phase out beginning in 2023 (20% reduction per year) and full expiration by 2027. Under OBBB, the allowance under 168(k) now permanently allows 100% first-year bonus depreciation. The permanence of both its availability and its unlimited (100%) amount without scheduled phase outs provides clarity and opportunity for capital-intensive businesses and real estate investors.

The Spinach

\$750,000 Mortgage Interest Deduction Cap Made Permanent:

Originally slated to expire after 2025, the TCJA-era limit on mortgage interest deductions is now here to stay. New acquisition debt above \$750k will not generate deductible interest — a consideration for those purchasing high-value homes or refinancing. At a

minimum, we had hoped that this figure would at least be indexed for inflation, but the cap is made permanent and fixed without being tied to inflation.

Charitable Limits:

While the good outweighs the bad, there are a couple of haircuts on charitable income tax planning worth noting. First, donors who do itemize deductions on Schedule A will have to forgo an amount equal to the first 0.5% of their AGI. And those same donors whose income reaches the top tax bracket of 37%, the further haircut is that they'll cap out deductibility at the 35% threshold.¹

The Pretzels (Nothing to get excited about, but you'll still eat them)

SALT Cap Raised to \$40,000, Phased Out Beginning at \$500k AGI:

As mentioned above, the bill technically increases the SALT deduction cap to \$40,000 for joint filers. It's worth noting that the benefit is phased out entirely for those with more than \$600,000 in adjusted gross income.

Increased Standard Deduction for Retirees:

There is now an additional standard deduction (through 2028) of \$6,000 for taxpayers over 65. This deduction phases out for taxpayers with modified adjusted gross income over \$75,000 for single filers or \$150,000 for joint filers. The phaseouts and "marriage tax" embedded here probably means not many retirees are overly excited, but for older taxpayers who want to stack several years of charitable deductions into one year and then use the standard deduction for other years, that "trick" just got modestly more valuable (through 2028, when this deduction runs its course).

Expanded 529 Plan Opportunities:

The OBBA introduced several enhancements to 529 education savings plans to provide greater flexibility and usage options for plan holders.

- **K-12 Coverage** – The ability to use 529 plan savings to pay for K-12 tuition costs has doubled from \$10,000 to \$20,000 per beneficiary, per year.
- **Qualifying Education Expenses** – The list of qualified education expenses has been expanded to include standardized testing fees, tutoring, educational therapies, fees for dual enrollment, as well as credentialing, licensing, and continuing education fees.

¹ A couple of editorial comments on the charitable limitations... The legislative intent here was to modestly democratize charitable giving. By that we mean that OBBA introduced the ability for taxpayers who elect to use the standard deduction to also take an above the line deduction for up to \$2k (for married filers) without having to itemize. The intent here is to encourage charitable inclination in lower- and middle-income taxpayers in an effort to reverse years of decline in that category. The way Congress chose to offset this is to modestly trim the charitable benefits to higher income taxpayers. As well, older taxpayers still have the full benefit of using QCDs (qualified charitable distributions), which are not subject to those new limits

Capital Gains Surtax for Ultra-High-Income Taxpayers:

Beginning in 2026, taxpayers with more than \$10 million in annual capital gains will owe an additional 5% surtax, with a 3% surtax beginning at \$5 million. This will require careful transaction timing and gain realization strategies but should be manageable with planning.

Digital Asset Reporting Rules Expanded:

New IRS rules broaden the scope of custodial reporting for cryptocurrencies and other digital assets. Taxpayers holding crypto in wallets or on exchanges should ensure proper tracking of cost basis and transaction dates to avoid surprises.

Final Thoughts

The One Big Beautiful Bill lives up to its name. For business owners, planners, and families engaged in multigenerational wealth strategies, the bill delivers clarity and permanence around core tools: QBI, QSBS, estate and gift tax exemptions, PTE elections for state income taxes, and more.

We have been saying since 2018 that the Trump Cuts and Jobs Act had a built-in sunset in its design and that therefore the only thing that had to happen for those tax cuts to expire in 2026 was for Congress to do what Congress does best: nothing. With a lot of prodding and cajoling from the President, they managed to avoid that.

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