

PLANNING IMPLICATIONS OF THE ONE BIG BEAUTIFUL BILL ACT OF 2025

The federal budget bill, commonly referred to as the One Big Beautiful Bill (OB BB) Act, was signed into law on July 4th, providing some clarity for planning consideration into year-end and beyond. The following summary highlights some of the major individual tax and wealth planning related changes in the OB BB Act that may apply to our clients. Many of the changes are tax cuts from the 2016 Tax Cuts and Jobs Act (TCJA) that have now been extended beyond their 2025 sunset or made permanent. While permanence is a gift for planners, permanence in the law is never guaranteed and each of these provisions is subject to change by a future Congress with new legislation.

Extension of Increased Federal Estate, Gift and Generation Skipping Transfer (GST) Tax Exemption

The doubled federal exemptions from the estate and gift tax and the GST tax, a temporary change from the TCJA, have now been made permanent. In 2026, the estate and gift tax exemption and the GST tax exemption will be \$15,000,000 per taxpayer (\$30,000,000 in the aggregate for a married couple) and will continue to be adjusted annually for inflation. As a reminder, the exemptions for 2025 are \$13,990,000 (double that for a married couple).

The permanence of these higher exemptions brings more flexibility and more certainty to estate and gift tax planning by removing the year-end deadline for large tax-free gifts. Individuals who have already used their 2025 lifetime exemption have an opportunity to make additional gifts in 2026 with the higher exemption amount.

Extension of Federal Income Tax Rates and Brackets for Individuals

The lower rates and more favorable income tax brackets applicable to individuals and trusts from the TCJA have been made permanent. This change makes planning for taxes more certain by eliminating what-if scenarios and reliance on Congress to periodically extend the law.

Increased Standard Deduction and a new Senior Tax Deduction

The higher federal standard deduction introduced by the TCJA has also been made permanent. The standard deduction amounts for 2025 have been increased to

\$31,500 for married taxpayers filing joint returns (MFJ) and \$15,750 for single taxpayers (S).

The Act also includes a temporary new \$6,000 deduction for tax years 2025 through 2028 for taxpayers who attain age 65 by the end of the year. The deduction is reduced by 6% of each dollar that the taxpayer's Modified Adjusted Gross Income (MAGI) exceeds \$150,000 (MFJ) and \$75,000 (S). The deduction is completely phased out at MAGI of \$250,000 (MFJ) and \$175,000 (S). Note that the Senior Tax deduction is available to itemizers and non-itemizers alike.

Taxpayers who claim the standard deduction should consider bunching deductible expenses into certain years to maximize the itemized deduction for those years. For example, charitably inclined taxpayers can accelerate several years of charitable giving into one year by making a larger contribution to a Donor Advised Fund (DAF) in that year; then, over subsequent years, when they may be claiming the standard deduction, they can use the DAF for their charitable giving.

Taxpayers who are at least age 70-1/2 may also consider using their IRA accounts to make Qualified Charitable Distributions (QCDs). The QCD limit for 2025 is \$108,000 per eligible taxpayer.

Temporary Increase in the State and Local Income Tax Deduction

The State and Local Income Tax (SALT) deduction has been increased temporarily from \$10,000 to \$40,000 beginning in 2025 through the end of 2029. This higher amount applies to both married taxpayers filing joint returns and single taxpayers. The deduction limit will be increased annually by 1% for tax years 2026 through 2029, but is reduced for taxpayers whose MAGI exceeds \$500,000, with the increase fully phased out (back down to \$10,000) for those with MAGI of \$600,000 or more. Married taxpayers filing separate returns have a lower phaseout limit.

For example: For 2025, taxpayers with \$550,000 of MAGI will have their SALT deduction limit reduced from \$40,000 to \$25,000.

Income tax bracket management for clients in high-tax states will require consideration of when to recognize income and capital gains, or incur some deductible



expenses, to avoid losing the \$30,000 additional SALT deduction.

After 2029, the SALT deduction returns to \$10,000 with no annual increases.

Increased Annual Limit and Expanded List of K-12 Educational Expenses Eligible for 529 Educational Savings Plan Distributions

The annual limit for 529 Plan distributions for payment or reimbursement of qualified K-12 educational expenses will increase in 2026 from \$10,000 to \$20,000. In addition, the list of qualified K-12 educational expenses that may be paid or reimbursed from 529 Plan accounts has been expanded to include several other education-related costs.

The increased annual limit presents an opportunity for clients with 529 Plan accounts that may be overfunded for college expenses to use the accounts earlier to pay for more of the beneficiary's K-12 costs.

New Limit on Itemized Charitable Contribution Deductions and a New Charitable Deduction for Taxpayers Who Do Not Itemize

The Act imposes a new limit on itemized charitable contribution deductions beginning in 2026 by reducing the total charitable deduction by 0.5% of the taxpayer's Adjusted Gross Income (AGI).

For example: In 2026, a taxpayer has AGI of \$400,000 and itemizes deductions, including \$10,000 of

deductible charitable contributions. The charitable deduction is limited to \$8,000 (\$10,000 of deductible charitable contributions less \$2,000 ($\$400,000 \text{ AGI} \times 0.5\%$)).

The Act also creates a new charitable deduction for taxpayers who claim the standard deduction. Beginning in 2026, such taxpayers may deduct charitable contributions of up to \$2,000 (MFJ) and \$1,000 (S).

Limitation on the Tax Benefit of Itemized Deductions for High-Income Taxpayers

Taxpayers with taxable ordinary income subject to the 37% federal tax rate may see their itemized deduction tax benefit reduced. The reduction begins in 2026 and may reduce the federal tax benefit of itemized deductions for certain high-income taxpayers to no greater than the 35% tax rate. Taxpayers who may be subject to this limit in 2026 should discuss with their tax advisor whether to accelerate or defer charitable contributions, deductible medical expenses, or other itemized deductions into other tax years.

There are additional individual and business tax changes that may affect you, including those that impact ABLE accounts, Qualified Small Business Stock and federal student aid. As with any tax matters, it is important to consult your tax advisor to understand how these changes may apply to you. As always, please reach out to a member of your relationship team at Chevy Chase Trust if we can help with your planning needs.

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