The One Big Beautiful Bill Act

Challenges and opportunities for individuals, families and business owners

Wealth Management

After weeks of negotiation, Congress recently passed a major spending bill that was signed into law by President Trump on July 4, 2025. The One Big Beautiful Bill Act (OBBBA) includes a number of tax changes and extends and expands many provisions of the 2017 Tax Cuts and Jobs Act (TCJA), many of which were slated to sunset at the end of December 2025. This legislation encompasses numerous changes that impact individuals and business owners, including the permanence of several existing measures, the repeal and modification of various others and the introduction of new tax provisions.

Below is an overview of key aspects of the bill that will have an impact on wealth plans and investment portfolios.

Provisions impacting individuals and families

Federal income taxes:

- **Income tax rates:** The current federal income brackets enacted under the TCJA have been permanently extended under OBBBA at 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- **Overtime income:** Workers with overtime pay under the Fair Labor Standards Act will get a deduction of up to $12,500, or $25,000 for joint filers, which begins to phase out at incomes over $150,000 for individual filers and $300,000 for joint filers. The deduction is not allowed for tax years beginning after 2028. Taxpayers do not have to itemize for this deduction but are required to provide a Social Security number.
- **Tip income:** Tips are not excluded from income, but rather a **deduction** from income for amounts received as tips. The deduction is capped at $25,000 and begins to phase out at $150,000 for individuals and $300,000 for joint filers. The deduction is not allowed for tax years beginning after 2028.

Deductions:

- **Standard deductions:** The higher standard deduction of the TCJA will remain in place, with an increase in 2025 to $31,500 for joint filers, $23,625 for head of household, and $15,750 for individuals with ongoing inflationary adjustments.
- **New deductions for seniors:** The elimination of the personal exemption has been made permanent, but the Act added that most seniors 65 years and older with modified adjusted gross income of $75,000 or less for individuals, or $150,000 or below for joint filers, will receive a deduction of $6,000 per individual per year from 2025 through 2028. This deduction will phase out for taxpayers whose AGI exceeds these thresholds but is available whether a taxpayer itemizes or does not itemize.
- **SALT:** For taxpayers with incomes up to $500,000, the maximum deduction for state and local taxes will jump to $40,000 ($20,000 if married filing separately), from 2025 to 2029, before returning to $10,000 in 2030. The enhancement of $30,000 is subject to a phase out for those with income greater than $500,000 or $250,000 if married filing separately. The Pass-Through Entity Tax is still allowed.
- **Auto loans:** Interest payments on auto loans would qualify for a deduction of up to $10,000 on financing of cars made in the U.S. from 2025 through 2028. The deduction begins to phase out when the taxpayer's modified AGI exceeds $100,000 for individuals and $200,000 in the case of joint filers.
- **Charitable contributions:** The legislation keeps the limit on deductions for charitable contributions made in cash at 60% of AGI; this was set to revert to a 50% limit.
  - Non-itemizers who donate money to charity will be eligible for a permanent charitable deduction starting in 2026 up to $1,000 for single filers and $2,000 for joint households.
  - Starting in 2026, those taxpayers who itemize may only claim a charitable tax deduction for qualified

donations in excess of 0.5% of their AGI. Itemized charitable deductions are also capped at the 35% tax bracket, even for those taxpayers in the 37% marginal tax bracket.

- **Mortgage interest:** The mortgage interest deduction of $750,000 in principal remains in place. Mortgage insurance premiums will also be deductible as qualified residence interest.

Credits:

- **Dependent care credit:** The share of employment-related expenses eligible for the child and dependent care tax credit will permanently rise to 50% from 35%, with the total dollar maximum staying the same at $3,000 for one child and $6,000 for parents with two or more dependents.
- **Child tax credit:** The child tax credit will increase to an inflation-adjusted $2,200 starting in 2025.
- **Tax credits for contributions to scholarship-granting organizations:** Taxpayers who donate up to $1,700 annually to scholarship granting organizations, a 501(c)(3) charity organization, would be eligible for a 100% federal income tax credit for their contribution, or the equal amount in a reduction of taxes owed.
- **Clean energy credits:** Tax credits for clean energy and electric vehicles will phase out for vehicles acquired after September 30, 2025, and energy efficient home improvements will end for items placed in service after December 31, 2025.

Other:

- **Alternative minimum tax:** The increase in the alternative minimum tax exemption is made permanent. The exemption phaseout thresholds have been reset to their 2018 levels: $500,000 for individual filers and $1 million for joint filers with adjustment for inflation going forward.
- **Medicaid and SNAP:** The legislation cuts federal funding for Medicaid and the Supplemental Nutritional Assistance Program (SNAP), also known as food stamps. Besides adding new work requirements for beneficiaries of both programs, the Act will cut federal aid to states paying Medicaid costs, starting in 2028 with the states that expanded the program as part of the Affordable Care Act (known as Obamacare) and alter several other terms of the benefits.
- **Opportunity Zones:** The Act establishes a permanent Opportunity Zone policy built off the original structure. The Act creates rolling, 10-year Opportunity Zone designations beginning on January 1, 2027, when those created under the TCJA are scheduled to end.
- **529 plans:** The legislation expands federal plan benefits to include elementary, secondary and homeschooling expenses, effectively increasing the types of educational costs that can be covered with tax-advantaged savings. It also increases the annual withdrawal limit for K–12 expenses to $20,000. However, not all states are aligned with the federal guidelines.
- **Student loans:** The legislation ends subsidized and income-driven loan repayment programs, mandates a new ceiling on the level of student borrowing and places limits on Pell Grant eligibility.
- **Investment accounts:** The new “Trump” investment accounts could obtain $1,000 in federal contributions for a child born in 2025 through 2028. Households could contribute as much as $5,000 each year. These accounts would grow tax deferred until the child reaches 18 years of age, however, no withdrawals are allowed prior to the beneficiary reaching age 18.

Opportunities:

- The year of income recognition and deductions continues to be important. Work with your financial advisor and tax professional to determine when it would be most advantageous to receive income or incur deductions based your income tax brackets. This may be of increased importance to those in high tax states to maximize the SALT deductions.
- Be aware of phase out limitations that may make deductions and credits less beneficial, especially the new deductions for individuals over age 65.
- Consider charitable deductions for 2025 in light of the .5% floor starting in 2026.

Provisions impacting estate and gift taxation

- **Estate taxes:** The estate and generation skipping tax exemption is increased to $15 million for individuals and $30 million for couples for 2026. These levels are permanent and inflation adjusted.

Opportunities:

- Make a lifetime gift in 2026 up to the federal exemption amount of $15 million.
- Continue to look at advanced planning opportunities, such as Spousal Lifetime Access Trusts or Generation Skipping (Dynasty) Trusts for future generations.
- The basis adjustment at death was not changed, so consider continuing to hold highly appreciated assets that would receive a basis adjustment at death.

Provisions impacting business owners

Business owner incentives:

- The limitation for section 179 deductions for depreciable business property increases from $1.25 million to $2.5 million.

- **Three incentives for business owners will become permanent:**
  - — Deductions for research and development expenses.
  - — 100% bonus depreciation rate for property acquired after January 19, 2025.
  - — Domestic research and development costs can be fully expensed after 2024 in the year incurred. Businesses with average annual gross receipts of $31 million or less will be able to elect to claim the deduction retroactively to 2022.
- **Qualified business income:** The Section 199A pass-through deduction for qualified business income will now be permanent.
- **Qualified small business stock (QSBS) provision of section 1202:**
  - — The Act expanded the definition of a small business gross assets threshold from the current $50 million to $75 million (indexed to inflation beginning in 2027) for purposes of excluding qualified small business stock from capital gains when the shares are sold.
  - — Provides a tiered gain exclusion for QSBS, allowing a 50% exclusion for shares held more than three years, a 75% exclusion for shares held more than four years and a 100% exclusion for shares held more than five years.
  - — Increases the per-issuer dollar cap from $10 million to $15 million (indexed to inflation beginning in 2027).
  - — These changes would be effective regarding stock issued or acquired on or after the date of enactment.

Opportunities:

- Business owners may wish to revisit business entity selection with their tax advisor to make the most of the 199A business owner deduction.

Miscellaneous

- **Taxes on endowments:** Large college and university endowments' taxes on net investment income climbs up to 8% for institutions with larger holdings from the existing rate of 1.4%.

Plan for what's ahead

From retirement planning and investment strategies to estate planning and charitable giving, these modifications create new opportunities or may require strategic adjustments to your wealth plan.

This is exactly why your RBC Wealth Management financial advisor and RBC WealthPlan® make such a difference. Rather than scrambling to understand changes after they become law, proactive planning allows you to position yourself advantageously and make informed decisions that align with your long-term goals.

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