

## Alert: Reconciliation Bill Tax Information

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Congress has passed a major reconciliation bill that makes many provisions of the Tax Cuts and Jobs Act (TCJA) permanent and introduces several new tax changes. Whether you're an individual taxpayer or a business owner, here are the key provisions that may impact your tax planning.

### Top Considerations for Individuals & Families

- **Tax Rates Made Permanent:** The current individual income tax brackets, including the 37% top rate, are here to stay—no reversion to 39.6% in 2026.
- **State and Local Tax (SALT) Deduction Cap Raised:** The SALT deduction is raised to \$40,000 for 2025, adjusted for inflation through 2029, with a phase out back to the original \$10,000 for taxpayers with income in excess of \$500,000.
- **Estate Tax Exclusion Raised:** The federal estate tax exemption jumps to \$15M (indexed for inflation) starting in 2026.
- **Enhanced Standard Deduction & Senior Benefit:** Increased standard deduction amounts and the suspension of personal exemptions are now permanent, with an added \$6,000 deduction for taxpayers age 65+ provided for tax years 2025 through 2028.
- **Charitable Giving Incentives:** Non-itemizers can now deduct up to \$2,000 in charitable donations. Itemizers face a new 0.5% floor starting in 2025.
- **Temporary Deductions for Tips & Overtime:** From 2025–2028, eligible taxpayers can deduct up to \$25,000 in qualified tip income and overtime pay.
- **Clean Energy Credits Set to Expire:** Credits for residential solar, energy improvements, and electric vehicles are phased out over the next year.
- **Trump Accounts:** The law establishes a tax favored account to be created on behalf of a beneficiary under the age of 18. Contributions by individuals up to \$5,000 and employers \$2,500 are allowed annually. Children born between 2025 and 2028 will receive an initial investment of \$1,000 funded by the federal government. Distributions from the accounts are regulated similar to IRAs.

### Top Considerations for Businesses

- **Bonus Depreciation Restored:** 100% bonus depreciation returns for qualified property acquired and placed in service after January 19, 2025.
- **Qualified Business Income Deduction Made Permanent:** The 20% business income deduction that temporarily put passthrough entities on the same footing as C Corporations that received a permanent 21% tax rate is here to stay, with slightly expanded phase-out thresholds.
- **Expanded Section 179 Deduction:** The maximum expensing limit increases to \$2.5M, with a \$4M phase-out cap, adjusted annually for inflation.
- **Immediate R&D Expensing Returns:** Domestic research expenses can once again be fully deducted in the year incurred—retroactively applied for all of 2025. There are opportunities to retroactively apply these rules to years that required capitalization.
- **Interest Deduction Adjustments:** The 163(j) interest limitation now permanently aligns with EBITDA instead of EBIT, easing restrictions for many businesses.
- **QSBS (1202 Stock) Updates:** Tiered capital gain exclusions are introduced, and the lifetime exclusion cap is increased to \$15M for stock acquired after July 4, 2025.
- **1099 Threshold Increased:** Starting in 2026, the reporting threshold for Form 1099 increases from \$600 to \$2,000.

- **Qualified Opportunity Zones (QOZs) are now permanent:** Additionally, new zones will be established and QOZFunds will allow for smaller step ups over shorter holding periods. Additionally, the law creates rural QOZs which benefit from a lower reinvestment threshold of 50%, compared to traditional QOZs that have a 100% reinvestment requirement, beginning in 2027.

## Contact Us for Guidance

The legislation is expansive and complex, impacting individuals, businesses, and estates alike. While this email highlights some of the most significant components, it offers only a high-level overview—additional provisions may be relevant to your specific situation and planning. Contact your Johnson O'Connor service team member today to discuss how the new law impacts you or your business.

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