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LEGAL UPDATES

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Estate Planning and Other Tax Strategies under the One Big Beautiful Bill Act

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President Donald Trump signed the One Big Beautiful Bill Act (OBBBA) into law on July 4, 2025. The OBBBA represents a significant overhaul of the U.S. tax system, making permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) and introducing new tax benefits for individuals and businesses. This update provides a high-level overview of several key provisions of the OBBBA.

Estate, gift, and GST tax exemption

The federal estate and gift tax exemption for 2025 is currently set at $13,990,000. Initially, the TCJA provisions affecting this exemption were scheduled to expire on January 1, 2026, which would have resulted in the exemption being reduced to approximately $7,000,000. However, the exemption is permanently increased under the OBBBA, providing long-term stability for estate planning. Consequently, as of January 1, 2026, the exemption will be $15,000,000 per individual, indexed for inflation for subsequent years, while the tax rate remains at 40%. For married couples, this change effectively allows up to $30,000,000 to be transferred to future generations free of estate tax. Additionally, the generation-skipping transfer (GST) tax exemption will be adjusted to match the increased estate and gift tax exemption.

This expanded exclusion amount provides more flexibility for individuals to manage their wealth and estate planning. If an individual has used most or all of their lifetime exclusion amount by making taxable gifts, the increase to $15 million in 2026 means they will have a larger amount of unused exclusion to shelter gifts from the gift tax in 2026 and beyond. This change will be particularly beneficial for those who have already maximized their previous exclusions, as it offers a renewed opportunity to minimize tax liabilities while continuing to support family and loved ones through monetary gifts.

With higher exemption thresholds and increased gift tax exclusions, individuals will be able to confidently make decisions regarding wealth transfers without the looming uncertainty of potential tax increases resulting from the temporary nature of the exemption. With this in mind, high-net-worth individuals should reevaluate their existing plan and consider further planning options to take advantage of increased tax savings. Higher exemption rates also create opportunities for clients with assets that are difficult to value, providing a larger cushion in the event of an audit if the IRS determines a higher value for such assets.

Now is the time to take advantage of the increased gift tax exemption by making strategic gifts to loved ones, utilizing advanced planning strategies including irrevocable trusts. These techniques will allow individuals to leverage higher exemption limits while reducing their taxable estate. Furthermore, by gifting assets now, especially assets that are expected to increase in value over time, you can effectively remove both the current value and any future appreciation from the taxable estate.

It is important to note that clients residing in states with a state-level estate tax will still need to evaluate how their state system is impacted by the new federal estate tax rules.

High-net-worth individuals and couples should not assume that they have unlimited amounts of time for planning or a license to procrastinate. Taking advantage of this window is important because a future change in control of Congress or the introduction and passage of repeal legislation could drastically alter the current favorable conditions. High-net-worth individuals and couples need to be proactive in their planning to optimize their wealth transfer and minimize tax liabilities. Therefore, it is essential to act judiciously and timely, ensuring that all plans and strategies are in place before any potential legislative changes. This proactive approach will safeguard their financial legacy and ensure the efficient transfer of wealth to future generations.

Individual and trust tax rates

The OBBBA permanently extends the TCJA's reduced income tax rates and expanded tax brackets for individuals and trusts. The table below sets forth the differences between the pre-TCJA rates and brackets and the permanently extended TCJA rates and brackets.

Category	**Current Rates (%)**	**Pre-TCJA Rates (%)**
Individual	10, 12, 22, 24, 32, 35, 37	10, 15, 25, 28, 33, 35, 39.6

Trust and Estate	10, 24, 35, 37	15, 28, 31, 36, 39.6

This extension also includes the elimination of the "marriage penalty" for most tax brackets, ensuring that married couples filing jointly do not pay more tax than they would as single filers.

Standard deduction

The OBBBA increases the basic standard deduction amounts for tax years beginning after 2025. Below is a table showing the current basic standard deduction amounts versus the standard deduction amounts beginning in 2026.

Category	Current Standard Deduction	New Standard Deduction
Joint Filers	$24,000	$31,500
Heads of Household	$18,000	$23,625
Singles/Married Individuals Filing Separately	$12,000	$15,750

These amounts are indexed for inflation using 2024 as the base year.

State and local tax (SALT) deduction cap

The OBBBA retroactively increases the SALT deduction cap from $10,000 to $40,000 for 2025. However, the deduction phases out for taxpayers with a modified adjusted gross income (MAGI) over a certain threshold. Under OBBBA, the MAGI threshold is $500,000 in 2025. Further increases are scheduled for subsequent years under OBBBA for both the SALT deduction cap and the MAGI phase out threshold.

For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The deduction, however, will not be reduced below $10,000.

The individual SALT deduction cap will revert to $10,000 beginning in 2030.

Child Tax Credit

The Child Tax Credit rules were scheduled to revert to pre-TCJA levels: a $1,000 per qualifying child amount, and a maximum $1,000 refundable credit amount. The OBBBA makes permanent the TCJA's enhancements to the Child Tax Credit, increasing the nonrefundable credit amount to $2,200 per qualifying child indexed for inflation and increasing the refundable portion to $1,400. To claim the credit, taxpayers must include their Social Security Number and the qualifying child's Social Security Number on their tax return.

529 accounts

The OBBBA introduces significant changes to 529 savings accounts, expanding the scope of tax-exempt distributions. Under the new provisions, 529 plan funds can now be used for a broader range of educational expenses related to enrollment or attendance at elementary or secondary public, private, or religious schools. The expanded list of eligible expenses includes tuition, curriculum and curricular materials, books, online educational materials, tutoring, educational classes outside the home, fees for standardized tests, advanced placement exams, college admission exams, dual enrollment fees, and educational therapies for students with disabilities provided by licensed professionals. These changes apply to distributions made after the enactment date of the OBBBA.

Additionally, the OBBBA increases the annual limit for 529 account distributions specifically for K-12 expenses from $10,000 to $20,000. This increased limitation is effective for tax years beginning after December 31, 2025. Furthermore, the OBBBA allows 529 savings plan tax-exempt distributions to cover "qualified postsecondary credentialing expenses," which include tuition, fees, books, supplies, and equipment required for enrollment in recognized postsecondary credential programs (educational skill-based programs in preparation for specific careers or further academic study). These programs must be listed under specific state or federal guidelines or be accredited by recognized institutions. The changes regarding postsecondary credentialing expenses apply to distributions made after the enactment date.

Trump accounts

The OBBBA introduces "Trump accounts," a new tax-deferred investment option for children, allowing contributions from parents, relatives, employers, and other entities. Eligible children must be U.S. citizens with a Social Security number, and contributions are capped at $5,000 annually, indexed for inflation. A pilot program provides a $1,000 federal contribution for children born between January 1, 2025, and December 31, 2028, with accounts to be automatically established by the IRS if not opened by the parents.

Charitable deductions

Charitable deduction for individuals

Starting from tax years after December 31, 2025, there are some new rules for charitable deductions.

If you make a charitable donation, you can usually deduct it from your taxes. Pre-OBBBA, no floor applies for individuals' charitable contribution deduction. However, under the OBBBA, a new rule is in place that says you have to reduce this deduction by 0.5% of your adjusted gross income (AGI). For example, if your AGI is $1,000,000, you would reduce your charitable deduction by $5,000 (0.5% of $1,000,000). There are also specific rules about the order in which your donations are considered and how to carry forward deductions that are disallowed by the 0.5% floor to future tax years.

Pre-OBBBA, individuals cannot deduct more than 50% of their AGI as a charitable deduction in any year, and a 60% limit for cash-only contributions to certain charities. These charities include churches, schools, and hospitals. The OBBBA now makes this rule permanent. You can deduct these cash gifts if the total amount of cash contributions does not exceed 60% of your AGI minus the total amount of contributions you made to these charities during the same tax year. Essentially, it ensures that you get the maximum benefit for your cash donations to major charities, as long as you stay within the 60% limit of your income.

Charitable deduction for non-itemizers

The OBBBA allows non-itemizers (individuals who claim a standard deduction instead of itemizing deductions) to claim a charitable deduction not exceeding $1,000, or $2,000 for a joint return. To qualify, contributions must be made in cash, made to a public charity, and meet certain other requirements set forth in Code Sec. 170(p). This provision applies for tax years beginning after December 31, 2025.

Charitable deduction for corporations

A new 1% floor is introduced for deductions of corporate charitable contributions. Any otherwise allowable charitable contribution by a corporate taxpayer for any tax year will be allowed only to the extent that the aggregate of such contributions exceeds 1% of the taxpayer's taxable income for the tax year. Contributions disallowed for failing to reach the 1% threshold can be carried forward for five years. This section is effective for tax years beginning after December 31, 2025.

Personal exemption deduction

The OBBBA permanently eliminates the personal exemption deduction for most taxpayers, a provision that was previously suspended by the Tax Cuts and Jobs Act (TCJA) for tax years 2018 through 2025. However, the OBBBA introduces a temporary deduction specifically for those 65 or older, allowing the individual and their spouse, if filing jointly, to claim a $6,000 deduction per qualified individual for tax years 2025 through 2028. The deduction is subject to a reduction of 6% for adjusted gross income exceeding $75,000 for single filers or $150,000 for joint filers

Qualified Small Business Stock (QSBS)

OBBBA introduces significant changes to the rules governing QSBS, enhancing the tax benefits for investors. Under the new provisions, the exclusion percentage for gains on QSBS has been increased, allowing investors to exclude a larger portion of their gains from federal income tax, thereby incentivizing investment in small businesses. These changes are expected to stimulate economic growth by encouraging more investment in emerging companies and providing a substantial tax advantage to investors who hold QSBS for the required period.

Deduction for Qualified Business Income (QBI)

Under the TCJA, specified non-corporate taxpayers could deduct 20% of QBI from a partnership, S corporation, or sole proprietorship.

The OBBBA introduces a minimum deduction for active QBI at $400 and requires a minimum of $1,000 QBI to claim the deduction, defining “active qualified trade or business” as one in which the taxpayer “materially participates.” Additionally, the OBBBA increases the phase-in threshold for single filers from $50,000 to $75,000 and for joint filers from $100,000 to $150,000, with inflation adjustments applicable to the new minimum amounts for tax years beginning after 2026.

What this means to you

The One Big Beautiful Bill Act represents a significant overhaul of the U.S. tax code providing long-term tax relief and increased certainty, particularly for businesses and high-net-worth individuals. By making permanent many provisions of the 2017 Tax Cuts and Jobs Act, the OBBBA provides a more stable framework for long-term planning.

Contact us

As these changes take effect, many individuals can benefit from reassessing their financial strategy and updating their estate plan, to maximize the benefits offered by the OBBBA. For personalized advice and to explore how these changes can align with your goals, please reach out to a member of the Husch Blackwell Private Wealth team or your Husch Blackwell attorney.