LPL Financial

The One Big Beautiful Bill Act

A Strategic Guide for Investors

On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. The new law makes permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) while also introducing additional new tax breaks.

This legislation presents both opportunities and challenges for investors, but its impact on your financial situation may vary depending on who you are and how you earn your income. Understanding the new law's implications can help you make informed financial decisions and make the most out of the potential opportunities presented by the bill.

There are five primary areas covered in the bill that could impact you:

- Individual tax rates
- Changes to deductions and credits
- Estate planning and wealth transfer
- Tax breaks for businesses
- Investment incentive programs

Discover how to take advantage of the changes in these areas to better position your portfolio and your tax situation.

1

Individual Tax Rates

One of the most significant aspects of the OBBBA is the permanent extension of the TCJA's individual tax cuts that were due to expire at the end of 2025. These brackets will continue to be adjusted with inflation over time, potentially preserving a favorable environment for income earners.

What this means to you:

If you're planning for retirement: the OBBBA provides clarity around future tax rates so that you can plan for your financial future with confidence.

If you're a high-income earner: You might want to consider income-smoothing strategies to better position your tax brackets over time.

Action Item:

- With guidance from a financial professional, consider Roth conversions during low-income years.

2

Deductions and Credits

The 2017 TCJA eliminated or limited many popular deductions and credits with the goal of simplifying the tax code overall, but many of those changes were temporary. The OBBBA makes many changes from TCJA permanent, but adds a few temporary provisions, including tax breaks for certain types of income and short-term changes to deductions.

Highlights of TCJA changes made permanent by the OBBBA include:

- Increased standard deduction ($15,750 single / $31,500 joint) effective as of January 1, 2025 and adjusted with inflation in subsequent years
- Increased child tax credit to $2,200 per child with future inflation adjustments
- Mortgage interest deduction limited to the first $750,000 of indebtedness
- Home equity loan interest deduction disallowed, unless loan used to improve the home
- Permanently eliminates clean vehicle and energy credits for both individuals and businesses after 2025

Additional temporary OBBBA tax breaks (all subject to income limitations):

- No tax on tips up to $25,000 per taxpayer (available 2025-2028)
- No tax on overtime up to $12,500 per taxpayer (available 2025-2028)
- Car loan interest deduction for new purchases of U.S.-assembled passenger vehicles (available 2025-2028)
- Enhances standard deduction by $6,000 for seniors age 65+ (available 2025-2028)
- Expands limit on the itemized state and local tax (SALT) deduction from $10,000 to $40,000 with an annual adjustment (available 2025-2029)

In addition, the OBBBA makes a couple of permanent changes to charitable deductions. First, it creates a charitable deduction for non-itemizers of up to $1,000 for single filers and $2,000 for joint filers. Secondly, it limits the charitable deductions for taxpayers who itemize such that contributions may only be deducted to the extent that they exceed 0.5% of a taxpayer's income and the tax benefit of those deductions is limited to the 35% income bracket.

What this means to you:

Depending on who you are, and how you earn your income, these changes may have a smaller or larger effect on your ultimate tax bill.

Action Items:

- Work with your financial advisor and tax professional to develop a solid understanding of your deductions and tax opportunities.
- Use temporary exemptions for short-term tax planning.
- Rethink charitable giving strategies to potentially maximize tax benefits in light of new rules. For example, you can give away appreciated stock held for longer than one year to eliminate the embedded capital gain in addition to generating a tax deduction.

3

Estate Planning and Wealth Transfer

In a significant shift, the OBBBA makes permanent the expanded federal estate and gift tax exclusion. This exclusion amount, currently $13.99 million, was set to decline to roughly $7 million under the TCJA, but under OBBBA is permanently raised to $15 million per individual (or $30 million per couple) beginning in 2026 and will continue to increase with inflation.

The estate tax rate remains at 40%, but the higher exemption threshold provides a significant opportunity for wealth transfer. The OBBBA also preserves the valuable "step up" in cost basis at death, which eliminates unrealized capital gains on assets passing through a decedent's estate.

These changes are particularly relevant for affluent individuals and families. The expanded exemption allows for more aggressive gifting strategies, including the use of irrevocable trusts, family-limited partnerships, and charitable giving vehicles.

What this means to you:

This expanded exemption will reduce estate planning complexity for many high-net-worth families. However, you should reconnect with your estate attorneys and financial advisor to ensure your wills, trusts, and beneficiary designations reflect your current legacy goals in light of the new law.

Action Items:

- Review your estate plans in light of permanently expanded new exemptions.
- Use annual exclusion gifts to reduce your taxable estate.
- Consider Grantor Retained Annuity Trusts (GRATs), Intentionally Defective Grantor Trusts (IDGTs), and charitable trusts.
- Lock in current exemption levels before potential changes.

4

Tax Breaks for Business

While the biggest business tax change in the 2017 TCJA was a permanent reduction in the corporate tax rate, the OBBBA makes permanent some TCJA business tax provisions that were set to expire and enhances others.

The Section 199A Qualified Business Income deduction was made permanent, which allows a 20% deduction for pass-through income for certain businesses. In addition, the phaseout amounts were increased, and the rules for service businesses modified so that more taxpayers may take advantage of this break.

The new law also makes permanent depreciation deductions and Research and Development (R&D) deductions with expanded thresholds for businesses.

In addition, the OBBBA significantly expands the potential capital gains exclusions in Section 1202 for holders of Qualified Small Businesses Stocks (QSBS). For stock owners to take advantage of this exclusion, the business must be a qualified U.S. C Corporation (a qualified business must create something, not just offer services), and the taxpayer must acquire stock in an original issue from the company. Under current law, an eligible small business is defined as having less than $50 million in assets at the time the stock is acquired. If the stock is held for at least five years, a taxpayer can exclude a gain of up to $10 million or 10 times the cost basis from capital gains taxes when the stock is sold.

For businesses created after July 4, 2025, the asset threshold has increased so that businesses with up to $75 million in assets qualify and the capital gains exclusion is now available at an early exit. You can get 50% of the exclusion at year three, 75% at year four, and 100% at year five. Plus, the exclusion increases to $15 million.

What this means to you:

If you're a business owner – especially a small business owner – you may have some additional opportunities to lower your tax liability.

Action Item:

- Evaluate your current business structure with your tax professional to ensure you're making the most of your available deductions or positioning yourself for a future exclusion.

5

Investment Incentive Programs

As noted previously, the QSBS rules provide a strong incentive for early investors in qualified U.S. C-Corporations.

The OBBBA also restarts and expands the popular Opportunity Zone (OZ) program for investments in designated areas of the country. The program will now run on a rolling 10-year timeline beginning in 2027 with special rural area incentives through 2033. This provision was created to incentivize investment in rural areas, such as a 30% step-up in tax basis for investments in Qualified Rural Opportunity Funds held for at least five years.

The OZ program generally allows investors to defer capital gains and potentially exclude future gains from taxation if investments are held for at least 10 years. In addition, it provides a 10% adjustment to cost basis for gains deferred to a traditional OZ and 30% adjustment to cost basis for gains deferred to a designated rural OZ. Treasury will issue further guidance on the OZ program prior to 2027.

What this means to you:

As an individual investor, you may be able to take advantage of these programs in a diversified way through fund offerings.

Action Items:

- Consult with your financial advisor about how the long holding periods for these types of investments fits with your overall investment plan.
- Evaluate OZ funds for tax-deferral and potential tax-advantaged growth.

Next Steps

To fully capitalize on the opportunities presented by the OBBBA, now's the time to work with your financial advisor to take a proactive approach. This includes:

- **Revisiting tax strategies**
- **Updating estate plans**
- **Exploring new investment vehicles like Real Estate Investment Trusts (REITs) and Opportunity Zones**

Your financial advisor can play a crucial role in guiding your decisions, helping you align your portfolio with the evolving policy environment.

As with any major legislation, the true impact of the OBBBA will unfold over time. But one thing is clear: those who understand and adapt to its provisions will be best positioned to achieve their long-run financial goals.