From Pacific Life's Advanced Designs Unit

The One Big Beautiful Bill Act 2025

July 4, 2025

Topic: The One Big Beautiful Bill Act 2025 (H.R.1)

On July 3, 2025, the House narrowly passed the One Big Beautiful Bill Act in a 218–214 vote. President Trump signed it into law the following day, July 4. The legislation is projected to increase the federal deficit by approximately $3.4 trillion over the next decade.

Tax Cuts and Jobs Act (TCJA)	The One Big Beautiful Bill Act (OBBB)
Top Rate on Ordinary Income • Rates begin at 10% and climb to 37%. The top rate is 37%. • The current 37% top rate applies for single taxpayers with income in excess of $626,350 and married taxpayers with income in excess of $751,600.	***Top Rate on Ordinary Income*** • The bill makes the TCJA rates permanent • Rates begin at 10% and climb to 37%. The top rate is 37%. • Provides an extra inflation adjustment to the lower tax brackets from the 12% to 22% range, which may result in lower tax bills for those taxpayers. • The top bracket in 2025 starts at $626,350 for single taxpayers, and $751,600 for married taxpayers.
Top Rate on Long-Term Capital Gains and Qualified Dividends • The top rate is 20% (23.8% when including the 3.8% Net Investment Income Tax (NIIT)).	***Top Rate on Long-Term Capital Gains and Qualified Dividends*** • No changes to the current 20% top rate, including the 3.8% on net investment income.

Itemized Deductions	*Itemized Deductions*
• Taxpayers are entitled to deduct the greater of 1) the standard deduction, or 2) the sum of the itemized deductions (things like mortgage interest, medical expenses, state and local income and property taxes, and charitable contributions). The TCJA nearly doubled the standard deduction (which is currently $15,000 for single taxpayers, $30,000 for married couples), while limiting or eliminating certain itemized deductions.	• Permanently extends the doubled standard deduction from TCJA, which was set to be reduced by about half after 2025. • Provides an extra inflation adjustment to the standard deduction. • Creates an additional deduction for taxpayers over 65 years from 2025 to 2028. The deduction is equal to $6000 per individual and begins to phase out for single taxpayers making over $75,000 and married taxpayers making over $150,000. This senior deduction is available whether a taxpayer takes the standard deduction or itemizes. • The SALT deduction cap has been raised from $10,000 to $40,000 starting in 2025 until 2029. A phase-out begins at $500,000 (fully phased out to $10,000 by $600,000). The cap will be adjusted for inflation starting with $40,400 in 2026, then increased by 1% annually through 2029. Starting in 2030, the cap will revert to $10,000. • The bill permanently removes the Pease Limitation and replaces it with a new overall limitation on itemized deductions. The amount of itemized deductions would be reduced by 2/37ths of the lesser of the amount of itemized deductions or the amount of the taxpayer's taxable income that exceeds the start of the 37% tax rate bracket. • Charitable deductions are now allowed for those who take the standard deduction. For married filing jointly their deduction is limited to $2000, and for individual taxpayers it is limited to $1000. • For itemizers, charitable deductions now receive a floor as well as a ceiling. For C corporations, they must contribute more than 1% of their adjusted gross income to receive any deduction. For individuals who itemize, they must contribute more than 0.5% of AGI to receive any deduction.

Cap on business losses for Pass-through Businesses • Under Section 461(l), the excess business loss provisions limit a noncorporate taxpayer's ability to deduct an excess business loss above a certain threshold (indexed for inflation). For 2025, the threshold amount is $313,000 ($626,000 if married and filing jointly). Under the TCJA, this provision was to sunset after December 31, 2025, but was extended an additional year in the American Rescue Plan.	***Cap on business losses for Pass-through Businesses*** • Makes permanent the TCJA's limits on net operating losses for pass-through businesses. The limit is $313,000 for single taxpayers in 2025, and $626,000 for married taxpayers, adjusted for inflation.
Elimination of the 20% Qualified Business Income (QBI) Deduction • Pass-through businesses that operate as an S-Corporation, partnership or sole proprietorship may claim a 20% deduction on qualified income earned in the business.[i] This reduces the effective top rate on this type of income from 37% to 29.65%.	***Elimination of the 20% Qualified Business Income (QBI) Deduction*** • Permanently extends the pass-through business income deductions at 20% of QBI. • Taxpayers with at least $1,000 of QBI who actively participate in their business are guaranteed a minimum Section 199A deduction of $400, even if their taxable income would otherwise reduce it. This amount is inflation-adjusted and will increase over time.
Corporate Tax • Corporate tax rate of 21%.	***Corporate Tax*** • No change in the corporate tax rate of 21%.
Estate Tax • Temporarily doubling of the federal estate and gift tax exemption from $5 million (annually indexed for inflation) to $10 million (annually indexed for inflation) through the end of 2025, with a top tax rate of 40%. • In 2026, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011)	***Estate Tax*** • Permanently sets the exemption at $15M in 2026, adjusted for inflation thereafter.

1202 Deduction • Allowed the exclusion of gain from the sale of C corporation stock to certain amounts based on when the stock was acquired. 50% gain exclusion for stock acquired between 8/11/93 and 2/17/09, and 75% gain exclusion between 2/18/09 and 9/27/10. 100% gain exclusion for QSBS acquired on or after 9/28/10 if the stock is held for at least 5 years. • Exclusion was allowed for the greater of $10M or 10 times basis (basis cannot exceed $50M).	***1202 Deduction*** • For new corporations, the amount of exclusion depends upon how long the stock is held. For stock held for 3 years, the exclusion is 50%, for stock held for 4 years, the exclusion is 75%, and for stock held for 5 years, the exclusion is 100%. • The total exclusion is increased to $15M, and the assets for 10 times the basis are increased to $75M.
Qualified Opportunity Zones (QOZ) • A taxpayer may elect to defer the tax on some of the realized capital gain if, during the period of 180 days after a sale, they reinvest it into a Qualified Opportunity Zone through a Qualified Opportunity Fund (QOF). • Gains will be deferred until Dec. 31, 2026. • A taxpayer who defers gain through a QOF receives a 10% step-up in basis after 5 years, and an additional 5% after 7 years. • Assets remaining in the QOF for at least 10 years results in the cost basis of the property being equal to the fair market value of the property on the date of the sale.	***Qualified Opportunity Zones (QOZ)*** • Gain invested through a Qualified Opportunity Fund (QOF) is deferred for 5 years. • Gain invested in a QOF will receive a 10% basis step-up held for at least 5 years. • Investors in rural opportunity funds receive a 30% basis step-up held for at least 5 years. • While the year-10 gain exemption rule remains unchanged, the ability to elect this exclusion is limited to a 30-year window from the original investment date. • A QOF is generally required to substantially improve real property by doubling its basis, but for investments in rural areas, the threshold is reduced—only a 50% increase in basis is required. This property improvement requirement is separate from the basis step-up investors receive in their capital gains.

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[i] Not all pass-through businesses are eligible for the 199A 20% deduction. Once a business passes over an income threshold ($197,300 for individuals, $394,600 if married in 2025), then businesses that are considered a specified service trade or business (SSTB) start to get phased out of the 20% deduction. Businesses that are Non-SSTB do not have this limitation, however, once they pass an income threshold ($197,300 for individuals, $394,600 if married in 2025), they have their own test that must be passed in order to the get the deduction. See IRC Section 199A.

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