

The Big Beautiful Bill

Key Tax Law Changes — What You Need to Know

A Beacon Financial Pathways Client Resource

The recently enacted tax legislation—commonly known as the “Big Beautiful Bill”—brings sweeping changes to how individuals, pass-through entities, and corporations are taxed. This guide summarizes the most important provisions so you can understand how they may affect your financial plan. As always, we recommend discussing your specific situation with your Beacon advisory team.

Individual Tax Changes

Tax Rates

The law establishes seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6% to 37% and applies to taxable income above \$500,000 for single filers and \$600,000 for married couples filing jointly. Capital gains and qualified dividend rates remain unchanged.

The “kiddie tax” rules have been simplified: a child’s net unearned income is now taxed at the rates that apply to trusts and estates, removing the dependency on the parent’s tax situation.

Standard Deduction

The standard deduction increases significantly in 2025:

Filing Status	2025 Standard Deduction
Married Filing Jointly	\$30,000
Head of Household	\$22,500
Single / Married Filing Separately	\$15,000

Given these increases, many taxpayers will no longer benefit from itemizing deductions. These amounts will be indexed for inflation.

Personal & Dependency Exemptions

The deduction for personal and dependency exemptions has been suspended. Taxpayers can no longer claim these exemptions, though withholding rules have been adjusted accordingly.

Qualified Business Income (QBI) Deduction

Taxpayers may deduct 20% of “qualified business income” from pass-through entities (partnerships, S corporations, LLCs, and sole proprietorships). This applies to income from a U.S. trade or business;

investment income, reasonable S corporation compensation, and guaranteed partnership payments do not qualify.

For taxpayers in 2025 with taxable income above \$75,000 (\$150,000 for joint filers), two phase-in limitations apply:

- A limitation based on W-2 wages paid and depreciable tangible property used in the business.
- Income from certain service businesses (health, law, consulting, athletics, financial/brokerage services) is phased out of the QBI deduction.

Child & Family Tax Credit

- Credit for qualifying children (under 17) increases to \$2,200 (from \$2,000).
- Refundable portion increases to \$1,700.
- New \$500 nonrefundable credit for dependents who are not qualifying children.
- Phase-out begins at \$200,000 AGI (\$400,000 for joint filers).

State & Local Tax (SALT) Deduction

The itemized deduction for state and local income and property taxes is capped at \$40,000 starting in 2025.

Mortgage Interest

- Mortgage interest on acquisition debt is deductible only up to \$750,000 (reduced from \$1 million) for loans taken out after 2017.
- The deduction for home equity loan interest has been eliminated, regardless of when the debt was incurred.

Notable New Provisions

- No tax on tips or overtime income.
- Interest on personal automobile loans is now deductible.
- Opportunity Zones are permanently extended and enhanced.

Miscellaneous Itemized Deductions

The deduction for miscellaneous itemized deductions exceeding 2% of AGI has been eliminated. This previously included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.

Medical Expenses

Medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income (reduced from the 10% threshold that previously applied to most taxpayers).

Casualty & Theft Losses

The itemized deduction for personal casualty and theft losses was suspended for 2018–2025 (except for federally declared disasters). Beginning June 4, 2025, personal casualty and theft losses are again deductible as Schedule A itemized deductions.

Overall Limitation on Itemized Deductions

The 2025 law phases out itemized deductions for higher-income taxpayers: deductions are reduced by 4% of the amount by which AGI exceeds the applicable threshold, though the reduction cannot exceed 80% of total itemized deductions. Certain items are exempt from this limitation.

Other Individual Changes

- **Moving expenses:** The deduction for job-related moving expenses has been eliminated (except for certain military personnel). The exclusion for employer reimbursements is also suspended.
- **Alimony (post-2018 agreements):** Alimony is no longer deductible by the paying spouse and is not taxable to the receiving spouse.
- **Health care mandate:** The penalty for not maintaining minimum essential health coverage has been eliminated (effective 2019).

Estate & Gift Tax

For 2025, the estate and gift tax exemption increases to approximately \$15 million per individual (\$30 million for married couples).

Alternative Minimum Tax (AMT)

The individual AMT is retained but with higher exemptions: \$133,300 for joint filers and \$70,300 for single filers. Phase-outs begin at \$1,218,700 for joint filers and \$609,350 for all others.

Pass-Through Entity Changes

The following provisions affect partnerships, S corporations, and pass-through income.

20% Deduction for Pass-Through Income

The law provides a 20% deduction for qualified business income from a U.S. trade or business conducted by a partnership, S corporation, or sole proprietorship. Investment items, reasonable S corporation compensation, and guaranteed partnership payments are excluded. The same income thresholds and service-business phase-outs described in the Individual section apply.

S Corporation Conversion to C Corporation

An “eligible terminated S corporation” that revokes its S election within two years of enactment may spread the resulting Section 481(a) adjustment (e.g., cash-to-accrual method change) ratably over six tax years. Specific ownership continuity requirements must be met.

Partnership Technical Termination Rule Repealed

The rule that triggered a “technical termination” of a partnership upon a sale or exchange of 50% or more of capital and profits interests within 12 months has been repealed. Partnerships now terminate only when no business continues to be carried on by any partner in a partnership. This eliminates unintended burdens such as restarting depreciation periods and losing partnership-level elections.

Partnership Loss Limitation

A partner’s deductible share of partnership losses continues to be limited by basis. The new law clarifies that basis must also be reduced by the partner’s share of charitable contributions and foreign taxes paid. For contributed property where fair market value exceeds adjusted basis, the reduction is limited to the partner’s share of the property’s basis.

Sale of Partnership Interest — Look-Through Rule

Gain or loss on the sale of a partnership interest is treated as effectively connected with a U.S. business to the extent the selling partner would have recognized such gain or loss had the partnership sold all assets at fair market value on the date of sale. Unless the seller certifies non-foreign status, the buyer must withhold 10% of the amount realized.

C Corporation Changes

Corporate Tax Rate

The corporate tax rate is reduced to a flat 21%, replacing the prior graduated structure (15%–35%).

Dividends-Received Deduction

- Corporations owning 20%+ of the dividend-paying company: reduced from 80% to 65%.
- Corporations owning less than 20%: reduced from 70% to 50%.

Corporate AMT Repealed

The corporate alternative minimum tax has been repealed. Existing AMT credits may be used to offset regular tax liability, with refundable credits available through 2021.

Net Operating Loss (NOL) Deduction

- NOLs arising after 2017 can generally only be carried forward (not back), with the exception of certain farming losses.
- NOLs can now be carried forward indefinitely (previously limited to 20 years).
- The NOL deduction is limited to 80% of taxable income for losses arising after 2017.

Business Interest Deduction Limitation

All businesses are limited to deducting business interest equal to 30% of adjusted taxable income. Disallowed interest may be carried forward indefinitely. This limitation does not apply to businesses with average annual gross receipts of \$25 million or less. Real property trades or businesses may elect out if they use the alternative depreciation system.

Domestic Production Activities Deduction (DPAD)

The DPAD was repealed for tax years beginning after 2017. The 2025 law restores it, allowing taxpayers to deduct 9% (6% for certain oil and gas activities) of the lesser of qualified production activities income or taxable income, limited to 50% of W-2 wages paid.

Fringe Benefits & Entertainment

- Business-related entertainment expenses: deduction eliminated.
- Business meals: 50% deduction limit retained.
- Transportation fringe benefits (parking, mass transit): employer deduction denied, but employee exclusion continues.
- Bicycle commuting reimbursements: deductible by employer but not excludable by employee.

Section 179 Expensing

The maximum Section 179 deduction increases to \$2.5 million for 2020, with a phase-out beginning at \$4 million of total property placed in service. Both amounts are indexed for inflation. Eligible property now

includes certain lodging-related personal property and specified improvements to nonresidential real property (roofs, HVAC, fire protection, security systems). The cap for SUVs (6,001–14,000 lbs) is \$31,300.

Bonus Depreciation

- 100% first-year bonus depreciation for qualified new and used property acquired and placed in service after June 4, 2025.
- 100% bonus depreciation for qualifying vehicles placed in service 2025–2029.
- Vehicles above 14,000 pounds have no depreciation cap.

Depreciation Updates

- Qualified improvement property: 15-year recovery period, straight-line method.
- Farming equipment and machinery: recovery period reduced from 7 to 5 years; 200% declining balance method now available.
- Luxury auto depreciation: maximum \$20,200 for the placed-in-service year (indexed for inflation after 2025).
- Computers and peripheral equipment removed from “listed property” definition.

Research & Experimentation Expenses

For 2025, specified R&E expenses no longer need to be capitalized and amortized over five years—they can be deducted in the year incurred. This includes software development expenses.

Like-Kind Exchanges (Section 1031)

Like-kind exchange treatment is now limited to real property not held primarily for sale. Exchanges of personal property no longer qualify for deferral.

Other Corporate Provisions

- Excessive employee compensation: The \$1 million deduction limit for covered employees of public corporations now includes commissions and performance-based pay (previously exempt). Covered employees include the principal executive officer, principal financial officer, and three highest-paid officers.
- Penalties and fines: No deduction for amounts paid to governments related to law violations, with exceptions for restitution, remediation, and compliance payments.
- Sexual harassment settlements: No deduction for payments subject to nondisclosure agreements.
- Lobbying expenses: Deductions disallowed for lobbying related to local governmental bodies.
- Family and medical leave credit: 12.5% credit (up to 25%) for wages paid during qualifying family/medical leave, available to employers with written leave policies.

What This Means for You

Tax law changes of this magnitude create both risks and opportunities. Whether you're a business owner navigating pass-through deductions, a family planning for wealth transfer, or a corporation evaluating depreciation strategies—having a coordinated plan matters more than ever.

At Beacon Financial Pathways, we bring together financial planning, tax strategy, and legal review to help you make informed decisions with confidence. Let's review how these changes affect your specific situation.

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