Breaking down the impacts of the One Big Beautiful Bill

On July 4, 2025, President Donald Trump signed into law the "One Big Beautiful Bill Act" (H.R.1), While over 900 pages, the following summary addresses key tax provisions most relevant to wealth management clients. This legislation builds on the 2017 "Tax Cuts and Jobs Act" (TCJA) and introduces several permanent and expanded tax measures that will impact high-net-worth individuals, and their estate and investment planning strategies.

Key tax takeaways

Permanent extension of TCJA provisions

The bill locks in the individual tax rate reductions from the 2017 TCJA, including the 37% top marginal rate and the 20% deduction for qualified business income (QBI) from pass-through entities. These provisions were previously set to expire in 2025.

SALT deduction cap raised

The bill raises the state and local tax (SALT) deduction cap from \$10,000 to \$40,000 starting in 2025 for households earning under \$500,000. This expanded cap is indexed to increase by 1% annually through 2029. However, the benefit begins to phase out for taxpayers with income above \$500,000. The phaseout reduces the deduction incrementally as income rises, limiting the full benefit for higher earners (\$10,000). The cap is scheduled to revert to \$10,000 in 2030 unless further legislative action is taken. This change is particularly relevant for clients in high-tax states who itemize deductions and fall within the eligible income range.

Estate and gift tax exemption doubled

Effective January 1, 2026, the federal estate, gift, and generation-skipping transfer (GST) tax exemptions will increase to \$15 million per individual and \$30 million for married couples, with annual inflation adjustments. This change replaces the prior exemption level of approximately \$13.99 million per person for 2025 and avoids the scheduled sunset of the existing exemption under the 2017 TCJA.

The top estate tax rate remains 40% for amounts exceeding the exemption. This increase provides a significant planning window for high-net-worth clients to transfer wealth tax-efficiently through lifetime gifts, trusts, and other estate planning vehicles.

Charitable and itemized deductions expanded

The "One Big Beautiful Bill Act" introduces several important changes to charitable giving and itemized deductions that will affect both itemizers and non-itemizers:

Universal charitable deduction. For the first time since the COVID-era relief bills, taxpayers who do not itemize can now deduct charitable contributions—up to \$1,000 for single filers and \$2,000 for married couples filing jointly. This deduction is "above-the-line," meaning it reduces adjusted gross income (AGI) and is available to over 90% of filers who typically take the standard deduction.

AGI floor for itemizers. For those who do itemize, a new 0.5% AGI floor applies. This means taxpayers must contribute at least 0.5% of their AGI before charitable deductions will apply. This provision is intended to encourage more substantial giving but may require planning adjustments for mid-level donors.

Cap on deduction value for high earners. For taxpayers in the top 37% bracket, the value of the charitable deduction is capped at 35% of the donation amount and may be further reduced if the taxpayer also claims a SALT deduction.

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Example. A married couple filing jointly with an AGI of $600,000 plans to donate $50,000 to a qualified charity in 2026. Here's how the new rules apply:

- Because they itemize, they must first meet the 0.5% AGI floor, which is $3,000. Only the amount above that—$47,000—is eligible for deduction.
- Since they are in the 37% bracket, the tax benefit is capped at 35% ($16,450), meaning they will only receive a tax benefit of 35 cents per dollar deducted rather than the previous 37 cents per dollar ($17,390) under the TCJA.
- If they also claim a SALT deduction, the charitable deduction may be further reduced depending on the interaction between the two caps.

This example highlights the importance of coordinated planning between charitable giving, SALT deductions, and income thresholds. Clients may benefit from strategies like bunching donations, using donor-advised funds, or timing gifts to maximize tax efficiency under the new rules.

Corporate giving changes. Corporations can now only deduct charitable contributions if they exceed 1% of taxable income, though the existing 10% cap remains in place.

Tip and overtime income exemption. A new provision exempts up to $25,000 in tip income and $12,500 per person ($25,000 if married filing jointly) in overtime income, from federal tax for individuals earning under $150,000. This may have a material impact on payroll planning for business owners in service industries. It should be further noted that this exemption is only for tax years 2025 through 2028.

Business and investment incentives

Bonus depreciation and R&D expensing

100% bonus depreciation is reinstated for qualifying property, and immediate expensing is allowed for domestic R&D costs. These changes are favorable for clients in real estate, private equity, and manufacturing.

Small business threshold raised

The revenue threshold for small business tax treatment increases from $50 million to $75 million, expanding access to simplified accounting and other tax benefits.

New tax-advantaged accounts for children

The bill introduces "American Opportunity Savings Accounts," allowing up to $5,000 in annual contributions per child with tax-free growth. Funds can be used for education, housing, or business startup costs which may be useful for intergenerational planning objectives.

Fiscal and economic outlook

The Tax Foundation estimates a $5 trillion reduction in federal tax revenue over 10 years, partially offset by $1.1 trillion in spending cuts. The projected net deficit increase is $3.8 trillion. While GDP is expected to grow modestly (1.2% long-term), the national debt-to-GDP ratio will likely rise without further action.

Implications for our clients

Estate planning. The expanded exemption creates a window for strategic gifting and trust structuring.

Tax strategy. Clients in high-tax states should revisit itemization and SALT planning.

Investment outlook. Provisions favor sectors like real estate, energy, and industrials. Rising deficits may influence interest rate expectations.

Philanthropy. Enhanced deductions may support more aggressive charitable giving strategies.

In closing

As always, we will continue to monitor the implementation of this legislation and provide timely guidance as Treasury regulations and IRS interpretations emerge. In the meantime, please reach out to your BMO Wealth Management Wealth Advisor with any questions or if you'd like to discuss how these changes may affect your specific situation. This is a pivotal moment for proactive planning, and we're well-positioned to assist in navigating the evolving tax landscape with clarity and confidence.

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