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THE "ONE BIG BEAUTIFUL BILL": Key Tax Provisions

With the passage of the "One Big Beautiful Bill" last week, a wide range of new tax provisions have been introduced, many of which will have meaningful impacts for taxpayers. Sifting through the bill to identify all the relevant details will be a daunting task and will take some time—our objective in this article is to highlight some of the key provisions most likely to create tax planning opportunities for our Coldstream clients.

Marginal Tax Brackets – Permanent Extension of Tax Cuts and Jobs Act Rates

Under the Tax Cuts and Jobs Act of 2017 (TCJA), the marginal brackets were temporarily decreased as follows:

Prior to TCJA	Rates Under TCJA
10%	10%
15%	12%
25%	22%
28%	24%
33%	32%
35%	35%
39.6%	37%

Source: Tax Policy Center

While these changes were set to expire at the end of 2025, the new legislation will make the lower brackets permanent.

Though there is now no expiration date associated with these lower rates, it is important to consider how they might be impacted by future legislation. These marginal tax brackets represent historically low levels, and the "One Big Beautiful Bill" is set to drive the federal deficit even higher. For some investors, this may be an opportune moment to prioritize Roth over pre-tax contributions or consider Roth Conversions.

Standard Deduction Increase

Under the TCJA, the standard deduction was approximately doubled with additional annual inflation adjustments. Like many provisions from that bill, it was originally set to sunset after 2025. The new law makes this higher standard deduction permanent.

When this change first took effect in 2018, many taxpayers shifted from itemizing to claiming the standard deduction. With the large standard deduction now permanent, taxpayers who do not have large enough deductions to itemize may want to consider periodically bunching multiple years' worth of charitable donations into a Donor Advised Fund, or, for those over 70 ½, making Qualified Charitable Distributions (QCDs) from their IRAs.

Increased SALT Deduction

The State and Local Tax (SALT) deduction limit is increasing from $10,000 to $40,000. For those with large property tax bills or who live in states with high income taxes, this will offer a significant opportunity to benefit from itemizing deductions.

There are two important caveats to be aware of:

1. **TEMPORARY RELIEF** - The limit will revert back to $10,000 in 2030.

2. **INCOME PHASE-OUT** - The higher limit is subject to a phase-out for those with incomes over $500,000.

Be sure to work with your tax advisor to determine whether you can benefit from this change by itemizing.

Estate and Gift Tax Exemption

The Estate and Gift Tax exemption will increase from $13.99 million to $15 million with additional annual inflation adjustments. Unlike the 2017 increase, which was set to expire at the end of 2025, this increase is permanent.

Since 2018, many affluent families have felt pressure to make lifetime gifts in order to take advantage of the temporarily high federal exemption. With a now permanently higher limit, there may be less time pressure to make these decisions. However, for estates exceeding the new exemption limit, lifetime gifting remains a key planning tool. For those estates below the federal exemption, state estate taxes and projected future asset growth should be a consideration when evaluating potential gifting strategies.

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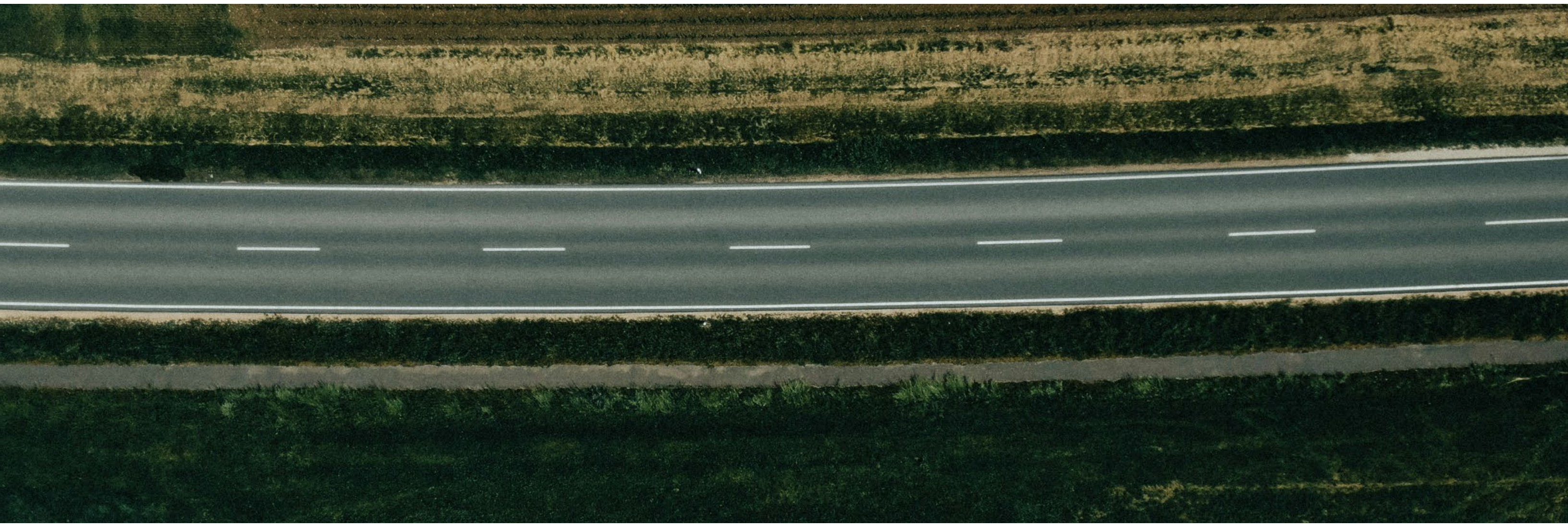
Permanent Extension of the Opportunity Zone Program

Originally introduced by the TCJA, the Qualified Opportunity Zone (QOZ) program was set to expire in 2026. Under the new legislation:

- Taxpayers investing in QOZs **on or after January 1, 2027** can defer gains for five years and receive a **10% basis increase** if held for five years.
- A new category of **Rural Qualified Opportunity Funds** has been created, offering a **30% basis increase** after five years.

These enhancements present attractive planning opportunities for those facing large liquidity events or potentially realizing significant capital gains.



Qualified Small Business Stock (QSBS)

Changes to Section 1202 enhance the benefits for investors and founders of Qualified Small Business Stock:

- **REDUCED HOLDING PERIOD**: Previously, a five-year holding period was required for exclusion. Now, a **50% exclusion is available after three years**, and **75% after four years**.
- **INCREASED GAIN EXCLUSION CAP:** The per-taxpayer gain exclusion cap increases **from $10 million to $15 million**.
- **HIGHER ASSET THRESHOLD:** The aggregate gross asset test (a requirement for QSBS eligibility) increases **from $50 million to $75 million.**

These changes make QSBS even more attractive for entrepreneurs and investors in high-growth companies.

Additional Key Provisions to Know

In addition to the provisions outlined above, the new legislation includes several other noteworthy changes that could be relevant to many families:

- **SENIOR BONUS DEDUCTION:** Taxpayers age 65+ qualify for an additional deduction of up to **$6,000**, allowing qualifying couples to claim up to **$46,700** in standard deductions. This provision is **temporary** and expires after 2028.
- **CLEAN ENERGY & EV CREDITS:** Many of the clean-energy tax incentives created by the Inflation Reduction Act, including **electric vehicle (EV)** and **home efficiency** credits, are now set to **expire at the end of 2025**.
- **CHILD TAX CREDIT EXPANSION:** Beginning in 2025, the Child Tax Credit increases to **$2,200 per child**, with annual inflation indexing. The **refundable portion is permanently fixed at $1,700.**
- **"TRUMP ACCOUNT" FOR NEWBORNS:** Every child born from **2025 to 2028** will receive a **$1,000 custodial investment account,** held in low-cost index funds and converted to a Roth IRA at age 18.
- **TIP AND OVERTIME INCOME DEDUCTIONS:** New federal income tax deductions are available for **reported tips and overtime earnings**, subject to income limits.

Final Thoughts

As stated at the outset, this is by no means a comprehensive list of the provisions included in the "One Big Beautiful Bill." For more information on how these changes may affect your individual situation—or for additional clarification—be sure to work closely with your Coldstream wealth management team and tax advisor.

Coldstream can help.

As always, we are here to help you evaluate how these changes apply to your unique circumstances—and identify opportunities to take advantage of tax planning strategies.

Contact us to learn more about how we may be able to help. Reach out at 425.283.1600 or info@coldstream.com.

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