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Private Wealth Management

Highlights of the 2025 House Tax & Budget Proposal

The first proposal to address the sunset of many of our current tax laws was released by the House Ways & Means Committee. While far from a final bill, we now know some of the priorities in Congress.

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The first year of a new Presidential administration is often when the most meaningful legislation is enacted, mostly to address promises made during the campaign. This year, that dynamic is combined with the looming sunset of the Tax Cuts & Jobs Act (TCJA), a bill that passed in 2017 but is scheduled to mostly expire and revert back to prior law after 2025. The House Ways & Means Committee kicked off the process with the release of their initial budget reconciliation proposal, casually referred to as "The One Big Beautiful Bill."

This bill permanently extends many of the provisions of the TCJA, such as the lower tax rates and higher standard deduction. It also keeps the stricter rules for deducting mortgage interest and the elimination of the personal exemption and other deductions. There would be an expansion in the amount of state and local taxes that can be deducted, but one that phases out for higher income taxpayers. The Qualified Business Income deduction would be renewed and expanded, as would Qualified Opportunity Zone funds. For estates, the lifetime gift and estate tax exemption would increase to $15 million in 2026. Two key items from the president's campaign were addressed by eliminating taxes on tip and overtime income, albeit with limitations, although the tax treatment of Social Security benefits was unchanged. There are also several expansions to Health Savings Accounts and 529 plans, along with a new savings account for minor children. Revenue raisers include eliminating many of the clean-energy tax benefits and increasing taxes on university endowments and private foundations. While most proposals would be permanent changes, there are many that would apply for only 2025 through 2028.

This is the first proposal in what will be a very back & forth process between the House and Senate. And while Republicans can pass a bill without any Democratic support, and hope to do so by July 4, there is strong debate among Republicans on the size and scope of the bill. Below are highlights of some of the proposals in this initial proposal. Details are likely to change, so be careful not to overreact to any one item. These should be viewed as merely the priorities of Congress, and any specific planning should be deferred until a final bill is enacted.

INDIVIDUAL TAX PROVISIONS

- The current ordinary tax rates and brackets for individuals and trusts, ranging from 10% to 37%, would remain in place, avoiding the rate increases that would occur under sunset. There would also be no change to the tax rate on capital gains and dividends.
- The lifetime gift and estate tax exemption, currently $13.99 million per person, would increase to $15 million in 2026 rather than falling to roughly $7 million. This also applies to the generation skipping transfer tax exemption.

- The child tax credit would increase from its current $2,000 per child to $2,500 for 2025-2028 before returning to $2,000 in 2029 and beyond. The $500 credit for other dependents and the current income-based phaseout levels would remain in place as well.
- The higher standard deduction would remain in place and would be temporarily expanded by $2,000 for couples ($1,000 for single individuals) for 2025-2028.
- Three new deductions would be available to qualified taxpayers, regardless of whether they use the standard deduction or itemize.
    - Tip income reported on a W-2 or other document would be deductible for 2025 through 2028. This only applies to occupations that traditionally received tips prior to 2025, per a list that would be published by the IRS, and only to those whose earned income is less than $160,000 (for 2025). There would be no limit on the size of the deduction for those who qualify.
    - Similarly, income designated by an employer as "qualified overtime compensation" on a W-2 would also be deductible. This would only apply for 2025-2028, and only for those with earned income below $160,000 (for 2025). There would be no limit on the size of the deduction for those you qualify.
    - An additional deduction of $4,000 would be available for those age 65 or older. This would only apply for 2025-2028 and would begin phasing out for couples with income over $150,000 ($75,000 for singles).
- The tax deduction for state and local income and property taxes (the SALT deduction) would be increased from $10,000 to $30,000 beginning in 2026. However, the $20,000 increase in the deduction would be phased out for taxpayers (single or filing jointly) with income between $400,000 and $500,000, leaving them with the current $10,000 deduction.
    - Various techniques have arisen to circumvent the $10,000 limit, including making payments to a charity that reduce a taxpayer's state income tax liability, or assessing state income taxes at the partnership level, effectively reducing the amount of state tax paid by the partners. These techniques would be subject to new rules mitigating their impact.
- There would be a new deduction of up to $10,000 for interest paid on a loan used to purchase a personal use vehicle whose final assembly occurs in the United States, effective for 2025-2028. It only applies to loans originating after 2024, and is phased out for couples with income between $200,000 and $250,000 ($100,000 and $150,000 for singles)
- The following items that were temporarily enacted under the TCJA would become permanent:
    - The repeal of the personal exemption deduction.
    - The $750,000 limit on qualified mortgage debt and the ban on deducting interest on a home equity loan where loan proceeds are not used for the home itself.
    - The repeal of all miscellaneous deductions, including those for tax preparation fees, investment fees, unreimbursed business expenses, safe deposit box rental, union dues and more.
    - Limitations on deductions for casualty losses, moving expenses and gambling losses.
- Married taxpayers who don't itemize their deductions could claim a separate deduction for charitable gifts of up to $300 ($150 for singles) for 2025-2028.
- The tax benefit of itemized deductions would be limited to a maximum of 35%.
- The higher Alternative Minimum Tax exemptions and phaseout ranges from the TCJA would be made permanent.
- A wide variety of tax credits and related provisions for the purchase of energy-efficient cars or improvements to a home or building would be phased out or immediately repealed after 2025.

BUSINESS INCOME TAX PROVISIONS

- The Qualified Business Income deduction available to owners of pass-through businesses would be made permanent and increase to 23% of qualified income in 2026, up from the current 20%. The phaseout rules would also be modified beginning next year.
- Property acquired and placed in service from January 20, 2025 through the end of 2029 would be eligible for a first year 100% bonus depreciation deduction. R&D expenses incurred from 2025-2028 would also be fully deductible.
- The maximum section 179 deduction would be increased to $2.5 million for property placed in service after 2024, with the beginning of the phaseout range increased to $4 million of property.
- Charitable gifts by a corporation would only be deductible to the extent they exceed 1% of the business's income. The existing 10% cap on charitable deductions would remain in place as well.

UPDATES TO QUALIFIED OPPORTUNITY ZONE (QOZ) FUNDS

QOZ funds were initially established in the TCJA, although some of their original tax benefits have now expired. This new proposal would create a new wave of QOZ investment opportunities, with new rules and tax benefits.

- New geographic areas can be designated as QOZs under revised definitions, beginning in 2027 and running through 2033.
- Capital gains rolled into these new QOZ funds are not recognized for tax purposes until December 31, 2033 (or the date the fund is disposed of, if earlier). If the new fund is held for five years before that date, 10% of the original invested gain would be deemed tax-free.
- New QOZ funds that invest primarily in rural areas would come with even greater tax benefits, with 30% of the original gain being deemed tax-free under the same five-year holding requirement.
- In both cases, any appreciation beyond the gain recognized in 2033 would be tax-free once the QOZ fund has been held for at least 10 years.
- Up to $10,000 of non-capital gain income could also be invested in the new QOZ funds. The deemed 10% or 30% tax-free gain wouldn't apply, but the appreciation in the fund itself after would still be tax-free if it's held for at least 10 years.

ENHANCEMENTS TO HEALTH SAVINGS ACCOUNTS (HSA)

- The contribution limits to an HSA would effectively be doubled beginning in 2026. This increase would be phased out for couples or those with family coverage whose income is between $150,000 and $200,000 (half that for singles or those with single coverage).
- An individual who is enrolled in Medicare Part A only would still be allowed to contribute to an HSA beginning in 2026. This would apply to those receiving Social Security benefits but who are exempt from having to enroll in Medicare Part B because they have qualifying coverage through an employer.
- HSAs could be used to pay up to $1,000 per year for gym memberships or fitness classes for families ($500 for singles) beginning in 2026.
- Spouses who are both eligible to make age 55+ catch-up contributions could make both contributions to the same HSA, rather than having to open separate accounts for each person, beginning in 2026.
- There would be additional flexibility provided for those with both HSAs and Flexible Spending Accounts (FSAs) or Health Reimbursement Accounts (HRAs).

MISCELLANEOUS OTHER PROVISIONS

- A new savings account for minors, the Money Account for Growth and Advancement (MAGA), would be created. The account must be established before the child reaches age 8 and can accept annual contributions of up to $5,000 until they reach age 18, beginning in 2026. Qualified distributions of earnings from the account would receive preferential tax treatment. Under a pilot program, these accounts could be eligible for a $1,000 initial government contribution for those born between 2025 and 2028.
- The list of expenses that can be paid from 529 plans would be expanded to include more expenses associated with elementary, private, religious and homeschools. It would also include expenses for postsecondary credentialing classes, exams and continuing education programs.
- There would no longer be a limit on the amount of excess advance payments of the premium tax credit that must be recaptured. Therefore, if individuals with Marketplace health insurance underestimate their income levels, they must repay 100% of the excess amount received when filing their tax return.
- The current 1.4% excise tax on net investment income of private educational institutions would be replaced in 2026 with a graduated rate structure. The tax still applies to net investment income but varies based on the size of their endowment fund. The tax would begin at 1.4% for those with an adjusted endowment of at least $500,000 per student and would gradually increase to 21% for those in excess of $2 million per student.
- The current 1.39% excise tax on net investment income of tax-exempt private foundations would also be replaced, effective immediately, with a graduated rate based on the size of the foundation. The 1.39% rate would apply to those under $50 million and gradually increases to 10% for those with at least $5 billion.