President Trump Signs H.R. 1 into Law

After multiple versions and last-minute changes to secure a majority of votes, President Trump signed H.R. 1 into law at a White House signing ceremony on the 4th of July. On July 2, the Senate passed the legislation on a 51-50 vote with Vice President Vance breaking the tie after Senator Rand Paul (R-KY), Senator Susan Collins (R-ME), and Senator Thom Tillis (R-NC) voted, along with all Senate Democrats, to oppose the legislation. The next day, the House of Representatives passed the amended Senate version of the legislation on a 218-214 vote with Rep. Thomas Massie (R-KY) and Rep. Brian Fitzpatrick (R-PA) joining all House Democrats to oppose the legislation.

The new law makes permanent both individual and corporate provisions that were enacted by the Tax Cuts and Jobs Act (TCJA) in President Trump's first term and provides new temporary tax provisions to fulfill President Trump's campaign promises, such as new deductions for tipped wages, overtime pay, and auto loan interest.

Negotiations between House and Senate Republicans broke through to address the state and local tax (SALT) deduction and the Senate adopted the House approach to raise the SALT cap from $10,000 to $40,000 for taxpayers earning less than $500,000 for five years before returning to the $10,000 cap. This had been a major sticking point for moderate House Republicans from New York and New Jersey. Further, the new law does not include limits on the corporate SALT (C-SALT) deduction and does not include limitations on the SALT pass-through entity tax (PTET) workarounds.

Now that H.R. 1 is signed into law, the focus will turn to the Department of Treasury and the IRS to issue guidance and regulations to implement the legislation.

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Individual Provisions

Code Section	Pre-Enactment	New Law
§ 1, Individual Marginal Rates	The TCJA temporarily reduced the marginal rates with a top rate of 37%. The top marginal rate was set to return to 39.6% in 2026.	The new law permanently extends the TCJA's reduced marginal individual rates and maintains the top rate of 37%.
§ 63, Standard Deduction	The TCJA nearly doubled the standard deduction which was set to expire in 2026.	The new law permanently extends the increased standard deduction to $15,750 for individual taxpayers and $31,500 for MFJ beginning in 2025 and updated annually for inflation.
§ 151, Deduction for Personal Exemptions	The TCJA temporarily repealed the deduction for personal exemptions until 2026.	The new law permanently repeals the deduction for personal exemptions, except for the new temporary increased deduction for seniors over age 65.
§ 275, State and Local Tax Deduction	The TCJA limited the SALT deduction in the case of an individual, the itemized deduction for state and local taxes is capped at $10,000 ($5,000 for a married taxpayer filing a separate return). The SALT cap was set to expire after December 31, 2025, and all SALT taxes would have been able to be deducted.	The new law increases the SALT cap to $40,000. In the case of a taxpayer with modified adjusted gross income over $500,000, the cap would phase down by 30% of the excess of MAGI over the threshold until it reaches $10,000. The new law increases the $40,000 SALT cap and $500,000 income threshold by 1% annually through 2029. In 2030, the SALT cap will return to $10,000 for all taxpayers.
§ 2010, Estate and Gift Tax Exemption	The TCJA's increased estate and lifetime gift tax exemption of $10 million ($20 million for MFJ) and indexed for inflation was set to expire after December 31, 2025. For 2025, the inflation adjusted estate tax exemption is $13.99 million.	The new law permanently extends the estate and lifetime gift tax exemption, increases the exemption amount to $15 million for single filers ($30 million for MFJ) in 2026, and indexes the exemption amount for inflation going forward.

§ 55, Alternative Minimum Tax Exemption	The TCJA's increased individual alternative minimum tax exemption amounts and exemption phase-out thresholds are set to expire for taxable years beginning after December 31, 2025.	The new law permanently extends the increased individual alternative minimum tax exemption amounts but increases the phaseout of the exemption amount from 25% to 50% of the amount by which the taxpayer's alternative minimum taxable income exceeds the threshold amount.
Limit on Itemized Deductions	**Mortgage Interest Deduction**: Under the TCJA, for tax years 2018 through 2025, the acquisition indebtedness limit is temporarily reduced from $1 million ($500,000 if married filing a separate return) to $750,000 ($375,000 if married filing a separate return). **Casualty Loss Deduction:** TCJA limited the deduction for personal casualty and theft losses to those incurred in federally declared disaster areas. **Miscellaneous Itemized Deductions:** The TCJA suspended itemized deductions for this category for tax years 2018 through 2025**.** These included investment fees, certain repayments of income, unreimbursed business expenses incurred by an employee (such as home office expenses or unreimbursed travel expenses), and certain losses related to activities not undertaken with a profit motive (hobby losses). **Limit on Tax Benefit of Itemized Deductions**: TCJA suspended the Pease limitation for tax years 2018 through 2025. **Qualified Bicycle Commuting:** TCJA suspended the exclusion for reimbursement for qualified bicycle commuting reimbursement for years 2018–2025 such that any reimbursement of this expense would be taxable. **Moving Expenses:** The TCJA suspended the deduction for moving expenses paid or incurred in connection with starting work either as an employee or as a self-employed individual at a new principal place of work regardless of	The new law permanently extends these limitations. However, the new law removes unreimbursed employee expenses for eligible educators from the list of miscellaneous itemized deductions that are otherwise limited. The new law further limits losses from wagering transactions to 90% of the amount of such losses, only to the extent of winnings.

	whether they itemized their deductions for years 2018 through 2025. **Wagering Losses:** Taxpayers can claim a deduction for wagering losses to the extent of wagering winnings.	
§ 529, Savings Accounts	Section 529 provides that distributions from 529 plans are not taxable for federal purposes if the distributions are used for "qualified higher education expenses." "Qualified higher education expenses" is defined to include college tuition, room and board, and fees, books, supplies, and equipment required for enrollment, as well as $10,000 of tuition for public, private, and religious elementary and secondary schools.	The new law expands the definition of qualified higher education expenses to include additional K-12 expenses such as curriculum and curricular materials, books or other instructional materials, online educational materials, certain tutoring expenses, educational therapies, and fees for standardized testing, college admission examinations, and advanced placement tests. The provision further expands the definition of qualified higher education expenses to include "qualified postsecondary credentialing expenses" including tuition, fees, books, supplies, and equipment required for enrollment in a recognized program, as well as fees for testing if required to obtain the credential and continuing education if required to maintain the credential.
Trump Savings Account	No provision.	The new law creates new "Trump Accounts" that would allow parents, relatives, and others to contribute up to $5,000 annually to an account for a child's future educational, homeownership, and entrepreneurial expenses. The contributions into the account could only be invested a "diversified fund that tracks an established index of US equities." Trump accounts must be set up before the child turns 8 and contributions could not be made into the Trump account after the child turns 18. For children born between December 31, 2024, and January 1, 2029, Trump accounts would also be funded with a one-time $1,000 contribution from the federal government through a pilot program.

		Between the ages of 18 and 25, the child would be able to access up to half of the Trump account's available funds to be used for qualifying higher education expenses. At age 30, account holders have access to the full balance of the account for any purpose. Unlike 529 savings plans which provide tax-free distributions, beneficiaries who make withdrawals for qualifying expenses, including higher education, would not be tax-free but instead would be subject to taxes at the long-term capital gains tax rate. Withdrawals used for other purposes would be subject to tax at ordinary income tax rates. Under current law, recipients of gifts generally are not subject to income tax.
§ 529A, ABLE Account	Achieving a Better Life Experience (ABLE) accounts are limited to annual account contributions equal to the federal gift tax exclusion (currently $19,000 in 2025). The additional contribution limit for ABLE Accounts for individuals with a disability who are employed is equal to the lesser of (1) the applicable federal poverty level for a one-person household in the prior year, or (2) the beneficiary's compensation for the year. This additional contribution limit is set to expire on December 31, 2025.	The new law permanently extends the additional contributions to ABLE accounts and provides an additional year of inflation adjustment.
§ 25B, Saver's Credit/ **§ 529A, ABLE Account**	Eligibility for the Saver's Credit for designated beneficiaries who make qualified contributions to their ABLE accounts was set to expire on December 31, 2025.	The new law permanently allows designated beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit.
§ 529A, ABLE Account	The ability to make tax-free rollovers of amounts from section 529 qualified tuition programs to qualified section 529A ABLE programs was set to expire on December 31, 2025.	The new law permanently allows tax-free rollovers of amounts in section 529 qualified tuition programs to qualified ABLE programs.

§ 127, Educational Assistance Programs	Section 127 provides that an employee may exclude from gross income and the employer may exclude from wages for employment tax purposes up to $5,250 annually of educational assistance provided by the employer to the employee. Only student loan payments made before the end of 2025 qualify for the exclusion.	The new law permanently extends the exclusion from income for an employer's payment of an employee's student loans and adjusts the $5,250 limit annually for inflation.

Business Provisions

Code Section	Pre-Enactment	New Law
§ 174, R&D	Taxpayers are required, beginning in 2022, to deduct research or experimental expenditures over a five-year period. Research or experimental expenditures that are attributable to research conducted outside the US are required to be deducted over a 15-year period.	The new law permanently restores immediate expensing for domestic research expenditures (rather than requiring 5-year amortization) and applies to all tax years after December 31, 2024. Research expenditures conducted outside the US will continue to be required to be capitalized and amortized over 15 years. The provision also applies retroactively to tax years after December 31, 2021, for small business taxpayers with average annual gross receipts of $31 million or less.
§ 168(k), Expensing/Bonus Depreciation	Taxpayers are generally required to deduct the cost of property used in a trade or business over a period of time. However, in the case of certain "qualified property" (including most equipment and machinery), a taxpayer is permitted to deduct a percentage of the cost in the first year that the property is placed in service (immediate expensing). The TCJA provided for 100% immediate expensing for qualified property, which began phasing down in	The new law permanently extends 100% expensing for the cost of qualified property acquired or placed in service after January 19, 2025. The new law also adds a new provision providing temporary 100% expensing for "qualified production property" construction of which begins after January 19, 2025, and before January 1, 2029, and is placed in service before January 1, 2031.

	2022. For qualified property placed in service in 2025, a taxpayer is generally permitted to immediately expense 40% of the cost. For qualified property placed in service in 2026, a taxpayer is generally permitted to immediately expense 20% of the cost.	
§ 163(j), Interest Deduction Limitation	The deduction for business interest expense for a taxable year is generally limited to 30% of the taxpayer's "adjusted taxable income" for the taxable year. Before 2022, adjusted taxable income was determined using a computation based on EBITDA (i.e., adding back depreciation and amortization). In 2022 and after, it is calculated using EBIT (resulting in a lower adjusted taxable income and, thus, lower interest deduction).	The new law permanently restores the ability to add back depreciation and amortization to earnings (i.e., EBITDA) in determining the adjusted taxable income for the interest limitation, rather than requiring use of an EBIT standard and applies beginning in 2025 and after, meaning the 163(j) deduction will be 30% of EBITDA. The new law also excludes subpart F and GILTI inclusions and the associated section 78 gross-up amounts.
§ 162(m), Excessive employee remuneration from controlled group	Section 162(m) limits the annual deduction for compensation paid to covered employees of a publicly held corporation to $1 million per employee. Currently, section 162(m) does not include any entity aggregation rule.	The new law adds an entity aggregation rule in section 162(m) and provides that remuneration paid to a specified covered employee by any member of the controlled group is aggregated to determine the loss of deduction for amounts over $1 million. The allowable deduction would be allocated among the applicable controlled group members who are paying compensation to the specified covered employee. These changes would apply beginning in 2026. The controlled group determination would use the rules under section 414(b), (c), (m), and (o), which provide that related entities are treated as a single employer for many employee benefit purposes.

§ 45F, Employer Provided Child Care Credit	The employer-provided child-care credit provides businesses a nonrefundable tax credit of up to $150,000 per year on up to 25% of qualified child-care expenses. An employer must spend at least $600,000 on child care related expenses to receive the full credit.	The new law increases the maximum credit from $150,000 to $500,000 and the percentage of qualified child care expenses covered from 25% to 40%. Therefore, a business must spend at least $1.25 million on child care related expenses to receive the full credit. The $500,000 maximum credit is adjusted for inflation annually beginning in 2026. The new law also makes changes for small businesses and allows small businesses to pool their resources to provide child-care for their employees through a third-party.

Pass-Through Provisions

Code Section	Pre-Enactment	New Law
§ 199A, Pass-Through Qualified Business Income	An individual generally may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20% of certain real estate investment trust dividends and publicly traded partnership income. The deduction is limited to 20% of taxable income minus net capital gain. For taxpayers with taxable income in excess of a threshold amount, the deduction for QBI is limited based on (1) the W-2 wages and capital investment of each relevant business, and (2) whether each relevant business is a specified service trade or business (SSTB). Both limitations phase in over a fixed range of taxable income ($100,000 for married filing jointly (MFJ) and $50,000 for all other taxpayers).	The new law permanently extends the section 199A deduction with no change to the deduction percentage. The new law expands the deduction limit phase-in range by increasing the $100,000 (joint returns) and $50,000 (non-joint returns) amounts to $150,000 and $75,000, respectively. The new law also introduces a new, inflation-adjusted minimum deduction of $400 for taxpayers who have at least $1,000 of QBI from one or more active trades or business in which the taxpayer materially participates.
§ 275, SALT Tax Limitation to	Many states have adopted workarounds allowing owners of pass-through entities to bypass the $10,000 federal cap on SALT deductions by paying state-level pass-through	The new law does not include any limitations on PTET workarounds for the SALT cap.

Flow-Through Entities	entity taxes (PTET). Such workarounds were effectively authorized by IRS Notice 2020-75.	
§ 461(l), **Limitation on Excess Business Losses of Noncorporate Taxpayers**	Under current law, in the case of a noncorporate taxpayer, for taxable years beginning before January 1, 2029, no deduction is allowed for an excess business loss. An "excess business loss" is the amount by which the deductions (excluding net operating losses and qualified business income deductions) attributable to trades or businesses of the taxpayer exceed the income from such trades or businesses plus $313,000 for tax years beginning in 2025 ($626,000 for a taxpayer filing jointly with a spouse) and is adjusted for inflation. A disallowed excess business loss is generally treated as a net operating loss and may be carried over and used in another tax year.	The new law permanently extends the excess business loss limitation.
§ 707; Payments From Partnerships to Partners for Property or Services	Contributions by a partner to a partnership and distributions to a partner from a partnership, to the extent that distributed cash does not exceed a partner's basis, are not taxable. However, the Code also contains several exceptions to this general nonrecognition treatment, including the so-called "disguised sale" rules under section 707(a). Current section 707(a)(2) prefaces the circumstances under which a recharacterization as a disguised sale or disguised fee for services might be appropriate with the language, "under regulations prescribed by the Secretary."	The new law strikes the language "Under regulations prescribed" and inserts in its place "except as provided." In addition, the new law provides that nothing shall be construed to create any inference with respect to the proper treatment under section 707(a) with respect to payments from a partnership to a partner for services performed, or property transferred, on or before the date of enactment.

Small Business Provisions

Code Section	Pre-Enactment	New Law
§ 179, Enhanced Small Business Expensing	A taxpayer may elect to expense the cost of qualifying property, rather than to recover such costs through tax depreciation deductions, subject to limitation. Under current law, the maximum amount a taxpayer may expense is $1 million of the cost of qualifying property placed in service for the taxable year. The $1 million amount is reduced by the amount by which the cost of such property placed in service during the taxable year exceeds $2.5 million. The $1 million and $2.5 million amounts are adjusted for inflation for taxable years beginning after 2018, and are $1.25 million and $3.13 million in 2025, respectively.	The new law increases the maximum amount a taxpayer may expense under section 179 to $2.5 million and increases the phaseout threshold amount to $4 million. The new amounts are indexed for inflation for taxable years beginning after 2025. This provision is effective for property placed in service after 2024.
§ 1202, Qualified Small Business Stock Exclusion	Section 1202 provides for the partial exclusion of gain on the sale of qualified small business stock (QSBS) held for more than five years. For stock acquired after September 27, 2010, the exclusion is 100%; for stock acquired in earlier periods, the exclusion is 50% or 75%, depending on the acquisition date.	The new law modifies the QSBS exclusion to provide a tiered exclusion determined based on the years the taxpayer holds the QSBS: • 50% exclusion if held for three years; • 75% exclusion if held for four years; and • 100% exclusion if held for five or more years. The new law also increases eligibility for the exclusion by increasing the eligibility limit on the corporation's aggregate gross assets at the time of issuance from a $50 million limit to a $75 million limit.

New Trump Tax Provisions from the Campaign

Code Section	Pre-Enactment	New Law
No Tax on Tips	No provision.	The new law creates an above-the-line deduction of up to \$25,000 of qualified tips received by an individual in an occupation that traditionally and customarily receives tips during a given taxable year. The deduction is allowed for both employees receiving a W-2 and independent contractors receiving a 1099-K, 1099-NEC, or reported by the taxpayer on Form 4317. Qualified tips do not include any amount received in the course of a specified service trade or business as defined in section 199A(d)(2). The deduction amount phases out by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 for MFJ) and expires on December 31, 2028.
No Tax on Overtime	No provision.	The new law creates an above-the-line deduction of \$12,500 (\$25,000 for MFJ) for overtime pay during a given taxable year. Qualified overtime is defined by cross referencing the Fair Labor Standards Act's definition and does not include any qualified tip. The deduction amount phases out by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 for MFJ) and expires on December 31, 2028.
Enhanced Deduction for Seniors	No provision.	The new law creates a new deduction for seniors (age 65 or older) of \$6,000 per eligible filer with a modified adjusted gross income that does not exceed \$75,000 for single filers (\$150,000 for MFJ). The deduction expires on December 31, 2028.

No Tax on Car Loan Interest	No provision.	The new law creates an above-the-line deduction of up to $10,000 for qualified passenger vehicle loan interest during a given taxable year. To be eligible, the final assembly of the vehicle must occur in the US. The deduction phases out by $200 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $100,000 ($200,000 for MFJ). The deduction expires on December 31, 2028.

Exempt Organizations Provisions

Code Section	Pre-Enactment	New Law
§ 4960, Tax on Excess Compensation	Section 4960 imposes an 21% excise tax on an applicable tax-exempt organization (ATEO) and entities related to the ATEO if they pay remuneration in excess of $1 million (or an excess parachute payment) to "covered employees" (which is defined to mean the five highest compensated employees).	The new law expands the definition of "covered employee" to include any employee (or former employee) of the ATEO, not just the five highest compensated employees each year.
§ 4968, Excise Tax on Investment Income of Private Colleges and Universities	Section 4968 imposes an excise tax of 1.4% for investment income for private colleges and universities with investment assets of $500,000 or more per student. The excise tax applies to colleges and universities with 500 or more students.	The new law modifies the excise tax structure as follows: The rate structure would be as follows: • 1.4% if the student adjusted endowment is more than $500,000 and not more than $750,000. • 4% if the student adjusted endowment is more than $750,000 and not more than $2 million. • 8% if the student adjusted endowment is more than $2 million.

		The new law increases the threshold at which the excise applies from 500 or more students to 3,000 or more students. In addition, the new law would include in net investment income that is subject to the excise tax certain interest income the college or university receives from student loans and royalty income from federally funded research that the regulations under section 4968 currently exclude.
§ 170, Above the Line Charitable Deduction	Generally, taxpayers were required to itemize to claim a tax deduction for charitable contributions. In 2021, non-itemizers could claim an above-the- line deduction of up to $300 ($600 for MFJ) for charitable contributions.	The new law creates a permanent above-the-line tax deduction for non-itemizers of up to $1,000 ($2,000 for MFJ) annually for charitable contributions.
§ 170, Limits on Corporate Charitable Deductions	Section 170 provides corporations a deduction for charitable contributions up to a limit of 10% of their taxable income in a given taxable year.	The new law further limits the deduction by providing a deduction only for charitable contributions to the extent that they exceed 1% of the corporation's taxable income.
§ 170, Limit on Charitable Deductions for Individuals who Itemize	Taxpayers who itemize can deduct a portion of their qualified charitable contributions, subject to a specified limitation based on the type of contribution.	The new law limits the charitable deduction for taxpayers who itemize by providing a deduction only for charitable contributions to the extent that they exceed 0.5% of the taxpayer's taxable income, creating a new floor that taxpayers who itemize must exceed to claim the charitable deduction.
Tax credit for contributions of individuals to scholarship granting organizations.	No provision.	The new law creates a new tax credit for taxpayers who make charitable contributions of cash or marketable securities to tax-exempt organizations that primarily grant scholarships to eligible elementary and secondary school students (scholarship granting organizations) and is

		intended to operate similar to a school voucher program to fund scholarships for private schools. The new law provides a dollar-for-dollar tax credit for cash contributions up to $1,700. The scholarship granting organization must be a 501(c)(3) tax-exempt organization, be approved in the state where it operates, and spend not less than 90% of its revenues on scholarships. Students who benefit from the scholarships must be members of a household with an income not greater than 300% of their area's median gross income and be eligible to enroll in a public elementary or secondary school. Any scholarships received by a student are excluded from the student's gross income. Each year, states that participate in the program must provide to the Department of Treasury a list of scholarship granting organizations located in the state. The new law creates an aggregate volume cap of the total amount of credits that can be claimed nationwide at $4 billion and is effective for tax years after December 31, 2026. The credits are claimed on a first-come, first-serve basis and the taxpayer receives the allocated credit from the Department of the Treasury.

Procedural Provisions

Code Section	Pre-Enactment	New Law
§6050W, Third Party	The American Rescue Plan changed the third-party settlement organizations reporting requirements to issue a 1099-K to participating payees receiving gross payments	The new law restores the 1099-K reporting requirement to the $20,000 and 200 transaction reporting thresholds for

Settlement Reporting	exceeding $600 for goods or services, regardless of the number of transactions.	payments made to users by third-party settlement organizations.
§6041(a), Information Reporting	The current reporting threshold for 1099-MISC and 1099-NEC payments is $600.	The new law increases 1099-MISC and 1099-NEC reporting threshold from $600 to $2,000 with indexing for inflation afterwards that would apply to nonemployee compensation, rents, royalties, prizes, and other reportable payments under section 6041 and section 6041A. This change would apply to payments made starting in 2026.
§ 3134, Employee Retention Tax Credit	An eligible employer was entitled to claim the COVID-era refundable employee retention tax credit (ERTC) for the second, third and fourth calendar quarters in 2020 and the first, second and third quarters of 2021. Taxpayers could claim a COVID-related ERTC until April 15, 2025.	The new law prohibits the IRS from issuing any ERTC refunds for claims filed after January 31, 2024.