

The One Big Beautiful Bill Act, Signed into Law on July 4, 2025, Makes Significant Tax Changes

Wealth and Estate Planning Strategists
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***This document provides high-level summaries of some of the complex tax rules applicable to individual taxpayers. Please note that exceptions may apply and not all such exceptions are described in this document. Consult with your tax advisor as to how the rules discussed below apply to your situation.**

The Tax Cut and Jobs Act of 2017 (“TCJA”) made significant changes to individual taxes that were temporary in nature and set to expire on December 31, 2025. The One Big Beautiful Bill Act of 2025 (“BBB”), signed into law on July 4, 2025, makes some of those individual tax provisions permanent and modifies others.

Estate, Gift, and Generation-Skipping Transfer (“GST”) Taxes

The TCJA temporarily increased the lifetime estate and gift tax exemption and GST tax exemption from \$5 million per taxpayer, indexed for inflation, to \$10 million per taxpayer, indexed for inflation. The \$10 million exemption was scheduled to revert to \$5 million, indexed for inflation, effective January 1, 2026. The BBB permanently increases the federal lifetime estate, gift and GST tax exemptions to \$15 million per taxpayer, effective January 1, 2026, and indexed for inflation starting in 2027.

Individual Tax Rates

The BBB makes the decreased federal individual income tax rates created by the TCJA permanent.

Those rates consist of 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Personal Exemption

The TCJA repealed personal exemptions for tax years 2018 through 2025. The BBB permanently repeals personal exemptions.

Child Tax Credit

The TCJA increased the child tax credit from \$1,000 to \$2,000 for tax years 2018 through 2025. Effective for tax years beginning January 1, 2025, the BBB permanently increases the child tax credit to \$2,200 per child, indexed for inflation. The increase in the credit only applies to the nonrefundable portion of the tax credit. The taxpayer must include their social security number (or the social security number of

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the spouse if married filing jointly), and that of each child for whom the credit is claimed, on the tax return. The taxpayer and children must be U.S. citizens or legal aliens, and the credit amount is subject to income limitations.

Scholarship Contribution Credit

Beginning in tax year 2027, the BBB adds a new tax credit available to U.S. citizens and residents who make a qualified charitable contribution of cash or publicly traded securities to a qualifying organization (other than a private foundation) which provides scholarships to certain elementary or secondary students (a “Scholarship Granting Organization” or SGO), which must be designated as an SGO by a state that elects to participate in making an annual list of organizations that qualify as SGOs and providing such list to the IRS. The credit is capped at \$1,700 per taxpayer, per tax year. The credit (i) may not also be taken into account as a charitable contribution deduction, (ii) is reduced by the amount allowed as a credit on any State tax return, and (iii) may be carried forward for five years.

Clean Energy Credits

The BBB eliminated clean energy income tax credits for the purchase of a “clean vehicle” acquired on or before September 30, 2025. The credit is now only available for certain purchases of new and used electric vehicles through September 30, 2025, rather than through 2032. The credit remains subject to income limitations.

The income tax credits available to individuals for the purchase of qualified energy efficiency home improvements and residential clean energy property expenditures will expire on December 31, 2025.

Standard Deduction

The TCJA increased the standard deduction for tax years 2018 through 2025. The BBB makes the increased standard deduction permanent with inflation adjustments.

Enhanced Senior Deduction

The BBB creates a new bonus deduction of \$6,000 for taxpayers age 65 and older, effective for tax years 2025 through 2028. The bonus deduction is available to taxpayers who itemize deductions and those who utilize the standard deduction. The taxpayer must supply their social security number on their tax return and if married, must file jointly to be eligible for the deduction. The deduction is reduced (but not below zero) by 6% of modified adjusted gross income exceeding \$75,000 (\$150,000 married filing jointly). For a married couple, the deduction is reduced to zero if the couple’s modified adjusted gross income is equal to or greater than \$250,000.

Limitation on Itemized Deductions

Effective January 1, 2026, the BBB permanently removes the Pease Limitation, which was in effect prior to 2018, and replaces it with a new limitation for high income taxpayers on the amount of itemized deductions allowable. The provision reduces otherwise allowable itemized deductions by 2/37ths of the lesser of (1) itemized deductions claimed, or (2) the taxpayer’s taxable income exceeding the threshold for the 37% tax bracket. The limitation is not applicable to the determination of the deduction for Qualified Business Income.

State and Local Tax Deduction

The TCJA limited the state and local tax (“SALT”) deduction to \$10,000 per taxpayer (\$5,000 married filing separately). Effective for tax year 2025, the BBB increases the SALT deduction to \$40,000 (\$20,000 married filing separately). That amount increases to \$40,400 for tax year 2026 and for tax years 2027 through 2029, it increases to 101% of the previous year’s dollar amount. Beginning in tax year 2030, the deduction limit reverts to \$10,000 for all taxpayers.

The higher deduction for tax year 2025 phases out beginning at \$500,000 modified adjusted gross income (\$250,000 married filing separately), at \$505,000 for tax year 2026, and at 101% of the

previous year dollar amount for tax years 2027 through 2029, but not less than \$10,000. In 2025, based on the phaseout, taxpayers with \$600,000 or more modified adjusted gross income will be limited to the \$10,000 deduction.

Mortgage Interest Deduction

Pursuant to the TCJA, taxpayers may deduct interest paid on acquisition indebtedness for a primary or secondary residence of up to \$750,000 (\$375,000 married filing separately) for debt incurred after December 15, 2017. For mortgages incurred prior to that date, taxpayers are grandfathered into the higher limit of \$1 million (\$500,000 married filing separately) of acquisition indebtedness. The BBB permanently imposes the \$750,000 indebtedness limit and broadens the definition of interest to include mortgage insurance premiums. Interest on a home equity loan is not deductible unless used to acquire, construct, or substantially improve a primary or secondary residence. Grandfathered mortgages are still subject to the \$1 million limit.

Wagering Loss Deduction

Effective January 1, 2026, the deduction for wagering losses is limited to 90% of the losses and is only allowed to the extent of wagering gains.

Personal Auto Loan Interest Deduction

Effective for tax years 2025 through 2028, the BBB creates a new deduction of up to \$10,000 for interest paid on personal auto loan indebtedness incurred after December 31, 2024 to purchase new, specified vehicles for personal use. Indebtedness owed to a related party does not qualify. The deduction is available to taxpayers who itemize deductions and those who utilize the standard deduction, but the taxpayer must furnish the vehicle identification number on their federal income tax return. The interest deduction is phased out by \$200 for every \$1,000 of modified adjusted gross income that exceeds \$100,000 for single taxpayers (\$200,000 married filing jointly).

Tip and Overtime Income Deductions

Effective for tax years 2025 through 2028, the BBB creates a new deduction for up to \$25,000 of qualified tips earned by taxpayers in occupations that customarily and regularly receive tips. Treasury and the IRS are required to publish a list of the included occupations by October 2, 2025.

Effective for tax years 2025 through 2028, the BBB creates a new deduction of up to \$12,500 for single taxpayers (\$25,000 married filing jointly) of qualified overtime compensation.

The taxpayer must supply their social security number on their tax return and, if married, must file jointly to be eligible for the deductions. The deductions are available to taxpayers who itemize deductions or utilize the standard deduction, and both deductions phase out by \$100 for each \$1,000 of income that exceeds \$150,000 of modified adjusted gross income (\$300,000 married filing jointly).

Section 199A Qualified Business Income Deduction

The BBB makes the Internal Revenue Code Section 199A deduction for Qualified Business Income ("QBI") from a domestic business operating as a sole proprietorship or as certain pass-through entities (generally, partnerships and S-corporations) permanent. The BBB also increases the phase-in income limits from \$50,000 to \$75,000, (\$75,000 to \$100,000 married filing jointly) and creates a minimum deduction of \$400 (inflation adjusted) for taxpayers with \$1,000 (inflation adjusted) or more of QBI from active trades or businesses.

Charitable Contribution Deduction

Effective for tax years beginning after December 31, 2025, the BBB permanently allows taxpayers who take the standard deduction to also deduct up to \$1,000 (\$2,000 married filing jointly) of cash gifts to qualified charitable organizations.

For individual taxpayers who itemize, the BBB imposes a new floor for the deduction. Charitable contributions are only deductible to the extent they

exceed 0.5% of the taxpayer's adjusted gross income.

The TCJA increased the deductibility of cash contributions to public charities from 50% of adjusted gross income to 60% of adjusted gross income. The BBB made the higher 60% limit permanent.

Deductions for charitable contributions exceeding the AGI limitations may be carried forward five years, with deductions for charitable contributions made in the current year applied first. Effective for tax years beginning after December 31, 2025, to the extent charitable donations are not deductible due to the new 0.5% floor, they may be carried forward, if the taxpayer has other charitable carryforwards from the tax year.

Miscellaneous Itemized Deductions

The TCJA eliminated miscellaneous itemized deductions for tax years 2018 through 2025. The BBB permanently eliminates miscellaneous itemized deductions, other than unreimbursed employee educator expenses. Miscellaneous itemized deductions include investment management fees, tax preparation fees, unreimbursed employee expenses, job search expenses, and home office operating expenses.

Moving Expense Deduction

The TCJA eliminated the deduction for moving expenses, except for members of the Armed Forces who move pursuant to a military order. The BBB permanently eliminates the deduction for moving expenses, other than for members of the Armed Forces, and expands the class of taxpayers who may use the deduction, to include members of the Intelligence Community.

Alternative Minimum Tax ("AMT")

The TCJA increased the AMT exemption and increased the income level at which the exemption began to phase out making the AMT applicable to fewer taxpayers. Effective January 1, 2026, the BBB makes permanent the increased AMT exemption, but reduces the income level at which the exemption phases out to \$500,000 (\$1,000,000 married filing

jointly) and accelerates the phase out at a 50% rate, rather than 25%. Under the new law, more taxpayers will be subject to the AMT, which is applicable to individuals, trusts, and estates.

Qualified Small Business Stock

The federal government (and some states) provide an incentive to start U.S. businesses by providing an exclusion from capital gain on the sale of qualified small business stock ("QSBS"). The BBB expands the QSBS exclusion for stock acquired after July 4, 2025 (the date of enactment of the BBB).

For stock acquired after July 4, 2025, the BBB replaces the strict five-year holding period for capital gain exclusion with a reduced exclusion amount for taxpayers that own QSBS for three-year and four-year holding periods. QSBS held for three years will be eligible for a 50% capital gain exclusion, QSBS held for four years will be eligible for a 75% capital gain exclusion, and QSBS held for at least five years continues to be eligible for a 100% capital gain exclusion up to the lifetime limit.

Under prior law, each taxpayer that held QSB-eligible stock in a company could exclude from capital gain tax the greater of (1) \$10 million per taxpayer (the "Dollar Threshold") or (2) 10 times the aggregate adjusted basis of QSBS disposed of by the taxpayer. The BBB increased the Dollar Threshold to \$15 million, adjusted for inflation in \$10,000 increments, for stock acquired after July 4, 2025. For married individuals filing separate returns, the exclusion is 50% of the otherwise allowable exclusion.

Under prior law, for stock to be QSBS eligible, the small business's aggregate gross assets from inception to immediately after the issuance of such stock (including proceeds received in exchange for the stock) could not exceed \$50 million. The BBB increased the threshold to \$75 million, adjusted for inflation in \$10,000 increments.

Qualified Opportunity Zones

The TCJA created a tax benefit to encourage investments in economically challenged communities, known as Qualified Opportunity

Zones ("QOZs"). Taxpayers can invest realized capital gains on or before December 31, 2026, and receive deferred recognition on the realized gains invested in a QOZ until December 31, 2026. Essentially, for an individual taxpayer who sells an asset in 2025 and invests the capital gain proceeds in a QOZ, the taxpayer defers recognition of the gain until December 31, 2026, affording the taxpayer an additional year before the capital gains tax is due.

Consistent with the TCJA, the BBB provides that the capital gain deferral benefit for QOZ investments made through December 31, 2026, maintains the expiration date of December 31, 2026. However, the BBB creates a permanent rolling round of new QOZ designations for which investments of capital gain may be made beginning January 1, 2027. New QOZs may be designated beginning July 1, 2026, with a new designation period beginning every 10 year anniversary thereof. Generally, a taxpayer has 180 days from the date of the sale of a capital asset to invest the capital gain in a QOZ for capital gain recognition deferral. Therefore, gain realized on or after July 5, 2026, (the date 180 days before new QOZ designations become effective), may be eligible for investment in the new round of QOZs.

The income tax on capital gains invested on or after January 1, 2027, is deferred until the earlier of (i) sale or exchange of the QOZ investment or (ii) five years after the date of the investment. Upon expiration of the deferral period, the amount recognized in income is decreased via a 10% basis step-up adjustment, if the QOZ investment is held for at least five years. For investments in Rural QOZs, the capital gains reduction is even more generous, with a step-up in basis of 30% if held five or more years. Additionally, if the QOZ investment is held for at least 10 years, but less than 30 years, then the taxpayer's adjusted basis in the QOZ investment is equal to the fair market value on the date of sale or exchange, thus there are no capital gains taxes owed on gains on the QOZ investment. If the QOZ investment is held in excess of 30 years, the taxpayer's adjusted basis in the investment is equal to the fair market value on the date that is 30 years from the investment date.

Gain on Sale of Farmland

The BBB adds a new provision to the Internal Revenue Code that allows a taxpayer to defer payment of the tax due on the sale of qualified farmland to a qualified farmer in four equal installments over a four-year period. Qualified farmland is real property located in the United States that has been used by the taxpayer for farming purposes or leased by the taxpayer for farming purposes for substantially all of the 10-year holding period and is subject to a covenant that requires the property be used for farming purposes for 10 years from the date of the sale. The provision is applicable starting in the 2026 tax year.

ABLE Accounts

An ABLE account is a tax-advantaged savings account for disabled individuals that allows the individual to save without jeopardizing eligibility for government benefits. Annual contributions to an ABLE account generally may not exceed the federal annual gift tax exclusion amount for the calendar year (\$19,000 in 2025). The TCJA increased the limitation on contributions to ABLE accounts for tax years 2018 through 2025 by allowing certain designated beneficiaries of ABLE accounts who are employees to make an additional contribution to the account up to the lesser of (i) the designated beneficiary's taxable compensation or (ii) an amount equal to the Federal Poverty Line. The BBB makes permanent this enhanced contribution to ABLE accounts, effective for contributions on or after January 1, 2026.

Pursuant to the TCJA, contributions of up to \$2,000 made by a designated beneficiary of an ABLE account prior to January 1, 2026, are eligible for the Saver's Credit available to certain lower-income taxpayers. The BBB made such eligibility for the Saver's Credit permanent and increases the Saver's Credit for contributions to an ABLE account by designated beneficiaries from \$2,000 to \$2,100, effective January 1, 2027.

Lastly, with respect to ABLE accounts, effective January 1, 2026, the BBB also permanently makes rollovers from Qualified Tuition programs (529 Accounts) to ABLE accounts owned by the

designated beneficiary of that 529 account (or certain family members) permissible.

529 Accounts

Internal Revenue Code Section 529 Accounts were established as tax-exempt accounts used to pay for qualified post-secondary education expenses. The TCJA expanded the definition of “qualified higher education expenses” to include up to \$10,000 of annual distributions for attendance at private schools. The BBB increases the limit from \$10,000 to \$20,000 and expands the definition of “qualified higher education expenses” to include certain additional expenses paid in connection with enrollment or attendance at elementary and secondary public, private or religious schools and for certain post-secondary credentialing. Eligible expenses related to elementary and secondary school now include (i) tuition; (ii) curriculum and curricular materials; (iii) books or other instructional materials, including online materials; (iv) certain tutoring expenses; (v) fees for standardized testing, advanced placement testing, and any testing related to college admission; (vi) dual enrollment fees; and (vii) educational therapies (including occupational, behavioral, physical and speech therapies) for students with disabilities. Eligible expenses related to credentialing include (i) tuition, fees, books, supplies and equipment required for enrollment in a post-secondary credential program; (ii) fees for testing required to maintain the credential; and (iii) fees for required continuing education.

The change is effective for distributions from 529 Plans after the date of enactment of the BBB and the \$20,000 increased limit related to elementary

and secondary education is effective January 1, 2026.

Trump Accounts

Effective January 1, 2026, the BBB creates new tax-exempt retirement accounts to which non-deductible annual contributions up to \$5,000 (adjusted for inflation) in the aggregate may be made for the benefit of an individual under age 18. Contributions may be made to Trump Accounts beginning July 4, 2026 (12 months after enactment of the BBB). Exempt contributions, including, for example, qualified rollover contributions (rollover from one Trump account to another Trump account for the same beneficiary) and contributions from the federal government pursuant to the below discussed Pilot Program, do not count toward the \$5,000 limit. Employees may exclude from income up to \$2,500 (inflation adjusted) contributed by their employer to a Trump account for the employee or a dependent of the employee, under a Trump account contribution program.

Until the year in which the beneficiary attains age 18, the account must be invested in eligible mutual funds or exchange traded funds. No distributions, other than a distribution that is a qualified rollover contribution or a qualified ABLE rollover (rollover from a Trump account to an ABLE account in the year the beneficiary attains age 17), or an excess contribution may be made until the year in which the beneficiary attains age 18.

Under the Trump Account Contribution Pilot Program, the federal government will contribute \$1,000 to a Trump Account for each eligible U.S. citizen child born during 2025 through 2028, if an election is properly made with respect to that eligible child.

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