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ONE BIG BEAUTIFUL BILL ACT OF 2025

Key Highlights

Congress has passed the sweeping **One Big Beautiful Bill Act of 2025,** a nearly 900-page budget reconciliation and tax reform package now awaiting President Trump's signature. The legislation cements several campaign promises, makes permanent key tax cuts,and introduces new growth incentives, all while adding to already elevated deficits. Regulatory agencies, including Treasury and the IRS, are expected to issue further guidance in the coming months.

Below are highlights of the most relevant provisions for you and your participants, as well as our perspective on the market implications.

Permanent Tax Cuts and Campaign Promises

The OBBB locks in the 2017 tax reformsfor consumers and businesses:

- **2017 Tax Cuts Made Permanent** — Congress to avert a projected $400 billion tax hike in 2026 by making the 2017 tax rates, higher standard deduction, AMT relief, and estate/gift tax changes permanent. Any future changes will now require Congressional action.

- **Campaign-Driven Tax Relief** — Delivering on campaign pledges,the bill eliminates federal taxes on tips, Social Security benefits, overtime pay, and auto loan interest, measures expected to free up roughly $80 billion for consumers in early 2026.

- **Estate Tax Changes Expanded** — In addition to preserving 2017 changes, the estate tax exemption receives another increase, further reducing exposure for high-net-worth households.

Growth-Oriented Corporate Incentives

To counteract the drag of ongoing tariffs and encourage domestic investment, the bill introduces targeted business incentives:

- Full Expensing — Corporations can fully expense capital equipment, R&D costs, and factory construction through 2028.

- More Generous Interest Deductions — Businesses benefit from looser limits on deductible interest, aimed at fueling a U.S. "building boom."

Savings, Health, and Education Updates

The bill makes modest but notable changes to individual savings vehicles and education-related benefits:

- **Retirement Rules Preserved** — Despite speculation, 401(k) and Roth rules remain unchanged, maintaining the status quo for retirement savers.
- **529 Plan Expansion** — Annual K–12 tuition withdrawal limits double to $20,000, and qualified expenses now include books and tutoring.Post secondary eligible expenses are also broadened.
- **ABLE Account Enhancements** — Contribution limits rise with inflation, and temporary provisions from the 2017 tax act — including tax-free 529 rollovers — are made permanent.

Spending Cuts and Debt Ceiling

To offset part of the cost of these tax cuts, the legislation also implements spending reductions and raises the debt ceiling:

- **Targeted Spending Cuts** — The package calls for $1.3–$1.6 trillion in cuts over the next decade, focused on renewable energy programs, Medicaid (with most cuts delayed until after 2028), food assistance, and student loans.
- **Debt Ceiling Increased Smoothly** — With unified Republican control, the debt ceiling was raised by $5 trillion without the typical brinkmanship, leaving Treasury to manage a deficit approaching 6% of GDP as post-pandemic liquidity measures expire.

Other Key Tax Changes

Several additional tax adjustments round out the package:

- **Temporary Deductions for Tips and Overtime** — Workers can deduct up to $25,000 in tip income and $12,500 in overtime pay, subject to phase outs. Both provisions expire after 2028.
- Higher SALT Cap — The state and local tax deduction cap quadruples to $40,000, phasing out at incomes over $500,000.
- Senior Standard Deduction Boost — Taxpayers 65+ get an additional $6,000 standard deduction through 2028.
- Expanded Executive Pay Excise Tax — The 21% excise tax on pay over $1 million at tax-exempt organizations now applies to all employees, not just the top five earners.

Looking Ahead

On balance, the OBBB delivers a dose of fiscal stimulus, likely supporting near-term equity sentiment while reinforcing pro-growth business conditions. At the same time, it worsens already elevated deficits with spending levels which are typically only seen during recessions. Bond market shave already reacted to this tension, with long-term rates showing renewed volatility.

As always, these policy changes are just one part of the broader investment mosaic. Our themes of Fragility, Durability, and the Age of Alpha continue to frame our perspective, and our 10-year Capital Market Assumptions remain unchanged as a result of the passage of this bill.