

One Big Beautiful Bill Act and the Small Business Owner

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, includes several provisions that affect business owners. Here are five specific changes to pay close attention to.

Qualified business income deduction (Section 199A)

Owners of sole proprietorships, partnerships, S corporations, and certain LLCs may be eligible for a qualified business income (QBI) deduction — also called the Section 199A deduction. The deduction, equal to 20% of qualified business income, was created by the 2017 Tax Cuts and Jobs Act (TCJA) and was scheduled to expire this year. The new legislation makes the QBI deduction permanent and expands eligibility.

The deduction may be limited or eliminated if taxable income exceeds certain thresholds (for 2025, the threshold is \$394,600 for married filing jointly and \$197,300 for all other filing statuses). If taxable income exceeds this amount, then the deduction begins to phase out. Starting in 2026, the new legislation expands the income range over which the deduction is phased out from \$100,000 to \$150,000 for married joint filers and from \$50,000 to \$75,000 for all other filers. For example, a married couple filing jointly in 2025 would generally be able to claim the full QBI deduction if the couple's taxable income was less than \$394,600; if the couple's taxable income was between \$394,600 and \$494,600, the deduction would be phased out. The new expansion of the phaseout range from \$100,000 to \$150,000 means that the phaseout range would now be \$394,600 to \$544,600.

Also starting in 2026, the legislation establishes a new minimum \$400 QBI deduction for those with at least \$1,000 of qualified business income from businesses in which they materially participate. Both the \$400 and \$1,000 amounts will be indexed for inflation after 2026.

100% bonus depreciation

The legislation permanently re-establishes the additional first-year depreciation deduction at 100% for qualifying property, allowing businesses to immediately deduct the full cost of new or used equipment, machinery, and other qualifying property rather than depreciate the cost over several years. The 100% additional first-year depreciation deduction is available for property acquired after January 19, 2025.

Enhanced Section 179 expensing

Section 179 of the Internal Revenue Code (IRC) allows businesses to elect to deduct the full cost of depreciable tangible personal property, computer software, and specific improvements to non-residential buildings (including roofs, HVAC systems, and security systems) in the year of purchase.

Effective for property placed in service in 2025, the legislation doubles the maximum deduction for expensing under IRC Section 179 to \$2.5 million.

The allowable Section 179 maximum deduction amount is reduced when the cost of Section 179 property placed in service during the year exceeds an established phaseout threshold. OBBBA increases this phaseout threshold in 2025 from \$3.13 million to \$4 million.

Qualified small business stock

The Internal Revenue Code provides a tax break to help qualifying small businesses raise capital. Essentially, qualified small business stock (QSBS) is stock issued by an active domestic C corporation whose assets do not exceed a certain amount, provided that a number of specific requirements are met. Some types of businesses are

ineligible, including professional services, finance and investment services, banking, leasing, insurance, restaurants, and mining.

Individual investors can exclude from income up to 100% of the gain realized from the sale of qualified small business stock if they hold the shares for more than five years. A specific dollar cap applies to the maximum excludable gain per investor for a given QSBS issuer.

For qualified small business stock issued after July 4, 2025, the new legislation makes some significant changes, including:

- The asset limit for a corporation to qualify as a qualified small business is increased from \$50 million to \$75 million, and the \$75 million amount will be adjusted for inflation.
- To qualify for 100% exclusion of gain, investors will still have to hold shares for more than five years, but a 50% exclusion now applies if the shares are held for at least three years, and a 75% exclusion applies if shares are held for at least four years.
- The maximum amount of gain that an individual can exclude is increased from \$10 million to \$15 million (\$7.5 million if married filing separately).

State and local tax (SALT) deduction

Since 2018, itemized deductions for state and local property taxes and state and local income taxes (or sales taxes instead of income taxes) have been capped at \$10,000 (\$5,000 if married and filing a separate return). This limit has presented a particular challenge for many small business owners.

The new legislation temporarily increases the cap on the state and local tax deduction to \$40,000 (\$20,000 if married filing separately). This cap is retroactively effective for 2025. The \$40,000 will increase to \$40,400 in 2026 (\$20,200 if married filing separately) and by 1% for each of the following three years.

The cap is reduced for those with modified adjusted gross incomes exceeding \$500,000 in 2025 (increasing by 1% in each subsequent year), but not below \$10,000. For married individuals filing separately, 50% of the phaseout threshold amount applies (i.e., \$250,000 in 2025).

In 2030, the cap will return to \$10,000.

What's next?

In addition to the provisions discussed here, the One Big Beautiful Bill Act provides certainty and stability by making permanent a host of tax provisions that would otherwise have expired at the end of the year, including changes to tax bracket rates, standard deduction amounts, the estate tax exclusion amount, and alternative minimum tax exemption amounts.

If you have any questions, you should discuss your individual circumstances with a tax professional.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.