What to Know About the New Tax Law

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The so-called 'big, beautiful bill' finally squeaked through the Congressional legislative process, sending it to the President's desk over the holiday weekend. He signed it in a triumphant Fourth of July ceremony, making various complex provisions the tax law of the land.

And that means…? The heart of the bill is an extension of the current tax brackets, which were due to expire at the end of the year. Most taxpayers will take the $15,000 (single) or $30,000 (joint) standard deduction, but taxpayers in the top tax bracket will have to subtract 2/37th of the value of each dollar deducted over the income they earned above that top bracket threshold. (Many of those taxpayers will be itemizing anyway.)

One of the new law's changes would allow taxpayers who claim the standard deduction to claim an additional $1,000 (single) or $2,000 (joint) charitable deduction, and seniors would get a senior-specific additional standard deduction of $2,000 (single) or $3,600 (joint filers).

The current estate and gift tax provisions are also extended; the new law increases each person's lifetime estate and gift tax exemption to $15 million and continues the portability rules that allow people to 'inherit' the unused exemption from their deceased spouse. A $6,000 tax deduction has been added for seniors making up to $75,000 (single) or $150,000 (joint), which was designed to offset some of the taxes on Social Security benefits for less-wealthy taxpayers.

People in high-tax states will see an increase in how much of their state and local taxes they can deduct on their federal income tax forms. Previously, the deduction was limited to $10,000 for all taxpayers; that so-called SALT threshold is now $40,000 for families making less than $500,000 a year.

Service workers will probably appreciate a provision that eliminates federal income taxes on tips income—though tipped workers would still have to report that income and pay state and payroll taxes on it.

For the business community, there's a provision that would allow manufacturers to fully and immediately deduct the cost of building new manufacturing facilities (provided the construction begins before January 1, 2029), and allows businesses to write off the cost of research and development in the year it was incurred. Small businesses and partnerships formed by lawyers, doctors and investors would get a special deduction on their partners' individual tax returns, and people who start a small business would receive tax exemptions on the growth in value of their enterprises.

The new tax provisions terminate a variety of tax incentives for investing in or using clean energy, electric vehicles and energy efficiency programs, restricts access to food stamps and Medicaid, and allocates more than $120 billion for border wall construction, construction of detention capacity for immigrants in custody and for hiring and training U.S. Immigration and Customers Enforcement agents.

The Congressional Budget Office has estimated that the bill, overall, would add $3.4 trillion to the federal deficit over the next ten years. Republican lawmakers have heatedly disputed this figure, but, interestingly, they also wrote into the bill a provision that raises the legal debt ceiling by $5 trillion.

Sources:

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Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.

*****PRIVACY NOTICE*****

Our physical and mail address:
1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:
Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com