

Perspective from  
**Franklin Templeton**  
Wealth Planning

# What business owners need to know about the new tax bill

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On May 22, 2025, the House of Representatives passed a comprehensive tax bill to avoid the expiration of the 2017 Tax Cuts and Jobs Act (TCJA) at the end of the year. This tax bill is part of broader legislation that includes spending reductions and addresses the federal debt ceiling. Currently, Senate lawmakers are considering the bill, and at least some changes are likely. (See <https://franklintempletonprod.widen.net/content/zw9c2m4vxs/pdf/Special-tax-alert-House-committee-advances-tax-bill.pdf>).

For business owners, there are provisions in the current version of the bill that should be monitored, although may be subject to change in the bill's final form. Here are some notable provisions:

## **Increased deduction for qualified business income (QBI)**

In the proposed tax bill, the 20% deduction for qualified business income introduced by the TCJA will be increased to 23% beginning next year on a permanent basis. Absent action by Congress, the QBI deduction would expire at the end of 2025. The QBI deduction is available to owners of businesses structured as pass-through entities for tax purposes (for example, sole proprietors, partnerships, most LLCs, S-Corporations).

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There are restrictions on the use of the deduction at higher income levels depending on the type of business. For example, certain professional service businesses are excluded from claiming the deduction once overall income exceeds a certain threshold. Lastly, the proposed changes expand the deduction to include certain interest dividends from qualified business development companies (BDCs). *(For more detail, see the 2025 tax rates schedule, <https://franklintempletonprod.widen.net/s/c7wxx5zvd6/2025-tax-rates-schedules-and-contribution-limits-flyer-taxr-fl25>).*

With the potential increase in the deduction next year, business owners may want to consult with a tax professional on whether it makes sense to defer certain business-related income into next year to benefit from a higher deduction. In addition, the increase in the QBI deduction may prompt certain business owners to consider a pass-through structure that can benefit from this enhanced deduction versus a C-Corporation structure that, while subject to a lower statutory tax rate of 21%, is subject to double-taxation issues. Expert guidance from a qualified tax professional is essential in determining the proper form of business to consider. Especially since there are many factors to consider in addition to tax-related factors.

### **100% expensing for capital equipment purchases**

The TCJA introduced a provision allowing businesses to fully expense the purchase of certain qualified property related to the business. This is referred to as bonus depreciation since the business avoids capitalizing the cost of the property over many years based on a depreciation schedule. Immediate expensing of capital expenditures is designed to promote business expansion. Under previous tax law, the 100% expensing treatment began to be phased out gradually in 2023 for most capital purchases. For 2025, businesses are generally limited to expensing 40% of the cost of acquiring qualified property in that tax year. The current bill restores 100% expensing on qualified property acquired after January 19, 2025, and before January 1, 2030.

### **Additional items may impact business owners:**

- Beginning in 2027, a new round of qualified opportunity zones (QOZs) will allow taxpayers to contribute capital gains from the sale of certain property to defer the realization of the gain for tax purposes. The current round of QOZs established by the TCJA essentially expires in 2026. While investments in QOZs receive a step-up in basis of 10% when held for at least five years, this step-up amount is increased to 30% for investments made in certain rural areas under the proposed legislation. In this new version of QOZs, taxpayers may also choose to invest up to \$10,000 of post-tax, ordinary income in certain investments. Opportunity zones are identified by the federal government as being economically distressed areas.
- Expenses for qualified research and development domestic investments are fully deductible for tax purposes for expenditures after December 31, 2024, and before January 1, 2030.
- To spur domestic manufacturing and other related activities, the current bill includes a provision allowing immediate expensing of the cost of a qualified production property, such as a manufacturing facility. This applies to qualified expenses after January 19, 2025, and before January 1, 2029.

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- In many states, owners of pass-through business entities have been able to avoid the \$10,000 cap on deducting state and local taxes (SALT) by choosing to be taxed as a pass-through entity (PTE) on their state tax return. This option effectively converted state-related tax payments subject to the \$10,000 SALT cap into deductible business expenses not subject to the cap (*For more detail, see our article, “Key tax planning strategies for business owners,” at <https://www.franklintempleton.com/articles-us/retirement/key-tax-planning-strategies-for-business-owners>*). The current version of the legislation would eliminate this workaround strategy beginning in 2026.
  - Pass-through business owners who report net business income on their individual tax returns will benefit from the extension of the current tax brackets and rates. However, a new provision affects those at the highest (37%) tax bracket who would see a limitation on the tax benefit of itemized deductions. Beginning in 2026, the current version of the bill caps the benefit of itemized deductions at the 35% tax bracket (The tax benefit of the expanded deduction for state and local taxes is capped at the 32% tax bracket).

### **What to watch in tax bill debate**

As the tax bill moves through the reconciliation process in the Senate, changes are likely. Significant tax breaks and deductions as well as programs encouraging business growth and development may remain intact or could be modified when the bill is presented in its final form. For example, there has been recent discussion among Senate lawmakers to make some of the business-related provisions, such as 100% bonus depreciation, permanent. Monitoring the bill's evolution will be important for business owners to review with a financial professional as they consider changes to their structure or tax planning strategies for the coming year.

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