NAIFA

The Final Reconciliation Bill: 15 Takeaways for Financial Professionals

Individual Income Tax

1. No new revenue raisers proposed that would impact financial professionals (e.g., no new top rate for high income taxpayers/retirement incentives and group health provisions intact)

Explanation: The bill makes permanent the Tax Cuts and Jobs Act (TCJA) rate schedule, avoiding the reversion to pre-TCJA brackets in 2026. The top marginal rate remains 37% instead of reverting to 39.6%. The brackets for 10%, 12%, and 22% receive an additional year of inflation adjustment, further cushioning middle-income earners.

Standard deduction goes to $15,750 for individuals, $23,625/married filing jointly.

The bill does not cut back on the current law retirement incentives nor cap the group health tax exclusion provision.

Impact: Preserves existing rate structure for high-income earners, enabling continued tax planning certainty. Avoids a stealth tax increase due to bracket creep or rollback, providing predictability for individuals and pass-through business owners. Keeps the incentives for individuals and employers to help their employees save for retirement and maintain health insurance.

2. Above-the-line charitable contribution deduction ($1,000/$2,000) with caps on individual and corporate donations.

Explanation: Includes an above-the-line charitable contribution deduction, allowing non-itemizing taxpayers to deduct up to $1,000 for individuals and $2,000 for joint filers. Caps the annual tax deduction for individual charitable contributions at $400,000 for single filers and $800,000 for joint filers and limits the tax deduction for corporate charitable contributions to 10% of a corporation's taxable income, with any excess contributions also eligible for a five-year carryforward.

Impact: Encourages charitable giving among lower- and middle-income taxpayers who do not itemize. However, limits on individual and corporate charitable giving could discourage large donations to nonprofits.

3. HSA expansion

Explanation: Allows coverage by an ACA bronze or catastrophic plan as the HDHP that must accompany an HSA and makes telehealth a benefit that will not interfere with HDHP/HSA rules. It does not expand HSA eligibility or contribution limits as earlier drafts proposed.

Impact: Preserves current HSA eligibility rules and expands benefits.

4. Limit on itemized deductions for high income taxpayers (35 cents per $1 deductible)

Explanation: Section 70111 replaces the Pease limitation with a cap that limits itemized deduction value to $0.35 per dollar—but only for those in the highest tax bracket. SALT deduction is excluded from this limitation.

Impact: Increases effective tax liability for top earners who rely heavily on deductions. Discourages overreliance on deductions in tax mitigation strategies. Partial relief compared to full Pease limitation.

Family & Education

5. 529 Savings Plan expansion

Explanation: This provision expands 529 eligibility to include more postsecondary credentialing programs and additional K–12 costs (excluding homeschooling), broadening utility.

Impact: Provides greater flexibility in funding K-12 and post-secondary educational expenses, as well as licensing and non-degree programs.

6. Expanded employer-provided child care tax credit

Explanation: Section 70401 raises the credit from 25% to 40% of qualified expenses (up to $500K) and introduces a stronger benefit for small businesses (50% up to $600K). Pooling and third-party intermediary provisions are newly allowed.

Impact: Stronger financial incentives for childcare provision improve work-life balance and reduce absenteeism. Particularly transformative for small employers that previously could not afford direct provision. Can drive regional partnerships in childcare infrastructure.

7. Permanent extension of ABLE Account enhancements

Explanation: Permanently allows the additional contribution to ABLE accounts, qualified contributions to qualify for the Saver's Credit and tax-free rollovers of amounts in Sec. 529 programs to ABLE programs.

Impact: Adds permanence to planning options for individuals with a disability.

8. Trump Accounts (tax-favored savings accounts for children)

Explanation: Sec 70204 creates tax-favored savings for children. Trump accounts would, generally, be subject to traditional IRA rules, Contributions of up to $5,000/year (indexed) would be available to accounts for children under the age of 18 with a pilot program under which the government will contribute $1,000 to accounts for children born between 2025 and 2028.

Impact: Provides a new vehicle for early-stage capital formation and child-focused savings. Long-term implications for wealth accumulation, especially in lower- and middle-income families if take-up is high. Strong messaging around "investing in the next generation."

9. Employer-provided dependent care tax credit increases; individual credit increases to 50%

Explanation: Section 70405 raises the credit rate for individual dependent care from 35% to 50%, with tiered phaseouts starting at $15K AGI and ending at $210K.

Impact: Lowers net cost of care for families, especially middle-income households. Could lead to increased workforce participation among second earners or single parents.

10. Paid family and medical leave tax credit expanded... permanent

Explanation: Section 70304 makes the paid family/medical leave (PFML) credit permanent and allows credit for insurance premiums paid, not just direct wages. Eligibility is expanded by reducing the work history requirement from 1 year to 6 months.

Impact: Lower eligibility hurdles make it easier for small and mid-sized businesses to participate. The ability to use insurance shifts financial risk and expands flexibility in benefit design. Encourages broader adoption of family-friendly policies, enhancing workforce retention.

11. Deduction for employer-paid student loan amounts made permanent with indexing

Explanation: Confirms and adjusts for inflation the tax benefit of employer-paid student loans.

Impact: Makes student loan repayment assistance a permanent, tax-advantaged recruiting and retention tool. Particularly relevant for younger, debt-burdened employees and firms competing in talent-constrained markets.

Estate Planning

12. Estate/gift tax exemption goes to $15M ($30M married) permanent

Explanation: Section 70106 permanently increases the unified estate and gift tax exemption to $15M single / $30M joint starting in 2026.

Impact: Drives renewed interest in wealth transfer strategies (e.g., SLATs, GRATs, IDGTs) with permanence removing the prior 2026 sunset planning constraint.

Business Income Tax and Workplace Benefits

13. 199A deduction stays at 20% of QBI

Explanation: Section 70105 of the bill makes the QBI deduction permanent and expands the income phase-in thresholds for limitations (from $100K/$50K to $150K/$75K for joint/single filers). A new $400 minimum deduction is also introduced for those with modest QBI ($1,000+) and material participation.

Impact: This codifies long-term tax relief for pass-through entities, including sole proprietors and S corps. The expanded thresholds ease access for more business owners, especially professionals in SSTBs. Increases certainty and parity for entrepreneurial ventures and tax planning around entity structure.

14. Bonus depreciation and business expense rules were made permanent with inflation adjustment

Explanation: Sections 70301 and 70306 make 100% bonus depreciation permanent for qualifying property placed in service on/after Jan 19, 2025. Section 179 expensing limits are also increased to $2.5M (phaseout at $4M), indexed annually.

Impact: Immediate expensing boosts after-tax returns on capital investments, encouraging businesses to accelerate equipment upgrades and facility expansion. Predictable treatment supports long-term planning and reduces compliance friction.

15. 163(m) cap on deductible key executive compensation expanded

Explanation: Extends the $1 million cap on deductibility of executive compensation to executives of a publicly traded corporation's control group members.

Impact: Reduces tax shield on top salaries and incentivizes more performance-based comp or equity grants. Could affect comp committee planning and design of C-suite packages.