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From: Capitol Counsel

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Re: H.R.1 and Senate Finance Reconciliation Text Small Business Provisions

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This memo provides an overview the small business related provisions included in the House passed H.R.1, the One Big Beautiful Bill Act, and the Senate Finance Committee Reconciliation Text.

SMALL BUSINESS

House: Sec. 110001. Extension of modification of rates (maintenance of the lower individual rate structure). This provision makes permanent the modified federal income tax bracket schedule and lower tax rates created by the Tax Cuts and Jobs Act. The provision also adds an additional year of inflation adjustment to all brackets except for the top bracket (37 percent)

Tax Rates & Brackets (2026)		
Bracket	Current Law	Provision
1	10.0%	10.0%
2	15.0%	12.0%
3	25.0%	22.0%
4	28.0%	24.0%
5	33.0%	32.0%
6	35.0%	35.0%
7	39.6%	37.0%

Senate: Sec. 70101. Extension and enhancement of reduced rates. This provision makes permanent the modified federal income tax bracket schedule and lower tax rates created by the Tax Cuts and Jobs Act. The provision also adds an additional year of inflation adjustment to the 10 percent, 12 percent and 22 percent brackets.

Tax Rates & Brackets (2026)		
Bracket	If TCJA Expires	Provision
1	10.0%	10.0%
2	15.0%	12.0%
3	25.0%	22.0%
4	28.0%	24.0%
5	33.0%	32.0%
6	35.0%	35.0%
7	39.6%	37.0%

House: Sec. 110005. Extension of deduction for qualified business income and permanent enhancement (expanded small business deduction). This provision makes the deduction for qualified business income permanent. For taxable years beginning after December 31, 2025, this provision also increases the deduction percentage from 20 percent to 23 percent. This provision also modifies the phase-in of the wage and investment limitation and the SSTB limitation. Under this provision, instead of phasing in over a fixed range of taxable income,

these limitations phase in at a fixed rate. Specifically, for each dollar of taxable income over the threshold amount, a taxpayer's deduction for qualified business income is reduced by 75 cents until both limitations are fully phased in. This change prevents taxpayers from being subject to marginal tax rates close to 70 percent. Additionally, this provision modifies the calculation of the threshold amount by adding an additional year of inflation adjustment. This provision also makes certain income of business development companies (as defined in the Investment Company Act of 1940) eligible for the qualified business income deduction.

Senate: Sec. 70105. Extension and enhancement of deduction for qualified business income. This provision makes the deduction for qualified business income permanent. This provision also expands the deduction limit phase-in range by increasing the $50,000 (non-joint returns) and $100,000 (joint returns) amounts to $75,000 and $150,000, respectively. The provision eases the impact of the limitations for both SSTBs and those pass-through entities subject to the wage and investment limitation. Additionally, this provision introduces a new, inflation-adjusted, minimum deduction of $400 for taxpayers who have at least $1,000 of QBI from one or more active trades or businesses in which the taxpayer materially participates. This ensures small business owners with a certain QBI level are entitled to an enhanced baseline deduction.

House: Sec. 111001. Extension of special depreciation allowance for certain property (restoration of full expensing / bonus depreciation). This provision allows taxpayers to immediately expense 100 percent of the cost of qualified property acquired on or after January 20, 2025, and before January 1, 2030.

Senate: Sec. 70301. Full expensing for certain business property. This provision permanently extends and modifies the additional first-year depreciation deduction. The allowance is increased to 100 percent for property acquired and placed in service on or after January 19, 2025, as well as for specified plants planted or grafted on or after January 19, 2025.

House: Sec. 111103. Increased dollar limitations for expensing of certain depreciable business assets (enhanced deduction under Sec. 179 specifically for small businesses). This provision increases the maximum amount a taxpayer may expense under IRC section 179 to $2.5 million, reduced by the amount by which the cost of qualifying property exceeds $4 million. The $2.5 million and $4 million amounts are adjusted for inflation for taxable years beginning after 2025. The proposal applies to property placed in service in taxable years beginning after December 31, 2024.

Senate: Sec. 70306. Increased dollar limitations for expensing of certain depreciable business assets. This provision increases the maximum amount a taxpayer may expense under Section 179 to $2.5 million, reduced by the amount by which the cost of qualifying property exceeds $4 million. The $2.5 million and $4 million amounts are adjusted for inflation for taxable years beginning after 2025. The proposal applies to property placed in service in taxable years beginning after December 31, 2024.

House: Sec. 110006. Extension of increased estate and gift tax exemption amounts and permanent enhancement (permanent estate tax relief at a higher exemption level). This provision permanently extends the estate and lifetime gift tax exemption, increases the exemption amount to $15 million for single filers ($30 million for married filing jointly) in 2026, and indexes the exemption amount for inflation going forward.

Senate: Sec. 70106. Extension and enhancement of increased estate and gift tax exemption amounts. This provision permanently extends the estate and lifetime gift tax exemption, increases the exemption amount to $15 million for single filers ($30 million for married filing jointly) in 2026 and indexes the exemption amount for inflation thereafter.

House: Sec. 110102. No tax on overtime. This provision creates an above-the-line deduction for overtime premium pay during a given taxable year. Qualified overtime compensation means overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate (as used in such section) at which such individual is employed. Additionally, taxpayers who are highly compensated employees or with earned income exceeding the dollar amount in effect under IRC section 414(q)(1)(B)(i) are ineligible to receive the deduction. A work-eligible Social Security number is required in order to claim the deduction. The deduction is allowed from tax years 2025 through 2028.

Senate: Sec. 70202. No tax on overtime. This provision provides a deduction of up to $12,500 ($25,000 in the case of a joint return) for qualified overtime compensation received by an individual during a given tax year. The deduction is allowed for both itemizers and non-itemizers. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 in the case of a joint return). Qualified overtime compensation is defined as overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate (as used in such section) at which such individual is employed. Overtime deductions are only allowed for qualified overtime compensation if the total amount of qualified overtime compensation is reported separately on the Form W-2. No overtime deduction is allowed unless the individual receiving the qualified overtime compensation includes his or her SSN on the tax return for the tax year (and if the individual is married, such tax return must also include the SSN of such individual's spouse). The deduction is allowed from taxable years 2025 through 2028.

House: Sec. 110111. Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts. Under current law, 529 savings plans are tax-advantaged accounts designed to fund education expenses, with federal law allowing tax-free withdrawals for the following qualified expenses: tuition (including up to $10,000 annually for K-12 education), fees, books, supplies, equipment required for enrollment, room and board (for students enrolled at least half-time), computers, software, internet access, special needs services, and costs for registered apprenticeship programs. This provision allows tax-exempt distributions from 529 savings plans to be used for additional qualified higher education expenses, including "qualified postsecondary credentialing expenses" in connection with "recognized postsecondary credential programs" and "recognized postsecondary credentials."

Senate: Sec. 70414. Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts. This provision allows tax-exempt distributions from 529 savings plans, made after the date of enactment, to be used for additional qualified higher education expenses, including "qualified postsecondary credentialing expenses" in connection with "recognized postsecondary credential programs" and "recognized postsecondary credentials". The provision applies to distributions made after the date of enactment.