

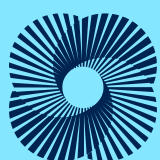
# How the One Big Beautiful Bill Delivers

# Permanent Tax Relief for Small Businesses

*The One Big Beautiful Bill Act includes a range of permanent, pro-growth tax reforms designed to boost American small businesses.*

On July 4, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law, averting what would otherwise have been the largest automatic tax increase in American history at the end of this year, when many of the historic reforms from the 2017 Tax Cuts and Jobs Act were set to expire.

The OBBBA delivers permanent, pro-growth tax reforms designed to drive American innovation, boost investment, and benefit businesses, workers, and communities nationwide. Here is an overview of five reforms that are especially relevant to American small businesses.



U.S. Chamber of Commerce

## Extension and Enhancement of Deduction for Qualified Business Income

In 2017, Congress permanently lowered the corporate income tax rate from 35% to 21% and introduced a new 20% deduction for qualified business income (QBI). The QBI deduction effectively operates as rate reduction for pass-through business entities (e.g., sole proprietorships, partnerships, S corporations), which make up over 95% of all U.S. businesses—including the vast majority of American small businesses. Unlike the permanent rate cut for C corporations, however, the new QBI deduction was initially set to expire at the end of 2025.

The OBBBA permanently extended the 20% QBI deduction, ensuring the long-term competitiveness of America's business tax rates on firms of all sizes. It also expanded eligibility for the deduction to more businesses by easing the phase-in of existing limitations and introducing a new, inflation-adjusted \$400 minimum deduction for certain small business owners. These critical reforms will give American small businesses the long-term tax certainty and stability they need to hire, invest, and grow.

## Full Expensing of Domestic Research and Experimental Expenditures

For nearly 70 years, American businesses could fully deduct their research and experimental (R&E) expenses incurred during the taxable year. Starting in January 2022, however, businesses were generally required to amortize (deduct ratably) their R&E expenses over five years—a policy that not only hindered growth but also disproportionately harmed smaller manufacturing and technology firms.

The OBBBA addressed this counterproductive policy by permanently reinstating the deduction for domestic R&E expenses paid or incurred in 2025 and beyond. And in a critical nod to mandatory amortization's disproportionate impacts on small businesses, the new law generally permits businesses with average annual gross receipts of \$31 million or less to apply the change retroactively to 2022. Retroactive application of this policy will deliver game-changing relief to the many small businesses that endured the adverse impacts of mandatory R&E amortization in recent years.

## Increased Dollar Limitations for Expensing of Certain Depreciable Business Assets

Under prior law, small businesses could elect to expense up to \$1 million of qualifying property under section 179 rather than depreciate it over time, helping to lower capital costs, spur investments, and simplify recordkeeping. Qualifying property for this purpose generally includes both new and used equipment, software, and certain improvements to nonresidential property.

To boost both the value of these benefits to small businesses and the number of eligible taxpayers that may receive them, the OBBBA permanently increased both the maximum amount allowed to be expensed under section 179 and the amount of the phase-out threshold. Taxpayers may now expense up to \$2.5 million of qualifying property, reduced by the amount by which the property's cost exceeds \$4 million—with both amounts indexed for inflation. These pro-growth changes should have an immediate impact for many American small businesses.

## Expansion of Qualified Small Business Stock Gain Exclusion

The OBBBA will also help to grow small businesses by enhancing the benefits of, and expanding eligibility for, the qualified small business stock (QSBS) gain exclusion in section 1202. Under prior law, section 1202 generally allowed certain individuals and other noncorporate investors who held QSBS in a qualifying C corporation for more than five years to exclude any gain realized on its sale.

The new law introduces a tiered gain exclusion for QSBS acquired after July 4, 2025. It also expands eligibility for the exclusion by increasing both the per-issuer cap to \$15 million (from \$10 million) and the corporate-level gross asset ceiling to \$75 million (from \$50 million), with both amounts indexed for inflation. These changes offer significant planning opportunities for small businesses and will make it easier for entrepreneurs to raise capital and grow their businesses.

## Enhancement of Employer-Provided Child Care Credit

The OBBBA significantly enhanced the employer-provided child care credit under section 45F, encouraging businesses to invest in child care services for employees. Previously capped at a static \$150,000 per year on up to 25% of qualified child care expenses, the credit was an increasingly ineffective means to achieve its intended purpose.

The new law permanently increases the maximum credit amount to an inflation-adjusted \$500,000 and the credit rate to 40% of qualified child care expenses. For qualified small businesses (i.e., those with gross receipts of \$31 million or less in 2025), this maximum credit amount rises to \$600,000 and covers 50% of qualified child care expenses. Additionally, the new law allows small businesses to pool resources and use third parties to provide child care services to their employees. These important, long-sought reforms will help more small businesses address workforce challenges and pursue growth.

## Bottom Line:

# The OBBBA Puts American Small Businesses First

The Chamber strongly supports the OBBBA's approach to enhancing small business tax policies. From permanently extending the QBI deduction to allowing small businesses to retroactively deduct their R&E expenses, it is clear policymakers were listening to small business voices—and taking them to heart. We applaud Congress for enacting these permanent, pro-growth tax policies that will deliver meaningful benefits to America's small businesses.

# Act Now

Learn more at [uschamber.com/taxes](https://uschamber.com/taxes)

You can claim benefits for expenses and purchases made now—even those dating back to January 20th, 2025.

## Don't wait until tax season in 2026!