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The One Big, Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, introduces several new tax provisions that may impact you. The provisions we've highlighted here are only a portion of the changes included in the Act.

EXTENSION OF EXPIRING TAX PROVISIONS

The primary focus of the OBBBA is the permanent extension of many provisions from the Tax Cuts and Jobs Act of 2017 that apply to individual taxpayers and were originally set to expire at the end of 2025.

INCOME TAX BRACKETS

Standard Deduction Amounts			
Filing type	**TCJA base amount (2018 tax year)**	**2025 pre-OBBBA scheduled amount**	**OBBBA base amount (New 2025 standard deduction amount)**
Joint (and surviving spouse)	$24,000	$30,000	$31,500
Head of household	$18,000	$22,500	$23,625
Single (and MFS)	$12,000	$15,000	$15,750
Additional standard deduction for elderly or blind	$2,000 for unmarried individual who is not a surviving spouse and HOH $1,600 for a married person (MFJ, MFS, or surviving spouse) Double these amounts if an individual is both elderly and blind		

PERSONAL EXEMPTION FOR SENIORS

For taxable years 2025 through 2028, taxpayers who are age 65 or older by the end of the tax year may claim a personal exemption deduction of up to $6,000. Married couples, where both spouses are 65 or older, may claim up to $12,000, provided their income is below the specified thresholds.

- The increased deduction for taxpayers age 65 and older is intended to help offset some of the taxes paid on Social Security benefits.
- Married taxpayers may only claim the exemption if they file a joint return.
- Taxpayers who are legally separated under a divorce decree or separate maintenance agreement may claim the $6,000 exemption even if filing separately.
- The $6,000 exemption begins to phase out at a rate of 6% for every dollar of modified adjusted gross income (AGI) over $75,000 ($150,000 for married filing jointly).
- A valid Social Security number is required; Individual Taxpayer Identification Numbers (ITINs) are not eligible.

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Exemption Deduction and Phaseout for Seniors		
Filing status	**Maximum deduction**	**Phaseout range**
Single	$6,000	$75,000–$175,000
HOH	$6,000	$75,000–$175,000
MFJ (one spouse age 65-plus)	$6,000	$150,000–$250,000
MFJ (both spouses age 65-plus)	$12,000	$150,000–$350,000
MFS	$0	N/A

STATE AND LOCAL TAX DEDUCTIONS

The itemized deduction for state and local taxes (SALT) has been temporarily increased from $10,000 to $40,000 for a five-year period. However, the increased deduction is reduced for higher-income taxpayers. Owners of passthrough business entities who make a passthrough entity elective tax election may continue to use this election to maximize their SALT deductions.

SALT Limitations		
Tax year	**Cap**	**Phasedown threshold**
2025	$40,000 ($20,000 MFS)	$500,000–$600,000 ($250,000–$300,000)
2026	$40,400 ($20,200 MFS)	$505,000–$606,333 ($252,000–$303,167)
2027	$40,804 ($20,402 MFS)	$510,050–$612,730 ($255,025–$306,365)
2028	$41,212 ($26,606 MFS)	$515,151–$620,564 ($257,576–$310,282)
2029	$41,624 ($20,812 MFS)	$520,302–$625,715 ($260,151–$312,858)
2030 onward	$10,000 ($5,000 MFS)	N/A

ALTERNATIVE MINIMUM TAXES

The TCJA increased both the individual Alternative Minimum Tax (AMT) exemption amounts and the income thresholds at which the exemptions begin to phase out. These amounts were adjusted annually for inflation but were scheduled to expire after December 31, 2025, reverting to pre-TCJA levels.

The OBBBA Act permanently extends the TCJA's higher AMT exemption amounts and their annual inflation adjustments. However, it resets the exemption phaseout threshold for married filing jointly (MFJ) and surviving spouse filers to the original 2018 TCJA level, with inflation adjustments resuming in 2026.

The rate at which the AMT exemption is phased out is increased from 25% to 50%, effective beginning with the 2026 taxable year.

AMT Exemption Amounts		
Filing status	**2025**	**2026 (TBD)**
Single, HOH	$88,100	TBD
MFJ, surviving spouse	$137,000	TBD
MFS	$68,500	TBD
Estates and trusts	$30,700	TBD
AMT Exemption Phaseout Threshold		
Filing status	**2025**	**2026**
Single, HOH	$626,350	TBD
MFJ, surviving spouse	$1,252,700	$1,000,000
MFS	$626,350	TBD
Estates and trusts	$102,500	TBD

HOME MORTGAGE INTEREST DEDUCTION

- The $750,000 cap on qualified residence mortgage interest ($375,000 for married filing separately), originally enacted under the TCJA, is now permanent.
- The suspension of the interest deduction for up to $100,000 of home equity debt (also enacted under the TCJA) is likewise permanent.
- Beginning with the 2026 tax year, mortgage insurance premiums (PMI) will once again be treated as deductible mortgage interest, consistent with rules in effect before 2022.

CHARITABLE CONTRIBUTION DEDUCTIONS

The OBBA Act introduces several new provisions affecting charitable contribution deductions:

- **Above-the-line deduction for non-itemizers** – Taxpayers who do not itemize can now claim a charitable deduction of up to $1,000 ($2,000 for married couples filing jointly).
- **New AGI floor for itemized deductions** – Charitable contributions are now subject to a 0.5% of adjusted gross income (AGI) floor, creating an additional limitation before deductions can be claimed.
- **Tax credit for certain scholarship contributions** – Taxpayers who contribute to qualified scholarship-granting organizations that fund K–12 education may choose between an itemized deduction or a new tax credit of up to $1,700.
- **Permanent extension of 60% cash gift limitation** – The 60% of AGI limitation for cash contributions to qualified charities, previously set to revert to 50% after 2026, is now permanent.

MISCELLANEOUS ITEMIZED DEDUCTIONS

The elimination of 2% miscellaneous itemized deductions—originally enacted under the TCJA—is now permanent. This means taxpayers may no longer deduct expenses that were previously subject to the 2% of adjusted gross income (AGI) floor, including:

- Investment advisor fees
- Tax preparation fees
- Unreimbursed employee business expenses

EDUCATOR EXPENSE DEDUCTION

Beginning with the 2026 taxable year, educator expenses will no longer be classified as 2% miscellaneous itemized deductions. Instead, they will be treated as non-2% miscellaneous itemized deductions, allowing more taxpayers to benefit from the deduction.

The deduction is also expanded to include:

- Expenses incurred by interscholastic sports administrators and coaches.
- Nonathletic supplies for courses of instruction in health or physical education.
- Books, supplies, equipment, and supplementary materials used by the educator as part of any instructional activity, not just those used in the classroom.

The separate above-the-line deduction for qualified educators remains at $250 per taxpayer (inflation-adjusted to $300 for taxable years 2022 through 2025).

BRAND NEW DEDUCTIONS

Beginning in 2025, three new deductions for individual taxpayers take effect - popularly referred to as “no tax on tips,” “no tax on overtime,” and “no tax on qualified car loan interest.” These provisions allow above-the-line deductions for:

- Certain tip income;
- Overtime wages paid by employers; and
- Interest paid on the purchase of a new vehicle assembled in the United States.

Despite the catchy titles, these are not exclusions from income. The amounts remain taxable for Social Security and Medicare purposes, and the deductions simply reduce taxable income rather than eliminating it entirely.

NO TAX ON TIPS

The OBBBA introduces a new above-the-line deduction of up to $25,000 for taxable years 2025 through 2028. This deduction applies to individual taxpayers who receive qualified tips in an occupation that traditionally and customarily received tips as of December 31, 2024. The Secretary of the Treasury will be responsible for publishing a list of professions that qualify for this deduction.

Qualified tips are defined as cash tips that meet the following requirements:

- Reporting requirement – The tips must be reported on an information return, such as a W-2, 1099-K, or 1099-NEC by the employer, or on Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) by the employee.
- Voluntary payment – The tip must be given voluntarily, in an amount determined solely by the payor. It cannot be negotiated, and no consequences may be imposed for failing to pay the tip.
- Exclusion of certain professions – Tips earned in specified service trades or businesses (e.g., accounting, health care, legal services) do not qualify.
- Additional requirements – Any other conditions established by the Secretary of the Treasury through regulations or guidance must be met.

Limitations and Phaseout

Additional restrictions on claiming the tip deduction include the following:

- Income Phaseout – The deduction is reduced by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 ($300,000 for married filing jointly) and is completely phased out at $400,000 ($550,000 MFJ).
- Valid Social Security Number Required – Taxpayers must have a valid Social Security number issued by the due date of their tax return; ITINs are not eligible.
- Joint Filing Requirement – Married taxpayers must file a joint return to qualify for the deduction.
- Business Income Limitation – If tips are received in connection with the taxpayer's trade or business (other than as an employee), the deduction is limited to the extent that gross income from that trade or business (including tips) exceeds the total deductions allocable to that business.

NO TAX ON OVERTIME

The OBBBA introduces a new above-the-line deduction of up to $12,500 ($25,000 for married couples filing jointly, even if only one spouse receives overtime compensation) for taxable years 2025 through 2028.

Definition of Overtime

- Overtime is defined as "qualified compensation" under §7 of the Fair Labor Standards Act of 1938—generally hours worked over 40 per week by nonexempt hourly employees.
- Only overtime reported separately on the employee's W-2 qualifies for the deduction.

Withholding Considerations

- IRS guidance is pending regarding employer withholding requirements.
- It is anticipated that employers will be allowed to exclude qualifying overtime from federal income tax withholding calculations. While this should result in correct withholding for most taxpayers, higher-income taxpayers—particularly those with a high-earning spouse - may find themselves under-withheld and should review their withholding accordingly.

Phaseout and Eligibility Requirements

- The deduction is reduced by $100 for every $1,000 of modified adjusted gross income (MAGI) over $150,000 ($300,000 for married filing jointly) and fully phases out at $275,000 ($550,000 MFJ).
- A valid Social Security number issued by the due date of the tax return is required to claim the deduction; ITINs are not eligible.

NO TAX ON QUALIFIED CAR LOAN INTEREST

The OBBBA introduces a new above-the-line deduction for interest paid or accrued on qualified passenger vehicle loans for tax years 2025 through 2028.

Eligibility Requirements

- The loan must be the original loan used to purchase the vehicle and must be secured by the vehicle.
- Refinanced loans of the vehicle's original acquisition debt also qualify.
- The vehicle must be purchased for personal use; business-use vehicles are not eligible.

Deduction Limits and Phaseout

- Maximum deduction: $10,000 per tax year, regardless of the number of qualifying loans.
- Phaseout: Reduced by $200 for every $1,000 (or portion) of modified adjusted gross income (MAGI) over $100,000 ($200,000 for married filing jointly).
- Fully phased out at $150,000 MAGI ($250,000 MFJ).

Qualified Vehicles
The deduction applies only to interest on loans for new "applicable passenger vehicles":

- Final assembly must occur in the United States.
- The vehicle's original use must begin with the taxpayer.
- Designed for public road use, with at least two wheels.
- Classified as a car, minivan, van, SUV, pickup truck, or motorcycle.
- Meets Title II of the Clean Air Act definition of a motor vehicle.
- Gross vehicle weight rating (GVWR) under 14,000 pounds.
- The vehicle identification number (VIN) must be reported on the tax return.

<u>The IRS is expected to issue guidance on verifying U.S. final assembly, likely through dealer confirmation or official IRS resources.</u>

Excluded Loans
Interest on the following types of loans does not qualify:

- Fleet sales or commercial-use vehicle loans.
- Lease financing arrangements.
- Loans for vehicles with salvage titles, purchased for scrap or parts.
- Loans owed to a related party.
- Loans for used vehicles (only new vehicles qualify).

CHILD TAX CREDIT AND OTHER DEPENDENTS CREDIT

The OBBA Act makes permanent several key enhancements to the Child Tax Credit (CTC) and Other Dependents Credit (ODC) originally introduced under the TCJA, and introduces further changes effective beginning with the 2025 taxable year.

Key Enhancements Effective in 2025

- The Child Tax Credit increases from $2,000 to $2,200 per qualifying child beginning in 2025.
- The credit will be adjusted annually for inflation beginning in 2026.

Provisions Made Permanent from TCJA

- Refundability: Up to $1,400 per child is refundable.
- Earned income threshold for refundability is permanently lowered from $3,000 to $2,500.
- A $500 nonrefundable credit is available for qualifying dependents who are not qualifying children (e.g., children over age 17).

- The phaseout thresholds for both the CTC and ODC remain at $400,000 AGI for married filing jointly and $200,000 for all other taxpayers—these thresholds are not indexed for inflation and are now permanent.

Additional Child Tax Credit (ACTC)

- The refundable portion of the CTC, referred to as the Additional Child Tax Credit (ACTC), is adjusted for inflation and set at $1,700 for the 2025 tax year.
- Annual inflation adjustments for the ACTC and the $2,500 earned income threshold will continue under OBBBA.

New Social Security Number (SSN) Requirement

- Starting in 2025, to claim the CTC, the taxpayer—or at least one spouse on a joint return—must have a valid Social Security number issued before the return's due date (including extensions).
- Previously, only the qualifying child was required to have an SSN.

ENERGY CREDITS GOING AWAY

- The OBBBA repeals numerous energy-related tax credits, including all three clean vehicle credits for vehicles acquired after September 30, 2025.
- Both residential energy credits—previously available to homeowners for energy-efficient improvements or the installation of solar property, home batteries, heat pumps, and similar items—expire after December 31, 2025.

199A QUALIFIED BUSINESS INCOME

- The OBBBA makes the 20% Qualified Business Income (QBI) deduction under IRC §199A permanent.
- Beginning with the 2026 tax year, the phaseout ranges increase from $50,000 ($100,000 for married filing jointly) to $75,000 ($150,000 MFJ), effectively broadening the range in which the deduction is gradually phased out.
- The phaseout thresholds will continue to be annually adjusted for inflation.
- OBBBA enacts a new, inflation-adjusted minimum deduction of $400 for taxpayers who have at least $1,000 of qualified business income from one or more active trades or businesses in which the taxpayer materially participates.

For the 2025 tax year, the phaseout range is:

2025 IRC §199A Phaseout Amounts		
Filing status	**2025 threshold amount**	**2025 phaseout amount**
Married filing jointly	$394,600	$494,600
All other taxpayers	$197,300	$247,300

The increased phaseout range beginning in 2026 has two key effects:

- Specified Service Trade or Business (SSTB) owners who were previously above the phaseout range by less than $25,000 ($50,000 MFJ) may now qualify for the deduction.
- Taxpayers already within the phaseout range may qualify for a larger QBI deduction due to the extended income thresholds.

ESTATE AND GIFT TAX EXCLUSION

- The TCJA temporarily doubled the estate and gift tax exclusion from $5 million to $10 million, adjusted annually for inflation, for decedents dying and gifts made after 2017 and before 2026. For 2025, the inflation-adjusted exclusion is $13.99 million.
- Without further legislation, the exclusion would have reverted in 2026 to an inflation-adjusted $5 million (projected at $7.14 million).
- The OBBBA makes the higher exclusion permanent, setting it at $15 million per taxpayer for decedents dying and gifts made after December 31, 2025.
- The $15 million amount will be adjusted annually for inflation and also applies to the generation-skipping transfer (GST) tax exemption.

BUSINESS PROVISIONS

In addition to the provisions affecting individual taxpayers, the OBBBA includes several significant business-related tax changes. We will provide more detailed information on these provisions in the coming weeks and encourage you to visit our website regularly for updates.

Here are a few key business provisions we will be covering:

- Permanent 100% bonus depreciation rate for assets acquired after January 19, 2025;
- An increased §179 expensing limitation for assets placed in service after December 31, 2024;
- Immediate expensing of research expenses with a special election to immediately deduct previously amortized research expenses; and
- An easing of the business interest limitation rules.

Please contact us if you would like to explore potential planning opportunities that may arise from these changes. Proactive planning can help you maximize available tax benefits, mitigate potential liabilities, and ensure you are well-prepared for the upcoming changes under the OBBBA.