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One Big Beautiful Bill Act of 2025

On July 4th, the One Big Beautiful Bill Act (OBBBA) was signed into law. The OBBBA extends key provisions of the Tax Cuts and Jobs Act (TCJA) set to expire at the end of 2025 while introducing several new tax measures. The following is a summary of major provisions included in the law.

General Income Tax Provisions

- Income Tax Rates - The regular income tax rates for individuals, estates and trusts (10%, 12%, 22%, 24%, 32%, 35%, and 37%) established by the TCJA are permanently extended.

- Alternative Minimum Tax Exemption (AMT) – The TCJA-increased individual AMT exemption amounts, and exemption phase-out thresholds are permanently extended.

Income Tax Deduction Provisions

- Standard Deduction – The increased standard deduction from the TCJA is made permanent. The 2025 standard deduction is $15,750 for single filers and $31,500 for married filing jointly, adjusted for inflation thereafter.

- Personal Exemptions – The deduction for personal exemptions is permanently repealed.

- Enhanced Deduction for Seniors – A $6,000 deduction per eligible filer for seniors (age 65 or older) with a modified adjust gross income (MAGI) that does not exceed $75,000 for single filers and $150,000 for married filing jointly. The deduction is available for tax years 2025 through 2028. This does not eliminate taxes on Social Security retirement benefits but rather provides a temporary tax deduction for seniors who qualify.

- No Tax on Tips – For tax years 2025 through 2028, eligible taxpayers may deduct up to $25,000 for qualified tips. The deduction phases out for adjusted gross income (AGI) over $150,000 for single filers and $300,000 married filing jointly.

- No Tax on Overtime – For tax years 2025 through 2028, eligible taxpayers may deduct up to $12,500 ($25,000 in the case of a joint return) of qualified overtime compensation. The deduction phases out for AGI over $150,000 for single filers and $300,000 married filing jointly.

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- State and Local Tax (SALT) Deduction – The cap on the amount of personal state and local taxes that individuals can deduct is made permanent. The cap is increased from $10,000 to $40,000 beginning in 2025 through 2029. However, the ability to benefit from the increased cap is phased out for taxpayers with MAGI starting at $500,000 up to $600,000, where the increased cap is completely phased out. The pass-through entity tax (PTET) “workaround” to the SALT cap was not eliminated, as initially proposed.

- Qualified Residence Interest - The $750,000 home acquisition indebtedness limit on the mortgage interest deduction is made permanent. Certain mortgage premiums may also qualify for a tax deduction.

- Vehicle Loan Interest – For tax years 2025 through 2028, taxpayers can deduct up to $10,000 in interest on a loan incurred to purchase a new vehicle. The purchase must occur after 2024, and final assembly of the vehicle must occur in the United States. The deduction is available regardless of whether the taxpayer itemizes but is phased out for taxpayers with a MAGI in excess of $100,000 ($200,000 for joint returns).

- Charitable Deductions – Beginning in 2026, non-itemizers can deduct up to $1,000 ($2,000 for joint returns) in charitable deductions. A new .5% of AGI floor will apply to individual taxpayers who itemize deductions, and a new 1% of AGI floor will apply to corporations. Finally, the 60% of AGI limit for cash contributions to public charities is made permanent.

- Casualty Loss Deductions – The itemized deduction for personal casualty losses is permanently limited to personal casualty losses resulting from a federally declared disaster or a state declared disaster. Personal casualty losses arising from a “qualified disaster area” are not subject to the 10% AGI floor. A “qualified disaster area” refers to an area with respect to which a major disaster has been declared by the President during the period beginning on January 1, 2020, and ending 60 days after the enactment of the OBBBA, and which has an incident period that began on or after December 28, 2019, and on or before July 4, 2025.

- Miscellaneous Itemized Deductions – Miscellaneous itemized deductions, except for certain educator expenses, are permanently disallowed. Common examples of miscellaneous itemized deductions include unreimbursed employee expenses, hobby expenses to the extent of hobby income, investment fees and expenses, and legal expenses incurred in connection with the production or collection of income.

- Tax Benefit of Itemized Deductions – Beginning in 2026, there is a new overall limitation on itemized deductions. The maximum value of each dollar of itemized deduction is capped at $0.35 for taxpayers in the highest tax bracket.

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Income Tax Credit Provisions

- Child Tax Credit – The increased child tax credit from the TCJA is made permanent and is raised to $2,200 for 2025, adjusted for inflation thereafter.
- Clean Vehicle Credits – Both the credit for previously-owned clean vehicles and the credit for new clean vehicles are eliminated for vehicles acquired after September 30, 2025.
- Residential Energy Credits – The Section 25D residential clean energy credit is terminated, effective for expenditures made after December 31, 2025. The Section 25C energy efficient home improvement credit is terminated, effective for property placed in service after December 31, 2025.
- Scholarship Credit – Beginning in 2027, an individual who makes a cash donation to a scholarship granting organization is allowed a credit equal to 100% of the donation, subject to an annual per taxpayer cap of $1,700.

Tax Favored Investment Provisions

- Opportunity Zones – Qualified Opportunity Zones (QOZ) are made permanent with a series of rolling 10-year QOZs beginning in 2027. Deferred gain invested on or after January 1, 2027 is deferred until the earlier of the date the investment is sold or 5 years after the date of the investment in the qualified opportunity fund (QOF). Deferred gain invested prior to January 1, 2027 will still be recognized on December 31, 2026. Taxpayers receive a basis increase that would permanently exclude 10% of the deferred gain (30% for qualified rural opportunity zones) by holding the QOZ investment for at least five years. The appreciation in the value of the QOF investment is excludable if the investment is held for at least 10 years and up to 30 years.
- Qualified Small Business Stock (QSBS) - For stock acquired after July 4, 2025, taxpayers will be eligible to exclude 50% of eligible gain after holding the stock for 3 years, 75% after 4 years, and 100% after 5 years. In addition, for stock acquired after July 4, 2025, the per-issue limit on the amount of eligible gain is increased from $10 million to $15 million and will be adjusted for inflation. Finally, the gross asset limit that applies to determine whether a corporation is a qualified small business is increased from $50 million to $75 million, to be adjusted for inflation, effective for stock issued after July 4, 2025.

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Estate and Gift Tax Provisions

- Estate, Gift and Generation-Skipping Transfer (GST) Tax Exemption - The exemptions are increased to $15 million per taxpayer for gifts made or deaths occurring in 2026. This increased exemption amount is permanent and will be adjusted for inflation beginning in 2027.

Business Provisions

- Qualified Business Income – The deduction is made permanent at the current 20% rate. The income thresholds at which the wage and asset limitations apply are increased from $50,000 ($100,000 married filing joint) to $75,000 ($150,000 married filing joint). A minimum $400 deduction for any taxpayer earning at least $1,000 business income from a business in which he or she materially participates is introduced and is subject to inflation adjustment. These changes are effective beginning in 2026.

- Bonus Depreciation – 100% bonus depreciation is reinstated for eligible property acquired after January 19, 2025, and is made permanent.

- Section 179 Expensing – The Section 179 annual expense limit of $1,000,000 was increased to $2,500,000 and the phaseout threshold was increased from $2.5 million to $4 million, with both changes becoming effective in 2025.

- Excess Business Loss Limitation - The current limitation on the deductibility of "excess" business losses by individuals was made permanent. Disallowed losses continue to be converted to net operating losses.

Health and Welfare Provisions

- Health Savings Accounts (HSAs) – HSA access and utilization was expanded in several ways: (1) the safe harbor allowing high deductible health plans (HDHP) coverage of telehealth services prior to a participant reaching their deductible was made permanent, (2) direct primary care service arrangements will not be deemed disqualifying coverage (subject to limitations) and fees paid to participate in direct primary care service arrangements will now be considered "qualified medical expenses", and (3) HSA-compatible qualifying HDHPs will include all bronze and catastrophic plans offered in the individual market on an exchange.

- Student Loan Repayment Assistance – An employer's ability to provide up to $5,250 (adjusted for inflation) annually in tax-free compensation to employees under a Section 127 qualified education assistance program was made permanent.

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- Dependent Care FSAs – For plan years beginning on or after January 1, 2026, the Dependent Care FSA limit will be increased from $5,000 to $7,500.

Tax Favored Account Provisions

- 529 Accounts – The definition of "qualified higher education expenses" is expanded to include (1) a broad category of postsecondary credentialing expenses, and (2) certain expenses incurred in connection with the enrollment or attendance at an elementary school or secondary public, private, or religious school, or in connection with homeschooling

- Achieving a Better Life Experience (ABLE) Accounts – Several temporary enhancements to these accounts were extended or made permanent.

- Trump Accounts – A new type of IRA, called a Trump Account, is introduced, effective 12 months after the date of enactment. Annual contributions are not deductible and are generally limited to $5,000, subject to inflation adjustments. Additional contributions can be made by Treasury ($1,000 for children born between December 31, 2024, and January 1, 2029) or charities. In addition, the beneficiary's employer or the employer of the person who claims the beneficiary as a dependent can contribute up to $2,500 (adjusted for inflation) to the account each year (before the beneficiary reaches age 18) without triggering any compensation income to the employee. Distributions are not allowed prior to the beneficiary reaching age 18. The legislation restricts these accounts to certain eligible investments.

Excluded Provisions

The following provisions, initially included in the bill passed by the House, did not make it into the final legislation:

- A limitation on the ability to amortize the cost of a sports franchise
- An increase in the excise tax on private foundation investment income
- The elimination of many of the current SALT cap "workarounds" including the PTET

In addition, the legislation did not attempt to change the tax treatment of carried interest.

Please contact your advisor with questions.

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