

# One Big Beautiful Bill Act of 2025

In December 2017, President Trump signed the Tax Cuts & Jobs Act (TCJA), which introduced the most extensive changes to the tax code in more than 30 years. Due to Senate rules, it was set to “sunset” at the end of 2025. During his 2024 campaign for president, Trump promised to make the key provisions of TCJA permanent and to introduce new tax breaks for seniors, overtime wage earners, and people who receive a substantial portion of their income from tips. The One Big Beautiful Bill Act (OBBBA), signed in July 2025, represents his attempt to keep that promise. This tax act is more than 1,000 pages long. What follows are the key provisions that will have the most impact on the typical American taxpayer. The changes are broken down into five sections:

1. Estate Tax Changes
2. Income Tax Provisions
3. Education Provisions
4. Business Taxes and Expenses
5. Investments

## Estate Tax Changes

For high-net-worth individuals and families, one of the most substantial changes under OBBBA relates to the estate and gift tax exemption. Beginning 2026, the unified estate and gift tax exemption (aka lifetime exemption) is

raised to \$15 million per individual (\$30 million for a married couple). This is permanent (no sunset provision) and is indexed annually for inflation. This effectively means that 99 percent of Americans will not owe estate taxes under current law. Perhaps it is most instructive to review a comparison under prior law (TCJA) versus OBBBA. See Table 1.1.

**TABLE 1.1 Key Changes Under OBBBA: Estate, Gift, and Generation-Skipping Tax Laws**

<b>Topic</b>	<b>Prior Law (TCJA rules through 2025)</b>	<b>OBBBA Rule (2026 and later)</b>
<b>Lifetime/Estate/GST Exemption</b>	Exemption temporarily doubled under TCJA (\$13.99M per person in 2025, indexed). Scheduled to sunset after 2025 to about \$7M.	Exemption set permanently at \$15M per person (2026), indexed for inflation. Applies to estate, gift, and GST taxes.
<b>Avoidance of Sunset</b>	Higher exemption would have expired after Dec. 31, 2025.	Sunset eliminated; high exemption made permanent.
<b>Top Transfer Tax Rate</b>	40% maximum rate on transfers exceeding exemption.	Unchanged; 40% maximum rate.
<b>Portability</b>	Surviving spouse could use deceased spouse’s unused exemption (DSUE).	Rule unchanged; portability still available.
<b>Annual Gift Tax Exclusion</b>	Annual exclusion separate from lifetime exemption, adjusted for inflation (\$19,000 in 2025).	Rule unchanged; continues to adjust annually for inflation.
<b>Generation-Skipping Transfer (GST) Exemption</b>	Matched estate/gift exclusion; would have fallen after 2025.	Aligned with new \$15M exclusion, indexed for inflation.
<b>Other Mechanics (basis step-up, gift/estate integration)</b>	Step-up in basis at death, unified credit, and prior gift rules apply.	No major changes under OBBBA; same mechanics apply.

**Definition**

The Generation-Skipping Transfer (GST) exemption is the lifetime amount that an individual can transfer, either directly or through a trust, to “skip persons” such as grandchildren or more remote descendants without being subject to the federal Generation-Skipping Transfer Tax. Under OBBBA, the GST mirrors the lifetime exclusion amount (\$15 million for 2026) but does not allow a “portability” provision, which suggests careful trust planning for ultra-wealthy families.

## Income Tax Provisions

### *Ordinary Income Tax Rates*

The lower marginal income tax rates under TCJA (previously scheduled to “sunset” December 31, 2025) are made permanent under OBBBA. They are 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. However, the income tax brackets for which the rates are applied have been expanded.

See Table 1.2 for a review of the schedule for joint and single tax filers for 2026. The marginal brackets are indexed for inflation.

### **LONG-TERM CAPITAL GAINS TAX RATES AND QUALIFIED DIVIDENDS**

The OBBBA makes permanent the favorable capital gains rates established under TCJA. There is no distinction between the rates and income tax thresholds for long-term capital gains and qualified dividends. For 2026, see Table 1.3. The brackets are indexed for inflation.

**TABLE 1.2 Marginal Tax Brackets for 2026 (Estimated)**

<b>Tax Rate</b>	<b>Single Filers</b>	<b>Married Filing Jointly</b>	<b>Head of Household</b>
10%	Up to \$12,400	Up to \$24,800	Up to \$17,700
12%	\$12,401–\$50,400	\$24,801–\$100,800	\$17,701–\$67,450
22%	\$50,401–\$105,700	\$100,801–\$211,400	\$67,451–\$105,700
24%	\$105,701–\$201,775	\$211,401–\$403,550	\$105,701–\$201,775
32%	\$201,776–\$256,225	\$403,551–\$512,450	\$201,776–\$256,200
35%	\$256,226–\$640,600	\$512,451–\$768,700	\$256,201–\$640,600
37%	Over \$640,600	Over \$768,700	Over \$640,600

**TABLE 1.3 2026 Long-Term Capital Gains Tax Rates (Estimated)**

<b>Tax Rate</b>	<b>Single Filers</b>	<b>Married Filing Jointly</b>	<b>Head of Household</b>
0%	Taxable income up to \$49,450	Taxable income up to \$98,900	Taxable income up to \$66,200
15%	\$49,450–\$545,500	\$98,900–\$613,700	\$66,200–\$579,600
20%	Over \$545,500	Over \$613,700	Over \$579,600

Note: These income thresholds are approximate estimates for tax year 2026. Final thresholds will be confirmed when the IRS publishes the official inflation-adjusted figures. Note: In addition to these rates, a 3.8 percent Net Investment Income Tax (NIIT) may apply to higher-income earners.

## Changes to the Standard Deduction

For 2025, the Standard Deduction has been raised:

- Single filers: \$15,750 (was \$15,000)
- Married filing jointly: \$31,500 (was \$30,000)
- Heads of Household: \$23,625 (was \$22,500)

The standard deduction amount is indexed annually for inflation. Because of the increase in the standard deduction and the elimination or limitations imposed on other itemized deductions, many taxpayers will choose to use the standard deduction. They may only itemize once every several years—for example, if they choose to “bunch” significant charitable contributions in a particular calendar year.

## Mortgage Interest Deduction

OBBBA includes several changes around home ownership:

- The \$750,000 limit (\$375,000 for married taxpayers filing separately) on home acquisition debt for mortgage interest is made permanent.
- The \$750,000 interest deduction limit on a home equity line of credit (HELOC) is allowed only for funds used to buy, build, or substantially improve the home.
- You must file an itemized income tax return (versus the simplified standard deduction) to receive these tax benefits.

See Table 1.4 for a summary.

## Private Mortgage Insurance (PMI) Premium Deduction Is Restored

- Under OBBBA, **Private Mortgage Insurance (PMI)** received targeted reforms to reduce costs for middle-class homeowners. PMI is traditionally required by lenders when a borrower makes a down payment of less than 20 percent of the home’s purchase price. It protects the lender, not the borrower, in the event of default. Beginning in 2026 borrowers may once again deduct PMI premiums on their federal income tax returns. It includes an income phaseout with AGI between \$100,001 and \$110,000 (between \$50,001 and \$60,000 for married filing separately).

**TABLE 1.4** OBBBA Mortgage Interest Deduction

<b>Provision</b>	<b>Before OBBBA (Tax year 2025)</b>	<b>Under OBBBA (Tax year 2026 and later)</b>
<b>Mortgage interest cap</b>	\$750,000 limit was set to expire at the end of 2025.	The \$750,000 limit (\$375,000 if married filing separately) is now permanent.
<b>PMI premiums</b>	Not deductible.	Premiums for qualified PMI on post-2006 contracts are deductible, subject to AGI-based phaseouts.
<b>Home equity loans</b>	Interest not deductible, except when used for home improvements, and must fall within the overall acquisition debt limit.	The same rule applies—interest is only deductible if used for home improvement and within the acquisition debt limit.
<b>Grandfathered loans</b>	Loans taken out before Dec. 16, 2017, could still use the old \$1 million limit.	The grandfathered treatment for pre-Dec. 16, 2017, loans is not affected and remains in place.

## State and Local Taxes (SALT)

Under OBBBA, the rules for deducting state and local taxes (SALT) are significantly expanded, though only temporarily. Under prior law, the Tax Cuts and Jobs Act (TCJA) limited taxpayers who itemized deductions to a maximum of \$10,000 in combined state and local taxes—such as income, property, or sales taxes—on their federal income tax return. Beginning in 2025, OBBBA raises this limit to \$40,000 for married couples filing jointly and \$20,000 for married taxpayers filing separately. This higher limit remains in effect through 2029, after which the cap reverts to \$10,000 (or \$5,000 for married filing separately) unless new legislation extends it.

The new law also introduces a phase-down for higher-income taxpayers. For joint filers with modified adjusted gross income (MAGI) above approximately \$500,000 (or \$250,000 for married filing separately), the allowable SALT deduction is reduced by 30 percent of the amount by which their income exceeds the threshold. However, even after the phase-down applies, the deduction cannot fall below \$10,000. The cap is also indexed slightly upward between 2026 and 2029, increasing 1 percent per year.

Here are three illustrative examples for tax year 2026:

### 2026 Rules Recap

- Base cap: \$40,400 (because the 2025 \$40,000 cap is indexed up by 1 percent each year 2026–2029).
- Phase-out threshold: \$505,000 for joint filers (\$252,500 if married filing separately).
- Phase-out formula: Cap reduced by 30 percent of MAGI above the threshold.
- Floor: Deduction cannot fall below \$10,000.

### Example 1: Couple under the threshold

- Filing status: Married filing jointly.
- MAGI: \$490,000 (below the \$505,000 threshold).
- SALT paid: \$37,000.

### Result:

- Cap = \$40,400.
- MAGI is below threshold → no reduction.
- Allowed deduction = \$37,000 (since it is less than the cap).

### Example 2: Couple moderately above threshold

- Filing status: Married filing jointly.
- MAGI: \$550,000.
- SALT paid: \$50,000.

### Calculation:

- Base cap = \$40,400.
- Excess MAGI = \$550,000 – \$505,000 = \$45,000.
- Phase-out reduction =  $30\% \times \$45,000 = \$13,500$ .
- Adjusted cap = \$40,400 – \$13,500 = \$26,900.

**Result:**

- Deduction limited to \$26,900 (even though they paid \$50,000 SALT).

**Example 3: High-income couple far above threshold**

- Filing status: Married filing jointly.
- MAGI: \$650,000.
- SALT paid: \$70,000.

**Calculation:**

- Base cap = \$40,400.
- Excess MAGI = \$650,000 – \$505,000 = \$145,000.
- Phase-out = 30% × \$145,000 = \$43,500.
- Adjusted cap = \$40,400 – \$43,500 = –\$3,100.

Because of the \$10,000 floor, their deduction = \$10,000.

**Child and Dependent Care Tax Credit Increased**

Starting in 2026, OBBBA raises the Child and Dependent Care Credit's top rate to 50 percent of eligible care expenses for lower-income households and phases the rate down as income rises, with a 20 percent minimum at higher incomes. The expenses used to calculate the credit remain capped at \$3,000 for one qualifying person and \$6,000 for two or more, so the maximum credit is generally up to \$1,500 or \$3,000 before any phase-down. You must have earned income (and, if married, generally file jointly), and the care must enable you to work or look for work. See Tables 1.5A and 1.5B for phase-down details.

**TABLE 1.5A OBBBA Child and Dependent Care Credit Phase-Down (Single Filers, 2026)**

<b>Adjusted Gross Income (AGI)</b>	<b>Credit Percentage (%)</b>
<b>\$0–\$15,000</b>	<b>50% (maximum rate)</b>
<b>Over \$15,000 up to \$75,000</b>	<b>Phases down 1 percentage point for each \$2,000 (or fraction thereof) above \$15,000—to a floor of 35%.</b>
<b>Over \$75,000</b>	<b>Phases down further 1 percentage point for each \$2,000 (or fraction thereof) above \$75,000—to a minimum of 20%.</b>

**TABLE 1.5B** OBBBA Child and Dependent Care Credit Phase-Down (Married Filing Jointly, 2026)

<b>Adjusted Gross Income (AGI)</b>	<b>Credit Percentage (%)</b>
\$0–\$15,000	50% (maximum rate)
Over \$15,000 up to \$150,000	Phases down 1 percentage point for each \$2,000 (or fraction thereof) above \$15,000—to a floor of 35%.
Over \$150,000	Phases down further 1 percentage point for each \$4,000 (or fraction thereof) above \$150,000—to a minimum of 20%.

## Child Tax Credit Enhancements

Under OBBBA, the Child Tax Credit has been permanently enhanced beginning in 2025. The per-child credit amount increases from \$2,000 to \$2,200 for each qualifying child under the age of 17, with the credit amount indexed for inflation starting in 2026. In addition, the refundable portion of the credit is expanded and made permanent. For 2025, up to \$1,700 per child may be refunded to families even if they owe little or no income tax, and this refundable amount will also be indexed for inflation in future years.

The OBBBA preserves the existing income phase-out thresholds, meaning the credit begins to phase out at \$200,000 for single filers and \$400,000 for married couples filing jointly. Families with incomes below these thresholds are generally eligible for the full credit. To qualify, each child must have a valid Social Security number, and the parent (or both spouses, if married filing jointly) must also provide valid identification, typically a Social Security number. It should be noted that these phase-out thresholds are not (currently) indexed for inflation.

These changes aim to provide lasting relief to families with children, making the Child Tax Credit a more predictable and accessible source of financial support. See Table 1.6 for a summary.

## NO TAX ON TIPS, OVERTIME, AND SOCIAL SECURITY

The story is that candidate Trump got the idea for “no tax on tips” from a waitress who was serving him. That morphed to include no tax on overtime and no tax on Social Security. Each concept appeals to a different segment of voters: the vast hospitality industry, blue-collar workers, and retirees receiving Social

**TABLE 1.6** Child Tax Credit (OBBA–2026)

<b>Adjusted Gross Income (MAGI)</b>	<b>Credit Amount</b>	<b>Phase-Out &amp; Notes</b>
Up to \$200,000 (Single/Head of Household)	\$2,200 per qualifying child	Full credit available. Refundable portion up to \$1,700 per child (subject to earned income rules).
Up to \$400,000 (Married Filing Jointly)		
Over \$200,000 (Single/HOH) Over \$400,000 (MFJ)	\$2,200 per child, phasing down	Credit reduced by \$50 for each \$1,000 (or fraction) of MAGI above the threshold until fully phased out.
All incomes (subject to MAGI limits)	\$500 per qualifying other dependent	Nonrefundable credit; phases out under the same \$200,000/\$400,000 thresholds.

Note: Credit amount indexed for inflation; max credit remains \$2,200 for 2026; refundable portion is \$1,700 for 2026. Phase-out thresholds are not indexed for inflation.

Security. As his idea worked its way through Congress, the result was no taxes for many of these taxpayers, but some taxes for those with higher incomes. Notably, these new deductions are set to end December 31, 2028, just in time for the 2028 elections! Here are the details of each:

### **NO TAX ON TIPS**

Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137.

- “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing.
- The maximum annual deduction is \$25,000; for self-employed, the deduction may not exceed the individual’s net income (without regard to this deduction) from the trade or business in which the tips were earned.
- The deduction phases out for taxpayers with a modified adjusted gross income of \$300,000–\$550,000 for joint filers and \$150,000–\$400,000 for single filers.

**Taxpayer eligibility:** The deduction is available for both itemizing and non-itemizing taxpayers.

- Self-employed individuals in a Specified Service Trade or Business (SSTB) under section 199A are not eligible. Examples include doctors, lawyers, accountants, consultants, performing artists, professional athletes, financial advisers, real estate brokers, and stockbrokers. Employees whose employer is in an SSTB are also not eligible.
- To claim the deduction, taxpayers must:
  - Include their Social Security number on the return
  - File jointly if married

**Reporting:** Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient.

**Note:** Tips are still subject to the payroll tax and may be subject to state income taxes.

Table 1.7 outlines, in broad terms, who is eligible for no tax on tips.

**TABLE 1.7 No Tax on Tips: Eligibility Chart**

<b>Eligible for Deduction</b>	<b>Excluded from Deduction</b>
Workers in jobs that <i>customarily and regularly</i> received tips as of Dec. 31, 2024 (e.g., servers, bartenders, hair stylists, bellhops).	Workers in non-tipped occupations (e.g., clerks, office staff, drivers who don't usually get tips).
Voluntary customer tips (cash, credit/debit tips, pooled/shared tips).	Mandatory service charges or automatic gratuities (e.g., 18% auto-charge at restaurants).
Cash tips and charged tips reported properly on W-2, 1099, or other IRS forms.	Non-cash tips such as gifts, tickets, or merchandise.
Income under \$150,000 MAGI (single) / \$300,000 MAGI (joint).	High-income earners above those thresholds (deduction phases out completely).
Self-employed individuals, up to the amount of net income from the tipped business.	Self-employed whose business income is lower than their tip deduction (deduction capped at net income).
Taxpayers with valid Social Security Numbers (and spouse's SSN if filing jointly).	Anyone without a valid SSN (or spouse's SSN if filing jointly).
Tax years 2025–2028.	Tax years beginning 2029 and later (unless extended by Congress).

## No Tax on Overtime

Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay—such as the “half” portion of “time-and-a-half” compensation—that is required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.

- The maximum annual deduction is \$12,500 (\$25,000 for joint filers).
- The deduction phases out for taxpayers with modified adjusted gross income of \$300,000–\$550,000 for joint filers; \$150,000–\$275,000 for single filers.

**Taxpayer eligibility:** The deduction is available for both itemizing and non-itemizing taxpayers.

- To claim the deduction, taxpayers must:
  - Include their Social Security number on the return
  - File jointly if married

**Reporting:** Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.

### Here’s an example of how this might work:

David works as a mechanic.

- Regular hourly rate: **\$40/hour**
- Standard hours per week: **40 hours**
- This week he works **10 hours of overtime**.
- Overtime pay = **time and a half** = \$40 (base) + \$20 (overtime premium) = **\$60/hour**.

### Step 1: Calculate his pay

- Base pay:  $40 \times \$40 = \mathbf{\$1,600}$
- Overtime pay:  $10 \times \$60 = \mathbf{\$600}$ 
  - Of this \$600:
    - \$400 = regular \$40/hour base portion (still taxable)
    - \$200 = \$20/hour overtime premium (tax-free under OBBBA)

**Total gross pay = \$2,200**

### Step 2: Apply OBBBA Rule

- **Taxable income** = \$1,600 (base) + \$400 (base portion of overtime) = **\$2,000**
- **Non-taxable overtime portion** = \$200 (the \$20/hour premium × 10 hours)

So David reports \$2,000 as taxable income, instead of \$2,200.

### Step 3: Compare Before vs. After OBBBA

- **Before OBBBA:**
  - All \$2,200 taxed.
  - At, say, 22% bracket → tax = \$484.
  - Take-home ≈ **\$1,716**.
- **With OBBBA:**
  - Only \$2,000 taxed.
  - Tax = \$440.
  - Plus \$200 tax-free overtime premium.
  - Take-home = **\$1,760**.

**Net benefit = \$44 more per week** by exempting only the premium portion.

**Key Point:** The **base rate of overtime (\$40/hour)** is still taxable, but the **premium (\$20/hour “extra” pay)** is tax-free under OBBBA.

## No Tax on Social Security

This is not truly a “no tax on Social Security” solution. Rather, it is a deduction available to everyone age 65 or older, including those receiving Social Security payments. Here’s how it works: Individuals aged 65 or older can claim an additional \$6,000 deduction (\$12,000 for married couples, both age 65 and older). It is expected to eliminate taxes on Social Security benefits for roughly 88 percent of Social Security income recipients.

This deduction phases out based on modified adjusted gross income (MAGI):

- Joint tax filers: \$150,000–\$250,000
- Single tax filers: \$75,000–\$175,000

This deduction is available in addition to the new, higher standard deduction and can be taken whether you itemize or not.

### Tip

**Social Security recipients whose MAGI is above these thresholds will generally find 85 percent of their benefits subject to income taxes. They should consider strategies that reduce MAGI below the thresholds, such as ROTH conversions, tax-loss harvesting, and strategic withdrawals from retirement plans.**

**Qualifying taxpayers:** To qualify for the additional deduction, a taxpayer must attain age 65 on or before the last day of the taxable year.

**Taxpayer eligibility:** The deduction is available for both itemizing and non-itemizing taxpayers.

- To claim the deduction, taxpayers must:
  - Include the Social Security number of the qualifying individual(s) on the return
  - File jointly if married

## New Deduction for Car Loan Interest

Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (Lease payments do not qualify.)

- The maximum annual deduction is \$10,000.
- The deduction phases out for taxpayers with modified adjusted gross income over \$100,000 (\$200,000 for joint filers).

**Qualified interest:** To qualify for the deduction, the interest must be paid on a loan that is:

- Originated after December 31, 2024,
- Used to purchase a new vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify),
- For a personal use vehicle (not for business or commercial use), and
- Secured by a lien on the vehicle.

**Tip**

If a qualifying vehicle loan is refinanced, the interest paid on the refinanced amount is generally eligible for the deduction, provided it does not increase the original loan's balance. Taking out a new loan on an auto whose loan is already paid off does not qualify.

**Qualified vehicle:** A qualified vehicle is a car, minivan, van, SUV, pick-up truck, or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.

**Final assembly in the United States:** The location of final assembly will be listed on the vehicle information label attached to each vehicle on a dealer's premises. Alternatively, taxpayers may rely on the vehicle's plant of manufacture as reported in the vehicle identification number (VIN) to determine whether a vehicle has undergone final assembly in the United States.

**Tip**

The VIN Decoder website ([www.nhtsa.gov/vin-decoder](http://www.nhtsa.gov/vin-decoder)) for the National Highway Traffic Safety Administration (NHTSA) provides plant of manufacture information. Taxpayers can follow the instructions on that website to determine if the vehicle's plant of manufacture is located in the United States.

**Taxpayer eligibility:** The deduction is available for both itemizing and non-itemizing taxpayers.

- The taxpayer must include the Vehicle Identification Number (VIN) of the qualified vehicle on the tax return for any year in which the deduction is claimed.

**Reporting:** Lenders or other recipients of qualified interest must file information returns with the IRS and furnish statements to taxpayers showing the total amount of interest received during the taxable year.

## **New Charitable Contribution Deduction for Non-Itemizers**

Taxpayers who claim the standard deduction (non-itemizers) will now be able to deduct a limited amount of charitable contributions.

Single filers may deduct up to **\$1,000**

Joint filers may deduct up to **\$2,000**

This deduction applies only to cash contributions made to qualifying public charities. It is taken “above the line,” meaning it focuses explicitly on helping those who do not itemize their deductions. This change was designed to encourage broader charitable giving by extending tax benefits to millions of taxpayers who previously received no tax advantage for their contributions.

## New Charitable Contribution Limitation for Itemizers

The new law permanently extends the ability to deduct 60 percent of cash gifts to public charities, which was set to expire at the end of 2025. It also makes several changes that affect taxpayers who itemize.

**New 0.5 percent threshold.** Beginning in 2026, charitable contributions are deductible only to the extent total annual gifts exceed 0.5 percent of AGI (the Threshold Amount).

Example: If you have \$100,000 AGI, the first \$500 of giving is not deductible; a \$2,000 gift produces a \$1,500 deduction.

**New deduction limitation for those in the 37 percent tax bracket.** Beginning 2026, if you are in the highest federal income tax bracket (37 percent), your itemized deductions will be reduced by 2/37 of the lesser of:

- A. Your total itemized deductions or
- B. The amount of your total income plus itemized deductions exceeds the 37 percent tax bracket threshold.

Here’s an example:

Taxable income before deductions: \$1,000,000

Total itemized deductions: \$200,000

Filing status: Married filing jointly (37 percent bracket starts at ~\$751,600 in 2026 under OBBBA)

### Step 1: Old Rule (Pre-OBBBA)

- You deduct the full \$200,000.
- Tax savings =  $\$200,000 \times 37\% = \mathbf{\$74,000}$

**Step 2: New Rule (OBBBA 2026+)**

1. Compute income + deductions = \$1,000,000 + \$200,000 = \$1,200,000
2. Subtract the 37% bracket threshold (\$751,600) = **\$448,400**
3. Take the **lesser** of:
  - Total deductions = \$200,000
  - Excess over threshold = \$448,400 → Lesser = \$200,000
4. Reduce by 2/37 of \$200,000 ≈ **\$10,811**
5. Allowed deductions = \$200,000 – \$10,811 = **\$189,189**
6. Tax savings = \$189,189 × 37% ≈ **\$70,000**

**Comparison of Itemized Deductions: Old vs. OBBBA Rule**

The effect is to cap itemized deductions at approximately 35 percent for the highest tax bracket taxpayers. See Table 1.8.

Note: There is also an “ordering priority” or sequence for how deductions are calculated. Consult your CPA or financial adviser for charitable giving planning.

**Changes to the Alternative Minimum Tax (AMT)**

Under TCJA, the number of taxpayers who were subject to the AMT was reduced to less than 2 percent of taxpayers. Under OBBBA, the phase-out thresholds were reduced, meaning more taxpayers will be subject to the AMT, but still a relatively small number. Review Table 1.9 for a comparative summary.

**TABLE 1.8 Comparison of Itemized Deductions: Old vs. OBBBA Rule**

<b>Rule</b>	<b>Allowed Deductions</b>	<b>Tax Savings</b>	<b>Effective Tax Savings Rate</b>
<b>Old Rule</b>	<b>\$200,000</b>	<b>\$74,000</b>	<b>37.0%</b>
<b>New OBBBA Rule</b>	<b>\$189,189</b>	<b>\$70,000</b>	<b>35.0%</b>

Note: The OBBBA limitation on itemized deductions does not apply to the Qualified Business Income (QBI) deduction.

**TABLE 1.9 Alternative Minimum Tax (AMT) Exemption Phase-Out Thresholds**

<b>Filing Status</b>	<b>TCJA (2025) Phase-Out Begins At</b>	<b>OBBBA (2026 onward) Phase-Out Begins At</b>
<b>Single / MFS</b>	<b>\$626,350</b>	<b>\$500,000 (indexed)</b>
<b>Married Filing Jointly</b>	<b>\$1,252,700</b>	<b>\$1,000,000 (indexed)</b>

Note: OBBBA thresholds are indexed for inflation in future years. Under OBBBA, the exemption phase-out rate is 50 percent of the excess over the threshold (up from 25 percent under TCJA).

## Clean Energy Tax Credit Phaseout

The Inflation Reduction Act, enacted under the Biden administration, provided for a \$7,500 federal Electric Vehicle tax credit. OBBBA eliminated this tax credit effective September 30, 2025.

## Wagering Losses Rule Modified

Under prior law, gambling losses could only be deducted up to the amount of gambling winnings. For example, if you had \$10,000 in losses during the year but only \$3,000 in winnings, your deduction was limited to \$3,000. Under OBBBA, that limitation still applies, but with an additional restriction: only 90 percent of eligible losses can now be deducted. Using the same example, your \$3,000 deduction would be further reduced by 10 percent (or \$300), leaving you with a final deduction of \$2,700.

## Educator Expense Deduction Expanded

Under prior law, educators could claim an above-the-line deduction of up to \$300 for unreimbursed classroom expenses (or \$600 for married couples filing jointly if both spouses were educators). An above-the-line deduction is valuable because it reduces taxable income even if the taxpayer does not itemize deductions. Under OBBBA, this rule is expanded by allowing educators to deduct all additional out-of-pocket classroom expenses without limit on Schedule A, provided they itemize their deductions. The original \$300 (or \$600) above-the-line deduction still applies and must be claimed first, with any remaining qualifying expenses deducted as part of itemized deductions.

## Personal Casualty Losses (Slightly) Expanded

Under prior law, individuals could deduct casualty and theft losses only if they were related to a federally declared disaster. OBBBA expands this provision to include losses from state-declared disasters as well. The same limitation continues to apply: Losses may be deducted only to the extent they are not reimbursed by insurance and only for the portion that exceeds 10 percent of the taxpayer's adjusted gross income.

## Education Provisions

As costs of higher education continue to rise, OBBBA offers help and enhancements in three areas.

### Trump Savings Accounts

OBBBA Trump Savings Accounts are intended to “jump-start” college savings. For babies born between January 1, 2025, and December 31, 2028, the federal government will provide one-time “seed” money of \$1,000. Parents, guardians, or relatives can contribute up to a total of \$5,000 annually to the account. An employer can also contribute up to \$2,500 annually (again, total deposits cannot exceed \$5,000). Employer contributions on behalf of an employee’s child are not included in taxable income. Investments are restricted to index funds that primarily invest in U.S. equities.

The *contributions* to Trump Savings Accounts are not tax-deductible but are tax-free when withdrawn. The *earnings* on the investment account are taxable when withdrawn. No withdrawals are permitted before the age of 18. At age 18, the account “converts” to a traditional IRA account. Beginning at age 18, withdrawals are allowed for qualified purposes such as education expenses, first-time home purchase, or small business expenses. Non-qualified withdrawals are subject to a 10 percent federal penalty if made prior to age 59 ½ (same as IRA rules).

#### Tip

**Contributing to a Trump Savings Account does not preclude also contributing to a Roth IRA or Traditional IRA if eligibility for those accounts is met (i.e., the child has earned income).**

## Section 529 Plans

### K-12

Under OBBBA, the expense limitation for K-12 is doubled from \$10,000 to \$20,000. Under prior law, only tuition was an eligible expense. Permitted expenses now include items such as online learning materials, books, tutoring, therapy for people with disabilities, fees for standardized tests, college admissions exams, and AP exams.

## Postsecondary and Career Training

OBBBA has broadened eligible expenses to include costs and fees associated with postsecondary education and career training, which now includes books, fees, tuition, and supplies. This includes industry-recognized credentialing and license programs, apprentice programs, and fees for continuing education.

### Tip

Under prior law, parents and grandparents were reluctant to “overfund” 529 plans due to minimum options for dealing with the excess (unused) funds. Under OBBBA’s greatly expanded qualified expenses along with the option of a Roth IRA Rollover, large contributions to 529 plans are much more attractive. For 2026, annual contributions of up to \$19,000 (adjusted for inflation annually) are allowed and you can use “front-end loading” to contribute five years in advance or \$95,000 for 2026. Married couples can give double these amounts.

## Rollover to Roth IRA

You can now roll over your unused 529 plan funds to a Roth IRA under certain conditions. To be eligible, the account must be open for a minimum of fifteen years, and the beneficiary must have earned income at least equal to the rollover amount. There is a \$35,000 lifetime rollover limit.

### Tip

Want to help your child or grandchild become a millionaire? Parents and grandparents may want to consider intentionally overfunding a 529 plan with a goal of leaving at least \$35,000 available for a future Roth IRA conversion by the beneficiary. For example, if a child converts \$35,000 from a 529 plan into a Roth IRA at age 25 and invests it in a U.S. stock index fund earning an average 9 percent return, that account could grow to more than \$1 million by age 65!

## Significant Changes for Student Loans

OBBBA makes several significant changes to the rules for student loans. Most provisions take effect on July 1, 2026, with transition rules for existing

borrowers. The law eliminates Graduate PLUS loans for new borrowing, replacing them with Direct Unsubsidized Loans capped at \$20,500 per year (lifetime \$100,000) for most graduate students, and \$50,000 per year (lifetime \$200,000) for professional degrees such as law and medicine. Borrowers who used Grad PLUS before July 1, 2026, can generally continue under prior rules for up to three academic years or until program completion, whichever occurs first. Parent PLUS borrowing is newly capped at \$20,000 per year per child with a \$65,000 lifetime limit per child, with a similar transition period for families already borrowing. Undergraduate Direct Loan limits remain unchanged. For repayment, new loans disbursed on or after July 1, 2026, generally won't have access to legacy IDR plans (ICR, PAYE, SAVE); instead, borrowers will choose between a revised Standard plan and the new Repayment Assistance Plan (RAP). Existing borrowers with pre-July 1, 2026, loans have transition rules through July 1, 2028, to select IBR or RAP per the Department's guidance. The law delays the 2022 borrower-defense and closed-school discharge standards until loans first originated on or after July 1, 2035; earlier loans remain under prior, less-generous rules. Beginning July 1, 2027, borrowers can rehabilitate a defaulted federal loan twice (previously once). Separately, OBBBA permanently extends the tax-free employer student-loan repayment benefit of up to \$5,250/year and indexes that cap for inflation starting with 2026 tax years. For a more detailed review of Federal Student Aid Changes under OBBBA, visit the Resource Center at [www.Welchgroup.com](http://www.Welchgroup.com); under Helpful Links, click on "Federal Student Aid Summary."

## **Business Taxes and Expenses**

### ***SECTION 179***

IRS Code Section 179 provides for immediate expensing of certain business purchases and is intended to help small business owners. Before TCJA, the permanent §179 cap was \$500,000 with a \$2,000,000 phase-out (indexed; 2017 amounts were \$510,000 / \$2,030,000). TCJA increased the cap to \$1,000,000 and the phase-out threshold to \$2,500,000 (indexed), effective for tax years beginning in 2018. Under OBBBA, §179 is expanded again: The cap is increased to \$2.5 million with a \$4 million phase-out, effective for property placed in service in 2025 or later (and indexed for inflation).

## BONUS DEPRECIATION

TCJA allowed 100 percent bonus depreciation for qualified property acquired and placed in service after September 27, 2017, generally before 2023 (before 2024 for certain long-production-period property and specified aircraft). The percentage of depreciation stepped down to 80 percent (2023), 60 percent (2024), 40 percent (2025), and 20 percent (2026). OBBBA restores 100 percent bonus depreciation on a go-forward basis, with transition elections (e.g., certain 40 percent/60 percent options) for property placed in service around the January 2025 effective date.

### Tip

**Tip for readers: §179 and bonus depreciation interact but are not identical. §179 has dollar caps and taxable-income limits; bonus depreciation does not (but applies only to qualified property). Consult your CPA for the optimal mix each year.**

## CORPORATE TAX RATE AND “DOUBLE TAX”

Corporate rate: TCJA replaced the graduated corporate rate schedule with a flat 21 percent corporate income tax rate; that statutory rate continues to apply after OBBBA.

Double taxation (concept unchanged): Income earned by a C-corporation is taxed at the entity level, and then qualified dividends distributed to shareholders are taxed again at the shareholder level (generally up to 20 percent, before any applicable 3.8 percent NIIT). This basic structure is unchanged.

## SECTION 199A (QUALIFIED BUSINESS INCOME-QBI)

TCJA created the §199A deduction—generally up to 20 percent of qualified business income (QBI) from passthroughs—subject to income thresholds, wage/property (W-2/WB) limits, and special phase-outs for specified service trades or businesses (SSTBs).

OBBBA makes §199A permanent (it would otherwise have sunset after 2025) and retunes the limitation mechanics to better target who receives the benefit. Changes include (i) expanding the phase-in ranges (e.g., to \$75,000 for non-joint and \$150,000 for joint returns, indexed thereafter), and (ii) adding a minimum-deduction/QBI floor—a \$400 minimum deduction where the taxpayer has at least \$1,000 of QBI, with amounts indexed after 2026. These adjustments tighten results for many high-income taxpayers

(especially SSTBs) without imposing a blanket disallowance solely for being in the top bracket.

### **CHANGES TO HEALTH SAVINGS ACCOUNTS (HSAs)**

Under OBBBA, several significant changes affect Health Savings Accounts (HSAs) and High-Deductible Health Plans (HDHPs), most of which take effect on January 1, 2026. One major change is the permanent extension of the telehealth safe harbor, which allows HDHPs to cover telehealth services before the deductible is met without disqualifying HSA eligibility. This provision is retroactive to January 1, 2025. In addition, all bronze-level and catastrophic plans sold on the Affordable Care Act (ACA) marketplace are now treated as HSA-eligible HDHPs, expanding access for many individuals who purchase coverage through the exchanges. The law also permits the use of HSAs in connection with Direct Primary Care (DPC) arrangements (concierge and subscription style primary care services). Participation in qualifying DPC subscription models no longer disqualifies an individual from contributing to an HSA, and HSA funds may be used to pay for DPC fees, provided the services are limited to primary care and the monthly fees do not exceed \$150 for individuals or \$300 for families, indexed for inflation starting in 2026.

Some proposed reforms did not make it into the final law, including allowing HSA contributions while enrolled in Medicare. As a result, once a person enrolls in Medicare Part A or Part B, they are still prohibited from contributing to an HSA. In practice, the enacted reforms will expand HSA eligibility for individuals with bronze or catastrophic exchange plans, provide greater flexibility for those using Direct Primary Care arrangements, and preserve access to pre-deductible telehealth services. However, employers, insurers, and plan administrators will need to carefully update plan designs and monitor forthcoming IRS guidance to ensure compliance, particularly regarding DPC fee limits, carve-outs, and inflation indexing.

## **Investments**

### ***Opportunity Zone Investing***

OBBBA modernizes and makes permanent the Opportunity Zone (OZ) program originally created in 2017 under the first Trump administration. The core goal is unchanged—channel private capital into economically distressed communities—but OBBBA tightens eligibility, adds a rural track, and significantly increases reporting and compliance. Here are the key elements:

**PROGRAM PERMANENCE AND TIMELINE**

Under OBBBA, governors may begin nominating OZ census tracts on July 1, 2026, with the first new designations effective January 1, 2027. The OZ program is permanent and follows a ten-year redesignation cycle thereafter. Note: The prior map effectively sunsets at the end of 2026; the new map begins January 1, 2027.

**GEOGRAPHIC ELIGIBILITY CHANGES**

OBBBA tightens tract selection. A tract must generally have median family income no more than 70 percent of the surrounding area or state median (down from 80 percent under prior rules). The “contiguous tract” rule is eliminated. Tracts with median family income above 125 percent of the state or area median are ineligible. States may still designate up to 25 percent of their low-income tracts, and Puerto Rico now follows the same 25 percent cap (no blanket coverage).

**INVESTMENT AND TAX TREATMENT**

For new investments made on or after January 1, 2027, capital-gain deferral lasts for the shorter of five years from the investment date or until disposition. Investors receive a 10 percent basis step-up after five years (the former 5 percent step-up at seven years is eliminated). The familiar “10-year rule” remains—after a 10-year hold, post-investment appreciation can be excluded via a fair-market-value basis election—but OBBBA imposes a 30-year cap: appreciation after the 30-year mark may be taxable.

**QUALIFIED RURAL OPPORTUNITY FUNDS (QROFs)**

OBBBA creates a rural category for areas generally under 50,000 population and outside larger urbanized areas. QROFs receive enhanced benefits: a 30 percent basis step-up after five years (instead of 10 percent) and a reduced “substantial improvement” threshold of 50 percent (instead of 100 percent).

**REPORTING AND COMPLIANCE**

OBBBA mandates detailed annual reporting by Qualified Opportunity Funds and related businesses, expands data disclosures, and adds penalties for non-compliance (typically \$500 per day, subject to aggregate caps that scale with fund size). Treasury must publish regular reports assessing economic and employment outcomes of OZ investments.

**TRANSITION RULES AND PLANNING NOTES**

Investments made through December 31, 2026, remain under the TCJA-era framework. Investments made on or after January 1, 2027, follow the new OBBBA provisions. Because of the new income thresholds, elimination of the contiguous-tract rule, and stricter definitions, some currently designated areas will not reappear on the post-2026 map. For investors, permanence improves predictability, but the shorter deferral window and tighter map make careful, project-level diligence more important. The rural track opens new opportunities in smaller communities, while enhanced reporting raises administrative expectations for fund managers.

In this chapter, we have provided an overview of the most significant changes under OBBBA and how they will impact your finances now and in the future. In our next chapter, we will delve deeper into the importance of developing your estate plan and planning opportunities under the One Big Beautiful Bill Act.