

One Big Beautiful Bill Act of 2025 (OBBA)

Note about the word “permanent”:

“Permanent” in tax law doesn’t mean it can’t eventually be revised or reversed; it just means it’s set in law indefinitely with no end date.

Permanent extension of tax provisions passed by TCJA that were set to expire at the end of 2025, including:

- Reducing the top income tax bracket from 39.6% to 37%.
- Keeping the higher standard deduction, which is \$31,500 in 2025 for married filing joint taxpayers (\$15,750 for single).
- Retaining the mortgage interest debt limit at \$750,000 for mortgages acquired after 12/15/17 (previously \$1,000,000) and permanently suspending the interest deduction on home equity debt (previously \$100,000).
- Mortgage insurance premiums will be deductible again beginning in 2026.
- Elimination of 2% miscellaneous itemized deductions, which includes investment fees, tax preparation fees, and unreimbursed employee business expenses, including home offices for employees. Educator expenses will be moved to a non-2% category beginning in 2026; the above-the-line deduction is still available.
- The Child Tax Credit increased from \$2,000 (\$1,000 pre-TCJA) to \$2,200 in 2025 and will be adjusted for inflation thereafter.
- The §199A 20% qualified business income deduction for business owners is made permanent, with minor modifications including an increased phaseout threshold.
- The increased unified estate and gift tax exclusion, with a bump up to \$15 million on January 1, 2026.

State and local tax deductions (SALT)

- The **\$10,000 deduction for state and local income tax is increased to \$40,000** for tax years 2025 to 2029 (increased 1% annually after 2025). There are income phaseout thresholds which are outlined on the chart below, however, the lowest SALT cap is still \$10,000.
- The passthrough entity elective tax election is still available in most states, despite original versions of the bill that would have placed restrictions on the PTE election. The final version of OBBBA included no restrictions, however, it’s possible this may not be the end of the saga.

SALT income phaseout thresholds		
Tax year	Deduction 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



New provisions for individual taxpayers:

- “**No tax on Social Security**” explained...

Due to procedural restrictions related to Social Security changes, legislators were unable to pass the “**no tax on Social Security benefits**” promise. Instead, taxpayers aged 65 or older can claim a personal exemption deduction of up to \$6,000 for 2025-2028 (\$12,000 for MFJ if both are 65). This increased deduction for seniors will help offset some of the taxes paid on Social Security and other pension benefits. The deduction phases out based on income as follows:

- Single or head of household: Phaseout range \$75,000 - \$175,000
- MFJ (one spouse age 65+): Phaseout range \$150,000 - \$250,000
- MFJ (both spouses age 65+): Phaseout range \$150,000 - \$300,000

- The overall limitation on itemized deductions is reinstated beginning with the 2026 taxable year, with a revised calculation method.
- The alternative minimum tax is reinstated, which will require planning going forward to minimize future tax increases.
- Increase of the employer-provided dependent care assistance to \$7,500 from \$5,000.

Charitable contributions

- Beginning in 2026, non-itemizers can claim a charitable contribution deduction of up to \$1,000 (\$2,000 MFJ).
- Beginning in 2026, the charitable contribution deduction for itemizers is only available if all contributions in aggregate exceed 0.5% of the taxpayer’s adjusted gross income.

New deductions

- “**No tax on tips**” explained...

For 2025-2028, taxpayers can **deduct up to \$25,000 of qualified tips** that are received in “an occupation that traditionally and customarily received tips on or before December 31, 2024”. Meaning we cannot come up with these eligible occupations ourselves, unfortunately!

- The bill places the responsibility on the Secretary of State to list the professions that qualify.
- Specified service trade or businesses (i.e. accounting, legal, health care, etc.) will not qualify, however, this does not necessarily exclude self-employed individuals.
- Income phaseouts apply; the range for single taxpayers is \$150,000-\$400,000 (\$300,000-\$550,000 MFJ).
- The \$25,000 deduction cap is the same for all filing statuses, including married filers when both spouses have tip income. Married taxpayers filing separately are ineligible for the deduction.
- This excluded tip income is still subject to Social Security and Medicare taxes.
- Only **voluntary** tips are eligible! For example, if a restaurant charges an “automatic gratuity” for large parties, this is NOT considered voluntary and is not eligible for the deduction. Additionally, if your POS system does not give the option to leave “no tip” at time of sale, this is also considered non-voluntary.

- “**No tax on overtime**” explained...

For 2025-2028, taxpayers can deduct up to **\$12,500 of overtime compensation or \$25,000 for MFJ** taxpayers, even if only one spouse received the overtime compensation.

- The IRS plans to revise the W-2 for 2026 for employers to report the overtime. There will be no changes to the W-2 for 2025.
- Income phaseouts apply; the range for single taxpayers is \$150,000-\$275,000 (\$300,000-\$550,000 MFJ).

How will tips & overtime be reported by employers?

For 2025 only, the IRS has provided transition relief for employers for failing to provide separate accounting of overtime or tips or identifying an occupation that receives tips. There is no current guidance on how it will be handled in future years, but currently the IRS suggests employers provide the information through online portals, written statements, or using box 14 on the W-2. There is no guidance aimed directly at the taxpayer claiming the deduction for the overtime or tips in the absence of information provided by the employer.

- For original **auto loans** incurred between 2025-2028 (including refinancing), taxpayers **can deduct up to \$10,000 of the loan interest**. The loan must be secured by the vehicle and income phaseout limits apply starting at \$100,000 single (\$200,000 MFJ). The deduction is a below-the-line deduction, which means it's available to non-itemizers. The deduction is not available for used or leased vehicles. Additionally, the vehicle's final assembly must have occurred in the United States and have a gross vehicle weight of less than 14,000 lbs. Lenders will be required to provide a form 1098-VLI to taxpayers, however, the IRS has provided transition relief for the 2025 tax year. For 2025, monthly statements or other lender or banking substantiation will be accepted.

Energy credits going away

One of the big revenue raisers in the bill is the **EARLY** repeal of the energy credits and incentives enacted and/or modified by the Inflation Reduction Act of 2022, including:

- Repeal of the Previously Owned Vehicle Credit and **Clean Vehicle Credit** for vehicles acquired after **September 30, 2025**. The IRS has clarified that the “acquired” date is the date a written, binding contract was entered, and a payment was made. A payment can be a nominal downpayment or a vehicle trade-in. Based on this guidance, taxpayers can still take the Clean Vehicle Credit even if delivery of the vehicle was after September 30, 2025. Leases do not qualify.
- Repeal of the Residential Clean Energy Credit (aka **home solar credit**) for property placed in service after **December 31, 2025**. This credit is 30% for solar energy, qualified fuel cell, and other solar improvements installed on a personal use residence (does not have to be your principal residence). Remember, the “placed in service” date is generally the date you receive the final sign-off by your electricity provider. When you pay for the solar property is irrelevant. If your solar project is not completed by December 31, 2025, you will be ineligible for this credit.
- Repeal of the Energy Efficient Home Improvement Credit for property placed in service after **December 31, 2025**. This included things such as **doors, windows, insulation, skylights, water heaters, heat pumps, air conditioners**, etc. installed on your **principal residence only**. Again, the date you pay for the item is irrelevant; the project must be completed and placed in service by December 31, 2025 to qualify.
- Repeal of various commercial and business energy incentives. Contact us for more information.

Business provisions

- OBBBA extends 100% bonus depreciation permanently for property acquired after January 19, 2025. Written contracts to purchase qualified property entered into prior to January 20, 2025, are not eligible for 100% bonus depreciation, even if payment is made and the property is placed in service after the contract is signed.
- Increase of maximum §179 deduction from \$1.5 million (2025) to \$2.5 million.

Trump Accounts for Minors

OBBBA created a new IRA-like account called Trump accounts, applicable to tax years after 2025. The mechanics of opening a new Trump account and when such accounts will actually be available to investors is currently unknown. The IRS must issue additional guidance, but basic provisions of these accounts include:

- Taxpayers can make an election on behalf of their eligible child to have **\$1,000 treated as a tax payment** for the taxable year. This \$1,000 will be deposited into a Trump account established on behalf of the child.
- The account can only be created by the Secretary of the Treasury or be a U.S. account.
- The account must be for the exclusive benefit of a child under age 18.
- These accounts cannot be a Roth IRA.