One Big Beautiful Bill presentation (a/k/a OB3)

Agenda

- Where'd this bill come from?
- Senior tax breaks
- Miscellaneous new tax deductions
- Things going away after 2025
- New for 2026
- Final tips & takeaways

Where did this bill come from?

Tax Cuts and Jobs Act, passed 12/22/17

TCJA was set to expire on 12/31/25

At the time, TCJA was the largest tax cut in history

If allowed to expire, it would have been the largest tax INCREASE in history

Tax breaks for Seniors

Social Security benefits are still taxable!

This is because of the legislative process including the “Byrd Rule”.

Legislative background

Senate process: The bill is then sent to the Senate Finance Committee for review, and the full Senate must also approve it. Unlike the House, a tax bill in the Senate is subject to the filibuster, which generally requires 60 votes to overcome.

"Byrd rule" restrictions: The reconciliation bill is subject to the Byrd rule, which states that any provisions that do not directly change spending or revenue cannot be included. This often leads to "sunset" provisions, where some changes expire after a certain number of years, to comply with budget rules. Specifically, it also prohibits “above-the-line” changes to social security in a reconciliation bill.

Social Security benefits are still taxable, but the new $6,000 deduction for seniors helps a lot.

- All seniors aged 65 or older are eligible, age-wise.
- If you're married, you cannot use the married filing separately (MFS) status. It must be married filing jointly (MFJ).
- You don't need to be receiving Social Security to qualify for this.
- If you're younger than 65 but are drawing Social Security, you do not qualify for the $6,000 per person special deduction.
- This is a temporary deduction, in addition to your standard deduction, and will be available for tax years 2025-2028.
- This $6,000 deduction phases out beginning at $75,000 of MAGI for single seniors and at $150,000 for joint filer seniors.

Example:

A married couple filing jointly, both spouses age 65 or older, and Modified Adjusted Gross Income of $50,000, which is comprised of their taxable Social Security benefits and distributions from their traditional IRA.

HERE'S HOW THAT SITUATION WOULD LOOK:

REPORTABLE INCOME		$50,000
STANDARD DEDUCTION	$34,700	
NEW SENIOR DEDUCTION	$12,000	
TOTAL DEDUCTIONS		$46,700
TAXABLE INCOME		$ 3,300
TAX (10%)		$ 330

EFFECTIVE TAX RATE IS ONLY .66%!

TAX-FREE INCOME!

IF YOU RECEIVE:

LONG-TERM CAPITAL GAINS

CAPITAL GAIN DISTRIBUTIONS

QUALIFIED DIVIDENDS

YOU QUALIFY!

WHAT ARE THOSE?

LONG-TERM CAPITAL GAINS (LTCG) ARE GAINS ON THE SALE OF AN ASSET THAT YOU'VE HELD FOR AT LEAST A YEAR AND A DAY.

CAPITAL GAIN DISTRIBUTIONS ARE A "DIVIDEND" FROM THE SALE OF AN ASSET IN A MUTUAL FUND OR ETF.

A QUALIFIED DIVIDEND IS A DIVIDEND FROM AN INVESTMENT THAT YOU'VE HELD FOR AT LEAST 60 DAYS, HAS AN UNDERLYING BUSINESS, AND IS EITHER AN AMERICAN OR QUALIFIED FOREIGN PUBLICLY HELD COMPANY AND TRADED ON A MAJOR U.S. EXCHANGE.

THESE TYPES OF INCOME ARE IMPORTANT BECAUSE THEY'RE TAX-FREE TO THE EXTENT THEY'RE IN THE 12% TAX BRACKET.

FOR SINGLE PEOPLE AND THOSE THAT ARE MARRIED BUT FILING SEPARATELY, THE 12% TAX BRACKET IS UP TO $48,475 OF TAXABLE INCOME.

FOR MARRIED PEOPLE FILING JOINLTY, THE 12% TAX BRACKET IS UP TO $96,950 OF TAXABLE INCOME.

FOR HEADS OF HOUSEHOLD STATUS, THE 12% TAX BRACKET IS UP TO $64,850 OF TAXABLE INCOME.

TAX FREE!!

EXAMPLE #2

- MARRIED COUPLE FILING JOINTLY, AGED 65 OR OLDER, WITH $50,000 WORTH OF REPORTABLE INCOME. OF THIS, ALL $50,000 IS RETIREMENT FROM THEIR TRADITIONAL IRA. THEY'VE CHOSEN TO DELAY TAKING SOCIAL SECURITY UNTIL AGE 70.

- THE COUPLE DECIDES TO SELL STOCK WITH A $80,000 LONG-TERM CAPITAL GAIN

- HOW MUCH TAX WILL THEY HAVE TO PAY ON THE $80,000 LONG-TERM CAPITAL GAIN?

The answer? It's zero!!

Category	Without the capital gain	With the LTCG	Difference
Reportable income	50,000	$130,000	80,000
Standard deduction	34,700	34,700	0
Senior deduction	12,000	12,000	0
Taxable income	3,300	83,300	80,000
Tax	333	333	0

Tax planning tip: use your deductions!

- Depending on your taxable income, you may be able to take advantage of the senior discount and higher standard deduction. Remember, you've got nearly $47,000 of senior deduction and standard deduction if married and nearly $23,500 as a single senior.
- Try to use up these deductions by converting money from your traditional IRA each year into your Roth IRA.
- If you prefer not to convert, at least take some money from your IRA as a distribution to the extent you're still not paying any tax on that money. You can still invest that money into your investment account.
- Good time to cash in on long-term capital gains!

More new tax breaks for 2025 - 2028

- Deduction for interest on car loans
- No tax on tips
- No tax on overtime
- State And Local Tax (SALT) deduction increased

What vehicles 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.
- The VIN Decoder website 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 was located in the United States.
- Taxpayer eligibility: 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.

Car loan interest deduction

- 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 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.
- Maximum deduction is $10,000
- Phases out for singles at $100,000 and married at $200,000 by 20%

No tax on tips

- “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing.
- Maximum annual deduction is $25,000; for self-employed, deduction may not exceed individual’s net income (without regard to this deduction) from the trade or business in which the tips were earned.
- Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers). Phase out rate is 10% for all income over those thresholds.
- Taxpayer eligibility: 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. Employees whose employer is in an SSTB also are not eligible.
- Taxpayers must:
- include their Social Security Number on the return and
- file jointly if married, to claim the deduction.

No tax on overtime

- Only applies to the overtime portion
- $12,500 annual maximum for singles; $25,000 for married couples
- If married, must file jointly
- If your income is more than $150,000 for singles and $300,000 for married couples, the deduction begins to phase out. Phaseout rate is 10% for income over those amounts.
- SSTB's do not qualify for this deduction. Those are categories such as accountants, lawyers, architects, etc.

SALT taxes increased thru 2025-2029

- State And Local Taxes are:
- state income tax paid
- state income taxes withheld
- real estate taxes paid
- certain personal property taxes, such as the VLT (vehicle license taxes) on vehicle registrations
- Sales taxes paid

SALT (cont'd)

- Beginning in 2025, you can now deduct up to $40,000
- Adjusted to 101% of the previous year's limit each year thru 2029
- Reverts back to $10,000 beginning in 2030
- Begins to phase out at 30% for MAGI over $500,000. The threshold is $500,000 for single, heads of household, and married filing jointly statuses, but only $250,000 if married filing separately.

Things going away after 2025:

- Solar tax credits
- Electric vehicle tax credits
- Home efficiency tax credits

Changes commencing in 2026:

- Gambling limitations
- Charitable contributions
- Catch-up retirement contributions

Gambling

- Can only deduct 90% of your losses
- Of that amount, not more than 100% of winnings
- Must keep adequate records
- The “sessions method” may work better but is considerably harder to track records on.

Gambling example #1:

- You win $30,000 during the year
- Your losses are $35,000
- You can take 90% of the $35,000, or $31,500
- Since $31,500 is higher than your winnings, you can use $30,000 against those winnings.
- Your AGI will be higher and may affect other items on your return.
- You must itemize your deductions in order to be able to use these losses.

Gambling example #2:

- You win $30,000 during the year
- You lose $30,000 during the year
- With the 90% rule, you can only use $27,000 of those losses against the winnings.
- You wind up paying tax on $3,000 that you never really made.
- Your AGI will still be higher and may affect other items of your tax return.
- You must itemize your deductions to use these losses

Gambling example #3:

- You win $20,000 during the year
- You have $40,000 worth of losses
- Even with the $20,000 of available losses to you, you still can’t itemize.
- You pay income tax on all $20,000 and it increases AGI, which may affect other items on your return, too!

New rules for charity:

- If you’re a non-itemizer, you can begin deducting $1,000 as a single person or $2,000 as a married couple.
- The donations must be monetary (no merch)
- You must have documentation from the donee organization.
- It must be a 501C(3) organization
- Can’t take a deduction if you’re also using that same donation on your AZ return as a tax credit.

Charity (continued):

- If you do itemize your deductions, the non-itemizer deduction goes away as that'll be included on Schedule A
- If you do itemize, there's a new .5% of AGI threshold reducing your donations by that much. The threshold is the normal AGI amount without regard to any net operating loss carryback taken.

Catch-up contributions: 2026 transition year

- Beginning in 2026, taxpayers are still allowed an extra amount of "catch-up" contributions to retirement accounts for those aged 50 or older.
- The additional amount MUST be in the form of a Roth if your Medicare wages are $145,000 or higher, so that the additional amount is no longer deductible.
- If the employer doesn't offer a Roth version, then no deduction will be available for the catch-up contributions.
- Those who make less than $145,000 will not be affected and the additional catch-up contributions can either be deductible or non-deductible into a Roth account, if a Roth version is available.

Super catch-up amounts:

- Current catch-up amounts are $7,500 for workers age 50 and older.
- Beginning in 2025, SECURE 2.0 raises the catch-up limit for participants ages 60–63 to the greater of $10,000 or 150% of the regular catch-up limit. For 2025, that amount is $11,250.

Final thoughts

- Be sure to utilize your full standard deduction.
- Convert some of your traditional IRA account to a Roth IRA each year and take advantage of the new senior discount if you're 65 or older.
- On your non-retirement investments, be sure to notice the long-term capital gains, capital gain distributions & qualified dividends as they're tax-free to the extent they're in the 12% tax bracket. Try to get more of these since they're tax-free.
- Take advantage of the extra contribution amounts to your retirement funds if age 50 or older.

Thank you

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