

Understanding the One Big Beautiful Bill Act (OBBBA): What It Means for Federal Taxes

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) became law, reshaping the federal tax landscape in ways that ripple through households, businesses, and nonprofits alike. Touted as one of the broadest changes to the Internal Revenue Code in decades, its core purpose is pretty straightforward: take the tax cuts and reforms from the 2017 Tax Cuts and Jobs Act (TCJA), most of which were set to expire at the end of 2025, and make them permanent. But OBBBA goes further, layering in new tax breaks, ending some old ones, and tweaking how both individuals and businesses interact with the IRS. Here's what you need to know.

What Is the One Big Beautiful Bill Act?

The OBBBA was passed through the 2025 budget reconciliation process—meaning it needed only a simple majority in the Senate. The bill's stated aim is long-term certainty: after years of looming tax “cliffs,” the law locks in the TCJA's lower tax rates, bigger standard deduction, and other key features. It also introduces a handful of new provisions that reflect the priorities of the current administration. While the law touches on health care, social policy, and energy, its biggest and most immediate effects are in federal tax law.

Major Tax Changes in the OBBBA

Permanent Extension of TCJA Provisions

Most of the TCJA's taxpayer-friendly provisions are now permanent:

- **Individual Income Tax Rates and Brackets:** The lower rates and broader brackets stick around, avoiding a tax hike for most filers. The top rate remains at 37%, not 39.6%.
- **Standard Deduction:** Not only is the larger standard deduction here to stay, but it's also bumped up again—\$15,750 for singles, \$31,500 for joint filers in 2025, with inflation adjustments going forward.
- **Personal Exemption:** The personal exemption remains suspended for good. In its place, seniors age 65+ get a new, temporary deduction of \$6,000 per qualifying individual (phased out at higher incomes, available 2025–2028).
- **Child Tax Credit:** The expanded child tax credit is now permanent, increased to \$2,200 per child and indexed for inflation. Requirements have tightened, though: a valid Social Security Number is now a must.
- **Alternative Minimum Tax (AMT):** The higher exemption and phaseout thresholds are locked in, but the phaseout rate doubles to 50%.

Temporary New Deductions (2025–2028)

A few new deductions are on offer for a limited time:

- **No Tax on Tips:** Up to \$25,000 of qualified tips per year can be deducted, with income limits and strict reporting.
- **No Tax on Overtime:** Up to \$12,500 (\$25,000 for joint filers) of overtime pay per year is deductible, also subject to phaseouts.
- **No Tax on Car Loan Interest:** Up to \$10,000 per year in interest on loans for new, U.S.-assembled vehicles is deductible, again with phaseouts and documentation requirements.

Business Tax Provisions

OBBBA makes several business-friendly changes permanent:

- **Full Expensing (Bonus Depreciation):** 100% bonus depreciation for qualified property is now permanent. Businesses can immediately deduct the full cost of most investments.
- **R&D Expensing:** Immediate expensing for domestic research and experimental costs is back for good (foreign R&D still requires 15-year amortization).
- **Interest Deduction Limitation:** The limit on business interest expense is now permanently based on EBITDA, not EBIT, allowing more generous deductions.
- **Section 199A Deduction:** The 20% deduction for qualified business income from pass-throughs is now permanent, with a minimum deduction of \$400 for active business income.

Charitable and Itemized Deductions

- **Charitable Deduction for Non-Itemizers:** There's a new, above-the-line deduction for charitable giving—\$1,000 for singles, \$2,000 for joint filers.
- **Itemized Charitable Deduction Floor:** For itemizers, only contributions above 0.5% of AGI count; for corporations, the floor is 1% of taxable income.
- **SALT Deduction Cap:** The state and local tax deduction cap rises to \$40,000 (\$20,000 if married filing separately) for 2025–2029, with a phase-down for high earners, then reverts to \$10,000 in 2030.
- **Limitation on Itemized Deductions:** A new formula now reduces itemized deductions for the highest earners.

Estate and Gift Tax

- The exemption is permanently raised to \$15 million per decedent (indexed for inflation), meaning far fewer estates will owe federal tax.

International and Corporate Tax

- **GILTI and FDII:** Deductions for global intangible low-taxed income (GILTI, now “net CFC tested income”) and foreign-derived intangible income (FDII, now “foreign-derived deduction eligible income”) are trimmed, raising effective tax rates.
- **BEAT:** The Base Erosion and Anti-abuse Tax (BEAT) rate is set at 10.5% permanently, with new anti-avoidance rules.
- **Other Changes:** The “look-through” rule for related CFCs is now permanent, and the one-month deferral election for specified foreign corporations is gone.

Energy and Green Credits

- Many clean energy credits are phased out early, with new restrictions on foreign ownership of supply chains for those that remain.

Tax-Exempt Organizations

- The excise tax on excess executive compensation is expanded to cover any employee (or ex-employee) who was ever a covered employee since 2016.
- The excise tax on net investment income of private colleges and universities is now progressive, up to 8% for the wealthiest.
- A new credit is available for individual donations to scholarship-granting organizations, but only in states that opt in.

How Does OBBBA Affect Federal Tax Filings?

For Tax Year 2025

- **No Immediate Changes to Forms or Withholding:** The IRS says employers and payroll providers should keep using existing forms and tables for 2025. No changes yet to W-2s, 1099s, 941s, or withholding.
- **Transition Period:** The IRS is offering a transition period to avoid disrupting payroll and reporting. Taxpayers will claim new deductions and credits when filing 2025 returns in 2026, but reporting and withholding don’t change yet.
- **Guidance Forthcoming:** Expect new IRS guidance and updated forms for the 2026 tax year, especially on tips and overtime pay.

For Taxpayers

- **Eligibility and Documentation:** More deductions and credits come with new paperwork—think Social Security Numbers for some credits, VIN for car loan interest, occupation reporting for tips.
- **Temporary Deductions:** The special deductions for tips, overtime, car loan interest, and the senior deduction are only available for 2025–2028 (or as otherwise specified), and all have income phaseouts.
- **Permanent Changes:** Most TCJA-style provisions, business expensing, and international tax changes are here to stay, offering more predictability.

For Businesses

- **Expensing and Deductions:** Immediate expensing for investments and domestic R&D is now permanent, along with a more generous interest deduction.
- **Reporting Requirements:** New rules for tips, overtime, and car loan interest will roll out with future IRS guidance.

For Tax-Exempt Organizations

- **Excise Tax Compliance:** Nonprofits and universities need to review compensation and investment income in light of the new excise tax rules.
- **Donor Incentives:** Changes to charitable deductions and new credits may affect how organizations structure fundraising.

Economic and Fiscal Impact

- The OBBBA is projected to boost long-run GDP by 1.2% and increase after-tax incomes by 2.9% in 2025 and 5.4% in 2026, with the biggest benefits going to middle-income households.
- The law is expected to add \$3 trillion to federal deficits over the next decade, even after factoring in economic growth and spending cuts.

In Summary

The One Big Beautiful Bill Act marks a sweeping overhaul of the U.S. tax code. By making the TCJA's key provisions permanent, adding new deductions and credits, and updating rules for individuals, businesses, and nonprofits, it delivers both immediate relief and long-term certainty for many taxpayers. For 2025, most people won't notice changes in their paychecks or paperwork, but tax season in 2026 will bring a host of new eligibility and reporting rules. The IRS will be rolling out additional guidance and updated forms for future years, so staying informed will be key.