SELECT TAX CHANGES IN THE ONE BIG BEAUTIFUL BILL ACT

Provisions That Impact You

Please note: The following information is based on current understanding of the provisions found in H.R. 1 (https://www.congress.gov/bill/119th-congress/house-bill/1/text). Interpretations may change over time with additional information and further guidance from the IRS. All provisions are not covered in this article. Please contact accountingBot if you are interested in specifics for your financial situation.

Congress has passed - and the President signed into law - the One Big Beautiful Bill Act (OBBBA), which includes some important tax changes with the potential to impact most U. S. taxpayers. There are a variety of provisions; some permanent, some temporary, some start in 2025, some start in 2026. Let's take a look.

Photo reprint from USA Today: https://www.usatoday.com/story/graphics/2025/07/04/trump-big-beautiful-bill-tax-details-explained/84461981007/

PERMANENT

Extension of Current Marginal Brackets on Ordinary Income
The 10%, 12%, 22%, 24%, 35%, and 37% brackets on ordinary income from the Tax Cuts and Jobs Act (TCJA) of 2017 are now permanent. Effective 2025. The tax brackets will be adjusted for inflation in 2026 and beyond. Moreover, the 10% and 12% brackets will receive an additional bonus inflation adjustment in 2026, effectively giving them a two-year inflation adjustment.

2025 Tax Brackets and Federal Income Tax Rates			
Tax Rate	**Single/Married Filing Separate**	**Married Filing Joint**	**Heads of Households**
10%	$0 to $11,925	$0 to $23,850	$0 to $17,000
12%	$11,925 to $48,475	$23,850 to $96,950	$17,000 to $64,850
22%	$48,475 to $103,350	$96,950 to $206,700	$64,850 to $103,350
24%	$103,350 to $197,300	$206,700 to $394,600	$103,350 to $197,300
32%	$197,300 to $250,525	$394,600 to $501,050	$197,300 to $250,500
35%	$250,525 to $626,350	$501,050 to $751,600	$250,500 to $626,350
37%	$626,350 or more	$751,600 or more	$626,350 or more

Extension of Higher Standard Deduction Amounts
The OBBBA maintains and increases the higher standard deduction amounts from the TCJA and makes the higher amounts permanent. Effective 2025.

Additionally, taxpayers who are age 65 and older and/or blind remain eligible for additional standard deductions, as applicable. They may also be eligible for a new temporary enhanced senior deduction (more on this topic later).

2025 Standard Deduction Amounts:

- $15,750 - Single
- $23,625 - Head of Household (HH)
- $31,500 - Married Filing Jointly (MFJ)
- $15,750 - Married Filing Separate (MFS)
- $31,500 - Qualifying Surviving Spouse (QS)

Itemized Deductions Limitation
Effective for tax year 2026, taxpayers in the 37% bracket will experience a limitation on their itemized deductions. For these taxpayers, itemized deductions will be reduced by 2/37ths of the lesser of:

- The total itemized deductions, or
- The amount of *taxable* income that surpasses where the 37% marginal bracket on ordinary income begins (all taxable income taxed above the 35% bracket).

Limitation of Itemized Charitable Deductions
Starting in 2026, taxpayers will be subject to a floor of 0.5% of adjusted gross income for itemized charitable deductions.

New Charitable Deductions for Taxpayers Not Itemizing
Effective in 2026, this new and permanent provision allows taxpayers regardless of income, to deduct cash contributions to eligible charities. Emphasis on cash contributions. The deduction amount is up to $1,000 for single filers, and $2,000 for married filing joint. (No donor advised funds.)

Taxpayers aged 70 ½ or older, whether they itemize or not, can benefit from Qualified Charitable Distributions from their IRAs. You can transfer up to $108,000 per year directly from your IRA to a qualified charity without recognizing the distribution as taxable income.

Alternative Minimum Tax (AMT) rules
Effective in 2026, the individual AMT exemption amounts - the portion of income shielded from the AMT calculation - will be permanently retained at current levels and will continue to be adjusted annually for inflation.

However, the income thresholds at which the exemption begins to phase out will return to their lower, pre-2018 levels: $500,000 for single filers ($1 million for married filing joint), also indexed for inflation going forward. Additionally, the rate at which the exemption phases out will double, from 25% to 50%.

Section 199A Qualified Business Income Deduction
The OBBBA maintained the 20% deduction of qualified business income (QBI) but made two adjustments, both of which go into effect in 2026:

- First, taxpayers with at least $1,000 of QBI will receive a minimum deduction of $400. This minimum QBI deduction will adjust for inflation in future years.
- Second, the legislation increases the taxable income limitation phase-in amounts from $75,000 to $150,000 for Joint Filers, and from $50,000 to $100,000 for all other filing statuses. These expanded limits will apply to specified service trades or businesses as well as pass-through entities subject to wage and investment limitations.

Estate Tax Exemption
Effective 2025, the estate tax exemption that allows passing income to heirs tax-free is $15 million per person. In 2025, you can gift $19,000 per recipient without having to report it to the IRS.

Child Tax Credit
Effective 2025, the child tax credit increases from $2,000 to $2,200. After 2025, it will be adjusted for inflation. The credit has phase out limitations.

Green Energy Rollbacks
- The $7,500 **Electric Vehicle Tax Credit** has been repealed. Set to expire on September 30, 2025. Note that for electric vehicles purchased by September 30, 2025, you might be able to take advantage of this credit, and the car loan interest deduction (discussed later). Check out this site for vehicle eligibility: https://fueleconomy.gov/feg/tax2023.shtml
- The **Energy Efficient Home Improvement Credit** has been repealed. This credit allows homeowners to claim a percentage of the cost of energy-efficient home improvements like insulation, windows, and certain HVAC systems. The OBBBA repeals this credit for installations after December 31, 2025.
- The **Residential Clean Energy Credit** has been repealed. This credit allows homeowners to claim a percentage of the cost for investments in solar, wind, geothermal, and fuel cell property for homes. The OBBBA repeals this credit for installations after December 31, 2025.

If you are thinking of making purchases such as installing a power system that uses solar or other renewable energy, or smaller energy-saving purchases for your home, make them in 2025. Find helpful information at https://www.energystar.gov/about/federal-tax-credits

Scholarship Credit
Beginning in 2027, taxpayers can claim a non-refundable credit of up to $1,700 per year for cash donations to approved Scholarship Granting Organizations. The credit is available to all taxpayers, including non-itemizers, and can be carried forward for up to five years if unused; however, it is reduced by any state tax credit received for the same donation.

Donations claimed for this credit cannot also be deducted as charitable contributions.

TEMPORARY

Enhanced Senior Tax Deduction
Through 2028, each eligible taxpayer over 65 can deduct an additional $6,000. The deduction begins phasing out at $75,000 for single filers, $150,000 for married filing joint. Once your modified adjusted gross income reaches $175,000 for single filers or $250,000 for married filing joint, there is no deduction.

The deduction applies to all of an eligible taxpayer's income, not just to Social Security benefits.

Savings Accounts for Children
For eligible children born between 2025 and 2028, a new savings program allows a $1,000 government-funded seed deposit. Other features include:

- Eligible child: newborns have to be U.S. citizens and have a Social Security number.
- Parents (and grandparents) have the option to contribute up to $5,000, annually. (Contributions from 501(c)(3) tax-exempt organizations to a qualified class are exempt from the $5,000 cap.)
- Accounts are invested in a U.S. stock market index and function similarly to IRAs.
- Withdrawals are allowed starting at age 18, with penalties for early withdrawals (pre-59½) unless used for qualifying expenses such as higher education, training and first-time home purchases.

State and Local Taxes (SALT) Deduction
SALT itemized deductions have always existed but in recent years taxpayers were limited to a deduction of $10,000 regardless of income. Effective 2025, taxpayers can deduct up to $40,000, ($20,000 for married filing separately filers). Higher-income taxpayers have a limit on these deductions, as they begin to phase out by 30% when modified adjusted gross income exceeds a particular income amount based on filing status:

- MFS: Starts at $250,000 - fully phased out at $300,000
- Other filing statuses: Starts at $500,000 - fully phased out at $600,000

When fully phased out, the taxpayer will still receive the *minimum* SALT deduction of $10,000 ($5,000 for married filing separately filers).

SALT will increase by 1% every year through 2029; after, SALT reverts back to the $10,000 limit.

No Tax on Qualified Tips
Jobs considered tipped work are spelled out, such as food servers and beauticians. Qualified tips are considered cash tips received by an individual with an occupation that customarily and regularly receives tips on or before December 31, 2024.

Effective 2025 through 2028, the first $25,000 of tips will be tax-deductible subject to phase out limits. Phase out of this deduction starts at $150,000 for single filers, $300,000 for married filing joint. The deduction amount is reduced by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds the threshold.

No Tax on Qualified Overtime Compensation
Eligible taxpayers are entitled to a qualified overtime compensation deduction. Qualified overtime compensation is overtime pay to an individual as required under section 7 of the Fair Labor Standards Act of 1938, that is in excess of the regular rate at which such an individual is employed.

Married individuals who file a separate return are not eligible for the deduction.

Effective 2025 through 2028, up to $12,500 of overtime pay will be tax-deductible subject to phase out limits. $150,000 for single filers, $300,000 for married filing joint. The deduction is reduced by $100 for every $1,000 by which the taxpayers modified adjusted gross income exceeds these thresholds.

Car Loan Interest
For interest paid on loans financing the purchase of qualified passenger between 2025 and 2028, taxpayers might be able to deduct up to $10K of interest paid subject to limits. Phase out of the deduction starts at $100K for single filers, $200K for married filing joint. Available to taxpayers regardless if itemizing or taking the standard deduction.

Only for new vehicles, for personal use, and only if the vehicle's final assembly occurred in the U.S.

REFERENCE SOURCES

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