The 2025 Tax Act

Highlights of major tax and planning provisions in the One Big Beautiful Bill

After numerous twists and turns during the legislative process, the One Big Beautiful Bill Act (OBBBA)[1] was passed by Congress and signed into law on July 4, 2025. Many of the provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) were set to expire at the end of 2025. President Trump campaigned on their extension. OBBBA makes many of the expiring provisions of TCJA permanent. However, remember that in Washington, D.C., "permanent" just means that a provision is not set to expire automatically. *A future Congress can and likely will amend the Internal Revenue Code.*

Individual income tax

Income Tax Rates. TCJA lowered individual income tax rates, but those lower rates were set to automatically expire at the end of 2025. OBBBA makes TCJA's lower income tax rates permanent, effective in 2026.

Individual State and Local Tax Deduction. TCJA capped the individual State and Local Tax (SALT) deduction at $10,000 for 2018 through 2025. OBBBA raises the cap to $40,000 for 2025, with a 1% annual increase in 2026 through 2029. The cap phases down for taxpayers with modified adjusted gross income (MAGI) above $500,000 (2025 figure), but the cap will not go below $10,000. The individual SALT deduction cap will automatically revert to $10,000 in 2030.

Standard Deduction, Personal Exemption and Miscellaneous Itemized Deductions. TCJA increased the standard deduction and suspended both the personal exemption and miscellaneous itemized deductions for 2018 through 2025. OBBBA makes permanent the larger standard deduction and suspension of the personal exemption starting in 2025. OBBBA permanently suspends miscellaneous itemized deductions starting in 2026.

Itemized Deduction Phaseout (Pease Limitation). Prior to TCJA, high income taxpayers could be subject to a limit on itemized deductions. TCJA suspended this limitation. Starting in 2026, OBBBA permanently repeals the itemized deduction phaseout and replaces it with a new reduction on itemized deductions. For high income taxpayers, itemized deductions (excluding the Sec. 199A Qualified Business Income deduction) could be reduced by 2/37 of the lesser of:

- The amount of the deductions, or
- The taxable income which exceeds the dollar amount at which the 37% income tax bracket begins.

Key Takeaways

- Lower income tax rates made permanent
- State and local tax (SALT) deduction cap raised through 2029
- Higher estate tax exemption made permanent
- Small business income tax deduction made permanent
- New "Trump Accounts" created to help minor children begin saving

[1] The name of the legislation was formally changed to "The Act of 2025" in the Senate, but most people continue to refer to it as OBBBA.

Alternative Minimum Tax. The higher alternative minimum tax (AMT) exemption amounts temporarily created by TCJA are made permanent starting in 2026. The exemption phaseout threshold is also increased to $500,000 (single) and $1,000,000 (MFJ) and indexed for inflation annually.

Enhanced Deduction for Senior Citizens. OBBBA creates a new $6,000 deduction for qualifying senior citizens for 2025 through 2028. If married, each spouse can claim the new deduction. The enhanced deduction is reduced by 6% for adjusted gross income (AGI) exceeding $75,000 (single) or $150,000 (MFJ).

Charitable Contribution Deduction. OBBBA creates a 0.5% floor of an individual's contribution base (generally AGI) on itemized charitable contributions starting in 2026. This effectively reduces a deductible charitable contribution by 0.5% of the taxpayer's individual AGI. The TCJA 60% of AGI ceiling for donations of cash to public charities is made permanent.

Charitable Deduction for Taxpayers who do not Itemize. Starting in 2026, a new permanent charitable donation deduction of up to $1,000 (single) or $2,000 (MFJ) is available for taxpayers who use the standard deduction rather than itemize. To qualify, the contribution must be made in cash to a public charity.

Child Tax Credit. TCJA increased the child tax credit through 2025. OBBBA makes the increase permanent starting in 2026. In 2026, the child tax credit will be $2,200 per qualifying child, and the figure is then indexed for inflation annually.

Income Taxation of Tips. OBBBA creates a new income tax deduction of up to $25,000 on qualified tip income for 2025 through 2028. The deduction phases out by $100 for every $1,000 of MAGI above $150,000 (single) or $300,000 (MFJ). Non-itemizers can claim this deduction.

Income Taxation of Overtime. For 2025 through 2028, a new deduction of up to $12,500 is created for qualifying overtime income. Highly compensated employees and tips are excluded. The deduction phases out by $100 for every $1,000 of MAGI above $150,000 (single) or $300,000 (MFJ). Non-itemizers can claim this deduction.

Mortgage and Home Equity Interest Deduction. Under TCJA, the mortgage interest deduction was capped at $750,000 for 2018 through 2025. The deduction on home equity interest was eliminated for 2018 through 2025 unless the home equity was used for a home improvement or acquisition. Both the deduction cap and home equity rules are made permanent starting in 2026.

Interest on Auto Loans. For 2025 through 2028, individuals, including non-itemizers, can deduct up to $10,000 of car loan interest payments annually. The deduction phases out starting at $100,000 (single) or $200,000 (MFJ) of MAGI. A number of requirements must be met to qualify for the deduction, including that the debt is incurred in 2025 or later, the debtor must be the original owner of the auto, the loan must be the first lien against the auto, the auto must have a gross weight under 14,000 pounds, and final assembly of the auto must occur in the United States.

529 Accounts. The definition of qualified expenses for 529 plan distributions is expanded starting in 2026. The cap on annual distributions for K-12 expenses is increased to $20,000 starting in 2026.

ABLE Account Contributions and Rollovers. Higher contribution limits to 529A ABLE Accounts for disabled individuals who are employed are made permanent starting in 2026. The ability to roll 529 account balances to a 529A ABLE Account is also made permanent starting in 2026.

Student Loans. The OBBBA contains numerous provisions that cap the maximum amount in federal student loans that individual borrowers can take. It also phases out existing repayment options and replaces them with a choice between two plans: a standard repayment plan and a new income-driven repayment plan. New borrowers with loans taken on or after July 1, 2026, will choose between these two new plans, while existing borrowers will transition to one of the new plans by July 1, 2028.

Transfer tax

Estate, Gift, and Generation Skipping Transfer Tax Exemptions. TCJA effectively doubled the transfer tax exemptions for 2018 through 2025. OBBBA permanently increases these exemptions to $15 million per person in 2026. The exemptions are adjusted for inflation annually.

Business tax

Qualified Business Income Deduction. TCJA created a new 20% Qualified Business Income (QBI) deduction for certain pass-through entities for 2018 through 2025. OBBBA makes the QBI deduction permanent starting in 2026. OBBBA sets the minimum active QBI deduction at $400 and requires that an applicable taxpayer have a minimum of $1,000 in qualified business income to take the deduction. OBBBA also increases the QBI phase-in threshold from $50,000 to $75,000 (single) and $100,000 to $150,000 (MFJ) in 2026. Those figures are then adjusted for inflation annually.

Bonus Depreciation. For property acquired on or after January 20, 2025, the first-year bonus depreciation for qualified property is permanently set at 100%.

Qualified Small Business Stock (QSBS) Gain Exclusion. Prior law permitted noncorporate taxpayers to exclude gain on the sale of "qualified small business stock," up to the greater of $10 million or 10X adjusted basis. Eligibility was subject to several qualifications, including that the adjusted basis of the assets of the corporation generally must not have exceeded $50 million at any point, and that the stock must have been held for at least five years.

OBBBA increases the gain exclusion to the greater of $15 million or 10X adjusted basis. OBBBA expands access to this tax incentive by implementing a tiered exclusion, allowing 50% of the maximum exclusion for QSBS held at least three years, and 75% of the maximum exclusion for QSBS held at least four years. QSBS held for at least five years is still eligible for 100% of the maximum exclusion. Additionally, the gross asset limitation is increased from $50 million to $75 million and will be adjusted for inflation in future years. These new rules are effective for QSBS issued after the date of enactment, July 4, 2025. The increase for the gain exclusion is effective in 2026.

Executive Compensation. Prior to OBBBA, the deduction for compensation to a covered employee of a publicly traded company is capped at $1 million. OBBBA expands the definition of a covered employee to include all members of a publicly traded corporation's controlled group and affiliated service group. This change is effective in 2026.

Trump Accounts

OBBBA creates "Trump Accounts." These are new tax-deferred investment accounts for minor children. A Trump Account is effectively a traditional (non-Roth) Individual Retirement Account (IRA) for a minor child, but not subject to the earning requirements for IRAs. The IRS will need to provide significantly more information on these accounts., including which financial institutions can hold the accounts.

- Annual contributions are capped at $5,000 (adjusted for inflation annually) and may be made by parents, relatives, employers, taxable entities, non-profits, and governmental entities. Contributions may not be made after the child has reached the age of 18. Unlike other IRAs where contributions may be made for the prior tax year, all Trump Account contributions will be credited for the year in which they are received.
- An employer may contribute up to $2,500 (indexed for inflation) to an employee's minor child's account. This contribution would not be taxable to the employee. Despite contributions not being taxable to the employee, distributions are fully taxable.

- Contributions made by tax-exempt entities such as a private foundation are not subject to the $5,000 limit, however they must be made to all children within a qualified group such as all children within a specific school district.
- The federal government will run a pilot program in which the accounts for qualifying children born in 2025 through 2028 will each receive a one-time $1,000 credit from the federal government.
- While Trump Accounts are effective in 2026, no contributions may be made prior to July 4, 2026, one year after the enactment of OBBBA.
- A Trump Account must be invested in a diversified fund which tracks an established equity index. The account grows tax-deferred.
- Distributions generally cannot be made until the child reaches the age of 18. Once the child reaches age 18, it appears that the account converts to a traditional IRA subject to normal IRA rules. Distributions will be taxed similar to other traditional IRA distributions. A 10% penalty likely applies to early withdrawals.

Sophisticated Planning Strategies, July 2025