

CLIENT LETTER FOR OBBBA

Dear Client:

On July 4, 2025, President Donald Trump signed the nearly-900-page One Big Beautiful Bill Act, which includes 250 pages of tax provisions. It's complicated. And, there are varying reports of many of the details available in print and online. While there are dozens of items in the bill, this letter highlights the major concepts of interest to most taxpayers.

INDIVIDUAL TAXES

Tax Rates and Standard Deduction

- The lower tax brackets from the 2017 Tax Cuts and Jobs Act are now permanent. The 7 marginal rates: 10%, 12%, 22%, 24%, 32%, 35% & 37%. The income ranges for each bracket continue to be adjusted for inflation.
- The higher standard deduction (around double the pre-2017 amount) is also made permanent and adjusted for inflation. For 2025, the standard deduction is \$15,750 for singles and \$31,500 for marrieds filing jointly.

Family & Child Benefits

- The Child Tax Credit is increased slightly to \$2,200 per child starting in 2026.
- New "Trump Accounts" give parents a \$1,000 tax-free credit for each child born between 2025–2028 to help with early costs.

Qualified Tips and Overtime Pay

- **Tips:** Beginning in tax year 2025 and lasting until the end of 2028, eligible individuals can deduct up to \$25,000 annually in qualified tips from their federal taxable income.
 - Applies to cash tips (including tips paid by credit or debit card) but not non-cash tips (such as casino chips) or automatic service fees.
 - Applies to individuals working in occupations that traditionally and customarily receive tips, such as waiters, bartenders, and hairdressers. The Treasury Secretary will publish a list of qualifying occupations.
 - Deduction phases out if income exceeds \$150,000 for singles or \$300,000 for joint returns.
- **Overtime:** Similarly, eligible individuals can deduct up to \$12,500 annually (or \$25,000 if filing jointly) in qualified overtime compensation from their federal taxable income for the same timeframe (2025–2028).
 - Specifically, it's for overtime pay that exceeds an employee's regular rate of pay.
- **Important Notes:**
 - These are deductions that reduce taxable income, but do not affect withholding for federal income taxes or Social Security and Medicare taxes, which still apply. Workers will receive the benefit when filing their tax returns.
 - These deductions can be claimed even if you don't itemize deductions.
 - There are income limitations for these deductions. They begin to phase out for those with a modified adjusted gross income (MAGI) exceeding \$150,000 (\$300,000 for married filing jointly).
- Regardless of the new deductions, Social Security and Medicare taxes will still be withheld and paid on tips and overtime earnings.

Taxation of Social Security Benefits

- No change to the way Social Security benefits are taxed.
- A temporary senior deduction of \$6,000 per individual for taxpayers aged 65 and older, available from 2025 through 2028. This amount phases out when modified adjusted gross income exceeds \$75,000 for singles or \$150,000 for joint returns. It can be claimed as an addition to the standard deduction or by taxpayers who itemize deductions.

Interest on US-Made Car Loans

- Taxpayers can deduct up to \$10,000 per year in interest paid on new car loans.
- The deduction is phased out for individuals with adjusted gross incomes exceeding \$100,000 and for married couples filing jointly with incomes over \$200,000.
- The provision is temporary, expiring after 2028.
- The vehicle must be a new car assembled in the United States.

State and Local Tax (SALT) Deduction

- The current \$10,000 limit on the SALT deduction is temporarily raised to \$40,000, starting in 2025.
- The \$40,000 cap will be adjusted for inflation, with a 1% increase each year through 2029.
- The benefit of the higher SALT deduction phases out for taxpayers with a modified adjusted gross income exceeding \$500,000, adjusted annually for inflation. The cap reduces gradually for those earning above this threshold, but not below \$10,000.
- The higher deduction limit is temporary. It will revert to the original \$10,000 cap beginning in 2030.

Pass-Through Entity Tax (PTET) Election

The final version of the bill did not eliminate the pass-through entity tax (PTET) deduction. While the House version of the bill initially proposed significant changes, including potentially eliminating the PTET for certain businesses, the Senate version removed these restrictions. The final bill, which passed both the House and Senate, maintains the PTET deduction without the changes proposed by the House.

BUSINESS TAXES

Qualified Business Income (QBI) Deduction

- The QBI deduction is made permanent, rather than allowing it to expire at the end of 2025 as initially scheduled.
- The bill retains the 20% deduction rate, not increasing it as initially proposed in some versions.
- The income thresholds at which the deduction begins to phase out for certain businesses (Specified Service Trades or Businesses, or SSTBs) are increased. For single filers, the threshold is raised from \$50,000 to \$75,000, and for married filing jointly, it's raised from \$100,000 to \$150,000.
- An inflation-adjusted minimum deduction of \$400 for taxpayers with at least \$1,000 of QBI from one or more active trades or businesses in which they materially participate is allowed even if the actual calculation is lower.

Bonus Depreciation and Expensing

- 100% bonus depreciation is made permanent, replacing the phased-down 40% for property placed in service after January 19, 2025.

- The Section 179 deduction limit is increased and permanently indexed for inflation. For 2025, the limit is \$2.5 million, with a phase-out starting at \$4 million of total qualifying purchases.

Research and Development Credit

- The research & development tax credit is expanded and rules that previously required spreading out R&D costs over five years are repealed.

Green Energy Credits

The law significantly cuts back or ends many green energy tax credits that were expanded under the Inflation Reduction Act (IRA).

- Most clean energy tax credits phase out by the end of 2025. This includes credits for renewable electricity production (like wind and solar), investment credits for new clean energy projects, and credits for energy storage systems.
- The Clean Vehicle Credit (EV tax credit) is phased out for new purchases starting in 2026. Existing credits claimed before the sunset remain valid.
- Credits for residential energy efficiency upgrades, such as heat pumps, windows, and insulation, are reduced or eliminated after 2025.
- Production credits for advanced manufacturing (like battery production and solar panel components) are repealed or sunset by 2025.
- The bill blocks future extensions of green credits without separate legislation, so Congress would have to pass a new law to revive these incentives later.

We are eager to provide you with advice regarding this sweeping legislation that is tailored to your individual circumstances. Please feel free to call with your questions.

Your tax professional

OBBBA Comparison Chart

Key Individual Tax Changes

Public Law 119-21 (“One Big, Beautiful Bill”) | Effective Tax Year 2025

This side-by-side reference summarizes how key provisions affecting individuals have changed under the new law, highlighting what was set to expire and what is now permanent or enhanced.

Provision	Before OBBA (Pre-2025 Law)	After OBBA (Effective 2025 Forward)
Tax Brackets	Lower TCJA brackets set to expire after 2025 and revert to pre-2018 rates	Made permanent at current (TCJA) rates; additional 1-year inflation adjustment for lower brackets
Standard Deduction	Enhanced deduction scheduled to expire after 2025	Made permanent with 5% bump from 2025 amounts; inflation-adjusted from 2025 base
Child Tax Credit (CTC) – Base Amount	\$2,000 (was scheduled to drop to \$1,000 in 2026)	\$2,200 per child starting in 2025, indexed using Chained CPI-U from 2024
CTC – Refundable Portion	\$1,400, inflation-adjusted from 2017	\$1,700 (2025) ; annually indexed (chained CPI-U) off the original \$1,400 — 2017 base
CTC – Phaseout Thresholds	\$400,000 (MFJ), \$200,000 (others); not permanent	Permanently retained at \$400,000 / \$200,000 thresholds
CTC – SSN Requirements	Prior SSN rule already existed; OBBA now hard-codes math-error treatment for any missing/invalid number.	Now explicitly required for all dependents; invalid/missing SSNs treated as math errors
Student Loan Discharge (Death/Disability)	Exclusion scheduled to expire after 2025	Made permanent for qualifying discharges
Employer-Paid Student Loan Benefits	\$5,250 exclusion set to expire after 2025	Made permanent; indexed for inflation , rounded to nearest \$50
Personal Exemptions	Technically retained in code, but set at \$0 since 2018	Permanently set at \$0 ; code sections still used for other provisions
Dependency Definitions & Application	Dependent exemptions deactivated but referenced elsewhere	No change, but continued relevance for deductions like senior benefits
Math Error Authority (SSN-related issues)	IRS could treat SSN issues case-by-case	Clarified treatment of invalid/missing SSNs as math errors with limited appeal rights
Stability for Planners	Ongoing uncertainty around TCJA expirations	Greater stability for long-term tax planning and projections

Notes:

- All inflation adjustments will now begin from 2025 base amounts unless otherwise noted.
- Chained CPI (C-CPI-U) indexing slows growth of credits/deductions, increasing stability.
- “Math error” classification limits appeal rights—accurate SSN documentation is essential.