# HIGHLIGHTS OF THE ONE BIG BEAUTIFUL BILL ACT

In early July, President Trump signed into law the *One Big Beautiful Bill Act* (the "Bill"), a sweeping piece of tax legislation that makes several of the 2017 Tax Cuts and Jobs Act provisions permanent, while also introducing new deductions, credits, and thresholds that could significantly impact individuals and families starting in 2025. From tax rate changes and enhanced deductions to newly created savings accounts and temporary tax breaks, the Bill touches nearly every aspect of the tax code. Below is a summary of the most notable changes that may affect your tax planning in the years ahead.

## *INDIVIDUAL INCOME TAX CHANGES*

### Income Tax Rates and Brackets

The current federal income tax brackets enacted under the 2017 *Tax Cuts and Jobs Act* ("TCJA") have been made permanent. The top marginal income tax rate of 37% is now permanent, avoiding the previously scheduled reversion to 39.6% after 2025. Brackets remain indexed for inflation.

### Standard Deduction and Personal Exemptions

The standard deduction continues to increase annually for inflation. The personal exemption remains eliminated. In tax year 2025, the standard deduction increases to $15,750 for single filers (up from $14,600 in 2024), $23,625 for heads of household (up from $21,900 in 2024), and $31,500 for married individuals filing jointly (up from $29,200 in 2024).

**State and Local Tax (SALT) Deduction Cap Increased**

Starting in 2025, the SALT deduction cap increases from $10,000 to $40,000 ($20,000 for married filing separately) and will increase 1% annually through 2029. This allows taxpayers in high-tax states to deduct more state and local taxes on their federal tax returns.

The expanded deduction phases out for taxpayers with Modified Adjusted Gross Income ("MAGI") over:

- $250,000 for Married Filing Separately
- $500,000 for Single, Head of Household, and Married Filing Joint filers

The deduction is fully phased out at higher income levels and is set to remain in effect through 2029.

**Limitation on Itemized Deduction Value for High Earners**

For taxpayers in the 37% tax bracket (income over $751,600 for married couples in 2025), the bill limits how much benefit they can get from itemized deductions:

- SALT and other state/local tax deductions are reduced by the lesser of:
  - 5/37ths of those deductions, or
  - 5/37ths of income over the threshold.

- Other deductions (i.e mortgage interest and charitable contributions) are reduced by the lesser of:
  - 2/37ths of those deductions, or
  - 2/37ths of income over the threshold.

This effectively caps the tax value of deductions at 35% instead of 37%, reducing the benefit only for the highest-income taxpayers.

**Miscellaneous Itemized Deductions**

The suspension of miscellaneous itemized deductions subject to the 2% AGI floor has been made permanent. This means unreimbursed employee expenses, investment fees, tax preparation costs, and similar expenses remain nondeductible on your federal tax return.

**Charitable Contributions**

Cash donations to qualified charities remain deductible up to 60% of Adjusted Gross Income ("AGI"). However, a new rule requires that only the portion of your donations exceeding 0.5% of your AGI be counted toward the 60% cap. For example, if AGI is $100,000, only donations exceeding $500 will count toward the 60% limit. This change primarily affects higher-income donors.

In addition, the Act introduces a new charitable deduction available to non-itemizers, allowing taxpayers who claim the standard deduction to also deduct up to $1,000 (Single) or $2,000 (Married Filing Jointly) in qualified cash contributions.

**Child Tax Credit**

The child tax credit has been increased to $2,200, with up to $1,700 refundable, per qualifying child under age 17. Phaseouts based on income remain unchanged. The amount of the credit will be indexed to inflation.

**Enhanced Dependent Care Assistance Benefits**

Effective January 1, 2026, the maximum annual amount that can be excluded from federal taxable income under an employer-provided dependent care assistance program (DCAP) has increased from $5,000 to $7,500. For married individuals filing separately, the limit is $3,750. This change allows employees to set aside more pre-tax dollars for eligible dependent care expenses, reducing their taxable income.

**Education-Related Benefits**

529 plan flexibility has been expanded to include a wider array of eligible educational expenses, including educational therapies and certain credentialing programs. Education credits, including the American Opportunity Credit and Lifetime Learning Credit, remain in place with no significant changes.

**Auto Loan Interest Deduction (New)**

Starting in 2025, taxpayers may deduct up to $10,000 in interest on new car loans for U.S. assembled vehicles. The deduction phases out above $100,000 (Single) and $200,000 (MFJ) and is available through 2028.

**Temporary Compensation Exclusion for Worker Tips and Overtime (New)**

**Overtime Pay Exclusion:**

From 2025 through 2028, the first $12,500 of overtime pay earned by eligible W-2 employees each year will be excluded from federal taxable income. To qualify, the compensation must be for hours worked beyond 40 hours in a week and paid at the legally required overtime rate. This exclusion phases out for taxpayers with AGI above $150,000 (Single) or $300,000 (MFJ).

*Note: Overtime wages are still subject to Social Security and Medicare (FICA) taxes.*

**Tip Income Deduction:**

During the same period (2025–2028), eligible W-2 employees working in tip-based occupations may deduct up to $25,000 per year in reported tip income from their federal taxable income. This deduction phases out for taxpayers with AGI above $150,000 (Single) or $300,000 (MFJ) annually. A full list of qualifying occupations is expected to be published by the U.S. Treasury Department.

*Note: Tips are still subject to Social Security and Medicare (FICA) taxes.*

**"Senior Bonus" Deduction (New)**

Taxpayers age 65 and older may claim a new $6,000 additional deduction starting in 2025 through 2028. This phases out beginning at $75,000 (Single) or $150,000 (MFJ).

**Wagering Loss Deductions Tightened**

Beginning in 2025, taxpayers can only deduct losses from wagering activities up to 90% of those losses and only to the extent of their winnings for the year. In other words, gambling losses can no longer fully offset gambling income, and no deduction is allowed beyond total winnings. This applies to all gambling-related deductions, not just direct losses, and may impact frequent or professional gamblers.

**Electric Vehicle & Clean Energy Credits Phasing Out**

The $7,500 credit for new Electric Vehicles ("EVs") and the $4,000 credit for used EVs will expire after September 30, 2025. Credits for residential energy-efficient improvements will end after December 31, 2025.

## *ESTATE, GIFT, AND GENERATIONAL TRANSFERS*

**Estate & Gift Tax Exemption Increased**

The estate, gift, and generation-skipping transfer tax exemption is now permanently set at $15 million per person (indexed for inflation). Married couples may now transfer up to $30 million tax-free. Portability between spouses remains unchanged.

**GST Exemption Matches Estate Exemption**

The generation-skipping transfer tax exemption also increases to $15 million per person in 2026. Unlike the estate tax exemption, any unused GST exemption is not portable to a surviving spouse.

## *OTHER NOTABLE PROVISIONS*

**New "Trump Accounts" for Child Savings**

Children born in the U.S. between 2025 and 2028 with a Social Security number will be eligible to receive a one-time $1,000 federal deposit into a new tax-advantaged savings account.

These accounts are also available to children born outside that window, but they will not receive the $1,000 contribution.

Parents may contribute up to $5,000 per year to each account, and employers can contribute up to $2,500 per year tax-free. Investment growth is tax-deferred, and qualified withdrawals are taxed at long-term capital gains rates.

**Changes to Medicaid**

The new bill includes significant changes to Medicaid aimed at tightening eligibility and program oversight over the next decade:

- **Funding Cuts:** Approximately $1 trillion in Federal Medicaid funding will be reduced over the next 10 years, affecting the overall resources available to states for Medicaid programs.
- **Work and Volunteer Requirements:** Medicaid recipients who are U.S. citizens will be required to work, volunteer, or participate in community engagement activities for at least 80 hours per month to maintain eligibility. This new rule introduces more frequent eligibility reviews.
- **Stricter Eligibility and Service Limits:** The bill imposes tighter restrictions on who qualifies for Medicaid coverage and what medical services are covered, potentially limiting access for some beneficiaries.

The new Medicaid work and volunteer rules requiring 80 hours per month of activity generally do not apply to retirees, elderly individuals, or those with disabilities who cannot work or volunteer due to health or age-related reasons. States are required to provide reasonable accommodations and exemptions for those unable to meet these requirements. Additionally, individuals receiving Medicaid for long-term care

or based on disability status are typically exempt from these new rules, ensuring that vulnerable populations maintain access to necessary healthcare services.

With the *One Big Beautiful Bill Act* now becoming law, many tax provisions that were previously set to expire have been extended, expanded, or made permanent, and several new deductions and credits have been introduced. These changes may create new opportunities for tax savings, but they also add complexity. Whether you are planning for retirement, investing, running a business, or simply filing your annual tax return, now is a great time to revisit your tax strategy.

If you have questions about how these updates might affect your situation, our team is here to help. Please reach out to schedule a time to discuss.

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