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The One Big Beautiful Bill Act: Summary of Relevant Tax Changes

Presented by McCarthy and Cox

The “One Big Beautiful Bill Act” (OBBBA) was signed into law by President Trump on July 4, 2025. As its name implies, the nearly 900-page legislation introduces sweeping changes across a wide range of policy areas, including tax, healthcare, energy, and more. Many provisions from the Tax Cuts and Jobs Act of 2017 (TCJA) were made permanent, while new rules—both temporary and permanent—were also introduced. It is recommended to consult with your tax advisor.

It's important to note that even permanent provisions under the OBBBA may still be altered or repealed through future legislation. To help you navigate this complex law, below is a summary of some of its most significant and relevant provisions.

Individual Tax Provisions

Changes that will affect your taxes in 2025:

- **Increased standard deduction:** The TCJA increased standard deduction is made permanent and adjusted to inflation. The standard deduction is adjusted for 2025 with \$15,750 for single filers, \$23,625 for heads of household, and \$31,500 for married individuals filing jointly.
- **State and local tax (SALT) deduction:** The cap of state and local tax a taxpayer can claim as a deduction is increased to \$40,000 and adjusted to inflation but it will revert to \$10,000 in 2030. The deduction is reduced by 30 percent of Modified Adjusted Gross Income (MAGI¹) over \$500,000 (for both single and married taxpayers) but the deduction cannot be less than \$10,000.
- **Senior Exemption:** A temporary \$6,000 “between-the-lines” deduction is included for taxpayers 65 and older that can be claimed until 2028. The deduction amount is phased out for single taxpayers with MAGI over \$75,000 and married taxpayers filing jointly with MAGI over \$150,000. It is fully eliminated if MAGI is over \$175,000 for single taxpayers and over \$250,000 for married taxpayers. While it has been portrayed as eliminating taxes on Social Security benefits, it will have a minimal impact for middle- and high-income claimants.
- **Deduction for tips and overtime pay:** Temporary above-the-line deductions are introduced for tips (\$25,000 for qualified tips received by an individual in an occupation that customarily and regularly receives tips) and overtime pay (\$12,500 for a single individual and \$25,000 for a married couple). Both deductions phase out for single taxpayers with MAGI over \$150,000 and married couples filing jointly with MAGI over \$300,000. These deductions will be eliminated in 2029.
- **Child tax credit:** The partially nonrefundable tax credit is increased to \$2,200 per child and adjusted to inflation for later years. The \$1,400 refundable part of the credit is made permanent and adjusted to inflation. The \$500 non-refundable credit for dependents other than qualifying children is also made permanent.

¹ Modified Adjusted Gross Income is Adjusted Gross Income increased by some foreign income under Section 911, 931, and 933.

- **529 plans:** Qualified expenses now include postsecondary credentialing expenses. More expenses will be added to the list of elementary and secondary school qualified expenses in 2026, such as materials and books, as well as tuition for tutoring and educational classes outside of the home.
- **Car loan interest deduction:** Interest paid on a qualified passenger vehicle new loan will be deductible temporarily until 2028. The deduction is limited to \$10,000/year and only applies to personal vehicles that had their final assembly in the U.S.

Changes that will affect your taxes in 2026 and later:

- **Estate tax exemption:** Federal thresholds are permanently increased—the exemption will be \$15 million in 2026 and is adjusted to inflation.
- **Tax rates:** Rates introduced by the TCJA are made permanent and slight upward adjustments are made to the top of the 10 percent and 12 percent tax brackets.
- **Home mortgage interest deduction:** The OBBBA permanently extends the limitation on deducting qualified residence interest to the first \$750,000 in home mortgage acquisition debt (previously \$1 million) and treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest. It also confirms the inability to deduct interest on home-equity loans.
- **Charitable contribution deduction:** A new above-the-line deduction is available for taxpayers who use the standard deduction; charitable contributions can be deducted up to \$1,000 for single taxpayers and up to \$2,000 for married couples filing jointly. Itemizers, on the other hand, will face a new limitation; charitable contributions will need to exceed 0.5 percent of the taxpayer's contribution base to be deductible. The contribution base is defined by the Act as AGI without any net operating loss carryback.
- **Itemized deductions:** The Pease limitation is removed, however a new limitation has been introduced for 2026. The amount an individual taxpayer can deduct (after deduction-specific limitations are applied) must be reduced by 2/37 of the lesser of 1) the total amount of itemized deductions, or 2) so much of the taxpayer's taxable income for the taxable year as it exceeds the dollar amount at which the 37 percent rate bracket begins with respect to the taxpayer.
- **Miscellaneous itemized deductions:** These are permanently eliminated except for unreimbursed employee expenses for eligible educators.
- **Qualified Business Income (QBI) deduction:** The OBBBA makes it permanent and increases the phase outs for Specified Service Trade or Businesses to \$75,000 for single taxpayers and \$150,000 if married filing jointly. An inflation-adjusted minimum deduction of \$400 is introduced for taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which they materially participate.
- **Alternative minimum tax:** The increased exemptions introduced by the TCJA are made permanent, however it reduces the threshold at which the exemption starts to phase out to \$1 million (married filing jointly, with a reduction of 50 cents for every dollar over the threshold).
- **ABLE accounts:** The increased contribution limits to ABLE accounts and the ability to roll over 529 plans funds to an ABLE account are made permanent and will be adjusted for inflation.
- **Trump accounts:** The OBBBA creates special IRAs for children under 18. Contributions can only be made in calendar years before beneficiary reaches age 18 and are limited to \$5,000 per year

(adjusted for inflation after 2027). Distribution of the funds can begin the calendar year the beneficiary reaches age 18. Distributions of basis are tax-free while distributions of income will be treated as IRA distributions and subject to ordinary income tax as well as a 10% penalty for distributions before age 59½, with some exceptions. A \$1,000 tax credit is offered for opening a Trump account for a child born between 2025 and 2028. The bill also allows for employer contributions to Trump accounts. These contributions will not be included in the employee's income. Investment options for the accounts appear limited to mutual funds and ETFs that track the S&P 500 or another qualified index.

Business Tax Provisions

Changes that will affect business owners in 2025:

- **Bonus depreciation deduction:** The OBBBA permanently returns bonus depreciation to 100 percent for property acquired and placed in service on or after January 19, 2025.
- **Special depreciation allowance for qualified production property:** The bill allows an additional first-year depreciation deduction equal to 100 percent of the adjusted basis of "qualified production property." Qualified production property is generally nonresidential real property used in manufacturing, and construction must begin after January 19, 2025, and before January 1, 2029. The property must be placed in service by January 1, 2031.
- **Section 179 expensing:** The OBBBA increases the amount taxpayers can expense to \$2.5 million per year. If the cost of qualifying property exceeds \$4 million, the deduction is reduced by the excess amount.
- **Full expensing of research and development expenses:** The OBBBA permits taxpayers to deduct domestic research or experimental expenditures paid or incurred immediately. In contrast, expenditures on research that is conducted outside the U.S. must still be deducted over 15 years.
- **Qualified small business stock exclusion:** For stock acquired after the enactment of the Act, the exclusion is subject to a new tiered system: 50 percent exclusion from income for stock held for at least three years, 75 percent exclusion for stock held for at least four years and 100 percent exclusion if the stock was held for five years or more. The asset limit for a qualified small business is also increased to \$75 million or less and the exclusion amount is increased to \$15 million.

Changes that will affect business owners in 2026 and later:

- **Charitable contribution deduction for corporation:** A floor is also applied to corporation, it will be 1 percent of the corporation's taxable income, and the charitable contribution deduction cannot exceed the current 10-percent-of-taxable-income limit. This new floor will be effective in 2026.

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