



The One Big Beautiful Bill Act

Highlights of OBBBA

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) [H.R. 1 reconciliation bill of the 119th Congress] was signed into law by President Donald J. Trump. The OBBBA is a sweeping piece of tax legislation that reshapes key provisions of the Internal Revenue Code. The OBBBA extends and makes permanent many of the expiring provisions from the 2017 Tax Cuts and Jobs Act (TCJA), as well as introducing a number of new measures. Below are several key tax provisions that impact individuals and businesses, as well as key considerations and planning opportunities.

Individual Key Tax Provisions

Individual Rates

Tax Rates. The 2017 TCJA individual tax rates will continue at 10%, 12%, 22%, 24%, 32%, 35% and 37%. An additional year of inflation adjustment is added for the 10% and 12% brackets. Income tax rates for estates and trusts will retain a 4-tier structure: 10%, 24%, 35%, and 37%. (effective Jan. 1, 2026).

Standard Deduction. The standard deduction increases to \$15,750 for single filers, \$23,625 for heads of household, and \$31,500 for married filing jointly (beginning 2025). These amounts are higher than the 2024 indexed amounts and will be indexed for inflation thereafter. Additional standard deduction for elderly/blind remains unchanged.

Personal exemptions and senior deduction. Personal exemptions are set to \$0 for tax years after 2025. For the years 2025 through 2028, there is a temporary \$6,000 deduction for individual taxpayers who are 65 or older with phase out when modified adjusted gross income (MAGI) exceeds \$75,000 (\$150,000 married filing jointly) and is completely eliminated once income crosses \$175,000 per person or \$250,000 per couple.

Alternative Minimum Tax Exemption. The AMT exemption thresholds are retained but the phase-out rate is increased from 25% to 50%, steepening the marginal tax impact for higher-income individuals subject to AMT. (effective Jan. 1, 2026).

Estate and Gift Tax Exemption. The federal exemption will increase from the current \$13.99 million per person to \$15 million (\$30 million per couple) starting in 2026, with increases for inflation thereafter. The Generation-Skipping Transfer Tax exemption conforms to the estate/gift tax exclusion. The federal estate tax rate remains at 40% for taxable estates.

Individual Deductions

Qualified Tips Deduction. Workers can deduct up to \$25,000 in tips from their taxable income for federal income tax purposes (but not state or payroll taxes). The maximum deduction is phased out once MAGI exceeds \$150,000 single filers (\$300,000 married filing jointly), and only certain professions qualify. The Treasury is required to publish a list of eligible occupations within 90 days of enactment. The deduction will be available for tax years 2025 through 2028.

Qualified Overtime Pay Deduction. A temporary “no tax on overtime” deduction of up to \$12,500 single filer (\$25,000 married filing jointly) for qualified overtime compensation. The deduction begins to phase out when the MAGI exceeds \$150,000 single filers (\$300,000 married filing jointly). It only applies to federal income taxes, not state or payroll taxes. The deduction will be available for tax years 2025 through 2028 for itemizers and non-itemizers.

Car Loan Interest Deduction. For the 2025 to 2028 tax years, taxpayers may deduct (above-the-line) up to \$10,000 per year in auto loan interest for purchases of U.S. assembled new passenger vehicles for personal use (with a phase-out for MAGI in excess of \$100,000 single filer (\$200,000 for married filing jointly)). Related party loans are not applicable.

Credits

Child Tax Credit. The nonrefundable child tax credit increases to \$2,200 per child (adjusted for inflation). The refundable child tax credit is kept at \$1,400 (adjusted for inflation, currently \$1,700). The increased phase-out thresholds for MAGI that exceed \$200,000 single filers (\$400,000 married filing jointly) are preserved, as well as the \$500 nonrefundable credit for each dependent other than a qualifying child. (effective Jan.1, 2025).

Child and Dependent Care Credit. There is a permanent increase for the amount of the child and dependent care tax credit from 35% to 50% of qualifying expenses with a new two-tiered phase-out structure based on adjusted gross income (AGI). (effective Jan. 1, 2026).

Credit for contributions to scholarship-granting organizations. There is a credit of \$1,700 for charitable contributions to scholarship-granting organizations. Scholarships must be used for qualified elementary/secondary education expenses. Scholarships received under this program are excluded from gross income. (effective Jan.1, 2027)

Itemized Deductions

Itemized Deductions. The value of itemized deductions for top earners is curtailed slightly, capping deductions at a 35% tax rate (vs. 37% for the highest bracket); e.g., a \$10,000 itemized deduction will save \$3,500 in taxes rather than \$3,700 for taxpayers in the highest bracket. This replaces the reintroduction of the Pease limit on itemized deductions that was suspended through 2025 under the TCJA. (effective Jan. 1, 2026).

SALT Cap. The Act temporarily increases the limit on the federal deduction for state and local taxes (the SALT cap) to \$40,000 for single and joint filers (from the current \$10,000) and adjusts it for inflation. Annual caps: \$40,000 (2025), \$40,400 (2026), \$40,804 (2027), \$41,212 (2028), \$41,624 (2029). Starting in 2030, it will revert to the current \$10,000. The maximum deduction phases down once a taxpayer's MAGI crosses \$500,000 for single and joint filers, while the income threshold increases 1% every year through 2029. The phase-out is equal to 30% of such excess but only down to \$10,000 of SALT.

Mortgage interest deduction. The Act maintains the limit on qualified residence interest deduction to the first \$750,000 in home mortgage acquisition debt. It makes permanent the suspension of the deduction for the interest on home equity loans and lines of credit. It allows for mortgage insurance premiums to be deducted as qualified residence interest.

Charitable Contribution Deduction. For 2026, there is an above-the-line charitable contribution deduction allowed for non-itemizer taxpayers, up to \$1,000 for single filers (\$2,000 for married filing jointly). For itemizers, the bill imposes a 0.5% AGI floor on the charitable contribution deduction starting in 2026 (unused amounts subject to the floor will be eligible for a five-year carryforward). The Act makes permanent the 60% AGI limit for cash gifts. The 60% ceiling for cash gifts may be layered on top of deductions for noncash gifts to the same category of donees, allowing donors to maximize the use of both types of contributions without forfeiting deductibility under lower-tier limits.

Miscellaneous Itemized Deductions. The Act makes permanent the suspension of miscellaneous itemized deductions such as unreimbursed employee expenses, investment advisory fees, tax preparation fees, and hobby expenses. These deductions were previously limited to amounts exceeding 2% of AGI and reported on Schedule A. However, removed from the list of miscellaneous itemized deductions is unreimbursed employee expenses for eligible educators.

Capital Gains and Exclusions

Opportunity Zone. The opportunity zone program has been extended indefinitely and includes several changes, including narrowing the definition of “low-income community,” decennial redesignation, new rolling gain deferral, permanent 10% basis step-up, and new reporting requirements. The changes would generally take effect Jan. 1, 2027.

Qualified Small Business Stock §1202. There is an increase in the gain exclusion for qualified small business stock sales under Section 1202 to \$15 million (from \$10 million) with an inflation adjustment after 2026. A new tiered exclusion structure applies to QSBS issued on or after the OBBBA enactment date (July 4, 2025), based on holding period: 50% exclusion for QSBS held for at least three years; 75% exclusion for QSBS held for at least four years; and 100% exclusion for QSBS held for at least five years. Qualifying companies issuing stock after July 4, 2025, can have up to \$75 million in assets (up from \$50 million) (adjusted for inflation) starting in 2027.

Savings Accounts

Expanded 529 Plan. The 529 plan’s flexibility is broadened by allowing tax-free distributions to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary school (including private schools and religious schools) (effective Jan. 1, 2026). Tax-free distributions will be allowed to be used for additional qualified higher education expenses, including “qualified postsecondary credentialing expenses” such as tuition, fees, books, testing, and continuing education tied to approved programs (effective after July 4, 2025). Rollovers from 529 accounts to ABLE accounts are now permitted beyond 2025.

Trump Accounts. New “Trump Accounts” will allow individuals to contribute (starting July 4, 2026 (on an after-tax basis)) up to \$5,000 per year through the year before the beneficiary reaches age 18. Accounts grow tax-deferred while distributions can only begin the first day of the calendar year the beneficiary turns 18. Upon reaching age 18, the Trump account is transitioned to IRA-like treatment (and subject to similar rules regarding income taxes and early distribution penalties, etc.). For children born between 2025 and 2028, accounts may be eligible for a one-time government contribution of \$1,000. Investments are generally restricted to certain mutual funds and indexed ETFs until IRA conversion.

Other Provisions

Student Loan Modifications. A unified federal loan cap of \$257,500 applies to all loans except Parent PLUS (includes previously repaid, forgiven, or discharged loans). The Parent Plus student loan is capped at \$20,000 annually and \$65,000 lifetime per child. Graduate students may borrow up to \$20,500 per year (lifetime cap \$100,000); professional students (e.g., law, medicine) up to \$50,000

(lifetime cap \$200,000). (effective July 1, 2026). The exclusion of up to \$5,250/year in employer-paid qualified student loan repayments from employee income is permanent. (effective Jan. 1, 2026).

Clean Energy. Most clean energy credits are eliminated including the clean vehicle credits for cars (acquired after Sept. 30, 2025), the alternative fuel vehicle refueling property credit for installing qualified refueling property—such as EV chargers, the new energy-efficient home credit (repealed for property placed in service after June 30, 2026), the energy-efficient home improvement credit, and the residential clean energy credit (effective Dec. 31, 2025),

Endowments. Endowments on all institution (except state colleges or universities) that hold at least \$500,000 in per-student endowment and have at least 3,000 students will be subject to a set of graduated tax rates on “net investment income.” (effective Jan. 1, 2026)

Business Key Provisions

Bonus Depreciation. There is a permanent extension of the 100 percent bonus depreciation for qualified property acquired and placed in service after Jan. 19, 2025, with an additional first year depreciation deduction available for manufacturing, production and refining property.

§179. The maximum amount a taxpayer may expense under Sec. 179 is increased from \$1 million to \$2.5 million, reduced by the amount by which the cost of qualifying property exceeds \$4 million (effective after Dec. 31, 2024).

§199A Qualified Business Income (QBI) deduction. The (QBI) deduction was made permanent, preserving the 20% deduction rate for pass-through business income. The law expands the phase-in range for W-2 wage/capital investment limits from \$50,000 (non-joint) and \$100,000 (joint) to \$75,000 and \$150,000, respectively, while continuing to apply phase-out limitations to Specified Service Trades or Businesses (SSTBs). Taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which they materially participate receive an inflation-adjusted minimum deduction of \$400. (effective Jan. 1, 2026).

Research-and-Development Expenses. Taxpayers are allowed an immediate deduction for research or experimental expenditures paid or incurred after Dec. 31, 2024, but only for domestic companies. Foreign research and experimental expenditures must still be capitalized and amortized over 15 years. Furthermore, small businesses with average annual gross receipts of \$31 million or less over the three prior tax years will generally be permitted to apply this change retroactively to tax years beginning after Dec. 31, 2021.

Employer-provided Child Care Credit. The amount of qualified child care expenses is increased from 25% to 40% (50% for eligible small businesses). The maximum amount of the credit increases

from \$150,000 to \$500,000 (\$600,000 for eligible small businesses) (adjusted for inflation). (effective Jan. 1, 2026).

Dependent Care Assistance Programs. The maximum annual amount excludable from income for employer-provided dependent care assistance increases from \$5,000 to \$7,500. (effective Jan. 1, 2026).

Employer Meal Deduction. Employer deduction for the cost of meals provided for the employer's convenience is eliminated. (effective Jan. 1, 2026).

Form 1099-NEC. The threshold for reporting payments to "non employees" for personal services has increased from \$600 to \$2,000 (adjusted for inflation).

Energy Credits (Commercial). OBBBA terminates the qualified commercial clean vehicle credit and the sustainable aviation fuel credit (terminates after Sept. 30, 2025), the energy-efficient commercial buildings deduction (terminates for the construction of property after June 30, 2026), and the clean hydrogen production credit (terminates after Jan. 1, 2028).

Key Considerations and Planning Opportunities

❖ Income Tax Planning

- *SALT Cap* - (1) The use of non-grantor trusts as a planning strategy was not curtailed—such trusts (as separate taxable entities) can claim separate SALT deductions and may enable some taxpayers to stack deductions. (2) The use of pass-through business entities in many states to effectively fully deduct state income taxes remains a viable strategy.
- *§1202 QSBS* - Changes to the gain exclusion for QSBS have cast a brighter light on the potential perks of operating as a C corporation. You have the flat 21% corporate income tax rate, as well as the possibility of now excluding up to \$15,000,000 (inflation adjusted). Starting, funding, or investing in a private business should be reviewed for QSBS qualification, as well as examining the benefits of operating as a C Corp, S Corp, or partnership.
- *§179* - Business owners can now fully deduct the cost of capital purchases in the year of acquisition. Consider accelerating planned investments or financing large purchases to take advantage of the immediate tax benefit.
- *Opportunity Zones* - For investors with upcoming large capital gains, Opportunity Zones continue to offer powerful tax deferral and exclusion benefits. With the new rural program and extended time horizons, it may be worth revisiting projects that were previously not an option.



- *Charitable Gifting* - High-income donors (37%) may get less value from charitable giving under the new deductibility rules (deductions limited to the extent they exceed 0.5% of essentially AGI). Consider front-loading gifts, using charitable lead or remainder trusts, donor-advised funds or structuring gifts through private foundations before year-end. Individuals should also consider making qualified charitable distributions (QCDs) from IRAs.

❖ Estate Tax and Life Insurance Planning

- *Gifting* - High and ultra-high net worth individuals may need to reassess and revise estate plans to capitalize on the \$15 million exemption, initiate or expand dynasty trusts with life insurance policies, augment liquidity reserves, and diversify planning strategies.
- *Non-grantor Trusts* – Individuals may want to consider creating non-grantor trusts for income tax planning and legacy planning to take advantage of the opportunities created by OBBBA.

Conclusion

While the above items are not meant to be a comprehensive list of the changes under the OBBBA, we wanted to highlight the key tax provisions that have the most potential to be impactful, as well as provide several planning opportunities. As clients across the wealth spectrum busily digest the myriad of provisions of OBBBA, careful planning and consultation with their professionals will be essential to fully understanding and benefiting from these sweeping changes. Please contact your New York Life agent for additional assistance.

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