TAX PLANNING

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# The One Big Beautiful Bill Act: How It Impacts Individuals and Their Financial Planning

## One Big Beautiful Bill Signed Into Law

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act ("BBB"). While the BBB has far-reaching implications from defense funding to crop insurance, we are going to focus on the changes that affect individual taxpayers and how your financial planning may need to be reviewed or updated.

### Individual Tax Rates

The BBB makes the 2017 Tax Cuts and Jobs Act ("TCJA") tax rates "permanent."[1] Recall that the TCJA was scheduled to sunset at the end of 2025 and have tax rates return to the higher 2017 levels. Accordingly, the current rates will remain unchanged. That means that the top income tax bracket stays at 37%, for 2025 applying to individuals with more than $626,350 in income; $751,600 for married taxpayers.[2] For those "in the middle," the middle tax bracket stays at the 24% rate. That rate begins at $103,350 single/$206,700 married in 2025. You need more than $197,300 single/$394,600 married to climb into the next bracket. All brackets will continue to be indexed for inflation.

Capital gain rates also remain unchanged at 0%, 15% and 20%, with the most common and largest tax grouping is the 15% rate. While the 15% rate is the most common, the 20% rate is still historically low. That said, even if you fall into the 20% rate, this is still well below the 37% top marginal rate on ordinary income.

For higher income earners the Affordable Care Act taxes remain unchanged. The 0.9% Medicare Health Insurance Surtax and a 3.8% Net Investment Income Tax for individuals earning more than $200,000 and married couples earning more than $250,000 still applies. The 0.9% surtax is levied on earned income, and the 3.8% Net Investment Income Tax applies to passive earnings like interest, dividends, capital gains, etc. These thresholds still are not indexed for inflation.

### Standard Deductions Stay High While Most Itemized Deductions Remain Eliminated

The high standard deductions were also made permanent and have been bumped up slightly for tax year 2025 to $15,750 single/$31,500 for married taxpayers.  This too will be indexed for inflation going forward.

While the standard deductions are higher, most itemized deductions remain eliminated.  A few specialized deductions remain including educator classroom expenses.  All miscellaneous itemized deductions that used to be subject to the "2% floor" remain repealed.

[1] The bill stipulates that many tax law changes are "permanent." Congress can always change the law, but this reference to permanence means there is not scheduled end to these changes as compared to the TCJA which was scheduled to lapse on December 31, 2025.

[2] All references to "married taxpayers" will be define as married filing jointly. Note that an additional standard deduction applies for taxpayers who are aged 65 and older or blind.

## State and Local Tax ("SALT") Deductions Increased

One of the most often debated provisions from the TCJA was the SALT limitation, which limited the deduction for state and local taxes to $10,000. The BBB temporarily increases the SALT cap to $40,000 in 2025, with an increase of 1% going forward each year until 2029. In 2030, the SALT cap will revert to $10,000.

While this increase is helpful, it starts to phase out with modified adjusted gross income ("MAGI") over $500,000. The deduction is reduced by 30% of MAGI that exceeds $500,000, but the SALT deduction cannot go below $10,000. For most that could benefit from a higher SALT deduction, their income will likely limit the increased value.

## No Tax on Certain Tips or Overtime

A new provision in the BBB allows a deduction of up to $25,000 for qualified tips for a taxpayer in an occupation that customarily and regularly receives tips. Moreover, there is a deduction of $12,500 single/$25,000 married for qualified overtime compensation. These deductions are allowed whether you itemize or not.

Each of these deductions are available from 2025 through 2028 and are subject to phaseout. They both begin phasing out when MAGI exceeds $150,000 single/$300,000 married. Both require specific documentation to identify the compensation as well for tax reporting purposes, and those looking to take these deductions should collaborate with their employer and their tax advisor to meet these documentation requirements.

## Personal Exemptions Remain at Zero, with a New Standard Deduction for Seniors

The TCJA eliminated personal exemptions, and that is now permanent. However, some seniors will receive an increased, albeit temporary, standard deduction. Although this is not the same as the campaign promise for eliminating federal income taxes on Social Security, the enhanced tax deduction can indirectly impact the taxation of Social Security benefits for those that qualify to receive it. The enhanced standard deduction of $6,000 ($12,000, if married) will be available for seniors aged 65 and older if their income is $75,000 or less ($150,000 or less, if married). The deduction is phased out above these limits and eliminated for seniors with income above $175,000 ($250,000, if married). The enhanced senior standard deduction is stacked on top of the extra standard deduction for taxpayers aged 65 and older, bringing the total available standard deduction to $23,750 for individuals and $46,700 for married couples if both spouses are 65 years of age or older. This enhanced senior standard deduction applies only for tax years 2025–2028.

## The Child Tax Credit Increases

The BBB increases the non-refundable child tax credit to $2,200 per child, beginning in 2025. This credit will also be indexed for inflation going forward. The BBB also makes permanent the $1,400 refundable child tax credit, and this is also indexed for inflation going forward. There is still a $500 non-refundable credit for a dependent of the taxpayer who is not a qualifying child. The bill continues to have phaseout thresholds for these credits, but they have been increased to $200,000 single/$400,000 married.

## New Auto Loan Interest Deduction and Elimination of Electric Vehicle Tax Credit

Individuals can now deduct up to $10,000 in new passenger vehicle loan interest if the vehicle was assembled in the United States and purchased between January 1, 2025 and December 31, 2028. In addition, the $7,500 tax credit for electric vehicles has been eliminated.

## Charitable Contribution Rules Are Modified

The BBB makes significant changes to charitable contribution rules. Now, for those that do not itemize, you can deduct up to $1,000 single/$2,000 married in charitable contributions "above the line" meaning the deduction lowers your taxable income dollar for dollar before applying the standard deduction. This is akin to the brief deduction allowed during COVID, which at the time was a $300/$600 deduction.

For itemizers, the new charitable deduction rules are now more complex. While the qualifying requirements to take a charitable deduction remain, there is now a floor that must be met to take the deduction. Now deductions are only allowed for contributions exceeding 0.5% of your MAGI. As such, if you have a $1,000,000 MAGI, and you make a $20,000 gift, you can only deduct $15,000 of the gift as your floor ($1,000,000 x .05) is $5,000. This may lead those that itemize to readdress their charitable planning strategies.

### Increased Alternative Minimum Tax (“AMT”) Exemption is Permanent

The TCJA significantly increased the AMT exemptions, and those are now permanent at $500,000 single/$1,000,000 married, and will be indexed for inflation. This eliminates the AMT concern for most taxpayers. The phaseout of the exemption is 50% of the amount by which the AMT income exceeds the threshold.

### Modifications to Federal Pell Grants, Student Loan Programs and Repayments

The federal Pell Grant program has been expanded to include a new “Workplace Pell Grant” for short-term certificate or degree training programs for high-skill, in-demand industry occupations. In addition, awards will no longer be given if the student’s full cost of attendance is covered by other grants and scholarships. Federal student loan programs are being modified as well. Dollars allocated to schools will be connected to how effective the academic programs are at impacting the earnings of their graduates. Borrowing limits have been modified for graduate, professional and parent PLUS loans, and repayment plans for federal student loans are being consolidated into two programs—a standard and an income-driven repayment plan. The Pell Grant and loan limit modifications apply for the 2025-2026 academic year. Loan repayment consolidation must be completed by July 1, 2028.

### 529 Plan Qualified Expenses Expanded for K-12 and for Occupational Credentials

529 plans can now pay tax-free benefits for a broader range of K-12 expenses beginning July 4, 2025. Qualified K-12 expenses now include curriculum, books and instructional materials, online education, certain tutoring expenses, and fees for standardized achievement and advanced placement testing in addition to tuition. The K-12 expense limit will also increase from $10,000 to $20,000 in 2026. In addition, qualified 529 plan withdrawals now also include tuition, fees, books, supplies and equipment necessary for a post-secondary workplace credential program, including fees for any testing to obtain or maintain a professional license.

### ABLE Accounts Expansion Made Permanent

The temporary TCJA provisions that broadened contributions to ABLE accounts, including rollovers from 529 education savings plans, higher contribution amounts for working disabled individuals, and the ability to use the Saver's Credit if you contribute to your own ABLE account are now permanent. In addition, the Saver’s Credit amount will increase from $2,000 to $2,100 beginning in 2027.

## Expansion of Health Savings Accounts

Beginning in 2026, ACA marketplace Bronze and Catastrophic plans will now be considered high-deductible health care plans that are eligible to have a health savings account (HSA). In addition, qualified healthcare expenses that can be paid tax-free from an HSA have been expanded to include “telehealth” services and direct primary care payment arrangements up to $150/month ($300/month for families).

## New Trump Savings Account for Children

Beginning in 2026, parents of children younger than age 18 can elect to open a Trump Account. Under a pilot program, any child with a Social Security Number born between January 1, 2025 and December 31, 2028, can receive a one-time $1,000 contribution made by the government. Additional non-deductible contributions can be made in amounts up to $5,000 per year ($2,500 of which can be contributed by an employer). Initial contributions will not be available until July 4, 2026. Contributions can be made until the calendar year in which the child turns age 18 and no distributions from Trump Accounts are permitted before the year the child turns age 18. Although previous versions of the Trump Account proposals required them to be used for certain specific purposes, the final version eliminates those restrictions and largely treats them similarly to a non-deductible traditional IRA.

## Estate Tax Exclusions Made Permanent

The higher estate tax exclusions introduced by the TCJA are also made permanent. The 2026 exclusion will be $15,000,000 per person, meaning a married couple can protect up to $30,000,000 from estate tax with proper planning. Portability of an unused exclusion of a deceased spouse also remains. The estate tax rate stays at 40%, and the exclusions will index for inflation. While this eliminates the concern for estate taxes for most Americans, there are still dozens of reasons to implement estate planning techniques to protect assets from creditors, control potential beneficiary spending, and address possible income tax concerns. Consider reviewing your plan to ensure your legacy goals are intact with these changes.

## Call to Action

There are literally hundreds of provisions in the BBB, and we are only addressing a key few for individual taxpayers. Because of these significant changes you should circle back with your financial advisor, your tax advisor and your legal counsel to review your current situation and address possible changes to your financial and estate plans. It's also important to remember that while these provisions are "permanent," a new Congress could change any or all of these provisions. Accordingly, vigilance and flexibility in your planning remains imperative. And as always, make sure your planning goals are addressed first. Do not let the tax tail wag the dog! ■