THE ONE BIG BEAUTIFUL BILL ACT - PART I

The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025. It is a major tax reform bill with many provisions that affect individual, corporate, and international taxes. A primary goal of the tax writers was to make permanent most of the tax reductions in the Tax Cuts and Jobs Act of 2017 (TCJA).

This two-part article will summarize key provisions of OBBBA. The first part will cover most of the individual tax provisions. Part II will review provisions that are of greatest importance for donors and nonprofits.

Tax Rates and Brackets — TCJA lowered the rates and increased the tax brackets. OBBBA makes the rates permanent (from 10% to 37%) and brackets that were created in TCJA. The rates for the lower brackets of 10%, 12% and 22% will receive an additional year of indexing. All tax brackets are indexed each January 1.

Standard Deduction — TCJA dramatically increased the standard deductions. With the increased standard deductions, the number of taxpayers who itemized declined from 30% in 2017 to 10% by 2020. These increased standard deductions are now permanent. The 2025 standard deduction is $15,750 for single filers, $23,625 for heads of household and $31,500 for married couples filing jointly. The standard deduction amounts will be indexed in future years.

Senior Deduction — While there had been discussion of eliminating tax on Social Security, a compromise was to provide seniors over age 65 with a $6,000 addition to the standard deduction and the existing senior deduction ($2,000 single/$1,600 per qualifying married spouse). This added deduction is available for 2025 through 2028. The $6,000 deduction phases out at a rate of 6% of the excess amount for single people with incomes over $75,000 and married couples with incomes over $150,000. The deduction is fully phased out for single people with incomes over $175,000 and married couples with incomes over $250,000. A single senior with a $60,000 income would have a standard deduction of $15,750, the existing $2,000 senior deduction and an added $6,000, for a total deduction of $23,750. With the $6,000 added deduction, most seniors will not pay tax on their Social Security. High-income seniors will continue to pay tax on 85% of their Social Security.

Example 1 - Susan Single. Susan is age 78, has Social Security of $28,000 and other income for a total of $45,000. A single senior has a 2025 standard deduction of $15,750, existing senior deduction of $2,000 plus $6,000, for a total of $23,750. Because her income is over $25,000, part of her Social Security is tax-free, and part is taxable. With her standard deduction, existing senior deduction, tax-free portion of Social Security and the added $6,000 Senior Deduction, Susan will pay zero federal income tax.

Example 2 - Helen Single. Helen is age 82 and has Social Security of $36,000, a large IRA payout and other income for a total of $100,000. A single senior has a 2025 standard deduction of $15,750, an existing senior deduction of $2,000 plus the new Senior Deduction. However, Helen’s Senior Deduction is reduced because she has over $75,000 income. Her Senior Deduction is reduced to $4,500, for a total of $22,250. Because her income is over $34,000, a larger portion of her Social Security is taxable. While her $4,500 Senior Deduction saves some tax, Helen is likely to pay over $5,000 in income tax.

Example 3 - Jim and Kate Married. Assume Jim is aged 80 and Kate is age 78. They receive Social Security of $44,000 and other income for a total of $75,000. A married couple filing a joint return benefit from a 2025 standard deduction of $31,500, the existing $3,200 deduction for two seniors plus the new Senior Deduction of $12,000, for a total of $46,700. Because their income is over $32,000, part of the Social Security is tax-free and part is taxable. With their standard deduction, tax-free portion of Social Security and the added $12,000 Senior Deduction, Jim and Kate will pay zero federal income tax.

Example 4 - Joe and Alice Married. Assume Joe is aged 84 and Alice is age 79. They receive Social Security of $64,000, a pension, two large IRA payouts and investment income for a total of $200,000. A married couple filing a joint return will benefit from a 2025 standard deduction of $31,500, an existing $3,200 senior deduction plus the new Senior Deduction. Because their income is over $150,000, each $6,000 Senior Deduction is reduced to $3,000. The standard and existing senior deduction plus the reduced Senior Deductions equal $40,700. Because their income is over $32,000, part of the Social Security is tax-free and part is taxable. With their standard deduction, tax-free portion of Social Security and the added $6,000 Senior Deduction, Joe and Alice are likely to pay over $11,000 in income tax.

Child Tax Credit — The existing $2,000 child tax credit is increased in 2026 to $2,200. It will be adjusted for inflation thereafter. The $1,700 refundable credit is indexed for inflation in 2025 and following years.

Qualified Business Income (QBI) — The 20% QBI deduction under Section 199A for pass-through entities is made permanent. There is an increase in the phase-in limit to $75,000 for single persons and $150,000 for married couples filing jointly. There also is a $400 minimum deduction for taxpayers with $1,000 or more of qualified business income. The taxpayer must participate in the business.

Estate Tax Exemption — The estate exemption was doubled to $10 million by TCJA. With indexed increases, the exemption is $13.99 million in 2025. The 2026 estate exemption will be $15 million for individuals. A couple will have a total $30 million exemption. With marital portability, this may be used by the surviving spouse. The larger exemption is permanent and indexed in future years. This permanent exemption will facilitate estate planning.

Alternative Minimum Tax (AMT) — The alternative minimum tax exemptions were dramatically increased by TCJA. For tax year 2025, the exemption amount for unmarried individuals is $88,100 and begins to phase out at $626,350. For married couples filing jointly, the 2025 exemption amount is $137,000 and begins to phase out at $1,252,700. The indexed AMT exemptions are made permanent.

Qualified Residence Interest (QRI) Deduction — The deduction for interest on a loan of up to $750,000 for a personal residence is made permanent. Home mortgage interest debt must be secured by your main home or second home. A home includes a house, condominium, co-op, mobile home, house trailer or boat with sleeping, cooking, and toilet facilities. Interest you pay on a home equity debt may be deductible if the proceeds of the loan were used for a major home improvement.

Itemized Deduction Limit — There is a new limit on the tax benefit for itemized deductions. The deductions for 37% rate bracket taxpayers are reduced by 2/37 of the amount subject to the 37% rate. In essence, the tax savings for the 37% bracket taxpayer will be limited to 35% for charitable gifts, home mortgage interest and other itemized deductions.

Wagering Losses — Previously, 100% of wagering gains were taxable and 100% of losses could offset the gains (although losses may not exceed gains). The gains for wagering may now only be offset by 90% of the amount of the losses. Individuals with both wagering gains and losses will pay tax on the gains and may reduce the taxable amount by 90% of the losses. There is no carry forward on the 10% floor on wagering losses.

State and Local Tax Limit (SALT) — The SALT deduction limit was set at $10,000 by TCJA. The limit is increased to $40,000 in 2025 and $40,400 in 2026. It will be scaled up by an additional 1% each year thereafter until 2030. However, it is reduced by 30% of the excess over the threshold amount. The threshold amount in 2025 is $500,000 and in 2026 will be $505,000. The reduction cannot reduce SALT deductions below the $10,000 limit. The reduction is based on modified adjusted gross income that also includes taxable income from Guam or Puerto Rico.

No Tax on Tips — There is a limited exclusion on income from tips. The exclusion of $25,000 is limited to single taxpayers with modified adjusted gross income under $150,000 and married couples filing jointly with incomes under $300,000. There is a 10% phaseout for dollars more than the threshold amount. The tips must be received in "an occupation which customarily and regularly received tips on or before December 31, 2024." The Treasury Secretary will publish further regulations determining who is qualified to report the tip exemption. The tip exemption also extends to barbering, hair care, nail care, esthetics and body and spa treatments.

No Tax on Overtime — There is a limited exclusion of up to $12,500 ($25,000 for joint filers) for overtime. The overtime exclusion applies to taxpayers with modified adjusted gross income of $150,000 ($300,000 for a joint return). There is a 10% phaseout above those levels. The overtime will be subject to Treasury Secretary regulations to define the methods for determining regular and overtime compensation. Generally, the definitions will follow Section 7 of the Fair Labor Standards Act of 1938.

Car Loan Interest — There is a potential exclusion for "qualified passenger vehicle loan interest." This exclusion is up to $10,000 for interest on a personal vehicle. The limit is subject to a 20% phaseout for taxpayers with incomes over $100,000 ($200,000 for a joint return). The vehicle must be a motor vehicle that weighs less than 14,000 pounds, must meet the definition under Title II of the Clean Air Act and is finally assembled in the United States.

Trump Accounts — There is a new category of IRA that is not a Roth IRA. It is created for the exclusive benefit of an individual under age 18. Those born from 2025 to 2028 may receive a $1,000 government contribution. Parents and others may contribute up to $5,000 per year of after-tax funds. There may also be additional qualified rollover contributions to the account. The account must be invested in an index fund with stock in United States companies and a maximum fee of ten basis points. It is permissible for an employer to make a $2,500 contribution to an account for the dependent of an employee.

Full Expensing and Bonus Depreciation — Qualified business users may expense 100% of certain property and 100% of research and development costs. Expensing is available for certain structures built from 2025 to 2028. The Section 179 expense is $2.5 million and will be indexed for inflation.

Adoption Credit — The adoption credit is now refundable up to $5,000 dollars.
Section 529 Expanded Benefits — A Section 529 plan permits gifts of five annual exclusion amounts to accounts used for secondary and primary education. The 529 plan is expanded to include postsecondary credentialing expenses. These expenses may include tuition, fees, books and supplies for attendance in a recognized postsecondary credential program.
Major tax acts include many provisions in individual, corporate, and international taxation. This is a summary of provisions that are of interest to individual taxpayers. Part II of this article will include those provisions of primary interest to nonprofit organizations and their donors.

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