

## Tax Reform 2025: Highlights from the One, Big, Beautiful Bill Act

On July 4, 2025, President Trump signed The One, Big, Beautiful Bill Act (“OBBBA”) into law, creating some new tax provisions as well as extending key aspects of the Tax Cuts and Jobs Act (TCJA) signed during the first Trump Administration in 2017, many of which were set to expire on December 31, 2025. Here is a look at several key provisions:

- **Federal Estate, Gift and Generation-Skipping Tax Exemptions**

The basic exclusion amount for lifetime gifts, transfers at death and generation-skipping transfers (increased to \$10 million by the TCJA) is permanently increased to \$15 million per taxpayer beginning January 1, 2026. The new basic exclusion amount will be adjusted for inflation beginning in 2027.

- **Achieving a Better Life Experience (ABLE) Accounts**

Several temporary enhancements of these accounts are extended or made permanent, including (i) the increased limitation on contributions (with an additional year of inflation adjustment); (ii) eligibility of the accounts for saver’s credit contributions (the credit is also increased to \$2,100); and (iii) the ability to make rollovers to an ABLE account from qualified tuition programs (beginning in 2026).

- **529 Accounts**

OBBBA expands the definition of eligible elementary, secondary, and home school expenses that will qualify as “qualified higher education expenses” and increases the annual tax-free distribution limit on K-12 expenses from \$10,000 to \$20,000.

OBBBA also extends the definition of “qualified higher education expenses” to include expenses for obtaining/maintaining postsecondary credentialing, including tuition, fees, books, supplies, and equipment.

- **Income and Income Tax Rates**

For tax years 2025 – 2028, at least a portion of tips and overtime compensation will be free of income tax. This is accomplished by allowing an eligible taxpayer to deduct up to \$25,000 in qualified tips and up to \$12,500 of qualified overtime compensation (\$25,000 for joint filers). Both deductions phase out for Adjusted Gross Income (AGI) exceeding \$150,000 for single filers and \$300,000 for joint filers.

The elimination of the 39.6% income tax bracket is made permanent along with a permanent extension of the income tax rates established in the TCJA for individuals, estates, and trusts (10%, 12%, 22%, 24%, 35%, and 37%). The inflation adjustment made to 10% and 12% bracket thresholds is also extended for an additional year.

- **Standard Deduction**

The provisions of the TCJA that nearly doubled the standard deduction were set to expire at the end of this year. OBBBA adjusts the deductions (effective for 2025) to: \$15,750 for single filers, \$31,500 for couples, and \$23,625 for heads of household. Individuals who are blind or who are aged 65 years or older receive a small increase to the standard deduction of \$1600 or \$2000 depending on filing status. If a taxpayer is

both blind and age 65 (or older), the additional amount can be doubled. These deductions are made permanent and will continue to be adjusted for inflation.

- **Additional Special Deduction for Individuals Aged 65 and older**

In addition to the standard deductions discussed above, OBBBA adds a new additional deduction of \$6,000 per eligible person with a modified adjusted gross income (MAGI) that does not exceed \$75,000 for single filers or \$150,000 for joint filers. This deduction is only available for tax years 2025 through 2028.

- **Child Tax Credit**

The increase to the child tax credit implemented in the TCJA is made permanent and is increased to \$2,200 beginning in 2025 (from \$2,000 in 2024), adjusted for inflation beginning in 2026.

- **Alternative Minimum Tax**

The current AMT exemption amounts (\$88,100 for single filers and \$137,000 for joint filers) will remain and will be adjusted for inflation. Exemption phase-out thresholds are permanently extended.

- **State and Local Tax Deduction (SALT)**

The cap on the amount of state and local taxes that are deductible is made permanent; however, the cap is increased from \$10,000 to \$40,000 for tax years 2025 through 2029. There is a phase-out of the amount allowed for taxpayers with a MAGI exceeding \$500,000, ending with a total allowable deduction of only \$10,000 for a MAGI exceeding \$600,000. The \$40,000 cap and the \$500,000 AGI limit will both increase by 1% annually through 2029.

- **Itemized Deductions**

Beginning in 2026, the current overall limitation on itemized deductions is eliminated and replaced with a new limitation that caps itemized deductions for those in the 37% bracket.

- **Qualified Business Passthrough Deduction**

The Section 199A deduction for qualified business income (QBI) was scheduled to expire at the end of 2025. OBBBA makes the 20% QBI deduction permanent, however, phase-in income limits are increased to \$75,000 for single filers and \$150,000 for joint filers. In addition, a new minimum deduction of \$400 is added for taxpayers with at least \$1,000 of QBI from an active trade or business, adjusted for inflation.

- **Charitable Deductions**

For taxpayers who do not itemize deductions, there is a new permanent above-the-line charitable deduction, beginning in 2026, not to exceed \$1,000 for single filers and \$2,000 for joint filers.

Also effective for the 2026 tax year and thereafter, taxpayers who itemize deductions will first need to make contributions equaling or exceeding 0.5% of their adjusted gross income before claiming charitable deductions. Charitable contribution deductions are then limited to amounts exceeding the 0.5% floor.

The 60% of AGI limitation for cash contributions has been permanently extended.

- **Termination of Certain Clean Vehicle and Energy Credits**

The new and previously owned clean vehicle credit is eliminated for vehicles purchased after September 30, 2025 (previously December 31, 2032).

The Section 25D residential clean energy credit is also terminated, effective for expenditures made after December 31, 2025, and the Section 25C energy efficient home improvement credit is terminated, effective for property placed in service after December 31, 2025.

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