Summary of the One Big Beautiful Bill: Individuals

With the passage of the One Big Beautiful Bill (OBBB), below is a summary of notable changes to the tax code for individuals.

INDIVIDUAL

1. The individual income tax rates found in Internal Revenue Code ("Code") Section 1(j) are made permanent. Note, these favorable rates were scheduled to sunset at the end of 2025.

   a. The highest marginal rate will remain at 37%.

   b. Beginning in 2026, the dollar amounts marking where the 35% bracket ends and 37% begins will be indexed for inflation.

2. The increased standard deduction in Code Section 63(c)(7) is made permanent. Just like the tax rates, this was scheduled to sunset at the end of 2025. In addition to retaining the increased standard deduction, there is a temporary increase in the standard deduction.

   a. The 2025 standard deduction will be $31,500 for MFJ, $23,625 for head of household, and $15,750 for single and others.

   b. The increased standard deduction is only in effect for 2025, 2026, 2027, and 2028. This is a common theme in the Act – many temporary tax changes are only effective for Trump's term and not the entire 10 year budget reconciliation window.

3. The child tax credit under Code Section 24(h) is made permanent. For Trump's term (25-28), the credit will be increased to $2,200, and adjusted for inflation in following years.

4. The lifetime estate and gift tax exclusion amount under Code Section 2010(c)(3) has increased to $15 million (currently $13.99m). This increased exclusion amount is made permanent and is indexed for inflation in future years. Note, the current exclusion amount of $13.99m was scheduled to sunset at the end of this year and be reduced to roughly $7m.

5. Itemized deductions under Code Section 68 (previously disallowed under the Tax Cuts and Jobs Act) are allowed and made permanent. However, such deductions are reduced by 2/37 of the lesser of (1) the amount of itemized deductions; and (2) the amount of taxable income of the taxpayer that exceeds the dollar amount at which the 37% bracket begins ($751,600 for MFJ).

   a. Note, this effectively creates a new tax bracket at 39%. Assume a MFJ return with taxable income of $851,600 ($100,000 more than the 37% bracket threshold and a charitable deduction of $100,000 (and no other itemized deductions). The new limitation reduces the couple's deduction by $5,405.41 (2/37*$100,000) and increases the couple's tax bill by $2,000 ($5,405.41*37%, which is equal to an additional 2% tax (i.e., total of 39%) on the couple's incremental $100,000 over the 37% bracket threshold.

   b. This limit to itemized deductions does not apply to the QBI deduction available under Section 199A.

6. There is a new deduction under Code Section 224 (Note, current 224 is renumbered 226 and this 224 is new) for Qualified Tips. Taxpayers earning less than $150,000 (single) or $300,000 (MFJ) (indexed for inflation) may deduct tips up to $12,500 (single) or $25,000 (MFJ).

   a. Additional rules are in place that define a Qualified Tip and prevent abuse of this new deduction. A tip is a voluntary payment without consequence if not made in a profession that traditionally and customarily receives tips. Regulations are contemplated to add detail.

   b. This deduction is only allowed during Trump's term (25-28).

7. New Code Section 225 creates a deduction for qualified overtime compensation up to $12,500 ($25,000 MFJ), which is defined as compensation paid under section 7 of the Fair Labor Standards Act in excess of the regular rate at which such an individual is employed.

   a. This is available for itemizers and those taking the standard deduction, and is only available during Trump's term (25-28), and for those with AGI less than $150,000 (single) or $300,000 (MFJ).

   b. New reporting requirements are included in Form W-2.

8. Code Section 63(f) adds a new subparagraph (5) that creates a bonus deduction for seniors. This deduction was previously $600 and is increased by $6,000.

   a. This additional deduction is only allowed during Trump's term (25-28). An income-based phase out applies that reduces the additional deduction by 4% of modified adjusted gross income ("AGI") over $75,000 single and $150,000 MFJ. At $250,000 MFJ, the deduction phases out entirely.

9. Section 163(h) creates a deduction for car loan interest. The deduction is for up to $10,000 of interest payments per year and is available for itemizers and those taking the standard deduction. The deduction phases out based on income beginning at $100k for single filers and $200k MFJ. The deduction phases out entirely at $250k for MFJ returns.

   a. The deduction is only available during Trumps' term (25-28).

   b. The definition of vehicle is broad and includes motor vehicles, motorcycles and campers. All vehicles must be finally assembled in the United States. The rules are unclear about refinancing indebtedness. The deduction appears to require the deduction to only apply to acquisition indebtedness, but does apply to refinancings. It is possible that debt could be both acquired and refinanced during the period for which the deduction is available.

10. Code Section 45F is expanded to provide increased incentives for employer-provided childcare. The credits are expanded from 25% to 40% (50% is available for certain eligible small businesses). The maximum annual credit is increased from $150,000 to $500,000, and is indexed for inflation.

11. Code Section 170(p) is amended to make permanent the above the line deduction for charitable contributions. The amount of the deduction is increased to $1,000 (single) or $2,000 (MFJ).

12. A new Code Section 530A is added to create "Trump Accounts". Note, in the house version of the bill, these were previously designated as a "money account for growth and advancement" (aka a MAGA Account). This is a tax-exempt trust account for U.S. citizens under age 18. Funds can be used for certain qualified expenses, such as higher education, small business start-ups, and first-time home purchases.

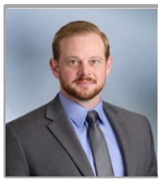
   a. The IRS will identify children born during Trump's term, creating Trump accounts for all these children, and funding the accounts with $1,000. The accounts track a stock index and allow for additional private contributions of up to $5,000 per year.

b. The "investment in the contract" may be withdrawn by the beneficiary tax-free, but income on that investment is subject to long-term capital gain rates or ordinary rates depending on the purpose for which the funds are used. Withdrawals may not occur until age 18 and at age 31 the account is deemed distributed and taxed accordingly.

c. It is questionable whether these accounts are better than other investment options. The tax results of a Trump Account are worse than both traditional and Roth IRAs. They are also less tax-advantaged than a 529 plan, assuming the investment is used for educational expenses. HSAs are also a better option if the purpose of the investment is medical expenses.

13. Code Section 164(b) is amended to increase the deduction for state and local taxes from $10,000 to $40,000 for MFJ returns with an AGI of $500,000 or less. The deduction increases 1% per year through 12/31/2029. For the 2030 tax year, the cap is reduced back to $10,000. This cap is subject to a phasedown where AGI exceeds $500,000 (increased by 1% per year through the 2029 tax year). The SALT deduction is reduced by 30% of the amount by which AGI exceeds the threshold amount, but cannot reduce the deduction below $10,000.

If you have further questions about changes to the tax code for individuals under the OBBB, please contact:



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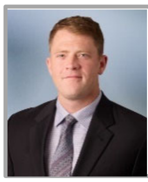

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