One Big Beautiful Bill Act: An Overview of Tax Impacts for Individuals

Client Alert

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The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025. The legislation contains a multitude of changes to the tax law that may affect an individual's personal income, estate, and gift taxes. This Alert summarizes some of those provisions.

Increased Estate & Gift Tax Exclusion Amount

Taxpayers are allowed to exclude a certain amount (referred to as a lifetime gift and estate tax exclusion amount) before gift or estate tax would apply. The exclusion amount in 2025 is $13,990,000. Under the Tax Cuts and Jobs Act of 2017 (TCJA), the exclusion amount was scheduled to be reduced to its pre-2018 level of $5,000,000, as adjusted for inflation, in 2026. The OBBBA has enacted a permanent increase, with the lifetime exclusion amount at $15,000,000 for 2026, and indexed for inflation for years thereafter.

Extension of Income Tax Rates and Brackets

The TCJA had temporarily modified the rates and brackets applicable for calculating an individual's income taxes due. For example, in taxable years beginning in 2025, the highest applicable individual income tax rate imposed is 37% for married individuals filing jointly for taxable income over $751,600, and for single individual taxpayers for taxable income over $636,350 (not including heads of household and surviving spouses). The OBBBA has enacted those changes as permanent, with certain adjustments for inflation for taxable years beginning in 2026, and for years thereafter.

Extension of Increased Standard Deduction

The TCJA had temporarily increased the standard deduction available to individual taxpayers that did not itemize on their income tax returns. While the IRS published in October 2024 standard deduction amounts for taxable years beginning in 2025, the OBBBA has replaced those amounts for 2025 and adjusts each standard deduction

for inflation for years thereafter. Pursuant to the OBBBA, the standard deductions for 2025 are $15,750 for single individuals (and married individuals filing separately), $23,625 for heads of household, and $31,500 for married individuals filing jointly (and surviving spouses).

Creation of a Deduction for Seniors

An additional deduction of $6,000 is available for taxpayers who are 65 or older (at the end of the taxable year) for taxable years beginning in 2025 through 2028, subject to reductions if the taxpayer's modified adjusted gross income exceeds $75,000 ($150,000 if the taxpayer files a joint return). A $12,000 deduction is available, subject to reductions, on a joint return if both spouses are 65 or older (at the end of the taxable year). This senior deduction is in addition to the applicable standard deduction. Note that this deduction does not apply if a taxpayer is married and files a separate return. This deduction has been discussed as an offset to otherwise taxable social security retirement income, in place of President Trump's original campaign promise of exempting social security retirement benefits from taxable income.

Increase to the State and Local Income Tax Cap

The TCJA had imposed a new limit to the state and local tax (SALT) deduction against federal income taxes of $10,000 for taxpayers (note that this amount was $5,000 for married taxpayers filing separately). For taxable years beginning in 2025 through 2029, the OBBBA has increased the SALT deduction limit to an "applicable limitation amount," which is subject to a phasedown that reduces that amount if the taxpayer's modified adjusted gross income exceeds a "threshold amount." The phasedown reduces the applicable limitation amount by 30% of the amount that the taxpayer's modified gross income exceeds the threshold amount, but the applicable limitation amount will not be "phased down" below $10,000. For taxable years beginning in 2025, the applicable limitation amount for taxpayers is $40,000 (other than married individuals filing separately, for whom the limit is $20,000) and the threshold amount is $500,000. Note that both the applicable limitation amount and the threshold amount are set to increase by 1% each year through 2029. For taxable years beginning in 2030 and thereafter, the OBBBA resets the limit of the SALT deduction to $10,000 (for taxpayers other than married individuals filing separately).

Creation of a Deduction for Certain Tips Income

The OBBBA has established a new deduction for certain reported "qualified tips" for taxable years beginning in 2025 through 2028. It applies to qualified tips which are received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024; the Secretary of the Treasury (or a delegate of the Secretary) has been ordered to publish a list of such occupations. The qualified tips deduction is limited to $25,000 and is to be further reduced if the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 if the taxpayer files a joint return). Note that this deduction does not apply if a taxpayer is married and files a separate return.

Creation of a Deduction for Certain Overtime Income

The OBBBA has established a new deduction for certain reported "qualified overtime compensation" for taxable years beginning in 2025 through 2028. It applies to qualified overtime compensation which is paid to an individual as required by the Fair Labor Standards Act of 1938 and that is in excess of the individual's regular pay

rate. The qualified overtime compensation deduction is limited to $12,500 for a single taxpayer and $25,000 in the case of a joint return and is to be further reduced if the taxpayer's modified gross income exceeds $150,000 ($300,000 if the taxpayer files a joint return). Note that this deduction does not apply if a taxpayer is married and files a separate return.

Creation of a Deduction for Certain Car Loan Interest

The OBBBA has established a new deduction for certain interest on a "qualified passenger vehicle loan," which must be a purchase loan incurred in 2025 or later for a new vehicle whose final assembly was in the U.S. and is used for personal purposes. The qualified passenger vehicle loan interest deduction applies for taxable years beginning in 2025 through 2028; it is limited to $10,000 for any taxable year and is to be further reduced if the taxpayer's modified gross income exceeds $100,000 ($200,000 if the taxpayer files a joint return).

Trump Accounts

The OBBBA has established a new type of tax-favored savings account called a "Trump Account," which can be opened for certain eligible children starting in 2026. A Trump Account can be opened for a child who is not yet 18 years of age. Contributions to a Trump Account generally cannot exceed $5,000 (to be adjusted for inflation after 2027) per year (with certain limited exceptions, including contributions from tax-exempt entities). Generally, distributions from the Trump Account are not allowed until the calendar year in which the child attains 18 years of age. Once the child attains 18 years of age, the Trump Account will function like an IRA. Thus, withdrawals prior to age 59 ½ may incur penalties in addition to income tax, unless an exception applies. Trump Account assets must be invested in either an S&P 500 stock market index fund or certain other index funds which are "comprised of equity investments in primarily United States companies." The OBBBA has also created a corresponding Trump Account pilot program for U.S. citizens born in 2025 through 2028, where the federal government will contribute $1,000 per child into that child's Trump Account. For such children, the Secretary of the Treasury will automatically create an account if one does not exist; parents of a child will have the option of opting out of a Trump Account. Contributions from parents and other individuals are not tax-deductible and create the basis in the Trump Account that is not taxable when withdrawn. Employer contributions, the $1,000 federal contribution, and charitable gifts do not create basis and are taxable when withdrawn. Earnings are taxable when withdrawn. Gifts to a Trump Account will count towards your annual gift tax exclusion.

Other Provisions

The OBBBA has made permanent other TCJA provisions, with certain adjustments, including:

- Limitation of acquisition indebtedness for mortgage interest deduction purposes to $750,000 ($375,000 for married filing separately)
- Increase of the increased Alternative Minimum Tax exemption and threshold amounts (as indexed for inflation)
- Increase to the child tax credit
- Permanent disallowance of miscellaneous itemized deductions (with some exception for certain educator expenses)
- Permanent tax-free student loan discharge on death or disability

Additionally, the OBBBA has created:

- A non-itemized charitable deduction up to $1,000 for single filers and $2,000 for joint filers
- A reduction of itemized deductions by 2/37 of the lesser of (i) total itemized deductions and (ii) taxable income above the 37% bracket threshold
- A 0.5% floor applied to adjusted gross income (without regard to a net operating loss carryback) for charitable deductions
- Expanded categories of covered expenses for 529 plans and increased tax-free withdrawal limit to $20,000 for K-12 expenses
- Repeal of clean energy tax credits, such as clean vehicle and energy efficiency home credits

To learn more about the impact of the OBBBA on your personal tax liability, or if you have other questions, please contact the authors of this Alert.

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