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On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (OBBBA). OBBBA includes the largest tax overhaul since the Tax Cuts and Jobs Act of 2017 (TCJA), and it will affect almost every individual and business in the United States. The provisions in the new law go into effect on various dates, but most of the key ones affecting individuals apply to the current tax year.

Just a reminder, the content is subject to change as Congress and IRS may need to issue additional rules that will affect implementation of the OBBB Act. Also, the brief is just a summary describing some of the changes to the 2025 tax year. The information provided does not cover all aspects of the OBBBA. There could be additional requirements, rules and income limitations that will affect your eligibility for these new deductions.

We invite you to contact us to discuss or should you have any questions regarding the content in the tax brief. We take no responsibility for decisions you make concerning this information for which we are not consulted.

Summary of Key Provisions in the One Big Beautiful Bill Act (OBBBA):

Tax Rates

The new law permanently extends the current tax rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37% for individuals. The current 10%, 24%, 35%, and 37% rates for estates and trusts are also permanently extended.

Standard Deduction

Effective for tax years beginning in 2025, the standard deduction is increased to the following amounts.

MFJ, QSS	\$31,500
Single	\$15,750
HOH	\$23,625
MFS.....	\$15,750

New Deduction for Tip Income. OBBBA creates a new deduction of up to \$25,000 for qualified tips received by an individual in an occupation which customarily and regularly receives tips during a given tax year. The deduction is allowed for both employees and independent contractors. The deduction begins to phase out when the taxpayer's modified

adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

New Deduction for Overtime Pay. OBBBA creates a new deduction for up to \$12,500 (\$25,000 in the case of a joint return) for "qualified overtime compensation" (defined as overtime compensation paid to an individual under Section 7 of the Fair Labor Standards Act). The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

New Senior Deduction. OBBBA adds a deduction for all individuals who have reached age 65 before the end of the tax year. The deduction amount is \$6,000 per individual. The senior deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$75,000 (\$150,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

State and Local Tax Deduction. Effective for tax years beginning after 2024, the new law permanently extends the deduction limitation for state and local taxes and increases the applicable deduction limitation amounts as follows.

- 1) \$40,000 for tax years beginning in 2025
- 2) \$40,400 for tax years beginning in 2026

New Deduction for Car Loan Interest. OBBBA creates a new deduction of up to \$10,000 for interest paid on debt incurred after December 31, 2024 for the purchase of a qualifying new vehicle assembled in the U.S. The deduction is allowed for tax years 2025 through 2028 and begins to phase out when the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of a joint return). The deduction is available regardless of whether you itemize or take the standard deduction.

Trump Accounts. OBBBA creates Trump accounts, a new type of tax-advantaged savings account administered by banks and other financial institutions. Starting in 2026, parents of any child under age 18 may open a Trump account for their child. Aggregate contributions are limited to \$5,000 annually, but the limit does not apply to contributions from tax-exempt entities such as private foundations. Beginning at age 18, account holders may begin accessing funds for a limited set of purposes, including higher education. Under a pilot program, for U.S. citizens born between January 1, 2024, and December 31, 2028, the federal government will contribute \$1,000 per child into every eligible account.

Enhancements to 529 Plans. Beginning in 2026, OBBBA increases the annual limit on distributions from 529 savings plans from \$10,000 to \$20,000. It also allows distributions to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary public, private, or religious school, including: curriculum and curricular materials; books or other instructional materials; online educational materials; tutoring or educational classes outside the home; certain testing fees; fees for dual enrollment in an institution of higher education; and certain educational therapies for students with disabilities.

Charitable Contribution Deduction. Beginning in 2026, OBBBA provides a charitable contribution deduction for non-itemizers of up to \$1,000 in cash contributions for single filers (\$2,000 for married filing jointly). For individuals who elect to itemize, OBBBA imposes a new 0.5-percent adjusted gross income floor on charitable contributions (i.e., it reduces any deduction by 0.5-percent of adjusted gross income).

Child Tax Credit. OBBBA permanently increases the child tax credit to \$2,200 per child beginning in 2025 and indexes it for inflation.

Adoption Credit. OBBBA makes the adoption tax credit partially refundable up to \$5,000 (indexed for inflation) beginning in 2025.

Saver's Credit. Effective for tax years beginning after 2026, changes to the Saver's Credit made by the SECURE 2.0 Act of 2022 are repealed. The contribution limit used to calculate the credit is increased from \$2,000 to \$2,100.

Deduction for Mortgage Insurance Premiums. Beginning in 2026, OBBBA permanently restores the deduction for mortgage insurance premiums (previously available from 2018 through 2021) by treating such premiums as interest on acquisition indebtedness. As before, the deduction is phased out for taxpayers with adjusted gross income above \$100,000 (\$50,000 for married filing separately).

New Limit on Gambling Losses. Under current law, deductions for gambling losses are limited to gambling winnings. Beginning in 2026, OBBBA limits the deduction for gambling losses to 90 percent of the amount of such losses. Any deduction remains limited to the amount of gambling winnings.

Termination of Clean Energy Credits. OBBBA terminates the new clean vehicle credit and the previously-owned clean vehicle credit for vehicles acquired after September 30, 2025. It also terminates the energy efficient home improvement credit and residential clean energy credit at year's end.

Qualified Business Income Deduction. The qualified business income deduction has been made permanent. The new law also increases the phase-out range for taxpayers that exceed the threshold amount. Effective for 2026, the phase-out range is increased from \$50,000 (\$100,000 MFJ) to \$75,000 (\$150,000 MFJ).

The new law also includes a new minimum deduction for active qualified trade or business income. Effective for 2026, the qualified business income deduction for an applicable taxpayer is the greater of \$400 or the deduction as calculated under the regular rules.

An applicable taxpayer means a taxpayer whose aggregate qualified business income with respect to all active qualified trades or businesses of the taxpayer for the year is at least \$1,000. An active qualified trade or business means any qualified trade or business of the taxpayer in which he or she materially participates.

Estate and Gift Tax Exemption Amount. Effective for estates of decedents dying and gifts made after December 31, 2025, the estate and gift tax exemption amount is increased to \$15 million, adjusted annually for inflation after 2026. The annual gift tax limit is the maximum amount you can give someone without filing a gift tax return with the IRS. The limit for 2025 is \$19,000 (\$38,000 if married).

Casualty Loss Deduction Limitation. Effective for tax years beginning after 2025, personal casualty losses are deductible if attributable to a federally-declared disaster or a state declared disaster. The term state declared disaster means any natural catastrophe (including any hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought), or, regardless of cause, any fire, flood, or explosion, in any part of the state, which in the determination of the Governor and the Secretary (or the mayor of the District of Columbia) causes damage of sufficient severity and magnitude to warrant the application of this rule.

Educator Expenses. Effective for tax years beginning after 2025, a deduction for educator expenses as itemized deductions are allowed. Educator expenses are the same type of expenses that are allowed under IRC section 62(a)(2)(D) as an above the line deduction subject to the \$250 (\$300 for 2025 as adjusted for inflation) per educator limit, except that as an itemized deduction, they are not subject to the \$250 (\$300 for 2025 as adjusted for inflation) per educator limit. The new law expands the list of expenses allowed as educator expenses.

Student Loan Debt Discharged. Effective for discharges of student loan debt after 2025, the new law allows for an exclusion from income on account of death or total and

permanent disability of the student.

Special Depreciation Allowance (Bonus Depreciation). For property acquired after January 19, 2025, the new law permanently extends the 100% expensing of all property eligible for bonus depreciation. For property placed in service during the first tax year ending after January 19, 2025, the taxpayer may elect to have the prior law 40% limit apply (60% for longer production period property).

Section 179 Deduction. Effective for tax years beginning after 2024, the Section 179 deduction limit is \$2.5 million, adjusted annually for inflation. The Section 179 investment limit is \$4 million, adjusted annually for inflation.

Employer Credit for Paid Family and Medical Leave.

An employer tax credit ranging from 12.5% to 25% of wages paid while the employee is on family and medical leave is allowed. Paid leave must be designated for one of the following purposes:

- The birth or care of a child.
- Adoption or foster care of a child. continued on next page
- Caring for a spouse, child, or parent with a serious health condition.
- An employee's serious health condition that makes the employee unable to perform the functions of the position.
- A qualifying exigency arising out of the fact that a spouse, child, or parent is a member of the U.S. Armed Services and is on covered active duty.
- Caring for a service member with a serious injury or illness if the employee is the spouse, child, parent, or next of kin of the service member.

The new law permanently extends this provision and includes insurance policy premiums in regard to paid family and medical leave as qualifying for the credit. The credit claimed on premiums applies without regard to whether the employee is on paid family and medical leave. The new law also includes a minimum 20-hour work-per-week requirement for qualifying employees.

Employer-Provided Child Care Credit. Employers are allowed a credit for a qualified childcare facility and resource and referral expenditures.

Effective for amounts paid or incurred after 2025, the credit is increased to 40% of the qualified childcare facility expenditures (50% in the case of an eligible small business). The credit limit is increased to \$500,000 for the tax year (\$600,000 in the case of an eligible small business). The \$500,000 and \$600,000 amounts are adjusted annually for inflation.

An eligible small business means a business whose average gross receipts over the previous 5-year period do not exceed \$25 million.

Child and Dependent Care Tax Credit. Taxpayers are allowed to claim a tax credit for dependent care expenses. Dependent care expenses are generally daycare expenses that allow the taxpayer to work or look for work. Effective for tax years beginning after 2025, the credit ranges from 50% if AGI is \$15,000 or less, to 20% if AGI is over \$103,000 (\$206,000 for MFJ). The new law does not change the \$3,000 (\$6,000 for two or more qualifying persons) expense limit that qualifies for the credit.

Educational Assistance. Up to \$5,250 of employer paid educational assistance provided to employees is excluded from the employee's taxable income. Effective for payments made after 2025, the new law permanently extends the provision to treat employer payments of student loans as excludable educational assistance. For tax years beginning after 2026, the \$5,250 amount is increased annually for inflation.

Charitable Contributions Made by C Corporations.

Effective for tax years beginning after 2025, C corporations are subject to a 1% floor on deductions for charitable contributions. The deduction is allowed to the extent that the aggregate amount of charitable contributions for the year exceeds 1% of the corporation's taxable income, limited to 10% of the corporation's taxable income.

Information Reporting for Businesses

All taxpayers engaged in a trade or business who make payments in the course of their trade or business to another person must file an information return with the IRS and issue a copy to the payee if total payments are \$600 or more during the tax year. Effective for payments made after 2025, the \$600 threshold is increased to \$2,000. This amount will be adjusted annually for inflation after 2026.

Capital Gains from the Sale of Certain Farmland Property.

Effective for sales or exchanges in tax years beginning after July 4, 2025, a taxpayer can elect to report the net income tax on gain from the sale or exchange of qualified farmland property sold to a qualified farmer over a 4-year period in equal installments.

Qualified farmland property means real property located in the United States that has been used by the taxpayer as a farm for farming purposes, or leased by the taxpayer to a qualified farmer for farming purposes during substantially all of the 10-year period ending on the date of sale or exchange. The property must be subject to a covenant or other legally enforceable restriction which prohibits the use of the property for any other

purposes other than farming for a period of at least 10 years after the date of sale or exchange.

Limitation on Excess Business Losses.

Losses from the trades or businesses of a noncorporate taxpayer are limited if deductions from the businesses exceed gross income and gains from the businesses, plus a threshold amount. The inflation adjusted threshold amount for 2025 is \$313,000 (\$626,000 MFJ). Any disallowed excess business loss is carried over under the net operating loss (NOL) carry-over rules. The limitation was set to expire for tax years beginning after 2028. The new law permanently extends the limitation on excess business losses under IRC section 461(l). These amounts are adjusted annually for inflation beginning in tax years after 2025. Deduction for State and Local Taxes. For taxpayers who itemize, TCJA capped the deduction for state and local taxes at \$10,000. OBBBA provides relief by increasing the cap to \$40,000 for 2025. The amount is increased to \$40,400 for 2026 and then indexed for inflation annually before reverting to the current \$10,000 limit in 2030. The enhanced cap is phased out for taxpayers with modified adjusted gross income over \$500,000.

Sincerely,

Linda Jo Montz,
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