

# 2025 Tax Implications of the One Big Beautiful Bill Act

The following is a summary of the key aspects of the One Big Beautiful Bill Act (OBBBA) and its implications for tax year 2025 as they relate to individuals. [References “7XXXX” are to the appropriate section of the OBBBA; references “(YYY)” are to page numbers in the OBBBA.] A separate section below summarizes OBBBA items that will affect later tax years.

[Please do not edit this document; submit any comments/suggestions/questions to Prescott D03 928-277-1560 or Prescott4tax@gmail.com]

1. **Extensions of Tax Cut & Job Act (TCJA) Tax Rates 70101(216):** The OBBBA extended the TCJA rates, which were due to end after the 2025 tax year. The brackets are indexed for inflation each year. The 2025 tax rates and brackets remain as provided in IRS Revenue Procedure 2024-40 (dollar amounts in the table are *taxable* income, not AGI):

Rate	Single or MFS**	HOH	MFJ or QSS
10%	Up to \$11,925	Up to \$17,000	Up to \$23,850
12%	>\$11,925 to \$48,475	>\$17,000 to \$64,850	>\$23,850 to \$96,950
22%	>\$48,475 to \$103,350	>\$64,850 to \$103,350	>\$96,950 to \$206,700
24%	>\$103,350 to \$197,300	>\$103,350 to \$197,300	>\$206,700 to \$394,600
32%	>\$197,300 to \$250,525	>\$197,300 to \$250,500	>\$394,600 to \$501,050
35%	>\$250,525 to \$626,350 **>\$250,525 to \$375,800	>\$250,500 to \$626,350	>\$501,050 to \$751,600
37%	>\$626,350 **>\$375,800	>\$626,350	>\$751,600

2. **Increased Standard Deduction 70102(217):** The OBBBA increased the 2025 basic standard deductions to \$15,750 for Single/MFS, \$23,625 for HOH, and \$31,500 for MFJ and QSS. The OBBBA did not change the additional standard deduction amounts for those individuals over 65 or blind as given in IRS Revenue Procedure 2024-40: \$1,600 for MFJ or QSS, or \$2,000 for Single or HOH.

3. **Temporary Deduction for Seniors 70103(218):** The OBBBA added a new Deduction for Seniors of \$6,000 for taxpayers over 65 by the end of the year. This is available for all filing statuses *except that married individuals must file a joint return*. The \$6,000 amount is reduced by 6% of the amount the taxpayer’s AGI exceeds \$75,000 (\$150,000 for joint returns), so it becomes \$0 at \$175,000 (\$250,000 for joint

returns). Note that this temporary deduction is for tax years 2025 through 2028 only and is in addition to the basic and additional standard deduction amounts described in paragraph 2 above. In the case of a married couple if both are over 65 filing a joint return, their total deduction would be \$46,700 if their AGI was below \$150,000: \$31,500 basic standard deduction plus two \$1,600 additional standard deductions plus two \$6,000 temporary senior deductions. The deduction is also available to taxpayers who itemize. As an example, if a Single taxpayer over 65 had itemized deductions of \$25,000 and AGI below \$75,000, he would receive a total deduction of  $\$25,000 + \$6,000 = \$31,000$ . Because of this increased standard & temporary deduction, we should expect even fewer taxpayers over 65 to itemize their Federal returns. **[Discussion 1: the IRS created a new 1040 Schedule 1-A “Additional Deductions” which collects the four new deductions (this Enhanced Senior Deduction plus the No Tax on Tips, No Tax on Overtime, and No Tax on Car Loan Interest—items 6, 7, and 8 below) and adds them to either the Standard Deduction or Itemized Deduction to calculate 2025 taxable income.]** **[Discussion 2: “No tax on Social Security.” This phrase has been heard in relation to the OBBBA—but the OBBBA did not eliminate tax on Social Security benefits. SS benefits will be taxed as they have been using the Social Security Benefits Worksheet. Our preparers should understand (and be able to explain to our clients) that because the base amount of \$25,000 (\$32,000 joint) has not changed since 1984, more SS recipients see their SS benefits (or a larger portion of them) become taxable every year due to inflation and SS COLAs. However, the OBBBA does help more seniors on SS because the \$6,000 temporary deduction will result in lower taxes by lowering taxable income for many seniors, even though they may see a higher proportion of SS benefits being taxable.]**

**4. Increased Child Tax Credit 70104(221):** The OBBBA raises the Child Tax Credit to \$2,200 for 2025 and indexes that amount to inflation for future tax years. It also imposes a requirement that both the taxpayer (at least one in the case of a joint return) and the qualifying child enter SSNs on the return. It also leaves in place for 2025 the \$1,700 maximum refundable Additional Child Tax Credit provided in IRS Revenue Procedure 2024-40 and indexes that amount to inflation for future tax years.

**5. SALT deduction limit 70120(244):** The OBBBA increased the deduction limit for state and local taxes (SALT) from \$10,000 to \$40,000 (half that for MFS) for tax year 2025. The limit is indexed at 1% per year for tax years 2026 through 2029 and reverts to \$10,000 for tax year 2030. The limit is phased out for taxpayers with AGI over \$500,000 (the AGI phaseout point is also indexed at 1% per year). This limit increase may allow a few more taxpayers to itemize.

**6. No tax on tips 70201(247):** The OBBBA adds a deduction of up to \$25,000 for individuals receiving qualified tips, which can be cash, charge, or from a tip-sharing arrangement. The deduction amount is phased out for AGI over \$150,000 (\$300,000 for MFJ). The deduction is allowed for married individuals *only if they file a joint return* (MFS does not qualify). This deduction is allowed for tax years 2025 through 2028 only and is not indexed. The Secretary of the Treasury will generate rules clarifying the allowable businesses to which tip income applies. For independent contractors, the tip

income deduction may not exceed their net business income (i.e., cannot generate a loss). **[NOTE: this deduction will go on the new 1040 Schedule 1-A. See Discussion 1 in item 3 above for more details. There are also provisions in the OBBBA requiring the tip income information to be provided to the taxpayer; currently it's unclear how we'll know which taxpayers will qualify for this deduction.]**

**7. No tax on overtime 70202(257):** The OBBBA adds a deduction of up to \$12,500 (\$25,000 for a joint return) for individuals receiving qualified overtime. Caution: the OBBBA defines "qualified overtime compensation" as "overtime compensation paid...that is in excess of the regular rate at which the individual is employed."

Example: your normal work week is 40 hours and your normal pay is \$30/hour. You work 10 overtime hours at time-and-a-half, or \$45/hour. The qualified overtime you could deduct would be 10 hours x \$15/hour (the amount over your regular pay rate), or \$150, not the full \$450 you received for the overtime hours you worked. Overtime compensation cannot include any qualified tips (item 6 above). The deduction amount is phased out for AGI over \$150,000 (\$300,000 for MFJ). The deduction is allowed for married individuals only if they file a joint return (MFS does not qualify). This deduction is allowed for tax years 2025 through 2028 only and is not indexed.

The Secretary of the Treasury will generate rules clarifying the deduction for overtime. **[NOTE: this deduction will go on the new 1040 Schedule 1-A. See Discussion 1 in item 3 above for more details. There are also provisions in the OBBBA requiring the overtime income information to be provided to the taxpayer; it's unclear if that will be on a W-2 (or perhaps a 1099-NEC for non-employees).]**

**8. No tax on car loan interest 70203 (263):** The OBBBA adds a deduction of up to \$10,000 for car loan interest. The deduction amount is phased out for AGI over \$100,000 (\$200,000 for MFJ). The deduction is allowed for loans (not lease payments) on new vehicles (car, van, minivan, pickup truck, SUV or motorcycle) designed for on-road use and final assembled in the US. This deduction is allowed for tax years 2025 through 2028 only and is not indexed. It is not allowed if the loan is from someone related to the taxpayer. To claim the deduction, the taxpayer must include the VIN on their return. **[NOTE: this deduction will go on the new 1040 Schedule 1-A. See Discussion 1 in item 3 above for more details.]**

**9. Enhanced adoption credit 70402 (363):** The OBBBA indexes both the non-refundable and refundable portions of the adoption credit.

**10. 529 account expenses 70413 (377) and 70414(379):** Expands the expenses that can be included as elementary and secondary tuition beginning on the OBBBA enactment date (7/4/25). Raises the annual limit on distributions from qualified tuition programs from \$10,000 to \$20,000 *beginning in tax year 2026* (378). Includes post-secondary credentialing expenses as qualified higher education expenses beginning on the OBBBA enactment date (7/4/25).

**11. Termination of previously owned clean vehicle credit 70501(462): [Out of scope]** Disallows the credit for any vehicle acquired after September 30, 2025. Preparers should know if asked.

**12. Termination of clean vehicle credit 70502(462): [Out of scope]** Disallows the credit for any vehicle acquired after September 30, 2025. Preparers should know if asked.

**13. Termination of energy efficient home improvement credit 70505(463):** Disallows the credit for any property placed in service after December 31, 2025. *[Note: the draft Form 5695 for 2025 shows that to claim any items other than insulation, the taxpayer will have to provide a 4-digit Qualified Manufacturer's (QM) code. This will simplify our preparer's task: "no code, no credit."]*

**14. Termination of residential clean energy credit 70506(464): [Out of scope]** Disallows the credit for any expenditures made after December 31, 2025. *[Note: Although this credit is being terminated and the credit for Solar is Out-of-Scope, preparers should be aware that the carryover for Solar installed in prior years has not been terminated. If preparers see that the taxpayer has Solar credit carryover from prior years shown on returns prepared by someone other than Tax-Aide, there's no reason not to prepare the return and include the carryover. The carryover will be on line 16 of the prior year's Form 5695, and the one entry can be made in TaxSlayer under Federal>Deductions>Credits>Residential Energy Credits>Credit Carryforward from 20XX. (We expect that entry to move elsewhere in TaxSlayer for tax years beginning in 2026.)]*

**15. Trump account & pilot program 70204(272):** The OBBBA establishes new non-Roth IRAs for children born in years 2025 through 2028, with an initial government contribution (the pilot program) of \$1,000. Subsequent contributions cannot be made earlier than 12 months after the OBBBA enactment (7/4/26) and are limited to \$5,000 annually. These funds can be used for qualified expenses like higher education or a first-time home purchase when the child turns 18.

**16. Third Party Network Transactions 70432(442):** For tax year 2025 (with no end date specified), the OBBBA reinstated the exception that third party settlement organizations are required to report information (usually on 1099-Ks) about a payee *only if the number of third-party network transactions exceeds 200 and the amount of the transactions exceeds \$20,000*. This means we may see fewer 1099-Ks for gig economy drivers (Uber, Lyft, etc.), but they still need to report all their income.

# One Big Beautiful Bill Act

## Implications for Tax Years 2026 & Later

**1. Enhanced dependent care assistance program 70404(366):** The OBBBA raises the amount an employee can exclude from dependent care assistance provided by employers from \$5,000 (\$2,500 for MFS) to \$7,500 (\$3,750 for MFS) beginning in tax year 2026.

**2. Enhanced child & dependent care tax credit 70405(366):** For tax years beginning in 2026, the OBBBA raises the credit percentage from 35% to 50% for AGIs up to \$15,000. It also phases out the credit percentage in two steps based on AGI: from 50% to 35% as AGI exceeds \$15,000, and then from 35% to the current 20% as AGI exceeds \$75,000 (\$150,000 for a joint return).

**3. Limitation on wagering losses 70114(237):** Beginning with tax year 2026 and with no end date specified, the OBBBA limits the deductible amount of wagering losses to 90% of the wagering losses for the year (and they still cannot exceed the amount of gambling wins).

**4. Credit for contributions to scholarship granting organizations 70411(367):** For tax years beginning in **2027**, the OBBBA establishes a new *non-refundable* credit for charitable contributions “of cash” to a scholarship granting organization. Each state must provide a list of qualifying organizations within the state. The credit is limited to a maximum of \$1,700 per year (not indexed) per taxpayer. The credit is reduced by any amount used as credit on a state tax return, and the credit may not also be used as a charitable contribution. If the credit is not used in a given tax year, it may be carried forward for up to the next five tax years (FIFO rules apply). **[Note: “per taxpayer” implies that both taxpayers on a joint return could get a \$1,700 credit.]**

**5. Partial deduction for charitable contributions for non-itemizers 70424(423):** Beginning in tax year 2026 (and with no end date specified), the OBBBA reinstates the partial deduction for charitable contributions (as was allowed on 2021 tax returns). The deduction is limited to \$1,000 (\$2,000 for joint returns) and isn’t indexed.

**6. 0.5% floor on deduction of contributions 70425(424):** Beginning in tax year 2026, the OBBBA imposes a floor on charitable contributions equal to 0.5% of the taxpayer’s AGI. This is similar to the 7.5% floor on medical deductions on Schedule A. **[Note: It’s not clear how this will be implemented in coordination with items 4 and 5 above; we’ll have to see the 2026 Schedule A instructions.]**

**7. Treatment of Capital Gains from Sale of Farmland Property 70437(456):** Possible but unlikely we would see this.

**8. SSN Requirement for AOC and LL credits 70606(568):** Beginning with tax year 2026, the OBBBA prohibits credit for either the AOC or LLC unless the taxpayer includes on their return their SSN and the name and SSN of any person whose expenses they're claiming. In addition, for the AOC the taxpayer must include the EIN of the institution to which they pay tuition and related expenses.

**9. Extension and enhancement of QBI deduction 70105(224):** Beginning with tax year 2026, the OBBBA makes the following changes

- extends the QBI deduction indefinitely (it was due to expire after tax year 2025).
- extends the phase-in points for taxable income limitations (won't affect Tax-Aide as the phase-in points are well beyond our business income limits); and
- sets a minimum QBI deduction of \$400 for taxpayers who materially participate in a business and have qualified business income of at least \$1,000. Both amounts are indexed for inflation. (TaxSlayer should make this calculation for us)

**10. Mortgage insurance premiums 70108(229):** Beginning with tax year 2026 (and with no end date specified), the OBBBA reinstates the inclusion of mortgage insurance premiums as interest when figuring the mortgage interest deduction on Schedule A.

**11. Termination of Miscellaneous Itemized Deductions other than Educator Expenses 70110(231):** The OBBBA extends indefinitely the prohibition of miscellaneous itemized deductions (which had been set to expire at the end of tax year 2025). For tax year 2026 and beyond, it will allow the subtraction of Educator Expenses for coaches and interscholastic sports administrators and allow expenses for "nonathletic supplies for courses of instruction in health or physical education."

**12. Itemized deduction limit 70111(233):** Beginning with tax year 2026, the OBBBA reduces the amount of itemized deductions an individual may claim by 2/37 of the lesser of (1) the amount of itemized deductions or (2) the amount by which the taxpayer's taxable income exceeds the dollar amount at which the 37% tax rate bracket begins for the taxpayer. **[Note:** if the taxpayer's taxable income does not reach the 37% bracket level, item (2) will be zero and there will be no reduction in the value of itemized deductions that can be claimed.]

**13. Moving expenses 70113(235):** Beginning with tax year 2026 and with no end date specified, the OBBBA extends the existing prohibition on moving expense reimbursement except for members of the armed forces moving because of permanent change of station (which was due to expire after tax year 2025). A new addition is allowing moving expense reimbursement for members of the intelligence community who move due to a reassignment that requires relocation.

**14. Threshold increased for reporting income with respect to payees 70433(445):** Beginning with tax year 2026 and with no end date specified, the OBBBA raised the threshold for people in a trade or business to report payments to payees from \$600 to

\$2,000 (indexed for inflation). This means fewer people will receive 1099-NECs, but they will still have to report all income they received.

Revision history for this document:

Date	Content
7/9/2025	Original version posted
7/15/2025	<ol style="list-style-type: none"><li>1. 2025 item 3: clarified wording re taxation of Social Security benefits</li><li>2. 2025 item 3: added wording re itemizers also qualifying for the \$6,000 temporary senior deduction</li><li>3. Added 2025 item 16 re Third Party Network Transactions</li><li>4. Added 2026 item 14 re raised threshold for business reporting of income to non-employees</li></ol>
7/16/2025	Clarified overtime compensation definition on 2025 item 7
7/20/2025	Clarified tip income deduction for independent contractors on 2025 item 6
10/12/2025	Updated 2025 items 3, 6, 7 and 8 to reflect new 1040 Schedule 1-A, which will collect those deductions and include them on the Form 1040 page 2