The One Big Beautiful Bill Act (OBBBA)

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Brain Teaser of the Month *– In 1968, this movie interrupted the American Football League (AFL) game between the Oakland Raiders and the visiting New York Jets.*

On July 4, 2025, President Trump signed the "One Big Beautiful Bill Act" (OBBBA), ending years of speculation over whether certain portions of the Tax Cuts and Jobs Act (TCJA) of 2017 would be extended or replaced.

There are many provisions within the bill, and we only cover a handful here. We encourage you to reference the attached PDF "Cheat Sheet" for more details.

Below, we highlight some of the major updates for individuals and families.

Notable Changes

- **SALT Deduction Expansion** – Prior to OBBBA, taxpayers were limited in how much they could deduct for State and Local taxes (the cap was $10,000 per return). OBBBA increases the limit to $40,000 for married filing jointly taxpayers with Modified Adjust Gross Income (MAGI) up to $500,000. Above $500,000 MAGI, the limit begins to phase down[1]. For MAGI above $600,000 for married filing jointly taxpayers, the SALT deduction phases completely back to $10,000. This provision takes effect for tax year 2025 and will expire after 2029.

- **529 Plans** – 529 plans were traditionally used for college costs but have expanded in recent years as the IRS allowed their use for K-12 qualified education expenses up to $10,000 per year (note that not all states follow this guideline). Starting in 2026, the OBBBA increases the K-12 cap to $20,000 per year, and expands the definition of qualified educational expenses to include[2]:
  - Tutoring
  - Fees for standardized tests
  - Curriculum materials for those in K-12 (current law already allows for curriculum materials for college students).
  - Educational therapy costs (i.e., occupational therapy, behavioral therapy, physical therapy, and speech therapy).

- **ABLE Accounts** – Prior to OBBBA, ABLE accounts could only be opened by someone whose qualifying disability began before age 26. OBBBA extends eligibility to those with qualifying disabilities that began before age 46, effective January 1, 2026[3].

- **Trump Accounts[4]** - Children born in 2025 through 2028 will be eligible to receive $1,000 from the Treasury, deposited into a new type of account for minors established by the OBBBA called a Trump Account (which is similar to an IRA but with certain new restrictions, requirements, caps, and limitations through age 18, but then converts to a traditional IRA at 18)." The investment piece is critical – the funds must be invested in either low-cost stock mutual funds or ETFs (not bonds or cash).
    - Family members may also contribute to the accounts, up to $5,000 per year (indexed for inflation, and beginning July 1, 2026). There is no tax deduction on contributions.
    - Money cannot be withdrawn until the child is 18.
    - Withdrawals of the contributions are not taxable, but withdrawal of earnings will be taxed as ordinary income.
    - As this is a new account type, we expect more guidance from the IRS is likely to come on these accounts.

- **Additional tax deduction for Seniors[5] –** Those age 65 and older will receive an additional $6,000 deduction, with phase out by 6% of the amount MAGI exceeding $75,000 (individual) or $150,000 (married filing jointly). For a married couple, the deduction is reduced to zero if the couple's MAGI is equal to or greater than $250,000. This provision takes effect for tax year 2025 and will expire after 2028.

- **Car Loan Interest Deduction[6] –** This is a new provision applicable to interest on new loans taken out after December 31, 2024. The deduction only applies to personal use vehicles assembled in the US and is capped at $10,000 per year. The deduction begins to phase out for those with MAGI over $100,000 (individual filers) and $200,000 (married filing jointly). This provision takes effect for tax year 2025 and will expire after 2028.

- **Charitable Contributions[7] –** There are two notable changes in regard to how charitable contributions are treated. Both of these provisions apply to taxable years beginning after December 31, 2025 and will expire in 2029.

    - First, taxpayers who do not itemize their deductions will be allowed to deduct $1,000 (single filers) or $2,000 (joint filers). Donations must be made in cash (as opposed to stock or property) and must be made directly to a public charity (not a donor-advised fund).

    - Second, there is a new floor for the charitable deduction. An individual can only deduct otherwise allowable charitable contributions to the extent such contributions, in the aggregate, exceed 0.5% of the taxpayer's contribution base (a modified Adjusted Gross income (AGI). For example, if a taxpayer with a contribution base of $500,000 donates $5,000 to a charity, the taxpayer can only deduct $2,500 (0.5% of $500,000). Amounts disallowed under this rule may be carried forward for up to 5 taxable years.

- **Overall Limitation on Itemized Deductions[7] –** The value of allowable itemized deductions will be capped at 35% starting in 2026. For those taxpayers in the 37% tax bracket, this will limit the tax savings from itemized deductions including charitable contributions.

We expect that these changes will have implications for both financial planning and estate planning. For example, we expect to see taxpayers bunch charitable contributions into one tax year (versus spreading them out over time), to take advantage itemizing deductions and also clearing the 0.5% floor. We also expect taxpayers to try and stay under the $500,000 AGI limit so that state and local taxes can be deducted up to the $40,000 threshold.

Notably, much of current tax law remains unchanged[8]. Some highlights:

- Marginal income tax brackets remain the same - 10%, 12%, 22%, 24%, 32%, 35% and 37%
- No changes to federal capital gains income tax rates or 3.8% net investment surtax
- No changes to Roth/IRA contributions
- No change to the current mortgage interest deduction cap of $750,000 principal
- No change to the current Federal Gift and Estate tax exemption, which will be $15 million per person in 2026.

If you have any questions or would like to discuss, please feel free reach to out to us. Always consult with your tax advisor on decisions that may impact your taxes.

All the best,

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Brain Teaser of the Month Answer – *Heidi*

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Sources:
1. Morgan Stanley – US Policy Pulse "OBBBA Cheat Sheet" – July 14, 2025
2. The "One Big Beautiful Act" - July 4, 2025
3. New York Times – "Want to Study Welding or Prepare for the Bar Exam? You Can Now Use a 529 Plan" – July 26, 2025
4. ABLE National Resource Center - "The ABLE Age Adjustment Act Fact Sheet"
5. Kitces.com – "Breaking Down The "One Big Beautiful Bill Act" – July 16, 2025
6. Morgan Stanley – US Policy Pulse "OBBBA Cheat Sheet" – July 14, 2025
7. Kitces.com – "Breaking Down The "One Big Beautiful Bill Act" – July 16, 2025
8. Kitces.com – "Breaking Down The "One Big Beautiful Bill Act" – July 16, 2025
9. Wall Street Journal – "How Trump's Megabill Will and Won't Change Your Taxes"– July 4, 2025

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