

OBBB Act: What it Means for Individuals

The enactment of the One Big Beautiful Bill (OBBB) Act has resulted in several income tax changes for individual taxpayers. The legislation includes permanent and limited modification of many soon-to-expire tax provisions, new provisions, and the elimination or modification of most green energy provisions, among other changes.

Individual Extenders

Many provisions of the Tax Cuts and Jobs Act (TCJA) applicable to individuals were among those scheduled to expire at the end of 2025. These include:

- 10, 12, 22, 24, 32, 35, and 37 percent brackets applicable since 2018;
- elimination of personal exemptions;
- increased alternative minimum tax exemption and threshold amounts;
- lower limitation on the deduction of mortgage interest;
- limitation on the casualty loss deduction;
- termination of the miscellaneous itemized deduction;
- allowance of rollovers from qualified tuition programs to ABLE accounts.

The OBBB Act makes all of these provisions permanent but with some modifications. The OBBB Act permanently treats mortgage insurance as qualified residence interest for which a deduction could be claimed and allows for unreimbursed educator expenses to be deducted as a miscellaneous itemized deduction. The OBBB Act also removes the last seven years of inflation adjustments from the AMT exemption phase-out threshold for joint filers, reverting the threshold to the 2018 amount.

Also, the OBBB Act permanently eliminates the personal exemption amount, but provides a \$6,000 deduction amount for seniors age 65 and older after 2024 and before 2029. This deduction phases out for individuals whose modified adjusted gross income (AGI) exceeds \$75,000 (\$150,000 for joint filers).

Standard Deduction

The OBBB Act increases the amount of the standard deduction for tax years beginning in 2025 and subject to inflation thereafter. Under the OBBB Act, the standard deduction amounts for 2025 are \$31,500 for joint filers, \$23,625 for heads of households, and \$15,750 for single taxpayers and married taxpayers filing separately.

SALT Deduction

The OBBB Act increases the state and local tax deduction (SALT deduction) cap to \$40,000 for 2025, with a one percent increase in the cap each year through 2029 before returning to the \$10,000 limit in 2030. The cap is reduced by 30 percent of the amount by which the taxpayer's modified AGI exceeds a threshold amount (generally \$500,000 for 2025, with a one percent increase each year through 2029).

Child Tax Credit

The OBBB Act permanently increases the base amount of the child tax credit to \$2,200, subject to annual inflation increases. The post-2017 base amount of the refundable portion of the child tax credit (the "additional child tax credit") remains at \$1,400 and continues to be adjusted for inflation (\$1,700 for 2025). The OBBB Act requires the taxpayer claiming the credit, the taxpayer's spouse (if married), and the child for whom the credit is claimed to have Social Security numbers.

Estate Taxes

The estate tax basic exclusion amount is increased to a base amount of \$15 million for decedents dying in 2026, adjusted for inflation thereafter.

New Individual Provisions

The OBBB Act also enacts several new individual provisions, including:

- a deduction from income for amounts received as tips, capped at \$25,000 and subject to phaseout for taxpayers with modified AGI exceeding \$150,000 or \$300,000 for joint filers; and
- a deduction from income for overtime pay, capped at \$12,500 (\$25,000 for joint filers) and subject to phaseout for taxpayers with modified AGI exceeding \$150,000 or \$300,000 for joint filers.

Taxpayers do not have to itemize in order to claim the deductions but are required to provide a Social Security number. Neither deduction is allowed for tax years beginning after 2028.

Itemized deduction limitation. The OBBB Act also includes a return of the limitation on itemized deductions for taxpayers in the 37 percent income bracket, effective after 2025.

Automobile loan interest deduction. The OBBB Act includes a deduction of up to \$10,000 for interest paid on an automobile loan in 2025 through 2028 on a qualified passenger vehicle for personal use purchased after 2024. This deduction is available to both itemizers and non-itemizers but phases out when taxpayer's modified AGE exceeds \$100,000 (\$200,000 for married filing jointly).

Trump Accounts. The OBBB Act also includes provisions for the creation of tax-favored accounts for newborn children, called "Trump Accounts." The accounts are seeded with \$1,000 for newborn children. These accounts operate under similar tax rules to those applicable to individual retirement accounts, but are available to children.

Additional provisions. The OBBB Act also includes:

- a tax credit for contributions to scholarship-granting organizations;
- an expansion of 529 programs to include elementary, secondary, and home schooling expenses; and
- the resurrection of the COVID-era allowance of a charitable contribution deduction for non-itemizers.

Green Energy Credit Terminations

The OBBB Act terminates various green energy credits applicable to consumers. Under the OBBB Act, affected credits include the following (termination generally after 2025):

- previously-owned clean vehicle credit;
- clean vehicle credit;
- alternative fuel refueling property credit;
- energy efficient home improvement credit; and
- residential clean energy credit.

Contact Us

Please call our office and we can discuss how these changes might affect your tax situation. We are here to help you.