OBBBA Summary

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Tax Legislation Update

OBBBA Summary 2025 Tax Year

2025 Summary

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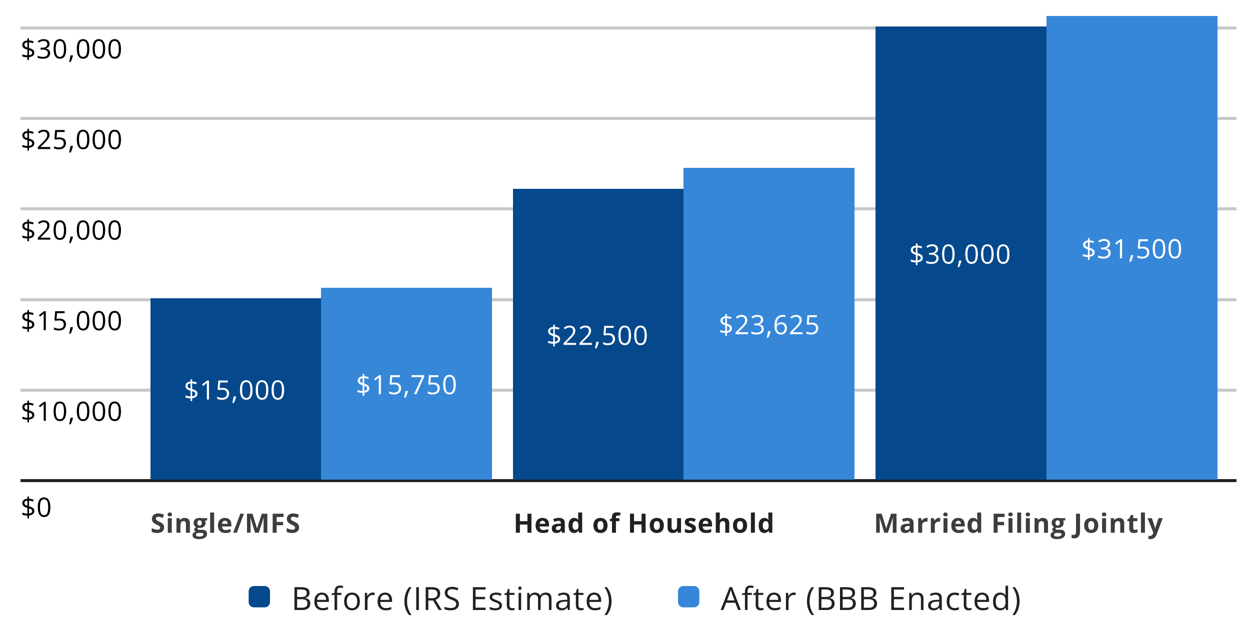
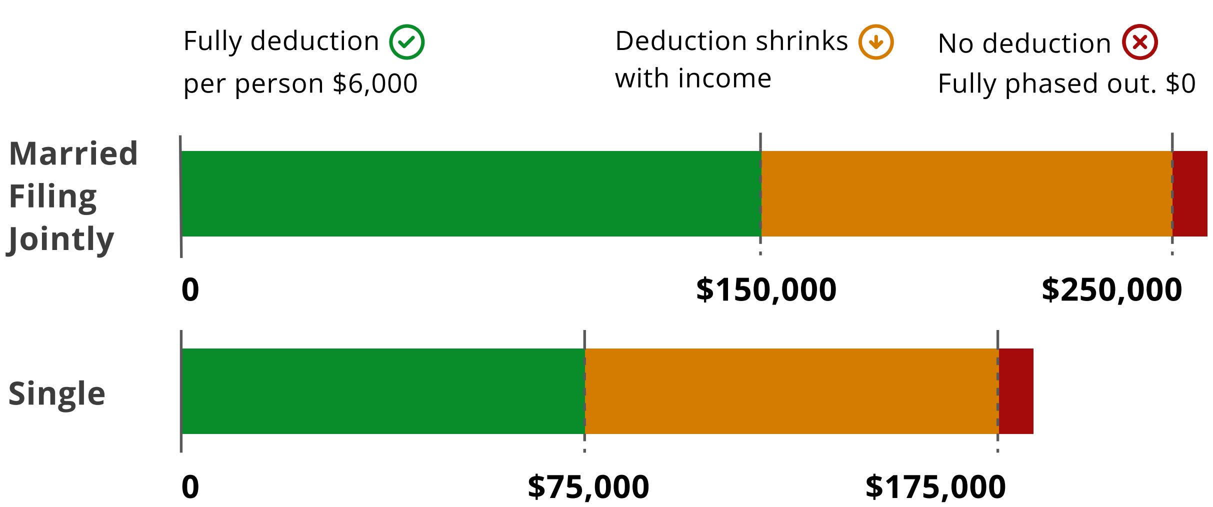
2025 Increased Standard Deduction



Senior Deduction

Starting taxable year 2025. Ends after taxable year 2028.



Deduction calculation	Married Filing Joint MAGI E.g. $180k
1 **Determine maximum deduction possible**	$6,000 x **2** tax payers **= $12,000 maximum deduction**
2 **Determine MAGI over threshold**	($180,000 MAGI) - ($150,000 MAGI threshold) **= $30,000 MAGI in excess threshold**
3 **Calculate applicable reduction of deduction**	(**$30,000**) x 0.06 (6%) = $1,800 reduction x **2** **= $3,600 reduction of deduction**
4 **Calculate final deduction allowed**	**$12,000 - $3,600** **= $8,400 final deduction allowed**

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Limitation on State and Local Tax (SALT) Deductions

Starting taxable year 2025. Ends after taxable year 2028.

Fully deduction per return $40,000

Deduction shrinks with income

Deduction limited to $10,000

Married Filing Jointly

Married Filing Separately has a maximum deduction per return of $20,000 and reduced phaseout ranges.

Single

Applies only if the client is itemizing deductions (i.e., their itemized deductions exceed the standard deduction).

Deduction calculation	**Married Filing Joint MAGI** E.g. $550k
1 **Determine MAGI over threshold**	($550,000 MAGI) - ($500,000 MAGI threshold) = **$50,000 MAGI in excess threshold**
2 **Calculate applicable reduction of deduction**	(**$50,000**) x 0.3 (30%) = **$15,000 reduction of deduction**
3 **Calculate final deduction allowed**	**$40,000* - $15,000 = $25,000 final deduction allowed**

Taxable Income **determines** Federal Bracket

Married Filing Jointly

Taxable Income	MAGI	Federal Bracket	SALT Deduction	Estimated SALT Tax Savings
$585,000	**$615,000**	**35%**	**$10,000**	**≈ $3,500**
$510,000	**$550,000**	**35%**	**$25,000**	**≈ $7,000**
$430,000	**$490,000**	**32%**	**$40,000**	**≈ $12,800**

MAGI **determines** SALT Deduction

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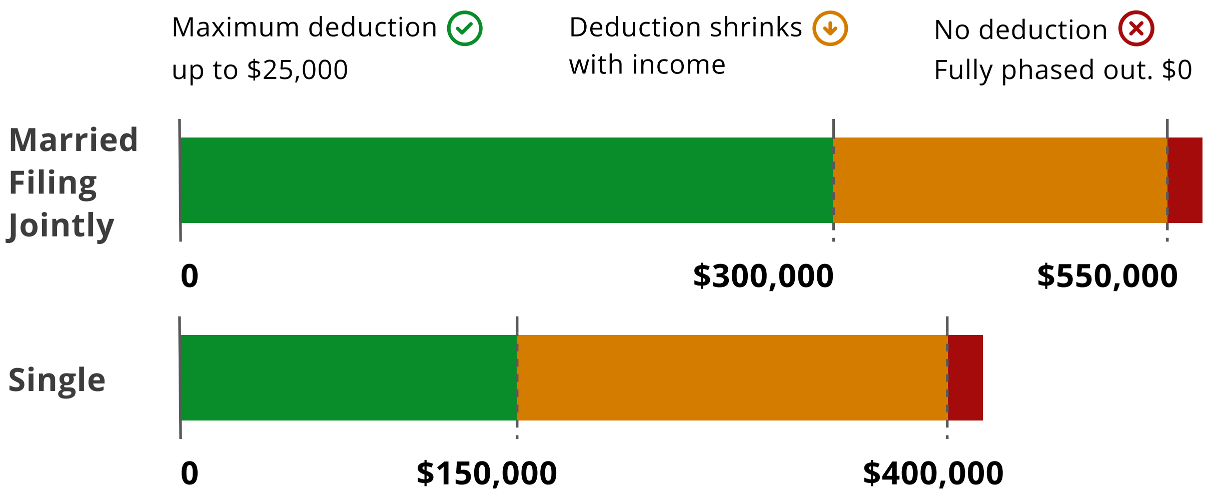
No Tax on Tips

Starting taxable year 2025. Ends after taxable year 2028.

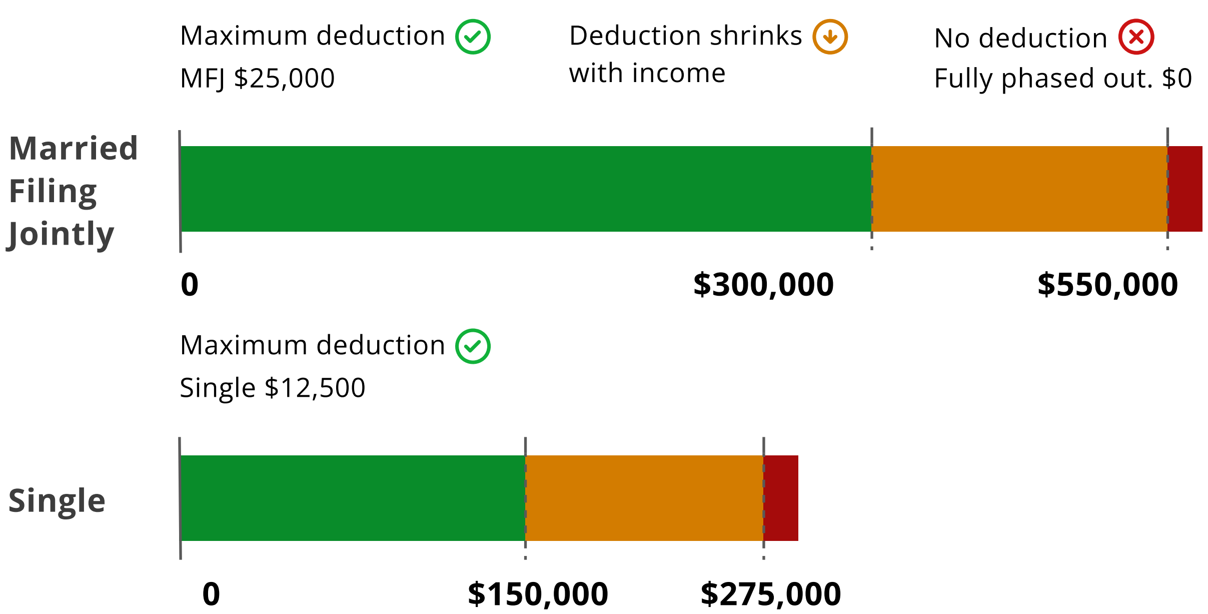


This deduction can still be taken even if the taxpayer does not itemize. It is added to the standard deduction if the standard deduction is used.

Deduction calculation	**Married Filing Joint MAGI** E.g. $425k
1 **Determine MAGI over threshold**	($425,000 MAGI) - ($300,000 MAGI threshold) **= $125,000 MAGI in excess threshold**
2 **Divide excess MAGI by $1,000**	($125,000 MAGI) / $1,000 = **125**
3 **Calculate applicable reduction of deduction**	(125) x $100 **= $12,500 reduction of deduction**
4 **Calculate final deduction allowed**	**$25,000 - $12,500** **= $12,500 final deduction allowed**

No Tax on Overtime

Starting taxable year 2025. Ends after taxable year 2028.



This deduction can still be taken even if the taxpayer does not itemize. It is added to the standard deduction if the standard deduction is used.

Deduction calculation	**Single Filing MAGI** E.g. $200k
1 **Determine MAGI over threshold**	($200,000 MAGI) - ($150,000 MAGI threshold) **= $50,000 MAGI in excess threshold**
2 **Divide excess MAGI by $1,000**	($50,000 MAGI) / $1,000 = 50
3 **Calculate applicable reduction of deduction**	(50) x $100 **= $5,000 reduction of deduction**
4 **Calculate final deduction allowed**	**$12,500 - $5,000** **= $7,500 final deduction allowed**

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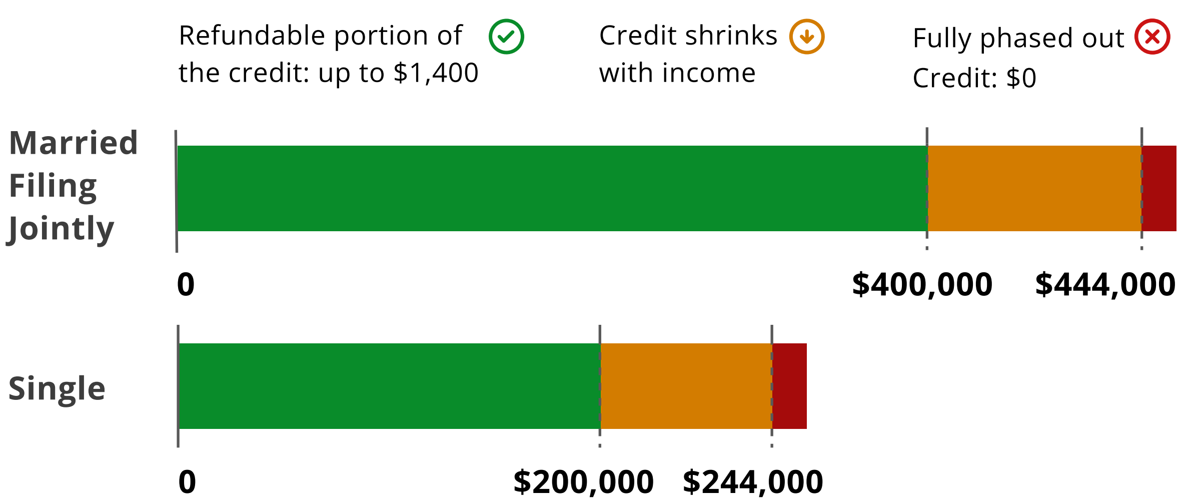
Child Tax Credit

Starting taxable year 2025

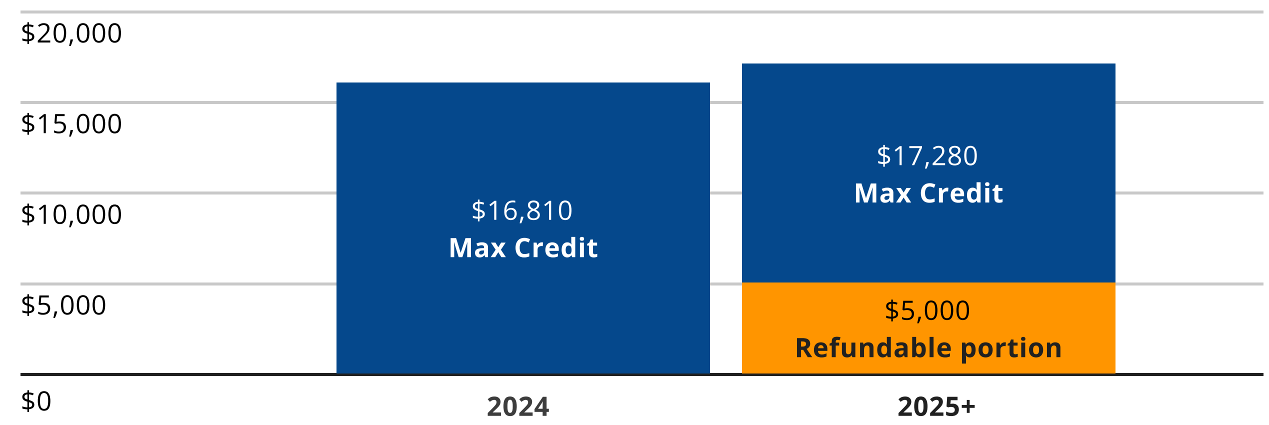
Maximum Credit: per qualifying child.	Maximum Refundable Credit: remains per child.
$2,000 → $2,200	**$1,700**



Deduction calculation	**Married Filing Joint AGI** E.g. $425k
1 **Determine income over threshold**	($425,000 AGI) - (400,000 MAGI threshold) **= $25,000 MAGI in excess threshold**
2 **Phaseout reduction**	($25,000 MAGI / $1,000) x $50 = **$1,250**
3 **Total credit before phaseout**	**(2)** children x $2,200 **= $4,400 credit**
4 **Remaining credit**	**$4,400 - $1,250 = $3,150 final credit**

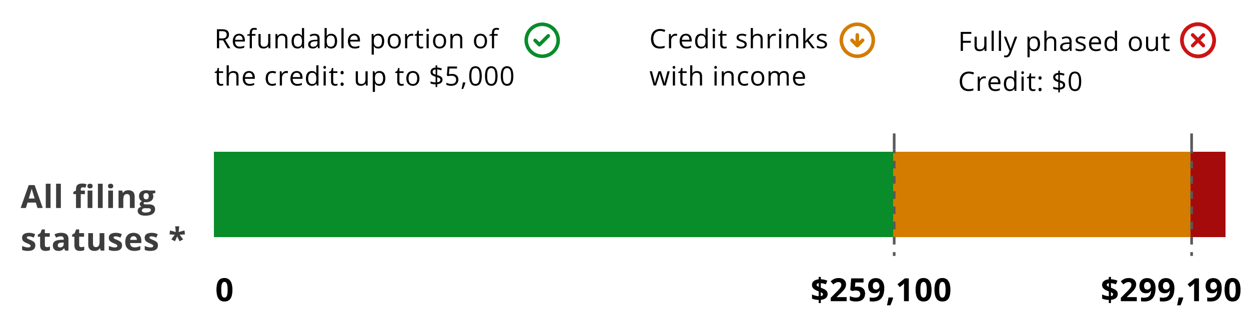
Adoption Credit

Starting taxable year 2025



MAGI Phaseout Range

(Applies to 2025+, subject to future adjustments)



** Not available to taxpayers using the married filing separately status.*

Unused credit can be carried forward for 5 years.

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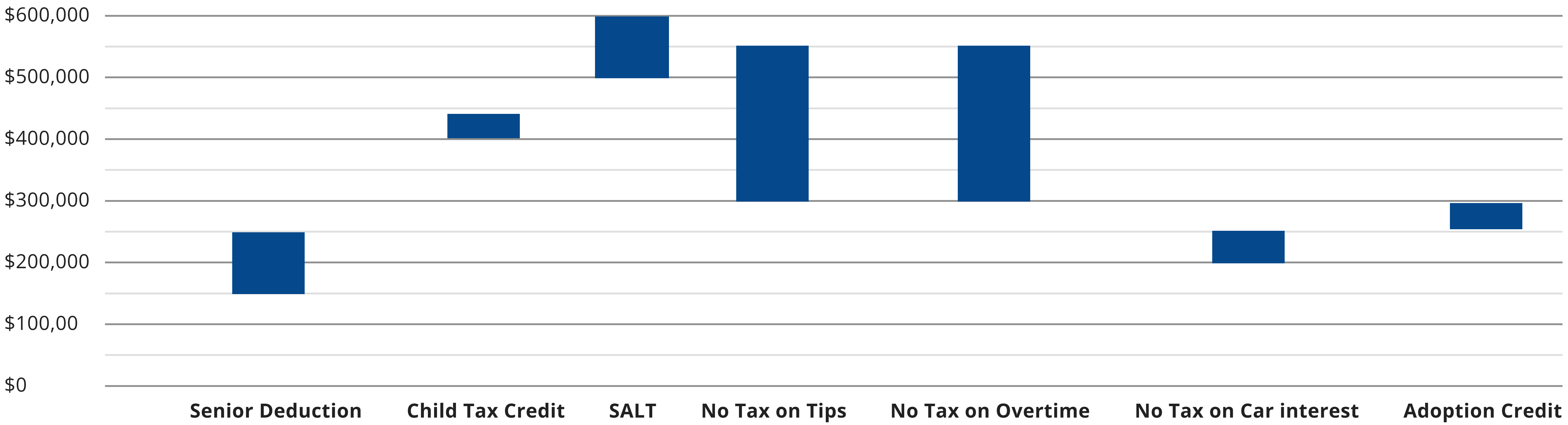
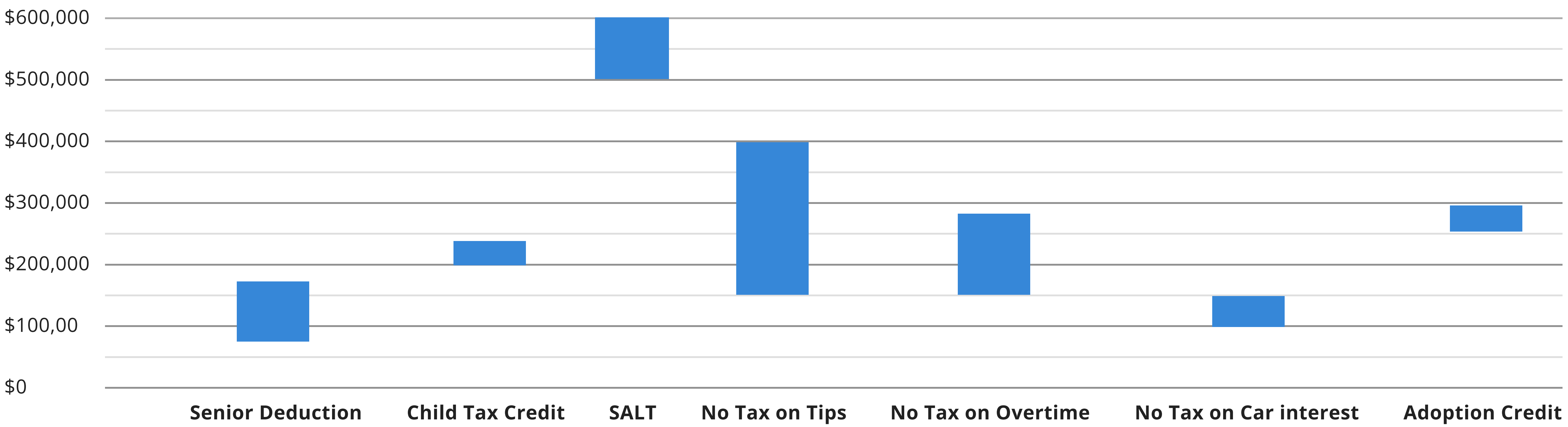
2025 MAGI Phaseouts - Married Filing Joint (MFJ)



2025 MAGI Phaseouts - Single Filing



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Deductions and Credits Scheduled for Termination After 2025

Law Prior to Bill Passage → **New Law Under OBBBA**

Residential Clean Energy

Limit: 30% of qualified expenses, including solar panels, geothermal, and battery storage.

Set to expire: **after 2034**

→ **Eliminates the residential clean energy credit.**

Effective date: Applies to any expenditures made after Dec. 31, 2025

Previously - Owned Clean Vehicle Credit

Credit amount: 30% of sale price, max $4,000 for used EVs bought through Sept 30, 2025

Before **Jan. 1, 2033**

→ **Eliminates previously-owned clean vehicle credit.**

Effective date: Applies to any vehicles acquired after Sep. 30, 2025

Clean Vehicle Credit

Max credit: up to $7,500 per new EV, subject to eligibility criteria

Before: **Jan. 1, 2033**

→ **Eliminates the clean vehicle credit.**

Effective date: Applies to any vehicles acquired after Sep. 30, 2025

Bicycle Commuting Reimbursement

Previously non-taxable up to **$20/ month ($240/year).**

Effective date: **through 2025**

→ **Eliminates the qualified bicycle commuting reimbursements**

Effective date: Applies to taxable years starting after Dec. 31, 2025

Law Prior to Bill Passage → **New Law Under OBBBA**

Energy Efficient Home Improvement Credit

Total annual cap: up to $3,200 overall.

- **$1,200** general aggregate
- **$2,000** for heat pumps, heat-pump water heaters, biomass stoves/boilers
- **Itemized sub-limits:** e.g., $600 windows/skylights, $500 exterior doors, $150 home-energy audits refundable credit for qualified clean energy expenditures.

Before: **Jan. 1, 2033**

→ **Eliminates the energy efficient home improvement credit.**

Effective date: Applies to property placed in service after Dec. 31, 2025

Miscellaneous Itemized Deductions

Includes expenses like investment fees, unreimbursed employee costs, legal/tax prep fees, hobby expenses, safe deposit box rentals.

Suspended: **through 2025**

→ **Makes suspension of misc. deductions permanent post-2025, but keeps educator expense deduction.**

Effective date: Applies to taxable years beginning after Dec. 31, 2025

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Important Changes for Business Owners in 2025

Starting taxable year 2025 (Unless otherwise specified).

Full Expensing for Domestic Research and Experimental (R&D) Expenditures:

Businesses can fully deduct domestic R&D costs in the year incurred starting 2025.

Special election: Small businesses may retroactively apply this to tax years starting **after Dec. 31, 2021.**

Increased Section 179 Expensing Limits:

Maximum Amount ↑
a taxpayer can expense:

$1M → $2.5M

Phase-out threshold ↑
begins at:

$2.5M → $4M

Qualified Small Business Stock (QSBS) Gain Exclusion Expansion:

↑ QSBS gain exclusion **phases increase**, with higher issuer / gross asset limits.

Applying to stock issued or tax years starting after enactment **(includes 2025).**

Full Expensing for Certain Business Property (Bonus Depreciation):

100% bonus ↑
depreciation returns

For qualified property acquired after **Jan. 19, 2025.**

Allowing full immediate deduction of the full cost of eligible depreciable business assets.

Exclusion of Interest on Qualified Farmland Property Loans:

Interest on certain loans for farmland under restrictive covenants is **excluded from gross income for sales/exchanges** in tax years after enactment.

Termination or Restrictions on Certain Energy - Related Tax Credits:

Clean vehicle and commercial clean vehicle credits **end after Sept. 30, 2025.**

Energy-efficient home improvement and residential clean energy credits **terminate after Dec. 31, 2025.**

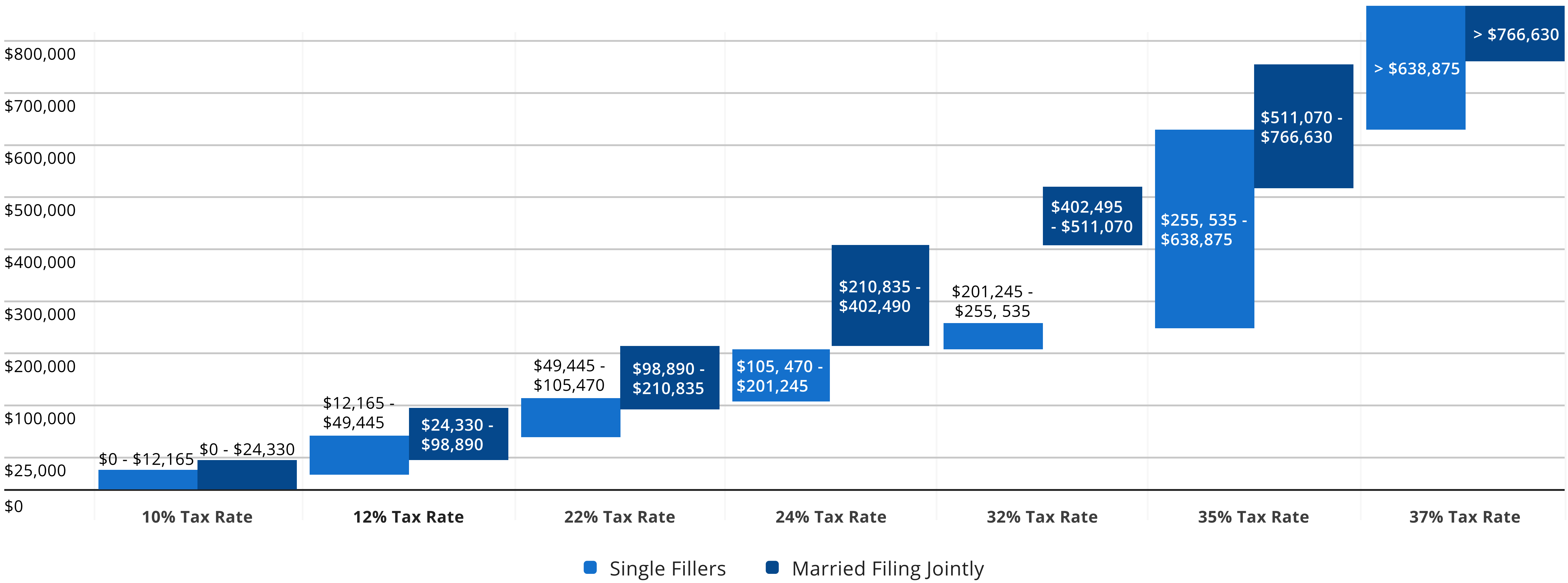
Credits tied to prohibited foreign entities terminate for facilities /tax years after **Dec. 31, 2025.**

OBBBA Summary 2026 Tax Year

2026 Summary

Reduced Income Tax Rates

Starting taxable year 2026 ***projected**



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2026 Tax Year

Alternative Minimum Tax (AMT) Exemption Amounts

Starting taxable year 2026

Key AMT Components (MFJ in 2025 vs. 2026* *projected*)

Feature	2025 (Pre-BBB)	2026 (BBB Enacted)
Exemption Amount	~ $126,500 (indexed from $109,400 base 2017)	**~ $130,000** (indexed, base 2017 still applies)
Exemption Phaseout Threshold	~ $1,156,500	~ $1,156,500 (indexed)
Phaseout Rate	25%	**50%** ↑
AMT Tax Rates	26% / 28% (no change)	Same

Summary

1. The higher phaseout rate (50%) means **higher-income filers lose their exemption faster,** increasing their AMT liability.
2. The **base exemption amounts remain generous,** and inflation adjustments still apply using 2017 as a base (so no rollback).
3. Net effect: High-income taxpayers (especially in $1M+ range) may see **moderate AMT increases.**

Trump Accounts and Contribution Pilot Program

Starting taxable year 2026

What are Trump Accounts?

Trump Accounts are a new tax-deferred savings account for children and young adults. The money grows tax-deferred, can be used for any purpose, and can eventually be rolled into a Roth IRA once the child has earned income. Unlike 529s or Coverdells, these accounts are not restricted to education expenses — making them a flexible way to jumpstart retirement or savings for kids.

Who can contribute and how much?

- Individual
- Employer
- Federal Government

Trump Account Contribution Limit: The aggregate amount of contributions (excluding rollovers, general funding, and pilot program contributions) for a calendar year **cannot exceed** **$5,000** for contributions made before the beneficiary attains age 18.

- **Qualified General Contribution Exclusion:** Qualified general contributions to Trump accounts ***are excluded from gross income.***
- **Employer Contribution Exclusion:** Gross income of an employee **does not include** amounts paid by the employer as a contribution to a Trump account, up to a **limit of** **$2,500** **(does count toward the 5k limit per year).**
- **Trump Accounts Contribution Pilot Program: An individual making an** election for an eligible child results in a **$1,000** **payment from the government to the child's Trump account (does NOT count toward the 5k limit per year.)**

Which children are eligible?

A qualifying child (as defined in section 152 (c)) born after December 31, 2024, and before January 1, 2029, for whom no prior election has been made, and who is a U.S. citizen. An SSN of the eligible child is required.

Penalties for Improper Claims: $500 for negligence / disregard, **$2,000** for fraud.

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Limitation on Tax Benefit of Itemized Deductions

Starting taxable year 2026

Why 2/37?

This formula is a modernized nod to the Pease limitation, which used to reduce itemized deductions by 3% of AGI over a certain threshold, capped at 80% of deductions.

Instead of reusing the Pease rules, Congress designed a flat-rate reduction that specifically

- Targets taxpayers in the top marginal bracket (37%)
- Caps the total loss of deductions to about 5.4% of the itemized amount — thus limiting, but not eliminating, the value of deductions for high earners.

The Math Behind 2/37:

It's structured to ensure that:

- A taxpayer with just enough income to enter the 37% bracket loses only a small slice of deductions.
- A taxpayer well into the 37% bracket may lose the full ~5.4% of their deductions.
- This formula scales with income without needing cliffs or hard caps.

It's not arbitrary, but a crafted balance:

- **"2" is the adjustment factor** (reducing by a modest amount)
- **"37" reflects the top bracket** — subtly linking the penalty to the highest earners.

In Summary

The 2/37 fraction ties the limitation to wealthier taxpayers, and softly reduces their ability to benefit from itemized deductions — without creating a dramatic penalty like in older rules.

Step-by-Step Calculation

Filing Status:
Married Filing Jointly (MFJ)

Itemized Deductions: $60,000

Taxable Income: $850,000

37% Tax Bracket Threshold for MFJ (2026 est.): $766,700

(This is from IRS estimates; subject to change based on inflation)

→

Step 1

Compare two values

A. Itemized deductions **$60,000**

B. Excess AGI over 37% bracket

$910,000 – $766,700 = $143,300

→

Step 2

Select smaller value and multiple by 2/37

Option A

2/37 of itemized deductions

(2/37) x $60,000 = $3,243.24

→

Step 3

Calculate final deduction

$60,000 minus $3,243.24

= $56,756.76

Final result: The taxpayer's itemized deduction benefit is reduced by $3,243.24, and only $56,756.76 will be used when calculating taxable income.

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Charitable Contributions by Non-Itemizers

Starting taxable year 2026

History and Changes

Previous Law (pre-BBB, during CARES Act era) *

The deduction was **$300 for individuals** and **$600 for MFJ.**

No MAGI limit applied — all taxpayers who took the standard deduction could claim it.

Note: It was considered an "**above-the-line**" deduction on the Form 1040.

*Note: When Congress temporarily allowed charitable deductions for non-itemizers (i.e., those taking the standard deduction) under the CARES Act (2020) and Consolidated Appropriations Act (2021)

New BBB Law

Raises the limit to **$1,000 (single)** and **$2,000 (MFJ).** ↑

Intended to be **permanent.***

*Note: The legislation **does not introduce a MAGI limit**, and it implies continuation of the same structure as the temporary laws (i.e., universally available to standard deduction filers).

0.5 Percent Floor on Individual Charitable Contributions

Starting taxable year 2026

The Rule	Only **contributions above 0.5%** of your AGI **are deductible.**
Contribution Base	Your AGI (Adjusted Gross Income) **without net operating loss.**
Order of Limits	This rule applies after limits for example: → **related to Capital gains or certain private foundations.**
Quick Math	Charitable Gift – **(0.5% × AGI) = Deductible Amount**

Step-by-Step Example:

MFJ with 500k AGI and 20k of charitable contributions in a single year

Step 1
Determine 0.5% AGI Floor

0.5% × $500,000
= **$2,500**

The **first $2,500** of charitable giving is not deductible

Step 2
Reduce Charitable Deduction

$20,000 − **$2,500**
= **$17,500 deductible**

**Amounts from haircut can be carried forward only if the taxpayer exceeds the percentages limitation caps*

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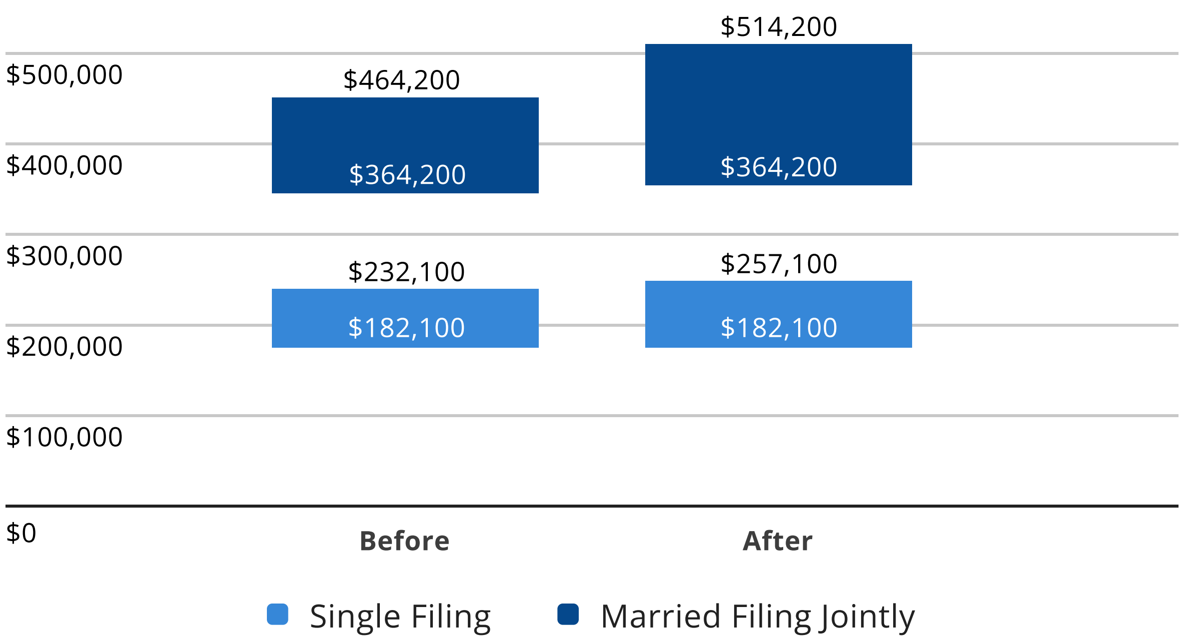
Important Changes for Business Owners in 2026

Starting taxable year 2026 (Unless otherwise specified).

Deduction for Qualified Business Income

Starting taxable year 2026



$400
Minimum deduction

For taxpayers with at least $1,000 in active Qualified Business Income **(QBI)**, even if phaseouts reduce their usual deduction.

Further Termination of Energy-Related Tax Credits:

- Refueling property credit and new energy-efficient home credit end after June 30, 2026.
- Energy-efficient commercial buildings deduction ends for construction starting after June 30, 2026.

Expanded Employer-Provided Child Care Credit:

Credit rises
25% → %40
(50% for small businesses)

Max credit increases
500k
($600K for small businesses).

Modifications to Foreign Tax Credit and International Tax Rules:

Foreign tax credit rules change:
FDII deduction percentages reduced.

BEAT tax rate increases:
10.5%

"Look-thru rule" for controlled foreign corporations **is made permanent.**

Adjustments to Limitation on Excess Business Losses:

Formula for calculating excess business losses changes **for tax years after Dec. 31, 2025.**

Permanent Extension of New Markets Tax Credit:

Credit for investments in low-income communities **becomes permanent** for calendar years after Dec. 31, 2025.