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The One Big Beautiful Bill and its Impact on Individual Taxes

Dear Client,

We are writing to inform you about the significant new tax legislation (the Act) signed into law July 4, 2025 (formally known as One Big Beautiful Bill or, informally, the OBBB). The Act includes numerous changes affecting individual taxation.

Navigating these changes can be complex, and their impact on your specific tax situation will vary. We encourage you to review this list, which highlights some of the key provisions, and contact us at your earliest convenience to discuss the impact of these changes and develop a plan tailored to your situation.

- **Reduced Income Tax Rates:** The Act makes the lower individual income tax rates and wider tax brackets introduced by the Tax Cuts and Jobs Act "TCJA" permanent, preventing a scheduled tax rate increase after 2025.
- **Increased Standard Deduction:** The standard deduction has been permanently increased and enhanced for 2025 and beyond: $30,000 for joint filers, $22,500 for heads of household, and $15,000 for singles in 2025, with further increases to $31,500, $23,625, and $15,750, respectively, for 2026 and after.
- **Child Tax Credit:** The Child Tax Credit (CTC) is made permanent and increases to $2,200 per qualifying child, subject to inflation adjustments after 2025. However, no credit is allowed unless the taxpayer includes a SSN for both the qualifying child and the taxpayer (or of at least one spouse in the case of a joint return).
- **Estate & Gift–Basic Exclusion Amount:** The basic exclusion amount for federal estate and gift tax will increase to $15 million (indexed for inflation) for estates of decedents dying and gifts made after Dec. 31, 2025. Review and update estate plans and consider making large lifetime gifts to tax advantage of this higher exclusion.
- **Deduction for Taxpayers Age 65 or Older:** For tax years 2025–2028, individuals age 65 or older (and their spouses, if filing jointly) can claim a new $6,000 deduction per qualified person. To maximize this benefit, seniors should aim to keep their adjusted gross income (AGI) below $75,000 (single) or $150,000 (joint), as the deduction is reduced by 6% of any excess. Be sure to include the correct Social Security Number for each qualifying individual to avoid disallowance of the deduction.
- **Car Loan Interest:** For tax years 2025–2028, individuals can deduct up to $10,000 per year in interest paid on loans for new personal-use vehicles even if they don't itemize deductions. The deduction phases out for single filers with MAGI over $100,000 and joint filers over $200,000. To qualify, the loan must be for a new, U.S.-assembled car, SUV, van, pickup, or motorcycle (under 14,000 pounds), secured by a first lien, with the taxpayer as the original owner, and the vehicle's VIN reported on the tax return. If you're planning to buy a new vehicle, consider timing

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your purchase and loan to maximize deductible interest within the eligible years, and manage your income to stay below the phase-out thresholds for the largest benefit.

- **Child and Dependent Care Credit:** Starting in 2026, the Child and Dependent Care Credit will be more valuable for many families. The maximum credit rate increases to 50% of eligible expenses, up to $3,000 for one qualifying individual or $6,000 for two or more.

- **American Opportunity and Lifetime Learning Credits:** Starting in 2026, you must include the Social Security Number (SSN) of the student (or yourself or your spouse, if applicable) and the Employer Identification Number (EIN) of each college or university when claiming the American Opportunity Tax Credit (AOTC). To avoid losing this valuable credit due to a clerical error, make sure all SSNs are issued before the tax return deadline and that you have the EIN for each institution.

- **Deduction for Qualified Residence Interest:** The deduction for mortgage interest on home acquisition debt is now permanently capped at $750,000 ($375,000 if married filing separately), rather than increasing to $1 million in 2026 as previously scheduled. If you are considering buying a home, refinancing, or taking out a new mortgage, be aware that interest on debt above $750,000 will not be deductible.

- **Miscellaneous Itemized Deductions:** The Act permanently eliminates miscellaneous itemized deductions for individual taxpayers. This doesn't apply however to itemized deductions under **Code Sec. 67(b)**. And the Act adds a new deduction thereunder for educators, allowing K–12 teachers, counselors, coaches, and aides working at least 900 hours per year to deduct unreimbursed classroom expenses (like books, supplies, and equipment) starting in 2026.

- **New Tax-Deferred Investment Accounts for Children:** Taxpayers can open a new tax-deferred investment account for children, called a "Trump account" for each eligible child. Taxpayers can contribute up to $5,000 per year in after-tax dollars for each child, and funds must be invested in a diversified U.S. equity index fund. For children born between Jan. 1, 2025, and Dec. 31, 2028, the federal government will automatically contribute $1,000 to each account. Taxpayers should open the account before their child turns 18 to maximize contributions and secure the government benefit if eligible.

- **Qualified Higher Education Expenses:** Changes to 529 savings plans allow families to use tax-free distributions for a much broader range of K-12 education expenses including not just tuition, but also curriculum, books, online materials, tutoring, standardized test fees, dual enrollment, and educational therapies for students with disabilities. Starting in 2026, the annual limit for K-12 distributions doubles from $10,000 to $20,000 per beneficiary. To maximize tax savings, consider timing 529 withdrawals to match qualified expenses within the same tax year, and coordinate with other education tax credits to avoid overlap.

- **Higher Education Expenses for 529 Accounts:** 529 plan distributions can now be used tax-free for a wider range of education expenses, including not only college costs but also "qualified postsecondary credentialing expenses." This means you can use 529 funds for tuition, fees, books, supplies, and equipment required for enrollment in recognized certificate, licensing, or apprenticeship programs even if they are not traditional degree programs.

- **Remittance Transfers:** Starting in 2026, a new 1% excise tax will apply to remittance transfers from U.S. senders to recipients in foreign countries. Transfers funded with cash or through non-U.S. payment apps may be subject to the tax, so plan ahead and use the exempt methods (i.e., the remittance transfer is withdrawn from a financial institution governed by Title 31, Chapter 53 or funded with a U.S.-issued debit or credit card) whenever possible to minimize your tax liability on international money transfers. This provision is effective for transfers made after Dec. 31, 2025, so review your remittance practices before year-end to take advantage of these exceptions and avoid unnecessary taxes.

- **Wagering Losses:** Starting in 2026, only 90% of your wagering losses can be deducted against your winnings, even if your losses equal or exceed your winnings. To maximize your deductions, consider realizing wagering losses in 2025 before the new rule takes effect, and keep detailed records of all activity.

- **Individual SALT Limitation:** The SALT (state and local tax) deduction cap is temporarily increased to $40,000 for 2025 ($40,400 in 2026, with 1% annual increases through 2029), before reverting to $10,000 in 2030. For those with modified adjusted gross income (MAGI) above $500,000 in 2025, the deduction phases out by 30% of the excess over the threshold, but will not drop below $10,000. Managing income and deductions to stay below the phaseout threshold, or timing large transactions to occur in years with a higher cap, can help maximize your tax benefit during this limited window.

These are just some steps that can be taken to save taxes. Please do not hesitate to contact us if you have any questions or concerns.

Very truly yours,

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