

The One Big Beautiful Bill Act: Planning Strategies for Individuals

The *One Big Beautiful Bill Act* (OBBBA) was signed into law on July 4, 2025. The legislation permanently extends many of the provisions originally enacted under the Tax Cuts and Jobs Act (TCJA) of 2017 and introduces several new changes affecting individual taxpayers.

Tax Brackets Under OBBBA

The OBBBA permanently extends the tax brackets of **10%, 12%, 22%, 24%, 32%, 35%, and 37%**, which have been in effect since 2018 under the TCJA. Prior to enactment of the OBBBA, these brackets were scheduled to sunset after tax year 2025.

The following changes were made to individual itemized deductions:

- **Standard Deduction Permanently Increased:** Under the TCJA, the standard deduction was nearly doubled, while personal exemptions were eliminated. The OBBBA makes the higher standard deduction permanent and continues the elimination of personal exemptions.
- **State and local taxes:** Beginning in 2025, the OBBBA increases the SALT deduction cap from \$10,000 to \$40,000, with the cap rising by 1% each year from 2026 through 2029 before reverting to \$10,000 in 2030. The deduction phaseout begins when MAGI exceeds \$500,000 with full phaseout at \$600,000, and married taxpayers filing separately are subject to a cap of \$20,000 and a phaseout range from \$250,000 to \$300,000.
- **Home mortgage interest deduction:** The OBBBA maintains the TCJA's \$750,000 limit on mortgage indebtedness eligible for interest deductions and permanently restores the deductibility of mortgage insurance premiums beginning in 2026.
- **Medical expenses:** The OBBBA preserves the current rule allowing taxpayers to deduct unreimbursed medical expenses that exceed 7.5% of AGI.
- **Charitable contributions:** The OBBBA retains the 60% of AGI limit for cash contributions to public charities when all contributions for the year meet that criteria, and beginning in 2026, introduces a 0.50% AGI floor under which charitable contributions are deductible only to the extent they exceed that threshold.
- **Casualty and theft losses:** Starting in 2026, the OBBBA permits deductions for casualty losses attributable to state-declared disasters, subject to the longstanding rule that such losses must exceed 10% of AGI and cannot be compensated by insurance.
- **Wagering Loss Deduction:** Under the OBBBA, beginning in 2026, taxpayers may deduct wagering losses only up to 90% of wagering gains, modifying the TCJA rule that previously allowed losses up to the full amount of gains.
- **Miscellaneous itemized deductions:** The OBBBA permanently eliminates all miscellaneous itemized deductions except for a newly added category, Educator Expenses. Educator Expenses becomes deductible as an itemized deduction beginning in 2026.
- **Itemized Deductions Limitations for the 37% Tax Bracket:** Beginning in 2026, the OBBBA replaces the TCJA's Pease limitation with a new rule applying only to taxpayers in the 37% bracket; under this provision, allowable itemized deductions are reduced by 2/37 of the lesser of the taxpayer's total itemized deductions or the amount by which their taxable income plus those deductions exceeds the 37% bracket threshold, effectively reducing the tax benefit of itemized deductions from 37% to 35%.

The following changes were made to individual below-the-line itemized deductions:

- **Additional Deduction for Seniors:** The OBBBA creates a temporary additional deduction for seniors from 2025 through 2028, providing a \$6,000 deduction for single filers age 65 or older and \$12,000 for married couples filing jointly when both spouses are 65+. This deduction is phased out at 6% of MAGI above \$75,000 for single filers and \$150,000 for joint filers and is fully eliminated once MAGI exceeds \$175,000 for single taxpayers or \$250,000 for joint filers.
- **Charitable Contribution Deduction for Non-Itemizers:** Beginning in 2026, the OBBBA reinstates a charitable deduction for taxpayers who do not itemize. Under the new law, non-itemizers can deduct up to \$1,000 if they are single or \$2,000 if married filing jointly for cash contributions to qualifying public charities.
- **Qualified Tips Deduction:** The OBBBA's so-called "No Tax on Tips" provision does not exempt tips from payroll or state income taxes; income received from tips remains subject to Social Security and Medicare taxation. The law instead provides a deduction for up to \$25,000 of "qualified tip" income from 2025 through 2028. This deduction phases out starting at a modified adjusted gross income (MAGI) of \$150,000 for single or head-of-household filers and \$300,000 for joint filers.
- **Qualified Overtime Compensation Deduction:** Similarly, the OBBBA's "No Tax on Overtime" provision does not exempt overtime pay from payroll taxes. Instead, it allows a deduction of up to \$12,500 for single or non-joint filers and \$25,000 for joint filers on "qualified overtime income" during 2025–2028. The deduction phases out for taxpayers beginning when MAGI exceeds \$150,000 (single or head of household) or \$300,000 (joint).
- **Auto Loan Interest Deduction:** The OBBBA establishes a new deduction for interest paid on "qualified passenger vehicle" loans, effective for tax years 2025 through 2028. Under the rules, individuals can deduct up to \$10,000 of interest per year on loans used to purchase certain new vehicles for personal use. To qualify: the loan must originate after December 31, 2024, the vehicle must be secured by a first lien, and it must be a new vehicle (original use begins with the buyer), assembled in the U.S., with a gross vehicle weight rating below 14,000 pounds. The deduction phases out beginning when a taxpayer's modified adjusted gross income (MAGI) exceeds \$100,000 for single filers or \$200,000 for joint filers and is reduced by \$200 for each \$1,000 (or portion thereof) above those thresholds.

Consider the following strategies to maximize your deductions.

- Look for options to bunch itemized deductions so that in combination they exceed the new higher standard deduction.
 - If you are charitably inclined, it could be beneficial to make larger gifts in one year rather than smaller gifts over several years. This could be done via a Donor Advised Fund to get the deduction in a single year and ultimately distribute amounts out to charity over time.
 - You may consider incurring out-of-pocket medical expenses for procedures recommended by your doctor that you may have been delaying. Keep in mind that your total out-of-pocket medical expenses would need to exceed 7.5% of AGI before a deduction is permitted.
- If you are age 70 ½ or older, consider transferring all or a portion of your Required Minimum Distribution (RMD) from Individual Retirement Accounts (IRAs) and qualified plans directly to charity via a Qualified Charitable Distribution (QCD). If certain requirements are met, this allows the funds to be excluded from income so that you get the tax benefits of giving to charity regardless of whether you itemize deductions.

Child Tax Credit Increase

The OBBBA increases the Child Tax Credit to \$2,200 per qualifying child beginning in 2025, with indexing for inflation starting in 2026. The Additional Child Tax Credit (ACTC), which is the refundable portion of the Child Tax Credit, remains at \$1,700 for 2025, providing a refund to families whose tax liability is too low to claim the full credit. The credit is subject to a phase-out for taxpayers with modified adjusted gross income (MAGI) over \$200,000 for single and head-of-household filers or \$400,000 for joint filers, with the credit reduced by \$50 for every \$1,000 of MAGI above these thresholds.

Alternative Minimum Tax (AMT) Phaseout Thresholds Reduced

The passing of the TCJA caused a reduction in households subject to the AMT, driven largely by higher AMT exemptions of \$88,100 for single filers and \$137,000 for joint filers in 2025, as well as higher phaseout thresholds of \$626,350 for single filers and \$1,252,700 for joint filers. Under the OBBBA, these exemption amounts are permanently extended, but beginning in 2026, the phaseout thresholds are lowered to \$500,000 for single filers and \$1 million for joint filers, and the phaseout rate increases to 50 percent of AMT income above the threshold, up from 25 percent. These changes moderately increase AMT exposure, particularly for single filers with taxable income between \$100,000 and \$200,000 and for married filers with taxable income between \$300,000 and \$500,000, where typical adjustments such as the standard deduction, SALT, and Incentive Stock Options can trigger liability. With the OBBBA also increasing the standard deduction and SALT limits, more households may reach these thresholds and become subject to the AMT in the coming years.

Estate, Gift, & Generation Skipping Transfer (GST) Tax Exemptions

The TCJA doubled the gift and estate tax exemptions in 2018 from \$5.6 million to \$11.2 million per person. By 2025, the exemption had grown to \$13.99 million per person, allowing a couple with combined assets up to \$27.98 million to pass away without being subject to estate tax. Had the TCJA sunset as originally scheduled, the exemption would have dropped by 50 percent at the end of 2025. With the passage of the OBBBA, the estate tax exemption will not decrease and is set to increase to \$15 million per person beginning in 2026, with further adjustments for inflation.

529 Plans Expanded

K-12 Education Expenses

Under the TCJA, 529 plan qualified education expenses were expanded to include K-12 tuition, but the OBBBA goes further by allowing 529 funds to cover a much wider range of K-12 costs. Beginning July 5, 2025, tax-free distributions can be used not just for tuition, but also for curriculum and instructional materials, textbooks, online education resources, tutoring outside the home, fees for standardized tests (such as AP or college entrance exams), dual-enrollment in postsecondary programs, and educational therapies for children with disabilities (such as occupational, behavioral, physical, and speech-language therapy). Starting January 1, 2026, the annual 529 withdrawal limit for all K-12 qualified expenses increases from \$10,000 to \$20,000 per beneficiary.

Post-secondary Credential Expenses

The OBBBA expands 529 plan usage to cover qualified postsecondary credentialing expenses. Tax-free distributions can now be used for tuition, fees, books, and any other expenses required to enroll in a post-secondary credential program, as well as for fees associated with exams required to obtain or maintain the credential. Additionally, 529 funds may be applied to continuing education costs necessary to maintain the credential, making it easier for students and professionals to fund specialized training and certification programs

Expanded Health Savings Account (HSA) Contributions

The OBBBA expands the definition of a High-Deductible Health Plan (HDHP) by specifying that all "Bronze" and "Catastrophic" plans offered on federal or state Affordable Care Act exchanges now qualify as HDHPs. Previously, not all these plans met both the minimum deductible and maximum out-of-pocket limits required for HSA eligibility.

The OBBBA also allows individuals to maintain HSA eligibility while covered by a direct primary care (DPC) arrangement. Under these arrangements, individuals pay a flat monthly or annual fee to a primary care practitioner, capped at \$150 per month for individuals or \$300 per month for family coverage, in exchange for primary care services. The law clarifies that these DPC arrangements will not be treated as disqualifying coverage, resolving prior uncertainty about whether participation would make someone ineligible to contribute to an HSA.

“Trump Accounts” at birth for children

The OBBBA creates a new type of retirement savings vehicle, informally referred to as a “Trump Account” that can be opened and funded for any individual with a Social Security Number from birth through the calendar year before the individual turns 18. As part of a pilot program, children born in 2025, 2026, or 2027 will automatically receive a \$1,000 contribution from the federal government to jump-start savings.

Rules prior to the beneficiary turning 18

Beginning in 2026, up to \$5,000 per year may be contributed to a Trump Account on behalf of a beneficiary under age 18. Unlike Traditional or Roth IRAs, contributions do not require the beneficiary to have earned income, and contributions made by parents or other individuals are not tax-deductible. Federal, state, and local governments, 501(c)(3) charitable organizations, and employers may also contribute on behalf of the beneficiary, subject to an annual limit of \$2,500 (indexed for inflation).

Contributions made under these provisions are excluded from the beneficiary's income. No distributions may be taken before the year the beneficiary turns 18, except that in the year the beneficiary turns 17, funds may be rolled over into a 529A ABLE account if the beneficiary has a qualifying disability. If the beneficiary dies, the account loses its tax-deferred status and the entire balance becomes taxable to the designated beneficiary, or to the decedent's final tax return if no beneficiary is named.

Rules after the beneficiary turn 18

Once the beneficiary reaches age 18, withdrawals are permitted; however, distributions of earnings before age 59½ may be subject to early withdrawal penalties similar to those applied to IRAs. Contributions may always be withdrawn tax-free, while earnings are included in taxable income when withdrawn.

Additional Guidance

Congress and the Treasury Department are expected to release further regulatory guidance clarifying administrative details and tax treatment. The rules described above reflect the statutory framework established by the OBBBA.

Qualified Opportunity Zones Extended

The TCJA originally created Qualified Opportunity Funds (QOFs) to encourage investment in designated low-income areas known as Qualified Opportunity Zones (QOZs). These funds allowed investors to defer capital gains by reinvesting those gains into a QOF, with the deferral lasting until the earlier of December 31, 2026, or the date the QOF investment was sold or exchanged, giving early investors up to eight years of gain deferral.

The OBBBA replaces this structure with a more permanent but narrower version of the program beginning in 2026. States may designate a new set of QOZs every 10 years, and qualifying census tracts must now have median incomes below 70% of the state or metropolitan median (reduced from 80% under prior law). Starting in 2027, investors may again defer capital gains by reinvesting them into a QOF, but deferral now lasts only until the earlier of sale or exchange or five years after the original investment. Investors who hold a QOF for at least five years receive a 10% basis step-up on the deferred gain, increased to 30% if at least 90% of fund assets are invested in a rural QOZ. Additionally, if the investment is held for more than 10 years, gains attributable to the deferred gain are excluded from income, while any gains arising after 30 years become taxable.

Repeal of Clean Energy Credits

Clean Vehicle Credit: The OBBBA terminates the federal clean vehicle credits up to \$7,500 for new electric vehicles and up to \$4,000 for previously owned electric vehicles, for any vehicle purchased after September 30, 2025.

Alternative Fuel Vehicle Refueling Property Credit: The OBBBA ends the credit of up to \$1,000 for qualified electric vehicle charging equipment installed at a taxpayer's personal residence for any property installed after June 30, 2026.

Energy Efficient Home Improvement Credit: The OBBBA terminates the credit of up to \$1,200 for qualifying energy-efficient home improvements including windows, doors, insulation, HVAC upgrades, and home energy audits, for expenditures made after December 31, 2025.

Residential Clean Energy Credit: The OBBBA eliminates the 30% credit for clean residential energy systems such as solar panels, wind turbines, geothermal heat pumps, and fuel cell property, for systems placed in service after December 31, 2025.

Other Provisions

- **Student Loan Debt Discharged Due to Death or Disability:** The OBBBA permanently extends the TCJA provision that excludes from taxable income any student loan debt discharged due to the borrower's death or total and permanent disability.
- **Student Loan Payments Under Employer-Provided Borrower Assistance:** The OBBBA permanently extends the TCJA provision allowing employees to exclude from income up to \$5,250 per year in employer-provided student loan repayment assistance, and beginning in 2027, this annual limit will be adjusted for inflation.
- **Adoption Tax Credits:** The OBBBA makes up to \$5,000 of the adoption tax credit refundable beginning in 2025, with the refundable portion indexed for inflation in future years.
- **Charitable Contributions Funding K-12 State Scholarships:** The OBBBA creates a new tax credit, beginning in 2027, of up to \$1,700 for contributions to charitable organizations that provide K-12 scholarships within the taxpayer's state.
- **529A Able Account Contributions:** Permanently extends the 529A (ABLE) account rules.
- **Saver's Credit for ABLE Account Contribution:** Extends the Saver's Credit permanently for ABLE-account contributions beginning in 2026, limits the credit after 2027 to only ABLE contributions, and raises the maximum credit-eligible contribution to \$2,100, with inflation adjustments thereafter
- **Rollovers from 529 to 529A Able Accounts:** Extends provisions allowing tax-free rollovers from 529 plans to 529A ABLE accounts.
- **Child & Dependent Care Credit:** Beginning in 2026, the applicable percentage of care expenses used to calculate the Child and Dependent Care Credit is increased
 - Households with an adjusted gross income (AGI) under \$15,000 are eligible for a 50% credit.
 - Households with AGI between \$15,000 and \$75,000 for single or head-of-household filers, or up to \$150,000 for joint filers, the credit decreases by 1% for every \$2,000 of AGI above \$15,000, down to a minimum of 35%.
 - Households with AGI between \$15,000 and \$75,000 for single or head-of-household filers, or up to \$150,000 for joint filers, the credit decreases by 1% for every \$2,000 of AGI above \$15,000, down to a minimum of 35%.
- **Gains on Qualified Farmland Sale:** Allows gains from the sale of qualified farmland to be spread over four annual installments if the sale is made to a "qualified farmer."

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