Key Provisions of the One Big Beautiful Bill Act (OBBBA)

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What Are We Going To Cover

01 Income Tax Planning
What's Staying (Close to) the Same?

02 Income Tax Planning
What's Meaningfully Different

03 Income Tax Planning
What's New/Totally Different

04 Estate Tax Planning

05 College Planning

06 Health Care Planning

A Word of Warning Before We Begin:

Never judge the impact of a bill on a client's bottom line from a single provision.

Income Tax Planning

What's Staying Close to the Same?

ORDINARY INCOME TAX BRACKETS

- Today's tax brackets remain in place
- 10%, 12%, 22%, 24%, 32%, 35%, 37%
- "Permanent"
- A little twist with the lower brackets for 2026
  - 10% bracket gets an extra inflation adjustment
  - 12% bracket gets an extra inflation adjustment
  - The start of the 22% bracket gets an extra inflation adjustment
    - Net effect is a smaller 22% tax bracket

Standard Deduction

- Remains "roughly doubled"
- New Standard Deduction amounts are effective for 2025!
  - MFJ: $31.5K (↑ from 30K)
  - Single: $15,750 (↑ from 15K)
  - HOH: $23,625 (↑ from 22.5K)
- "Permanent"

Itemized Deductions

- Miscellaneous itemized deductions remain repealed
- Pease limitations (3% reduction in itemized deductions) remains repealed
- Mortgage interest deduction capped for interest on no more than $750,000 of principal
  - Some mortgage insurance premiums *will* be allowed to be treated as interest
- HELOC interest generally continues to be non-deductible
- Personal casualty losses continue to be limited to disaster areas
  - OBBBA expands eligible losses to state-declared disaster areas
- All "permanent"

Other Deductions

- Deduction for moving expenses continues to be repealed
  - Above-the-line deduction
  - OBBBA allows the deduction for military
- Deductions for personal exemptions continue to be repealed*
- All "permanent"

*Technically not an itemized deduction, but "close enough" for something that's still repealed☺

Child Tax Credit

- Nonrefundable portion increased to $2,200 (↑ from 2K) effective 2025
- Increased refundable portion ($1,700 for 2025) made permanent
- Both portions indexed for inflation
- “Permanent”

Business-Related Provisions for Individuals

- QBI Deduction
  - Deduction extended for 2026+
  - Phaseout ranges increased to $150K (⬆ from 100K) for joint filers and to $75K (⬆ from 50K) for other filers
  - That is ☹
- Limitation on excess business losses extended for 2026+
- “Permanent”

Student Loans

- Student loan debt discharged via death or disability is non-taxable
- Employers may exclude up to $5,250 from compensation for payments of employees' student loans as "educational assistance"
- "Permanent"

ABLE Account Rules

- Contributions remain eligible for the Saver's Credit
- 529-to-529A (ABLE Accounts) continue to be allowed
- Contributions to ABLE accounts continue to remain at the annual gift tax exclusion amount, plus if the ABLE beneficiary is working, an additional amount up to Federal Poverty Level for a one-person household
- All "permanent"

Miscellaneous Additional Rules

- Cash contributions to "50%" organizations limited to 60% of AGI
  - "Permanent"
- Pass-Through Entity Taxes (PTETs) remain unaffected
  - No impact from OBBBA
- HSA limits remain the same
  - No impact from OBBBA

Income Tax Planning

What's Meaningfully Different?

State and Local Taxes

- Max itemized deduction increased to:
  - $40k for everyone but MFS
  - $20k MFS
- “Extra” SALT deduction (in excess of TCJA rules) phased out by 30% of income in excess of:
  - $500k for everyone but MFS
  - $250k MFS
- Ignoring all other provisions, net effect is increase of taxable income of $130k as AGI goes from $500k - $600k / $250k - $350k
- Effective 2025 - 2029

Alternative Minimum Tax

- TCJA-increased exemption amounts and phaseout ranges "permanently" extended, BUT….
  - Income phaseout back to 2018 amounts $1,000,000 MFJ / $500,000 single
- Effective 2026
- Net effect is that AMT will continue to be a non-issue for most clients, but there *will* be a meaningful increase in the amount of clients who are subject to the tax

Adoption Credit

- Up to $5K of credit is refundable
- Effective 2025

Green Energy Credits

- All sorts of phase outs earlier than would otherwise be the case
- Clean vehicle credit available for purchases through September
- Residential energy credits available through year-end

Business Owner Provisions

- Section 179 deduction
  - Maximum amount of property that can be expensed increased to $2.5M (⬆ from $1,250,000M)
  - Maximum amount reduced by qualifying property that exceeds $4M (⬆ from $3.13M)
  - Effective 2025+
  - “Permanent”

- Bonus depreciation
  - Reinstates 100% expensing of property acquired and put into service beginning January 20, 2025
  - Was slated to be 40% in 2025 and eliminated in 2027
  - Contract date is key
  - “Permanent”

Business Owner Provisions

- Qualified Small Business Stock
  - Creates tiered gain exclusion
    - 50% for stock held for more than three years
    - 75% for stock held for more than four years
    - 100% for stock held for more than five years

- Per issuer dollar cap increased to $15M (↑ from $10M)
- Increases the assets a business can have while still issuing QSBS to $75M (↑ from $50M)
- Generally effective for stock acquired after enactment

Qualified Opportunity Zones

- No change to rules for current QOF investments
- Ongoing renewable program on a decennial basis
  - Beginning July 1, 2026
- Tax rules for investments made in 2027+
  - Tax deferral on re-invested gain for 5 years
  - Investors receive a basis increase after 5 years:
    - 10% for "regular" QOF fund
    - 30% for Qualified Rural Opportunity Fund

Income Tax Planning

What’s Meaningfully Different?

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Deduction for Seniors

- Additional deduction of $6k for each qualifying individual
- Must be 65 or older by the end of the year
- Deduction phased out between:
  - $150k-$250k for MFJ
  - $75k - $175k all other filers
- Below the below-the-line-deduction deduction
- Applies 2025 – 2028

Enhanced Deduction for Seniors

- Being "marketed" as "No tax on Social Security"
- Be prepared to address questions in a factual, non-partisan manner, including misleading statements from Governmental entities
- Excerpt from email from Social Security Administrations to beneficiaries

The new law includes a provision that eliminates federal income taxes on Social Security benefits for most beneficiaries, providing relief to individuals and couples. Additionally, it provides an enhanced deduction for taxpayers aged 65 and older, ensuring that retirees can keep more of what they have earned.

No Tax on Tips

- More accurately "No INCOME tax on SOME tips"
- Maximum deduction $25K for all taxpayers except MFS ($0)
- Deduction phased out by 10% of income in excess of threshold amount
  - $300K for MFJ
  - $150K all other filers
- Anti-abuse rules to prevent "regular" income from being classified as "tips"
- Below the below-the-line-deduction deduction
- Applies 2025 – 2028

No Tax on Overtime

- More accurately "No INCOME tax on SOME overtime"
- Maximum deduction:
  - $25K for MFJ
  - $0 MFS
  - $12,500 all other
- Deduction phased out by 10% of income in excess of threshold amount
  - $300K for MFJ
  - $150K all other filers
- Regular overtime rules
  - Section 7 of Fair Labor Standards
- Below the below-the-line-deduction deduction
  - Applies 2025 – 2028

Car Loan Interest

- Maximum deduction $10k for all filers
- Deduction phased out by 20% of income in excess of threshold amount:
  - $200k for MFJ
  - $100k all other filers
- Key limitations include:
  - New cars only
  - Lease financing does NOT count
  - Final assembly must occur within the US
- Below the below-the-line-deduction deduction
- Applies 2025 – 2028

CHARITABLE DEDUCTION FOR NON-ITEMIZERS

- Maximum deduction:
  - $2k for MFJ
  - $1k for all others
- Below the below-the-line-deduction deduction
- Contributions must be made in cash
- Applies beginning in 2026
- “Permanent”

The New Category of Below the Below-the-Line-Deductions Deductions

- Qualified Business Income (QBI) Effective in 2025 and permanent

- Enhanced Deduction for Seniors
- No Tax on Tips
- No Tax on Overtime
- Car Loan Interest

Effective in 2025 through 2028 only

- Charitable deduction for non-itemizers Effective in 2026 and permanent

New Overall Limit on Itemized Deductions

- Value of itemized deductions capped at a maximum of 35%
- Effective 2026+
- “Permanent”

New AGI Floor for Itemized Charitable Contributions

- 0.5% AGI floor charitable contributions must exceed to be deductible
  - Similar to the way that medical expenses are deductible
- Effective 2026+
- “Permanent”

Trump Accounts

- Built on the Traditional IRA chassis
- Max contribution of $5k / year
  - Non-deductible
- Contributions only allowed in years beneficiary is under 18
- Until age 18, investments generally limited to:
  - US mutual fund or ETF that:
    - Tracks the return of a qualified index (essentially a US equity index of some kind)
    - Does not use leverage
    - Has an annual fee of 0.1% or less
- Distributions generally not allowed prior to the year the beneficiary reaches age 18
  - Will follow pro-rata rule, but will not be combined with other Traditional IRAs

Trump Accounts

- Death of a beneficiary prior to age 18 follows rules similar to HSA accounts
  - Account ceases to be a Trump account immediately
  - Taxable to Trump account beneficiary if beneficiary of account is Trump account beneficiary’s estate
  - Taxable to other beneficiary if anyone else is named beneficiary
- Employers will be able to contribute up to $2,500 to the Trump acct of employee's dependents and exclude from income
- Effective one year after enactment
- Pilot program
  - Treasury-provided $1,000 contributions to Trump accounts of individuals born 2025 - 2028

NEW CREDIT FOR DONATIONS TO SCHOLARSHIP-GRANTING ORGANIZATIONS (SGOs)

- Tax credit of up to $1,700 per taxpayer for cash contributions to public charities that grant scholarships to private or religious K-12 schools
- Requires state opt-in to program
- Nonrefundable
- Effective date 2027+

Estate Tax Planning

Estate Tax Exemption

- 2026 exemption amount to be $15MM per person (adjusted in the future for inflation)
- Equates to what is essentially a ~7.25% inflation adjustment between 2025 and 2026
- Portability remains
- “Permanent”

Healthcare Planning

HSA-Eligible Insurance Coverages Expanded

- Bronze and catastrophic plans treated as HSA-eligible high-deductible health plans
  - Effective 2026

Medicaid

- Cuts $700B in funding over the next 10 years
- Creates new work, education, or service requirements for able-bodied adults with no children
  - Effective 2026
- Eliminates benefits for certain undocumented immigrants

EDUCATION PLANNING

529 Account Expansion

- Qualified expenses include
  - Costs incurred in connection to enrollment/attendance at public, private, or religious elementary or secondary schools
    - Tuition
    - Curriculum materials
    - Books
    - Online materials
    - Tutoring needs (subject to certain limitations)
    - Effective 7/5/2025+
  - Maximum annual limit for above expenses limited to $20K (⬆ from 10K)
    - Effective 2026+
  - Qualified postsecondary credentialing expenses
    - Tuition, fees, books, and any other expenses required for enrolling in a recognized postsecondary credential program;
    - Fees for exams required to obtain or maintain the credential; and
    - Fees for continuing education necessary to maintain the credential
    - Effective 7/5/2025+

Student Loan Summary

- August 1, 2025
  - SAVE forbearance ends; 0% interest subsidy ends; payments
- July 1, 2026
  - Those on PAYE will be moved to IBR
  - Repayment Assistance Plan (RAP) scheduled to be available
    - MFS strategy remains
  - Deadline for Parent PLUS borrowers to consolidate and be eligible for IBR
- July 1, 2028
  - SAVE, ICR, and PAYE phased out

Planning Strategy

- Individuals on IBR can remain on IBR
- Individuals in the following categories should switch to IBR and resume loan payments:
  - Pursuing PSLF
  - Will eventually pay off loans
  - Will get long-term loan forgiveness and have rising real income

QUESTIONS?

Handouts & additional materials:
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