The Wealth Compass

Navigating Your Financial Journey

September 2025

The One Big, Beautiful Bill (OBBB): What Changed

A sweeping federal tax package—nicknamed the **One Big, Beautiful Bill (OBBB)**—became law on July 4, 2025. Below is a plain-English summary of the provisions most likely to matter for households we serve, plus a short planning checklist you can act on this year.

<u>2025: What changed right away</u>

Bigger standard deduction. For 2025, the base standard deduction increases modestly (e.g., $31,500 for married filing jointly (MFJ); $15,750 single; $23,625 head of household). Many families will still choose the standard deduction unless itemized deductions are meaningfully higher.

Temporary senior deduction (2025–2028). Individuals 65+ can claim an additional $6,000 deduction (per person). It phases out at higher incomes. This is in addition to the regular senior "add-on" that already exists under prior law.

New above-the-line deductions you can use even if you take the standard deduction (2025–2028): - Tip income. Workers in customary tipping occupations may deduct up to $25,000 of qualified tips they report, subject to income limits. Overtime. A new deduction targets the overtime "premium" pay portion, subject to income limits. Auto loan interest. Up to $10,000 of interest on qualifying new, U.S.-assembled vehicles financed in 2025 can be deductible, subject to income limits.

Child Tax Credit tweaks. The base CTC increases to $2,200 per child for 2025, with amounts indexed in later years and the refundable portion adjusted annually.

State and Local Tax (SALT) cap expands. For 2025, the state and local tax (SALT) deduction cap jumps to $40,000 (MFJ) and $20,000 (MFS), with small annual increases through 2029. Higher-income households see a phased-down benefit.

"Dear IRS, I am writing to you to cancel my subscription. Please remove my name from your mailing list."
— Snoopy (character created by Charles Schultz)

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Clean-energy credits on a short clock. Several credits are shortened or end in 2025. Notably, new and used EV credits end after September 30, 2025. Home energy credits (like sections 25C and 25D) generally end December 31, 2025.

1099-K reporting relief. For third-party payment apps (Venmo/PayPal/etc.), the $20,000 and 200-transaction threshold returns starting with 2025 reporting (states may differ).

2026 and beyond: What's coming next

Permanent tax brackets. The current seven-bracket structure (10%, 12%, 22%, 24%, 32%, 35%, 37%) continues—no sunset in 2026.

Charitable options for non-itemizers. Starting in 2026, taxpayers can claim a $1,000 per person charitable deduction on top of the standard deduction.

Qualified Business Income (QBI) (199A) updates. From 2026, the phase-out windows broaden (e.g., wider income ranges before the deduction phases out), creating new planning levers for business owners.

Estate & gift tax. The federal estate tax exemption rises to $15 million per person in 2026, indexed thereafter. (Portability and basis-step rules still matter a great deal.)

Alternative Minimum Tax (AMT) and other technical changes. Alternative Minimum Tax thresholds and phase-outs shift in 2026; higher-income households should test for exposure, especially if exercising ISOs.

Key considerations to discuss with your tax professional

Itemize vs. standard deduction—compare annually. With the higher SALT cap through 2029 and the new high-earner limitation starting 2026, some years will favor itemizing and others won't. A simple side-by-side comparison helps identify the lower-tax path each year.

Use temporary windows while they're open. The senior deduction (2025–2028), the tips/overtime/auto-interest deductions (2025–2028), and the expanded SALT cap (2025–2029) are temporary. Understand how they interact with income, medical costs, charitable plans, and retirement withdrawals.

Roth conversions—with guardrails. Lower brackets and temporary deductions can make conversions attractive; monitor IRMAA (Income-Related Monthly Adjustment Amount) and deduction phase-outs.

Charitable giving that works harder. For retirees 70½+, Qualified Charitable Distributions (QCDs) remain powerful for meeting required minimum distributions while keeping modified adjusted gross income lower. Donor-advised funds and "bunching" help in years you itemize.

Business-owner tune-ups. Wages, retirement plan contributions, and expense timing affect eligibility for the QBI deduction starting in 2026.

Estate plan checkup. The higher exemption in 2026 may change gifting strategies; portability and basis planning remain central.

What to do now:

1. **Document 2025 changes.** Note overtime, tips, bonuses, vehicle purchases, medical bills, or large SALT payments, and review them with your tax professional.
2. **If you're 65+ in 2025–2028,** ask your tax professional how the senior deduction coordinates with Roth conversions, QCDs, and Social Security timing.
3. **Considering an EV or home energy project?** Confirm eligibility and timing; several credits are scheduled to end in 2025.
4. **For 2026 and beyond,** plan to revisit itemizing vs. standard, Roth conversion amounts, and—for business owners—compensation/retirement‑funding choices with your tax professional.

Our take

Tax law changes open doors—but only for a while. The best results come from using years you're in a lower bracket and coordinating deductions, RMDs, IRMAA thresholds, and charitable goals—**guided by your tax professional**.

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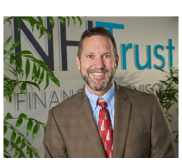

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