WHAT YOU NEED TO KNOW ABOUT THE ONE BIG BEAUTIFUL BILL ACT (OBBA)

Tax changes that could impact your financial future

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The recently passed One Big Beautiful Bill Act (OBBA) introduces a wide range of tax provisions that may have significant implications for individuals, families, and business owners alike. From extending key elements of the Tax Cuts and Jobs Act (TCJA) to introducing new deductions and modifying estate planning thresholds, the OBBA is poised to influence how you approach everything from charitable giving and family planning to business investments and retirement.

At Winthrop Wealth, we believe proactive planning is essential to long-term success. Below, we've highlighted some of the most impactful tax changes included in the OBBA to help you better understand what may affect your financial plan moving forward.

As always, we encourage you to reach out to your advisor to discuss how these updates may apply to your specific situation.

- **Permanent extension of the 2017 tax cuts included in the Tax Cuts and Jobs Act (TCJA)** – The TCJA was scheduled to sunset at the end of 2025. However, OBBBA extends the TCJA and leaves marginal tax rates unchanged with the highest bracket remaining at 37%.
- **The estate tax exemption** – Beginning in 2026, the individual exemption has increased to $15 million from the current $13.99 million, indexed for inflation in the future. A couple can, therefore, exempt up to $30 million from estate tax. The annual gift exclusion is unchanged at $19,000 per recipient (per donor); this is indexed for inflation also, but in $1,000 increments.
- **An increase in the standard deduction** – The bill has increased the standard deduction to $15,750 for a single taxpayer, $23,625 for head of household, and $31,500 for married filing jointly. In addition, there is an additional increase of $6,000 for ages 65 and older through the tax year 2028 with a phaseout of $75,000 for a single taxpayer and $150,000 for married filing jointly.
- **An increased state and local tax (SALT) deduction** – This deduction was raised from $10,000 to $40,000 (for single or married filing jointly; $20,000 for married filing separate), with a 1% increase in the cap each year through 2029 before returning to the $10,000 limit for 2030. The deduction begins to be phased by 30% of the excess income of $500,000 for single and married filing jointly filers and $250,000 for married filing separately.
- **Charitable Contributions** - Beginning in 2026, taxpayers who do not itemize deductions are allowed a charitable contribution deduction of up to $1,000 and $2,000 for joint filers. For taxpayers who itemize deductions, charitable deductions are allowed in excess of 0.5% of the taxpayer's Adjusted Gross Income (AGI), without taking into account any charitable gifts.
- **Repeal of clean energy tax credits** – This provision phases out incentives for electric cars, wind and solar energy.

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- **No income tax on tip income** - a deduction for tip income is available to individuals through the year 2028 regardless of whether or not they itemize their deductions. The tips must be received from customers for services in industries where tips are customary. The deduction is limited to $25,000, with a phase-out for taxpayers with modified adjusted gross income over $150,000 and $300,000 for joint filers. However, this deduction is not available to certain "specified service trade or business" (i.e., those in the fields of health, law, accounting, actuarial services, performing arts, consulting, athletics, banking, financial and brokerage services, and farming).
- **No income tax on overtime pay** - a deduction for overtime pay is available to individuals through the year 2028 regardless of whether or not they itemize their deductions. The deduction is limited to $12,500 of qualified overtime income and $25,000 for joint filers with a phase-out for taxpayers with modified adjusted gross income over $150,000 and $300,000 for joint filers.
- **Car loan interest deduction** – allows an interest deduction of up to $10,000 on an auto loan for U.S. made vehicles. This will expire in 2029.
- **An increase in the child tax credit amount** – There's an increase of $200 for 2025 to $2,200 that will be adjusted for inflation in future years.
- **Savings accounts for newborns** – These accounts will be funded with an initial $1,000 government contribution and are eligible to receive up to $5,000 per year in parental after-tax contributions.
- **Dependent care expenses** - Flex-spending accounts are increased to $7,500.
- **Business incentives** – These include reinstating 100% immediate expensing for machinery, equipment, and Research and Development R&D expenses.
- **Small business stock exclusion (Section 1202)** – There is a 50% exclusion on the gain from the sale of qualified small business stock issued after the date of enactment that is held for at least three years. This increases to 75% exclusion when held for at least four years and a 100% exclusion when held for at least five years. Also, the gross asset limitation to qualify is increased to $75M, and the per-taxpayer gain exclusion cap is increased to $15M.

The above changes may affect your tax liability. Please feel free to reach out to us if you have any questions on how these changes will impact your financial plan.

Disclosures

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

This material was created using Artificial Intelligence (AI) tools.

Sources

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