

The Capital Markets

One Big Beautiful Bill Act (OBBBA)

Tax Facts



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One Big Beautiful Bill Act (OBBBA)

As of July 4, 2025, the President signed Public Law No. 119-21, known as the “One Big Beautiful Bill Act” (H.R. 1 – OBBBA), into law. The bill had passed both chambers of Congress in rapid succession – the Senate on July 1 and the House on July 3 before receiving the president’s signature on Independence Day.

Please note that while many of the provisions in the bill are designed to be permanent, some may be subject to revision, repeal, or expiration depending on future legislative sessions and economic conditions.

Additionally, individual states will need to assess and determine how to conform with or diverge from the federal provisions, especially in areas such as tax conformity, benefit distribution, healthcare integration, and education policy. Taxpayers should monitor their state’s response to the Act to fully understand their localized obligations and benefits.

Extension and Enhancement of Reduced Tax Rates

- The 2017 TCJA tax laws are now permanent
- The OBBB Act made the TCJA federal income tax bracket schedule permanent and added an additional year of inflation adjustment for the 10 percent, 12 percent, and 22 percent brackets.

What this means:

With the lower tax brackets now made permanent and adjusted annually for inflation, this can create opportunities to manage income strategically. You can consider exploring strategies like Roth conversions while you are still in the lower tax brackets. You might also explore accelerating ordinary income like bonuses or stock options during low-tax years.

No Tax on Tips

The OBBB Act allows an above-the-line deduction of up to \$25,000 annually for qualified tips received by employees (W-2) and independent contractors (Forms 1099-K, 1099-NEC, or 4317), including cash, charged, and pooled tips. This deduction phases out by \$100 for every \$1,000 of modified adjusted gross income over \$150,000 (\$300,000 for joint returns), excludes certain specified service trades.

What this means:

If you work in the service industry and regularly receive tips, you may now be eligible for a new deduction. To take full advantage, be sure to maintain accurate records of all tips received. Please note that we are still awaiting clarity on how individual states will conform to this federal provision.

Qualified Overtime Compensation

Above-the-line deduction of up to \$12,500 (\$25,000 Married Filing Jointly) is allowed for qualified overtime pay required under the Fair Labor Standards Act (FLSA), phased out by \$100 for every \$1,000 of Modified Adjusted Gross Income over \$150,000 (\$300,000 for joint returns), and applies to tax years 2025 through 2028.

What this means:

If you fall within the MAGI limits, review your paystubs to separate overtime premium from base pay – only the premium (the extra you earn above your regular rate) is deductible. Be sure to track overtime hours separately and keep detailed records for tax prep, so you can work with your CPA to reconcile this at year-end. Please note that we are still awaiting guidance on how individual states will conform to this federal provision.

Car Loan Interest Deduction

- Above-the-line deduction up to \$10,000 for interest on qualified new personal-use passenger vehicle loans (loans after 12/31/2024), with phaseout starting at \$100,000/\$200,000 Modified Adjusted Gross Income; vehicle must be under 14,000 lbs., final assembly in the U.S., and original use must begin with the taxpayer.

What this means:

When considering the new car loan interest deduction, keep in mind that the average tax savings may be modest – about \$240 per year, according to J.P. Morgan analyst – potentially outweighed by rising vehicle costs due to tariffs. To qualify, the vehicle must be new and assembled in the US, so check the VIN and assembly location.

Standard Deduction Made Permanent

- Standard deduction amounts for 2025 are \$15,750 (single), \$23,625 (head of household), and \$31,500 (married filing jointly), with inflation adjustments beginning in 2026.

Senior Deduction in Lieu of Personal Exemptions

- Personal exemption is permanently repealed and replaced with a temporary \$6,000 deduction for individuals age 65+, phased out by 6% of Modified Adjusted Gross Income over \$75,000 (\$150,000) Married Filing Jointly



What this means:

By strategically managing your income, such as timing Roth conversions or adjusting other taxable income, you may be able to stay within the income limits to qualify for the new senior deduction. In some cases you can also use Qualified Charitable Distributions (QCDs) from your IRA to reduce your Modified Adjusted Gross (MAGI) Income while supporting causes you care about. Keeping your MAGI low not only preserves this deduction but may also help you avoid Income-Related Monthly Adjustment Amount (IRMAA) Medicare surcharges, offering an additional layer of financial benefit.

AMT Exemption and Phaseout

- AMT exemption levels are made permanent with phaseout thresholds set at \$500,000 (\$1 million Married Filing Jointly), indexed for inflation, and a higher phaseout rate of 50% (up from 25%).

Pease Limitation Repealed and Replaced

- The Pease limitation is permanently repealed and replaced with a new cap on the value of itemized deductions for high-income taxpayers — specifically those in the 37% tax bracket. Under the new rule, itemized deductions (excluding SALT) are limited to the tax benefit that would apply at a 35% marginal rate.

What this means:

If you are in the top tax bracket, certain limitations may reduce the value of your itemized deductions – including charitable donations, mortgage interest, and investment expenses. For example, under the new cap, a \$100 deduction provides a \$35 tax benefit instead of \$37. Coordinating timing and type of deductions could help you optimize potential tax benefits.

Casualty Loss Deduction

- Casualty loss deduction is limited to personal losses from federally or state-declared disasters, including events such as earthquakes, floods, fires, and explosions.

Child Tax Credit

- The Child Tax Credit is increased to \$2,200 per child, with the \$200 increase applied to the nonrefundable portion; the refundable portion, SSN requirement, and inflation adjustment (beginning after 2026) are all retained.

Wagering Losses

- Wagering losses are deductible only up to 90% of winnings and only to the extent of winnings; the cap includes non-loss expenses (e.g., subscriptions), resulting in taxable income even when gambling breaks even.

What this means:

Track all gambling wins and losses meticulously. Even if you break even, you could still owe taxes. For example, if you win \$50,000 and lose \$50,000, you can only deduct 90% of your losses (\$45,000), leaving \$5,000 as taxable income. This phantom income makes it important to budget for taxes, even in a year with no net profit.

Deductions and Exclusions

SALT Deduction Cap Increase

- The SALT deduction cap increases to \$40,000 (\$20,000 Married Filing Separately) in 2025, indexed by 1% annually through 2029, with a reduction of 30% for Modified Adjusted Gross Income above \$500,000 (\$250,000 Married Filing Separately), but not below \$10,000.

What this means:

If you're near the income phaseout range, consider strategies like delaying Roth conversions, deferring capital gains, or adjusting income to stay under the threshold. Bunch property taxes by paying every other year to maximize deductions and start in 2025 to take full advantage of the 4-year \$40K cap before it reverts to \$10K in 2030. Business owners in high-tax states may benefit from electing a pass-through entity tax (PTET) to bypass the cap entirely.

Charitable Contribution Deduction for Non-Itemizers

- Taxpayers who do not itemize can claim an above-the-line deduction for charitable cash contributions up to \$1,000 (\$2,000 Married Filing Jointly) beginning in 2026, excluding donations to donor-advised funds or supporting organizations.

What this means:

Consider accelerating and tracking your giving and bundle smaller donations into a single year to help reach the deduction cap.

Limit on Charitable Deductions for Itemizers

- For taxpayers who itemize, the charitable contribution deduction is reduced by 0.5% of their contribution base (Adjusted Gross Income), creating a floor that limits the deduction's value for high earners starting in 2026.

What this means:

Consider donating through Qualified Charitable Distributions if you are at the eligible age as it can help you get the full tax benefit of charitable contribution.

Scholarship Credit

- Beginning in 2027, taxpayers can claim a non-refundable credit of up to \$1,700 per year for cash donations to approved Scholarship Granting Organizations (SGOs). The credit is available to all taxpayers, including non-itemizers, and can be carried forward for up to five years if unused; however, it is reduced by any state tax credit received for the same donation, and donations claimed for this credit cannot also be deducted as charitable contributions.

Qualified Residence Interest

- Permanently limited to the first \$750,000 of acquisition debt (\$375,000 if married filing separately), including mortgage insurance premiums within that cap. However, interest on home equity loans is no longer deductible unless the funds are used to substantially improve the home. These changes apply to primary residences and take effect for tax years beginning after December 31, 2025

What this means:

If you're purchasing a new home, the mortgage interest deduction will now be capped at \$750,000 of loan principal (\$375,000 if filing separately). This includes mortgage insurance premiums but excludes interest from home equity loans unless the funds are specifically used for major home improvements. For buyers in high-cost housing markets, this cap could reduce the deductible portion of their mortgage interest, impacting overall tax savings. Careful planning is needed to ensure home equity borrowing is used in ways that maintain deductibility, especially as these changes apply to primary residences starting in 2026.



Family and Education Provisions

Adoption Credit Enhancement

- The adoption credit is made partially refundable—up to \$5,000 per eligible child while retaining the existing income phaseouts and inflation adjustments.

Dependent Care Assistance Program (DCAP)

- The annual exclusion for employer-provided dependent care assistance (DCAP) is permanently increased from \$5,000 to \$7,500 (\$3,750 Married Filing Separately), with indexing for inflation beginning in 2026.

Child and Dependent Care Tax Credit

- Beginning in 2026, the maximum credit rate increases from 35% to 50% of qualifying expenses, phasing down by 1 percentage point for every \$2,000 of Adjusted Gross Income (AGI) above \$15,000, and once AGI exceeds \$75,000 (\$150,000 Married Filing Jointly), the rate further phases down to a minimum of 20% at \$115,000 (\$230,000 Married Filing Jointly).

ABLE Account Enhancements

- ABLE account eligibility is expanded to individuals whose disability began before age 46 (increased from age 26), effective for tax years beginning after 2025.

529-to-ABLE Rollovers

- Tax-free rollovers from 529 college savings plans to ABLE accounts are made permanent, provided the ABLE account beneficiary is the same as, or a qualifying family member of the 529 plan beneficiary

Exclusion of Employer Student Loan Payments

- The exclusion from income for up to \$5,250 in employer-provided student loan repayment assistance is made permanent and indexed for inflation under IRC §127, effective for tax years beginning after 2025.



529 Plan Enhancements

- 529 plan distributions are now allowed for additional qualified expenses including tutoring, online education, testing fees, curriculum, and postsecondary credentialing costs, with an increased K-12 tuition limit of \$20,000 starting in 2026.

What this means:

Starting in 2026, you may be able to take advantage of the expanded 529 plan benefits by aligning your savings and distributions with the school year to cover a wider range of qualified education expenses. Consider “stacking” 529 withdrawals with other education-related tax credits, such as the American Opportunity Credit, while carefully monitoring eligibility to avoid overlap. Also, since state treatment of K-12 529 withdrawals can vary, be sure to review your state’s rules to prevent potential tax or recapture issues at the state level.

Extension and Enhancement of Increased Estate and Gift Tax Exemption Amounts

- The estate, gift and generation-skipping transfer tax exemptions for 2025 are \$13,990,000 (\$27,980,000 for married couples). The federal estate and gift tax exemption will be permanently increased to \$15 million per person (\$30 million for married couples) starting in 2026, adjusted for inflation.

Trump Accounts

- Trump Accounts are tax-deferred savings vehicles created for individuals under age 18, with annual contributions limited to \$5,000 (indexed after 2026) and no contributions allowed after age 18; accounts may be opened by parents, the IRS, or automatically if unclaimed. Qualified withdrawals—allowed starting at age 18—are taxed as long-term capital gains if used for education, first-time home purchases, or small business expenses, while non-qualified distributions are taxed as ordinary income. Children born between 2025 and 2028 receive a \$1,000 federal contribution, and investments are restricted to low-fee U.S. index mutual funds or ETFs.

Health and Health Savings Account (HSA) Expansions

- The OBBA permanently allows Higher Deductible Health Plans (HDHPs) to cover telehealth services pre-deductible without affecting HSA eligibility, expands HSA access to ACA Bronze and Catastrophic plans, and permits the use of HSA funds for direct primary care fees—limited to eligible primary care services and excluding procedures requiring general anesthesia, most prescriptions, and lab work.

Energy Tax Changes – Termination of Energy Credits

- The OBBB Act accelerates the expiration of several energy-related credits:
- Previously Owned Clean Vehicle Credit: Ends September 30, 2025.
- Clean Vehicle Credit (new vehicles): Ends September 30, 2025.
- Qualified Commercial Clean Vehicle Credit: Ends September 30, 2025.
- Alternative Fuel Vehicle Refueling Property Credit: Ends June 30, 2026.
- Energy Efficient Home Improvement Credit: Ends December 31, 2025.
- Residential Clean Energy Credit: Ends December 31, 2025.
- The Energy Efficient Commercial Building Deduction and the New Energy Efficient Home Credit now expire June 30, 2026—six years earlier than previously scheduled—with eligibility limited to projects that begin construction by that date.

What this means:

If you are considering energy-efficient projects – act now. These incentives are expiring sooner than originally scheduled, so delaying may mean losing out entirely. While they may not yield massive savings on their own, integrating them into our 2025 budget can offer potential tax benefits while aligning with broader financial planning goals.

Business Interest Limitation (§163(j))

- EBITDA-based limitation reinstated for tax years after 12/31/2024. Floor plan financing interest expands to include towable recreational trailers and campers.

RandD Expensing (§174)

- Full expensing of domestic research expenditures is restored for amounts paid or incurred after 12/31/2024. Small businesses (<\$31M gross receipts) may apply this retroactively to 2022.

Paid Family and Medical Leave Credit (§45S)

- Credit made permanent and expanded to include PFL insurance premiums. Eligibility requires at least 6 months of employment and applies to wages or premiums paid for up to 12 weeks of leave.

Employer-Provided Child Care Credit (§45F)

- General credit increased to 40% of expenses, cap raised to \$500,000.

Enhanced 50% credit on up to \$600,000 available to small businesses.

Opportunity Zones (OZs)

- A second round of OZ designations runs from 1/1/2027 to 12/31/2033, with new definitions of “low-income community” and a rural OZ requirement.
- 10% basis increase after 5 years for general QOFs.
- 30% for rural QOFs.
- Up to \$10,000 of post-tax ordinary income can be invested.

De Minimis 1099-K Threshold Reversal

- Third-party payment platforms revert to pre-ARPA thresholds: \$20,000 and 200 transactions. These amounts are inflation-adjusted going forward.

Bonus Depreciation and Section 179

- 100% bonus depreciation made permanent for property acquired after January 19, 2025.
- Section 179 expensing limit raised to \$2.5M, with a \$4M phase-out threshold—both indexed after 2025.

What this means:

Small-to-mid-sized businesses – especially those purchasing equipment, property, or production assets — can now expense 100% of qualifying purchases immediately, reducing taxable income and freeing up cash flow for reinvestment. Pairing both provisions can allow businesses to strategically time capital purchases to maximize current-year tax relief and align with operating needs — without worrying about phase down schedules.

Minimum Deduction for Active QBI (§199A)

- The OBBB Act makes the 20% QBI deduction permanent and introduces a \$400 minimum deduction for materially participating taxpayers with at least \$1,000 of active QBI. The phase-in ranges are widened to \$150,000 (MFJ) and \$75,000 (others).

Small Manufacturer Threshold Increase

- The gross receipts threshold for small manufacturers increases to \$80M (approx. \$100M in 2026), granting access to cash accounting and exemption from inventory capitalization.

Excess Business Loss (EBL) Limitation (\$461(l))

- The EBL limitation is made permanent. For 2025, thresholds are \$313,000 (single) and \$626,000 (MFJ). Carried-over losses retain NOL treatment.

Enforcement of COVID-era ERTC Claims

- Promoters who provide assistance, advice, or documentation related to COVID-era Employee Retention Credit (ERTC) claims without meeting IRS due diligence standards face a \$1,000 penalty per failure. These standards mirror the tax preparer due diligence rules under IRC §6695(g), ensuring stricter compliance for all ERTC claim facilitators.

Expanded Excise Tax on Excess Compensation (\$4960)

- The definition of “covered employee” is expanded to include any employee receiving more than \$1 million in remuneration from an applicable tax-exempt organization, regardless of title or role.

Excise Tax on Investment Income of Private Colleges and Universities (\$4968)

- The 1.4% flat rate is replaced with a tiered excise tax on net investment income based on endowment per student:
 - \$500,000–\$750,000: 1.4%
 - \$750,001–\$2,000,000: 4%
 - \$2,000,001+: 8%
- Applies only to schools with 3,000+ students. Modifications clarify student count, include additional income types, and exempt certain religious institutions.

Sources: <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

Disclosures

This summary reflects our understanding of the One Big Beautiful Bill Act and related legislative updates at the time of publication. Please note that tax laws and regulations are subject to change, and certain provisions may be modified, clarified, or repealed in the future. As such, some of the information provided may become outdated or may not apply in specific cases. We recommend consulting with your tax, legal, or financial advisor to understand how these changes may affect your individual situation.

This document is for informational purposes only and provides a general overview of the One Big Beautiful Bill Act and its associated provisions. It is not intended to provide, and should not be relied upon for, tax, legal, or financial advice. The impact of this legislation may vary depending on your individual circumstances. Please consult with a qualified tax advisor, attorney, or financial professional to understand how these changes may apply to your specific situation. Information is based on sources believed to be reliable as of the date of publication but may be subject to change.



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