The One Big Beautiful Bill Act Signed into Law, Which Includes Many Provisions Affecting the Taxation of Individuals

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On July 4, 2025, President Donald Trump signed into law the One Big Beautiful Bill Act (OBBBA) (H.R. 1), which was passed by the Senate on July 1 and the House of Representatives on July 3. The OBBBA makes permanent many provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) that were set to expire on January 1, 2026, and it makes other changes to federal tax laws. Some of the notable provisions affecting the taxation of individuals are summarized below.

Individual income taxes

Maintaining lower income tax rates

The TCJA changed the income tax rates and brackets, generally lowering the tax rates from those in effect under prior law and reducing the highest tax bracket from 39.6% to 37%. Under the TJCA, these brackets adjust annually for inflation after 2018.

Under the OBBBA, the current income tax rates under the TCJA will be permanent for tax years after 2025. The rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Therefore, the highest marginal income tax rate in 2025 and thereafter remains at 37%, as it has been since 2018. All brackets continue to be indexed for inflation. The OBBBA also generally increases the inflation adjustment for certain brackets by an extra year.

Increasing the standard deduction

As a result of the TCJA, in 2018, the standard deduction nearly doubled, from $6,500 to $12,000 for unmarried individuals (other than surviving spouses or heads of households), from $13,000 to $24,000 for married couples filing jointly, and from $9,550 to $18,000 for heads of households. The increased standard deduction under the TCJA subsequently has been adjusted for inflation annually from 2019 through 2025. Under the TCJA, the increased standard deduction expires after 2025, bringing the standard deduction back down to 2017 levels (adjusted for inflation).

Under the OBBBA, the standard deduction amounts in 2025 are $15,750 for unmarried individuals (other than surviving spouses or heads of households), $31,500 for married couples filing jointly, and $23,625 for heads of households. In 2026 and thereafter, those amounts will be adjusted for inflation.

Additional deduction for certain individuals age 65 or older

Under current law, individuals who are age 65 or older are entitled to an extra deduction in addition to the regular standard deduction. The deduction is adjusted annually for inflation. For 2025, the additional deduction is $1,600 ($2,000 for unmarried individuals other than surviving spouses).

The OBBBA includes a temporary increase in the additional deduction to $6,000 for individuals age 65 or older with a modified adjusted gross income that does not exceed $75,000 ($150,000 for married couples filing jointly). For individuals whose income exceeds the thresholds, the deduction phases out. This additional deduction applies for tax years 2025 through 2028. The deduction is available regardless of whether the individual itemizes deductions or takes the standard deduction. To qualify for the deduction, the individual and, if the individual is married, the individual's spouse, must have a social security number.

Repeal of personal exemptions

Before 2018, an individual potentially could deduct a personal exemption for themselves and their dependents from their adjusted gross income in addition to the standard deduction. The TCJA temporarily eliminated the personal exemption. The OBBBA permanently eliminates the personal exemption.

State and local income tax deduction

For federal income tax purposes, an individual generally may deduct any state and local income and property taxes paid by the individual. The TCJA limits that deduction to $10,000 ($5,000 for married individuals filing separately), which often is referred to as the state and local tax (SALT) cap.

The OBBBA provides a temporary increase of the SALT cap in 2025 through 2029. In 2025, the cap is $40,000 ($20,000 for married individuals filing separately) and is reduced for individuals with modified adjusted gross income in excess of $500,000 ($250,000 for married individuals filing separately) by 30% over the threshold until it reaches $10,000 ($5,000 for married individuals filing separately). In 2026, the cap will increase to $40,400 ($20,200 for married individuals filing separately), and the income threshold will increase to $505,000 ($252,500 for married individuals filing separately). In 2027 through 2029, the cap will increase by 1% over the prior year's cap, and the income threshold will increase by 1% over the prior year's threshold. In 2030, the cap reverts to $10,000 ($5,000 for married individuals filing separately).

Prior versions of the bill included additional proposals to curtail so-called SALT cap workarounds. These workarounds enable some business owners to avoid the SALT cap on income allocated to them through a pass-through entity by paying such tax at the entity level. However, the OBBBA does not include any limitation on the SALT deduction for pass through entities.

Mortgage interest deduction
An individual can deduct mortgage interest on debt that is incurred when acquiring, constructing, or substantially improving their residence and otherwise qualifies as qualified residence interest. There are limits, however, on how much interest qualifies for the deduction. Before 2018, only the interest on the first $1 million of acquisition indebtedness ($500,000 in the case of married individuals filing separately) and only the interest on the first $100,000 of home equity indebtedness ($50,000 in the case of married individuals filing separately) was permitted as a deduction. The TCJA lowered the limitation relating to acquisition indebtedness so that only the interest on the first $750,000 of acquisition indebtedness ($375,000 in the case of married individuals filing separately) is deductible, and it eliminated any interest deduction for home equity loans. The OBBBA makes the TCJA provisions permanent and also treats mortgage insurance premiums as interest for purposes of the deduction and its limitations.

Miscellaneous itemized deductions and itemized deduction limitation
For 2018 through 2025, the TCJA eliminated a group of deductions known as miscellaneous itemized deductions. An individual previously was able to deduct certain expenses, including personal investment advisory and management fees, tax preparation fees, and unreimbursed business expenses (travel, entertainment, home office expenses, and the like) to the extent they exceeded 2% of the individual's adjusted gross income. TheOBBBA permanently eliminates miscellaneous itemized deductions, except for certain unreimbursed employee expenses for eligible educators.

In addition, before 2018, high-income individuals were required to reduce otherwise permitted personal deductions (such as miscellaneous itemized deductions and the charitable deduction). This limitation often is referred to as the Pease limitation, after Congressman Donald Pease, an author of that tax law. The Pease limitation could reduce deductions by up to 80%. The TCJA temporarily eliminated this limitation, allowing individuals to fully deduct permitted deductions regardless of income.

The OBBBA makes the repeal of the Pease limitation permanent and replaces it with a new limitation on itemized deductions that reduces the benefit for individuals at the highest income tax bracket. For example, an individual at the 37% bracket generally saves 37 cents for every one dollar of deduction. This new limitation generally caps the value of each dollar of itemized deductions at 35 cents and applies only to individuals in the highest income tax bracket. The limitation is effective in 2026 and thereafter. The limitation does not apply to the pass-through entity deduction under Section 199A.

In addition, the OBBBA limits the charitable deduction for taxpayers who itemize by providing a deduction only for charitable contributions to the extent that they exceed 0.5% of the taxpayer's adjusted gross income (with certain modifications).

Temporary deduction for tips
The OBBBA includes a deduction for qualified tips up to $25,000, which begins to phase out for individuals whose modified adjusted gross income is over $150,000 ($300,000 in the case of married couples filing jointly). The deduction is effective in 2025 through 2028.

Deduction for overtime pay
The OBBBA also includes a deduction for qualified overtime compensation, limited to $12,500 ($25,000 for married couples filing jointly). The deduction begins to phase out for individuals whose adjusted gross income exceed $150,000 ($300,000 for married couples filing jointly). The deduction is effective in 2025 through 2028.

Alternative minimum tax
The alternative minimum tax (AMT) generally applies to high income individuals who have significant deductions or other tax exclusions that reduce their taxable income. It requires those individuals to compute their income tax liability without certain exclusions and deductions, but at a lower rate (generally 28%), and to pay the higher of the regular income tax or the AMT. There is an exemption from the AMT as well as a phase out of the exemption at certain income tax thresholds. For 2018 through 2025, the TCJA increased the AMT exemption and increased the income thresholds at which the exemption begins to phase out. The OBBBA makes the AMT changes in the TCJA permanent and increases the rate at which the exemption is phased out (at certain income tax thresholds).

Child tax credit
The TCJA doubled the child tax credit. Before 2018, the child tax credit was $1,000 per child under age 17. As a result of the TCJA's enactment, from 2018 through 2025, the child tax credit has been $2,000 per child under age 17. The TCJA also raised the income thresholds above which the credit phases out. Under the TCJA, the credit decreases by 5% of modified adjusted gross income over $400,000 for a married couple filing jointly and $200,000 for all other

individuals. Under prior law, the credit began to phase out (at the same 5% rate) to the extent modified adjusted gross income exceeded $110,000 for a married couple filing jointly and $75,000 for all other individuals.

The OBBBA makes the TCJA changes permanent and also increases the child tax credit from $2,000 to $2,200 in 2025, with an inflation adjustment in 2026 and thereafter. In addition, both the parent (or at least one parent for married couples filing jointly) and each child for whom they are claiming the credit must have a social security number.

Phase out of clean energy credits
The OBBBA accelerates the termination of certain tax credits available to individuals for the purchase of certain clean vehicles and for energy efficient home improvements. Under current law, most of the credits are set to expire December 31, 2032. The OBBBA generally accelerates the expiration of the credits related to the purchase of clean vehicles to those acquired before September 30, 2025. It also accelerates the expiration of the advanced refueling property credit to June 30, 2026, and generally accelerates the expiration of the credits related to energy efficient home improvements to December 31, 2025.

Gift and estate taxes

Each individual has a lifetime gift and estate tax exemption that they can use to transfer assets either during their lifetime or at their death without incurring any federal gift or estate taxes.[1] Before 2018, the exemption from gift and estate taxes was a base of $5 million adjusted for inflation annually from 2011. The TCJA temporarily increased the base gift and estate tax exemption to $10 million. For example, the 2025 lifetime exemption is $13.99 million per person, which generally enables a married couple to shelter $27.98 million from gift and estate taxes. This temporary increase is set to sunset (expire) after 2025. If it sunsets, the exemption will revert to the base of $5 million adjusted for inflation from 2011, making it in 2026 roughly one-half of what it is in 2025.

The OBBBA increases the base exemption amount to $15 million starting in 2026, with an annual inflation adjustment beginning in 2027. An additional tax, the generation-skipping transfer (GST) tax, applies to certain gifts and transfers from one generation to a recipient who is two or more generations (or, for unrelated individuals, a certain number of years) below the donor's generation. The exemption from the GST tax is the same as the exemption for gift and estate taxes and would thus increase accordingly.

Qualified business deduction

The TCJA created a new 20% pass-through entity deduction under Section199A of the Internal Revenue Code for qualified business income. The deduction is available to certain owners of business entities that are not taxed at the company level, like a C corporation, but instead, which pass the income through to the business's owners, like partnerships, multi-member limited liability companies (LLCs) taxed as partnerships, and S corporations.[2] Income from pass through entities generally is reported on the owner's income tax return at the owner's income tax rate. The corporate income tax rate prior to the TCJA was 35%, lower than the then top income tax bracket of 39.6%. The TCJA also reduced the corporate income tax rate from 35% to 21%. The idea behind this new deduction was to level the playing field for businesses operating as pass through entities with C corporations that are now taxed a lower 21% tax rate. The reduction in the corporate income tax rate to 21% was a permanent change in the TCJA.

The OBBBA makes the pass-through entity deduction permanent. The OBBBA also creates a new minimum deduction of $400 for taxpayers with at least $1,000 of pass-through income beginning in 2026. The deduction and income threshold are adjusted for inflation starting in 2027.

Special depreciation

Taxpayers who purchase property used in a trade or business generally are required to deduct the cost of that property over a period of time. However, in the case of certain qualified property (which generally includes most equipment and machinery) placed into service in 2025, a taxpayer may take an immediate deduction of 40% of the cost.

The OBBBA allows taxpayers to take a deduction of 100% of the cost of qualified property acquired on or after January 20, 2025, for property placed in service before January 1, 2031. It further provides for an elective 100% deduction equal to the adjusted basis

[1] This assumes the individual is a United States citizen or, for gift and estate tax purposes, a United States resident. The OBBBA does not change the estate tax exemption applicable to an individual who is neither a United States citizen nor, for gift and estate tax purposes, a United States resident.
[2] For more information on the Section 199A deduction, see *Qualified Business Income Tax Deduction* (a publication of the UBS Advanced Planning Group).

of qualified production property for the tax year the property is placed into service. Qualified production property is generally defined as any non-residential property located in the United States or any of its possessions to be used for the manufacturing, production, or refining of tangible personal property. The construction of the qualified property must begin after January 19, 2025, and before January 1, 2029, and the property must be placed in service before January 1, 2031.

Qualified opportunity zone investments

Under current law, there are certain tax benefits for investments in a qualified opportunity zone (QOZ), which generally is a low income and distressed community identified by the state governor and certified by the Treasury Department as a QOZ. The investment must be made in a qualified opportunity fund (QOF), which is an entity organized for the purpose of investing in QOZ property. The tax benefits include a deferral of income tax on capital gains that are realized and reinvested in the QOF. Under current law, the deferral of capital gains generally ends on the earlier of: (a) an inclusion event (e.g., a sale or exchange of the QOF investment); or (b) December 31, 2026.

The OBBBA establishes permanent tax benefits for investing in QOZs. Beginning on July 1, 2026, there will be rolling 10-year periods for designating areas as qualified opportunity zones. The OBBBA narrows the definition of a QOZ to target lower income communities. It also creates a new designation for "rural qualified opportunity funds" (RQOFs). Investments made in a QOF can potentially receive a single step-up in basis of 10% when held for at least five years. In rural areas, investments must be made into a RQOF and will receive a 30% step-up in basis when held for at least five years.

Qualified small business stock

Current law potentially permits a qualifying shareholder to exclude a portion of capital gains (up to the greater of ten times adjusted basis or $10 million) for qualified small business stock that the shareholder has held for at least five years. In order to qualify as a qualified small business for purposes of the exclusion, the company (along with satisfying other requirements) generally must have not more than $50 million in gross assets at all times and immediately prior to stock issuance.

The OBBBA expands the qualified small business stock exclusion by increasing the gross asset limitation from $50 million to $75 million. This amount will be indexed for inflation beginning in 2026. The OBBBA additionally increases the $10 million limitation on excludable gain to $15 million. The amount will be indexed for inflation annually beginning in 2027. Finally, the OBBBA creates a tiered exclusion based on the holding period for shareholders who sell or exchange their qualified small business stock prior to the expiration of the five-year holding period. Subject to the overall limits on the exclusion, a shareholder can generally exclude 50% of the gain from stock held more than three years, 75% of the gain from stock held more than four years, and 100% gain from stock held more than five years. These changes affecting qualified small business stock apply to stock acquired after the date of the OBBBA's enactment (i.e., the date on which President Trump signs the OBBBA into law).

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