Summary of the 2025 Tax Act (formerly, the One Big Beautiful Bill or OBBB)

The Act makes the 2017 Tax Cuts and Jobs Act tax cuts permanent. The Act provides additional tax relief, including enhanced child tax credits, standard deductions, and small business deductions. It introduces new tax breaks for workers (e.g., no tax on tips, overtime, or auto loan interest for U.S.-made cars) and families (e.g., expanded childcare credits, school choice credits, senior exemptions, and savings accounts for children).

The legislation also restores and makes permanent many business provisions, such as full expensing for R&D and capital investments and enhances Opportunity Zone incentives. It cuts Inflation Reduction Act spending, eliminates certain tax credits (like for commercial EVs), and promotes domestic energy production, including nuclear.

This summary provides an overview of the major provisions of the Act.

Extension and Enhancement of Reduced Income Tax Rate

For individuals, the rates and brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The TCJA didn't change the net capital gains and qualified dividends tax rates (of 0%, 15%, and 20%), but did modify the "breakpoints" at which those rates apply for 2018 through 2025.

This section makes the TCJA tax rate reductions and bracket changes, marriage penalty fix, and capital gains/qualified income breakpoints permanent.

The section is effective for tax years beginning after December 31, 2025.

Extension and Enhancement of Increased Standard Deduction

For 2025, the inflation-adjusted basic standard deduction amounts are: $30,000 for joint filers and surviving spouses; $22,500 for heads of household; and $15,000 for singles and marrieds filing separately.

For tax years beginning after Dec. 31, 2025, the basic standard deduction amounts were scheduled to revert to the pre-TCJA statutory amounts. This section increases the basic standard deduction statutory amounts for tax years beginning after 2025 to: $31,500 for joint filers and surviving spouses (computed as 200% of the single filers' amount); $23,625 for heads of household; and $15,750 for singles and marrieds filing separately.

The section is effective for tax years beginning after December 31, 2024.

Extension and Enhancement of Increased Child Tax Credit; Credit for Other Dependents Extended

Child tax credit. For tax years after 2025, the CTC rules were scheduled to revert to pre-TCJA levels: a $1,000 per qualifying child CTC amount; a maximum $1,000 refundable credit amount; an earned income threshold of $3,000; and MAGI phase-out thresholds of $110,000 for joint filers, $75,000 for singles or heads of household, and $55,000 for marrieds filing separately--none of which are indexed for inflation.

This section, for tax years after 2025, makes all of the TCJA changes to the CTC permanent, with the following modifications: (1) the nonrefundable CTC amount is increased to $2,200 per qualifying, and is indexed for inflation for tax years after 2025; and (2) to claim the credit, the taxpayer is required to include on the tax return both the taxpayer's SSN (or for a joint return the SSN of at least one spouse) and the qualifying child's SSN.

Credit for other dependents. Under current law, for tax years 2018 through 2025, the TCJA provides a temporary $500 nonrefundable credit (not adjusted for inflation) for dependents who don't qualify for the CTC.

This section makes the credit for other dependents permanent. The credit continues not to be adjusted for inflation.

The section is effective for tax years beginning after December 31, 2024. (Act Sec. 70104(f))

Individual SALT Limitation

The TCJA capped the individual deduction for state and local taxes at $10,000 ($5,000 for marrieds filing separately). That cap was slated to sunset December 31, 2025.

The Act retroactively increases the individual SALT deduction cap from $10,000 to $40,000 for 2025. It further increases the cap to $40,400 in 2026, and by an additional 1% in 2027, 2028, and 2029.

The Act phases out the deduction for taxpayers with modified adjusted gross income (MAGI) greater than $500,000 in 2025. The phaseout threshold increases to $505,000 in 2026, and by an additional 1% after.

For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The Act provides, however, that the deduction will not be reduced below $10,000.

Under the Act, the individual SALT deduction cap will revert to $10,000 beginning in 2030.

The provision is effective for tax years beginning after December 31, 2024

Extension and Increase of Basic Exclusion Amount

U.S. citizens and residents are allowed a unified credit of the applicable credit amount against any estate and gift tax imposed on transfers during life or at death. The applicable credit amount is the amount of tentative tax that would be imposed on transfers that value the applicable exclusion amount. For estates of decedents dying and gifts made after 2009, the applicable exclusion amount is the sum of the basic exclusion amount and, if applicable, the deceased spousal unused exclusion amount.

Under pre-Act law, the basic exclusion amount was $5 million. For estates of decedents dying or gifts made after December 31, 2017, through December 31, 2025, the basic exclusion amount was increased to $10 million.

Effective 2026, the basic exclusion amount will increase to $15 million. The basic exclusion amount is adjusted for inflation after 2025.

This provision is effective for estates of decedents dying and gifts made after December 31, 2025.

Pease Limitation Repealed: "Overall limitation on itemized deductions" was set to apply again in tax year 2026. The Act permanently repeals the Pease limitation and instead generally applies a 2% reduction.

The provision applies to tax years beginning after December 31, 2025.

Individual Alternative Minimum Tax Exemption Amounts Permanently Increased, Phaseout Thresholds Modified: The TCJA increased individual AMT exemption amounts and exemption phaseout thresholds through December 31, 2025. Under the Act, individual AMT exemption amounts are increased permanently. In addition, the exemption phaseout threshold is set at $500,000 (or $1,000,000 for joint returns) in 2026, and indexed for inflation. The Act also increases the phase-out rate for higher-income taxpayers from 25% to 50%.

This provision applies to tax years beginning after December 31, 2025.

Repayment Cap on Excess Advance PTC Payments Is Eliminated: Taxpayers can elect to have advance payments of their estimated premium tax credit (PTC) made directly by IRS to the insurer. Taxpayers who choose this option must reconcile the advance payments with the actual credit when they file their returns. If the advance payments exceed the PTC to which the taxpayer is entitled for the tax year, the taxpayer generally owes the excess amount as an additional income tax.

Under pre-Act law, a "repayment cap" limited the additional tax to an applicable dollar amount, for taxpayers whose household income was less than 400% of the federal poverty line (FPL) for a family of the size involved.

For tax years beginning in 2025, the applicable dollar amounts are $750 if household income is less than 200% of the FPL, $1,950 if household income is at least 200% but less than 300% of the FPL, and $3,250 if household income is at least 300% but less than

400% of the FPL. For unmarried individuals other than surviving spouses or heads of household, the applicable dollar amounts are one-half of the above amounts.

The Act strikes Code Sec. 36B(f)(2)(B), which provides for the repayment cap.

Observation: As a result, all taxpayers will have to repay their excess advance PTC payments in their entirety.

This change is effective for tax years beginning after December 31, 2025.

Termination of Deduction for Personal Exemptions Other Than Temporary Senior Deduction: The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the personal exemption deduction for tax years 2018 through 2025. The Act makes this elimination permanent and introduces a new, temporary deduction specifically for seniors.

Details of the senior deduction. Taxpayers aged 65 or older-and their spouses, if filing jointly-can claim a $6,000 deduction per qualified individual for tax years beginning before January 1, 2029 (i.e., tax years 2025-2028). This senior deduction is reduced by 6% (but not below zero) for the adjusted gross income that exceeds $75,000 (or $150,000 for joint filers).

Effective date. These changes apply to tax years beginning after December 31, 2024.

No Tax on Car Loan Interest: The Act provides individuals (including non-itemizers) with a temporary tax deduction for interest paid on loans used to purchase a new personal-use passenger vehicle.

For tax years 2025-2028, individuals can deduct up to $10,000 of car loan interest per year, subject to a phase-out starting at $100,000 modified adjusted gross income (MAGI) for single filers ($200,000 for joint filers). To qualify for the deduction:

The debt must be incurred after December 31, 2024, for the purchase of a new personal use vehicle, secured by a first lien on the vehicle, and the vehicle's original use must begin with the taxpayer.

The vehicle must be a car, minivan, van, SUV, pickup truck, or motorcycle, with a gross vehicle weight rating under 14,000 pounds, and final assembly of the vehicle must occur in the United States, and

The taxpayer must report the vehicle identification number (VIN) on their tax return.

In addition, the provision requires lenders to file information returns reporting interest received on qualified personal auto loans with the IRS.

The provision applies to qualified indebtedness incurred after December 31, 2024.

New Tax-Deferred Investment Accounts for Children: The Act creates a new tax-deferred investment account for children, called a "Trump account." Specifically, these accounts are eligible to receive contributions from parents, relatives, employers, and other taxable entities as well as non-profit and government entities. To be eligible for an account, the child must be a U.S. citizen and have a Social Security number (SSN). Trump account funds must be invested in a diversified fund that tracks an established index of U.S. equities and grow tax deferred.

Contributions: Contributions to a Trump account are limited to $5,000 annually of after-tax dollars. The $5,000 contribution limit is indexed for inflation.

Contributions provided to Trump accounts from tax exempt entities, such as private foundations, are not subject to the $5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group (i.e. all children in a state, specific school district or educational institution, etc.). No additional contributions of any kind shall be made to Trump accounts after the beneficiary has attained age 18.

Distributions: Subject to some exceptions, Trump account holders may not take distributions until age 18.

Pilot Program: Under a newborn pilot program, for U.S. citizens born between January 1, 2025, and December 31, 2028, the federal government will contribute $1,000 per child into every eligible account.

If the IRS determines that an eligible individual does not have an account opened for them by the first tax return where the child is claimed as a qualifying child, the IRS will establish an account on the child's behalf. Parents have the option to opt out of the account.

This section is effective for tax years beginning after December 31, 2025.

Individuals' Charitable Deductions: Floor of 0.5 % of AGI is Imposed, and 60%-of-AGI Ceiling for Certain Cash Gifts is Made Permanent: The Act provides for a floor of 0.5% of the taxpayer's contribution base on the charitable deductions of individuals. Thus, an otherwise deductible charitable contribution must be reduced by 0.5% of an individual's contribution base for the tax year.

The Act makes permanent the 60% ceiling for cash gifts to 50% charities and provides that a contribution of cash to a 50% charity is deductible to the extent that the total amount of contributions of cash to 50% charities doesn't exceed the excess of: (a) 60% of the taxpayer's contribution base for the tax year, over (b) the total amount of contributions to 50% charities for the tax year.

Both the floor provision and the 60%-limit provision are effective for tax years beginning after Dec. 31, 2025.

Permanent Non-Itemizers' Charitable Deduction for Individuals: The Act provides that non-itemizers may claim a charitable deduction, not in excess of $1,000 ($2,000 for a joint return).

The non-itemizers' charitable deduction is a below-the-line deduction, deducted from adjusted gross income in arriving at taxable income.

The provision applies for tax years beginning after Dec. 31, 2025.

Limitation on Wagering Losses: The Act provides that for losses from wagering transactions, the deduction amount is 90% of the amount of losses in the tax year, to the extent of the gains from such transactions during the tax year.

The provision applies to tax years beginning after December 31, 2025.

Extension and Enhancement of Deduction for Qualified Business Income: Under the TCJA, specified non-corporate taxpayers could deduct 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship. The 20% deduction also applied to certain real estate investment trust dividends and publicly traded partnership income.

The Act sets the minimum deduction for active QBI at $400. It also provides that an applicable taxpayer must have a minimum of $1,000 QBI to claim the deduction.

The Act increases the phase-in threshold for single filers from $50,000 to $75,000 and the joint filer threshold from $100,000 to $150,000. Inflation adjustments apply to the new minimum amounts for tax years beginning after 2026.

This section takes effect for tax years beginning after December 31, 2025.

Bonus Depreciation Made Permanent at 100%: Code Sec. 168(k) provides additional first-year ("bonus") depreciation for qualified property. Before the Act, the applicable rate for bonus depreciation was being phased down to zero over multiple years. The Act permanently sets bonus depreciation at 100% (now informally stylized as 100% expensing).

This provision is effective for property acquired after Jan. 19, 2025

One Percent Floor for Deductions of Corporate Charitable Contributions: A corporation can deduct charitable contributions. The deduction can't exceed 10% of the corporation's taxable income. Contributions in excess of that limit in any year can be carried forward and deducted over the next five years.

The Act provides that any otherwise allowable charitable contribution by a corporate taxpayer for any tax year will be allowed only to the extent that the aggregate of such contributions exceeds 1% of the taxpayer's taxable income for the tax year.

Charitable contributions disallowed either for exceeding the 10% maximum or failing to reach the 1% threshold can be carried forward for five years.

Observation: The new 1% floor on corporate charitable contributions applies in addition to the 10%-of-taxable-income limitation discussed above.

This section is effective for tax years beginning after December 31, 2025.

Increased 179 Expensing Limits - $2,500,000/$4,000,000: Code Sec. 179 allows immediate expensing deductions for certain business property. There is an annual statutory limit of $1,000,000, which is adjusted for inflation (pre-Act limit was $1,250,000 for 2025 property). That limit is phased down dollar-for-dollar once property placed in service during the year exceeds a statutory threshold of $2,500,000, which is adjusted for inflation (pre-Act threshold was $3,130,000 for 2025 property).

The Act increases the statutory expensing limit to $2,500,000 and increases the phase-down threshold to $4,000,000. Both statutory amounts will continue to be subject to future inflation adjustments.

This provision is effective for property placed in service in tax years beginning after Dec. 31, 2024.

100% Depreciation Election for Real Property Used for Producing Tangible Personal Property: The Act adds new Code Sec. 168(n). This provision allows a taxpayer to elect a 100% depreciation deduction for qualified production property (QPP) in the year it is placed in service. Adjusted basis is reduced accordingly. To be eligible, generally, QPP construction must start between January 20, 2025, and December 31, 2029; and the property must be placed in service in the U.S. before January 1, 2031.

QPP is nonresidential real property used as an integral part of a qualified production activity (QPA). QPP does not include property used for a variety of functions unrelated to QPAs, such as offices for sales or research activities. Additionally, QPP does not include Alternative Depreciation System (ADS) property, or property the taxpayer leases to another person.

QPP is subject to an original use requirement, but an exception is allowed if the property (i) was not previously used by the taxpayer, (ii) was not previously used in a QPA by another person, and (iii) was not acquired from a related party or certain non-recognition transactions.

A QPA is the manufacturing, production (agricultural and chemical only), or refining of a qualified product. A qualified product is tangible personal property other than food or beverages prepared in the same building as a retail outlet that sells those products.

QPP is subject to a 10-year recapture period. If QPP ceases to be used for a QPA, then Code Sec. 1245 is applied as if there had been a disposition of the property.

There are coordination rules for the alternative minimum tax and for QPP that might also be eligible for other forms of additional first-year depreciation.

This provision is effective for property placed in service after the date of enactment of the Act.

Increased Information Reporting Threshold for Certain Payees: Under pre-Act law, the Code required all persons engaged in a trade or business to file an information return (typically, Form 1099-MISC or 1099-NEC) for payments totaling $600 or more made during a calendar year for specified types of income. Code Sec. 6041A imposes a similar reporting requirement for payments totaling $600 or more made as remuneration for services to persons other than employees. Backup withholding under Code Sec. 3406(b)(6) applies when payments meet or exceed the $600 threshold, and the payee fails to provide a correct taxpayer identification number or otherwise fails to comply with applicable reporting requirements.

The Act increases the general reporting threshold and the reporting threshold for remuneration to non-employees from $600 to $2,000.

Beginning in 2027, the general reporting threshold is adjusted annually for inflation using the cost-of-living adjustment formula, with calendar year 2025 as the base year.

This provision is effective for payments made after December 31, 2025.

No tax on Tips

Creation of temporary deduction for tips. The Act creates a new, temporary deduction for individuals who receive qualified cash tips in occupations where tipping was customary before January 1, 2025.

Deduction amount and phaseout. The deduction is up to $25,000 per year per taxpayer. The deduction phases out by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 (or $300,000 for joint filers).

Qualifying criteria for tips. Tips must be properly reported on IRS-approved forms. Tips must be voluntary, not negotiated, and not received in specified service trades or businesses. For individuals receiving tips through a business they operate (other than as employees), the deduction is allowed only if gross income from the business (including tips) exceeds business-related deductions.

Additional requirements. Married taxpayers must file jointly to claim the deduction. A valid Social Security Number (SSN) must be provided. An omission of a valid SSN is treated as a mathematical or clerical error under IRC?6213(g)(2).

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction.

Exclusion from qualified business income. Any amount deducted under new IRC§225 is excluded from the definition of qualified business income for purposes of the IRC§199A deduction, preventing double tax benefits.

Expansion of FICA tip credit. The FICA tip credit under IRC?45B is expanded to include beauty service businesses (barbering, hair care, nail care, esthetics, spa treatments) where tipping is customary, aligning them with food and beverage establishments.

Enhanced reporting requirements. Businesses, third-party payers, and platforms must separately report designated cash tips and the recipient's occupation on Forms W-2, 1099, and 1099-K. Employers must report total employee tips and occupations on wage statements.

IRS guidance and withholding adjustments. The IRS is required to publish a list of occupations that customarily receive tips not later than 90 days after the date of the enactment of this Act. The list must cover occupations that customarily and regularly received tips on or before December 31, 2024. IRS must adjust withholding procedures to reflect the new deduction starting in 2026. For tips received before January 1, 2026, reporting entities may use reasonable methods to approximate designated tip amounts during the transition period.

Effective date. The new tip deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028.

No Tax on Overtime

Creation of a temporary deduction for overtime pay. Section 7202 of the Act creates a new, temporary deduction for individuals who receive "qualified overtime compensation."

Deduction amount and phaseout. Taxpayers may deduct up to $12,500 per year in qualified overtime compensation ($25,000 for joint filers). The deduction phases out by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 (single filers) or $300,000 (joint filers).

Definition and qualifying criteria for overtime. "Qualified overtime compensation" is defined as overtime pay that is in excess of the regular rate. The deduction does not apply to any amounts already deducted as qualified tips.

Overtime must be properly reported on IRS forms such as W-2s (for employees) or 1099s (for non-employees). The deduction is only available for overtime compensation, not for regular wages or other forms of compensation.

Additional requirements. To claim the deduction, taxpayers must include a valid Social Security Number (SSN) on their return. Married individuals must file jointly to be eligible for the deduction.

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction.

Reporting requirements. Employers must report the total amount of qualified overtime compensation on employees' W-2 forms. Businesses must also report this information for non-employees on applicable 1099 forms. For overtime compensation earned before January 1, 2026, reporting entities may use reasonable methods to estimate and report qualifying amounts during the transition period.

Effective date. The new overtime deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028.

Sunsetting Energy Efficient Home Improvement Credit by December 31, 2025: Under pre-Act law, taxpayers were eligible for a credit equal to 30% of expenditures on energy efficient home improvements. Energy efficient home improvement expenditures include qualified energy efficiency improvements, residential energy property expenditures, and home energy audits. The credit was limited to $1,200. The credit was only available for property placed in service through December 31, 2032.

The Act amends the Code to terminate the energy efficient home improvement property credit for any property placed in service after December 31, 2025.

Sunsetting Residential Clean Energy Credits by December 31, 2025: Under pre-Act law, taxpayers were eligible for a credit for residential clean energy credit for expenditures. Residential clean energy expenditures included expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. For property placed in service after December 31, 2021 and before January 1, 2033, the credit was for 30 percent of the expenditures.

The Act amends the Code to terminate the residential clean energy expenditures credit for any expenditures after December 31, 2025.

Termination of the Previously-Owned Clean Vehicles Credit

Code Sec. 25E provides a credit for a "qualified buyer" of a used clean vehicle. The credit amount is the lesser of $4,000 or 30% of the vehicle sale price. The Act accelerates the termination date to vehicles acquired after 9/30/2025.

Termination of Clean Vehicle Credit: The Code, as modified by the Inflation Reduction Act of 2022, provides a credit for each new clean vehicle a taxpayer places in service in a tax year. The credit is subject to a host of requirements and limits, including the critical mineral and battery component requirements for vehicles placed in service after 4/17/2023. The Act significantly accelerates and changes the parameter for termination, such that the credit now terminates for vehicles *acquired* after 9/30/2025.

Other Provisions:

- Enhancement of Child and Dependent Care Credit
- Credit of up to $1,700 For Contributions to Scholarship-Granting Organizations
- Extension of Rules for Treatment of Certain Disaster-Related Personal Casualty Losses
- Limitation on Deduction for Qualified Residence Interest Extended
- Miscellaneous Itemized Deductions Terminated, Educator Expenses Excepted
- Enhancement of Adoption Credit
- Additional Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts
- Extension and Modification of Limitation on Deduction and Exclusion for Moving Expenses

- Coordination of Business Interest Limitation with Interest Capitalization Provisions.
- Expansion of Qualified Small Business Stock Gain Exclusion
- Form 1099-K De Minimis Exception for Third-Party Networks Reverts to $20,000 plus 200 Transactions
- Treatment of Capital Gains From Sale of Certain Farmland Property
- Limit on Excess Business Losses is Made Permanent
- Extension and Enhancement of Paid Family and Medical Leave Credit
- Enhancement of Employer-Provided Child Care Credit
- Employee Exclusion for Employer Payments of Student Loans is Made Permanent