One Big Beautiful Bill Tax Impact

How does the One Big Beautiful Tax Bill (OBBB) impact you? We will attempt to answer your questions via this letter, but feel free to email our office if you still have more questions or something isn't clear to you. This bill is very complicated and has different starting and ending dates for many of the provisions in the bill.

1. Senior Citizen Extra Standard Deduction – if you are 65 or older in 2025, you may be entitled to an increase in your standard deduction of $6,000 per taxpayer. So, a married couple could increase their standard deduction by $12,000. Some caveats:

- You must file jointly if you wish to take the extra deduction
- If your income is above $75,000 for a single filer, or $150,000 for a married couple, the extra $6,000 is reduced based on the amount you are over these thresholds
- This extra standard deduction is only available for the years 2025 thru 2028
- If you are using your itemized deductions for the year, this increase in the standard may not help you.

2. No tax on tip income

- This provision expires after the 2028 tax year when tips will again be fully taxable
- You must still pay social security tax, Medicare tax, state (may change depending on the state), and city income tax on your tip income. The OBBB only exempted this income from federal income tax.
- Tips must be usual and customary in your profession and must be noted on a government form of some type (think W2).
- If your income has already escaped tax because of the higher standard deduction or other credits, having your tips not subject to tax will not save you any money.
- This deduction cannot be claimed on a married filing separate return.

3. No tax on overtime

- This provision expires after the 2028 tax year when overtime will again be fully taxable
- It is not the full amount you are paid for the overtime you work that escapes taxes, but only the overtime (time and a half) component that does so. For example, if you make $20 per hour and work 2 hours overtime at $30 per hour, the deduction for overtime pay is limited to $20 (2 hours X the $10 per hour overtime component)
- Overtime must be usual and customary in your profession and must be noted on a government form of some type (think W2). Unlike tips which are currently reported on the W2, the IRS must create a way for employers to note this on the W2.
- The deduction phases out for singles with incomes over $150,000 and married couples over $300,000.
- Anyone filing married filing separate cannot take this deduction.

4. Auto Loan Interest – You may be able to deduct up to $10,000 in auto loan interest. Again, some caveats:

- The car must be new and the loan taken out when the car is purchased. No used cars qualify
- The deduction is only allowed for 2025 thru 2028
- The vehicle's final assembly must be in the US
- The Gross Vehicle Weight (GVW) must be under 14,000 lbs.
- If you refinance the loan, the interest deduction is lost.
- Your income must be under $100.000 for singles and $200,000 for married couples filing jointly,

5. SALT Limitation Revised – since 2018, if your state and local taxes exceeded $10,000 for the year, you could only include $10,000 in your itemized deductions. For the years 2025 thru 2028, the limit will be raised to $40,000. Depending on your tax situation this may <u>not</u> change whether you itemize or take the standard deduction. For example, if your state and local taxes were $12,000, this change only increased your itemized deductions by $2,000. This, along with your other itemized deductions, may still be less than the standard deduction for your tax situation.

6. In 202**6**, there will be an above the line deduction (not on Schedule A) for charitable donations. Single individuals may deduct up to $1,000 from their income, and married couples may deduct up to $2,000. These donations must be cash donations and cannot be to donor advised funds. Non-monetary donations (think Goodwill or Salvation Army) do not qualify. Of course, you will still be required to have all the necessary documentation to claim charitable donations. If you use your charitable donations on Schedule A, starting in 2026 there will be an income limitation Only charitable donations that exceed 0.5% of your adjusted gross income (AGI) will be allowed. For example, if your AGI is $100,000, the first $500 (0.5% of $100,000) will not be allowed.