

# WESSEL & COMPANY

ACCOUNTANTS & ADVISORS

## One Big Beautiful Bill Act of 2025

Individual Session

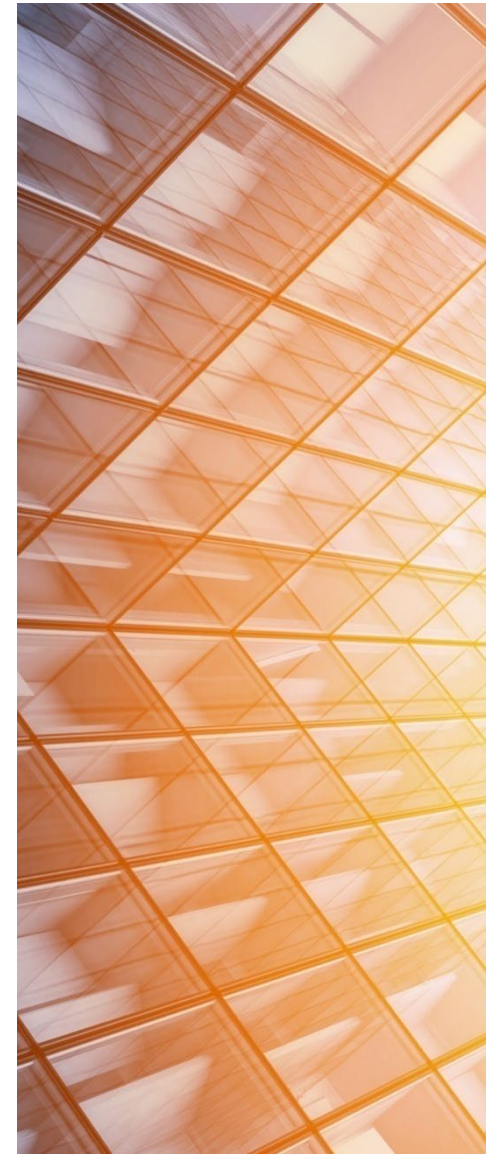


# Disclaimer

The materials presented are for informational purposes only and not for the purpose of providing tax or legal advice.

It is not designed to be, and should not be used as, the sole source of information when analyzing and resolving a business issue.

You should contact your accountant or attorney to obtain advice with respect to any particular issue or problem.





# Today's Presenters



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# Key Provisions





# Individual Tax Rates Made Permanent

## Lower TCJA Rates Extended

- Permanent 10%, 12%, 22%, 24%, 32%, 35%, 37% brackets
- Removes 2026 sunset; rates now apply indefinitely

## Bracket Indexing Adjusted

- Inflation tweak helps 12% → 22% break grow faster
- Offsets “chained CPI” drag for middle-income taxpayers

## Impact

- Prevents ~3–4% rate hike in 2026
- A \$100k income couple stays fully within 12%/22% brackets





# Standard Deduction & Senior Bonus

## Higher Standard Deduction (2025+)

- **Single:** \$15,750
- **Joint:** \$31,500
- **Head of Household:** \$23,625
- Indexed for inflation starting in 2024

## New Senior Deduction (2025–2028)

- Age 65+ get \$6,000 extra per person
- Married seniors can claim \$12,000 total
- Phases out starting at \$75k single / \$150k joint Modified Adjusted Gross Income



# Standard Deduction: Impact & Planning

## No Return of Personal Exemption

- General personal exemptions remain suspended
- Senior deduction replaces them for eligible taxpayers

## Impact Example

- Married couple (both 66):
- $\$31,500 + \$12,000 = \$43,500$  total deduction
- → Offsets retirement income, often eliminates SS tax

## Planning Tip

Consider Roth conversions or income acceleration before 2028 to fully leverage the temporary senior deduction.



# **Child Tax Credit:** Expanded & Permanent

## **Higher Credit Amount (2025+)**

- Raised to \$2,200 per child under 18
- Indexed for inflation starting after 2025

## **Expanded Refundability**

- Up to ~\$1,400 refundable in 2025
- The refundable portion will grow with inflation

## **Permanent Extension**

- No expiration in 2026 — now a lasting credit





# **Child Tax Credit:** Eligibility & Planning Impact

## **Stricter SSN Requirement**

- Both the child and one parent must have SSNs
- ITIN filers are no longer eligible

## **Example**

- Family with 2 kids: \$4,400 credit (vs. \$4,000 before)
- More refundable for lower-income households

## **Phaseouts Unchanged**

- \$400k joint / \$200k single thresholds remain
- Middle-income families continue to benefit



# **SALT Deduction Cap:** Temporarily Increased

## **New Cap for 2025–2029**

- Raised from \$10k to \$40k per return
- Married Filing Separately filers: \$20k each
- Indexed slightly: \$40,400 in 2026, increases ~1%/yr

## **Cap Reverts in 2030**

- Returns to \$10k limit permanently after 2029



# **SALT Deduction Cap:** Phaseout & Planning

## **High-Income Phaseout**

- Cap begins shrinking above \$500k
- 30% phaseout rate, but cannot fall below \$10k

## **Who Benefits Most**

- Upper-middle-income households in high-tax states
- Married couple with \$45k in SALT can now deduct full \$40k

## **Planning Tip**

- Time bonuses or deductions to stay below the phaseout thresholds
- Prepay SALT-heavy expenses during the 5-year window





# Estate & Gift Tax: Exemption

## Exemption Increased (2026+)

- Federal estate and gift tax exemption permanently set at \$15M per individual and \$30M per married couple
- Generation-Skipping Transfer (GST) tax exemption also raised to \$15M per person

## Indexed for Inflation

- Starting in 2026, amounts will rise annually based on inflation (using 2025 as the base year)

## Top Rate Unchanged:

- The maximum federal rate remains 40% on transfers above the exemption thresholds



# **Estate & Gift Tax:** Planning Implications

## **Gifting Flexibility Extended**

- Higher exemption removes deadline pressure to use lifetime credit before reduction in 2026

## **Trust Strategies Still Relevant**

- Dynasty trusts, SLATs, Crummey gifts, and other tools remain useful for planning beyond the \$15M threshold

## **Portability and Annual Gift Exclusion**

- Spousal portability continues; no change to the annual exclusion (approximately \$19,000 in 2025)



# **“No Tax on Tips:”** Deduction (2025–2028)

## **Tax Deduction**

- Up to \$25,000 deduction for reportable cash tips
- Applies even if you don't itemize

## **Phaseout for High Earners**

- Reduces \$100 per \$1,000 AGI over: \$150k Single and \$300k Joint
- Fully phased out by \$400k AGI (single) or \$550,000 for (joint)

## **Who Qualifies**

- Applies to traditional tipped individuals as of December 31, 2024 (waitstaff, hairstylist, hospitality, etc)
- Excludes mandatory service charges





# **“No Tax on Tips:” Qualified Tips**

## **Qualified Tips - Defined**

- Payment is made voluntarily
- No consequences for nonpayment
- Customer determines the amount
- Payment is not subject to negotiation or dictated by employer policy
- Customer determines who receives the payment
- Individuals in a specified service trade or business ("SSTB") cannot receive qualified tips
  - SSTBs include – fields of health, law, accounting, actuarial science, performing arts, consulting, financial services, brokerage services, business where reputation or skill is primary asset of the business



# **“No Tax on Tips:”** Tax Withholding and Reporting

## **Income and FICA and FUTA Taxes**

- Income tax deduction only
- Tips are taxable for Social Security & Medicare
- For 2026, the Federal withholding on wages will consider the tip deduction

## **Reporting Requirements**

- Employee tips received should be reported on Form W-2
- Independent Contractors -Tips must be included on a payee statement for 1099-NECs



# **“No Tax on Tips:”** Limits, Phaseout & Impact

## **Qualified Business Income Deduction**

- Cannot claim QBI Deduction and Tip Deduction on Same income

## **Example**

- Waiter with \$15k in tips → \$15k deduction
- If spouse earns \$320k → \$11,500 deduction after phaseout

## **Why It Matters**

- Acts like a raise of up to 24% for excluded tips
- Encourages full tip reporting





# Overtime Pay Deduction (2025–2028)

## Overtime Deduction

- Deduct up to \$12,500 (single) or \$25,000 (joint) of qualified overtime pay
- Straight deduction – no need to itemize

## Phaseout for High Earners

- Reduces \$100 per \$1,000 over \$150k AGI (Single) and \$300k AGI (Joint)
- Fully phased out at \$275k AGI (Single) and \$550k (Joint)

## Temporary Provision

- Designed to benefit wage earners working excess hours



# Overtime Pay Deduction (2025–2028)

## Qualified Overtime Compensation

- Overtime required to be paid under the FLSA
  - Employers must pay covered, nonexempt employees at least 1 ½ times regular pay rate for over 40 hours in a week
  - Employees exempt from coverage by the overtime pay requirements – executive, administrative, professional, computer and outside sales employees, and certain agricultural workers
- May also apply to contractors – gray area
- Does not include qualified tips



# Overtime Pay Deduction (2025–2028)

## Income and FICA and FUTA Taxes

- Income tax deduction only
- Overtime pay taxable for Social Security & Medicare
- For 2026, the Federal withholding on wages will consider the overtime deduction

## Reporting Requirements

- Overtime paid must be on reported Form W-2
- Overtime must be included on a payee statement for 1099-NECs





# **Car Loan Interest:** Deduction (2025–2028)

## **What's New**

- Personal vehicle loan interest is now deductible (up to \$10,000/year)
- New vehicles only
- Final assembly in the US
- Purchase loan with a first lien on the vehicle

## **Vehicles that qualify (weigh less than 14,000 lbs)**

- Cars, trucks, SUVs, minivans, vans, motorcycles
- No leases or fleet vehicles
- No ATVs, campers or trailers
- Personal use of business/personal use vehicle



# **Car Loan Interest:** Deduction (2025–2028)

## **Who Qualifies**

- Above-the-line deduction (no need to itemize)
- Loans must be taken out after 2024
- Refinancing an older loan qualifies (up to original balance)
- Will receive a form reporting interest expense paid

## **Policy Purpose**

- Supports U.S.-built vehicle manufacturing and jobs
- Offers targeted relief to mid-income buyer



# **Car Loan Interest:** Limits, Phaseout & Example

## **Income Phaseout**

- Deduction reduced \$200 per \$1,000 over: \$100k Single and \$200k Joint
- Fully phased out at \$150k / \$250k

## **Example**

- \$30k loan at 5% = \$1,500 deductible
- Couple earning \$180k can deduct \$1,500 in interest
- Estimated tax savings -  $\$1,500 * 22\% = \$330$





## **529 Plan: Enhancements**

### **K-12 & Homeschool Expansion**

- Annual limit for K-12 tuition raised to \$20,000 in 2026
- Homeschool expenses now qualified
- Covers more private school & curriculum costs

### **Student Loan Use Made Permanent**

- Up to \$10,000 can be used to repay student loans
- No expiration date — now a permanent feature



## **529 Plan:** Broader Uses & Planning Tips

### **New Qualified Expenses**

- Covers credentialing programs, certifications, apprenticeships, also tests and supplies
- Encourages use beyond traditional college

### **529 plan Rolled over to an ABLÉ account**

- Rollovers to ABLÉ plans allowed without hitting limits
- Supports families of children with disabilities

### **Planning Tip**

- Front-load contributions for short-term private education
- 5-year gift tax election still available



## **School Choice Tax Credit:** Contributions to Scholarship Granting Orgs ("SGO")

### **New Federal Credit for Donations for Scholarships (2027)**

- Make a donation to an SGO
  - SGOs – 501(c)(3); private foundations don't qualify
- SGOs provide scholarships for K–12 private school students
- Donor can receive a \$1,700 credit for contributions to approved SGOs
- Nonrefundable credit; carryforward allowed up to 5 years





# School Choice Tax Credit: Eligibility & Planning

## No Double Benefit

- Federal credit reduced by any state tax credit for the same donation
- Contribution is not deductible as a charitable gift

## Example

- \$1,700 donation → \$1,700 federal credit
- If state also gives \$850 credit → federal credit drops to \$850

## Planning Tip

- Available even to standard deduction filers
- Significant opportunity for education-focused giving



# Charitable Contributions: 2026 Changes

## Charitable Deductions for Everyone including Nonitemizers

- Tax Deduction after Adjusted Gross Income
- \$1,000 for Singles
- \$2,000 for Married Filing Jointly

## Charitable Deductions for Itemizers

- Charitable contributions are subject to a 0.05 % floor
- Example: Individual has an AGI of \$100,000 and makes \$5,000 in charitable contributions.
  - Floor =  $\$100,000 * 0.005 = \$500$
  - Charitable Contribution =  $\$4,500$  ( $\$5,000 - \$500$ )



# Itemized Deduction Limitation: 2026 Changes

## New Itemized Deduction Limitation for 2026 and forward

- Itemized Deductions are reduced by  $\frac{2}{37}$  of the *lesser* of:
  1. The taxpayer's itemized deductions, or
  2. The taxpayer's taxable income that exceeds the dollar amount for the 37% tax bracket (\$626k+ single \$752k for MFJ), or
  3. 80% of the total otherwise allowable itemized deductions.
- Limitation applies after all other itemized limitations apply

## Planning Tip

- 2025 last year to make charitable deductions not subject to the floor and the new itemized deduction limitation
- 2025 last year for no overall itemized deduction limitations





# **Social Security Tax:** Relief via Deductions

## **No Change to Tax Formula**

- Tax thresholds remain:
  - \$25k to \$34k (single) / \$32k to \$44K (joint) → up to 50% taxable
  - Over \$34k (single) / Over \$44k (joint) → up to 85% taxable

## **Effective Relief Through Deductions**

- Larger standard + senior deductions lower taxable income
- Most modest-income seniors fall below taxation thresholds



# Social Security Tax: Impact, Planning & Outlook

## Example

- Married with \$48k SS + modest other income = \$0 taxable
- ~\$43.5k deduction for MFJ shield eliminates tax liability
- ~\$23,750k deduction for single eliminates tax liability

## Planning Tip

- Manage IRA/401(k) withdrawals to stay below thresholds
- Below \$150k joint AGI = full benefit from senior deduction + no SS tax

## Outlook

- Senior deduction ends after 2028
- 2025–2028 are prime for retirees to lock in low tax exposure



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# **Tax Credits Expiring in 2025:** Energy Credits

## **Residential Clean Energy Credit**

- Property must be placed in service by 12/31/2025
- Solar Electric Panels, Solar Water Heaters, Battery storage tech
- Credit is 30% of costs

## **Energy Efficient Home Improvement Credit**

- Property must be placed in service by 12/31/2025
- Credits available for HVAC, Insulation, Windows, Water Heaters, Home Energy Audits, etc.
- Credits range from \$150 - \$2,000





# **Tax Credits Expiring in 2025: Vehicle Credits**

## **Clean Vehicle Credit**

- Must be purchased by 9/30/2025
- Credit up to \$7,500
- MAGI limit for credit - \$150K single; \$300K for MFJ
- MSRP limit - \$80K for van, SUV, truck, \$55K - vehicles

## **Previously-Owned Clean Vehicle Credit**

- Must be purchased by 9/30/2025
- Credit up to \$4,000
- MAGI limit for credit - \$75K single; \$150K for MFJ
- MSRP limit - \$25K - vehicles



# Trump Accounts

## Overview

- Born 2025–2028 receive a one-time payment \$1,000, if election is made
- Must be under 18 years old to start a trump
- Employer contributions of \$2,500
- No earned income requirement; max contributions of \$5,000
- Similar to regular IRA
- Accounts expected to be available July 2026

## Planning

- Consider other investment opportunities – 529 plan; investment account
- May be able to convert to a ROTH IRA at 18

# Takeaways for Individual Planning



Tax Provision	Pre-OBBBA Law	Post-OBBBA (2025)
<b>Individual Tax Rates</b>	TCJA rates expire after 2025; Revert to higher pre-2017 brackets	TCJA rates made permanent; brackets remain 10% - 37%
<b>Standard Deduction</b>	2025 base: ~\$13,850 (single), ~\$27,700 (joint); indexed	Raised to \$15,750 (single), \$31,500 (joint); indexed from 2024
<b>Senior Deduction (65+)</b>	No additional deduction; personal exemption remains suspended	\$6,000 per taxpayer (2025-2028); phased out at \$75k/\$150k
<b>Child Tax Credit (CTC)</b>	\$2,000 per child under 17; partial refundability; expires 2025	\$2,200 per child under 18; more refundable; indexed & permanent



Tax Provision	Pre-OBBBA Law	Post-OBBBA (2025)
<b>SALT Deduction Cap</b>	\$10,000 cap (no indexing); applies to all income levels	\$40,000 cap (indexed); phases down above \$500k; reverts to \$10k in 2030
<b>Tip Income Deduction (§224)</b>	No deduction for tip income; all included in AGI	Deduct up to \$25,000/year in reported tips; phased out at \$150k/\$300k AGI
<b>Overtime Pay Deduction</b>	No deduction for overtime pay	Deduct up to \$12,500/\$25,000 (joint) of OT pay; same phaseout as tips
<b>Car Loan Interest Deduction</b>	No deduction for personal auto loan interest since 1986	Deduct up to \$10,000/year of interest (2025-2028); phased out at \$150k/\$250k

Tax Provision	Pre-OBBBA Law	Post-OBBBA (2025)
<b>529 Plan Expansion</b>	K-12 limit: \$10,000/year; homeschool not included; student loan use temporary	K-12 limit doubled to \$20,000; includes homeschool; student loan use made permanent
<b>School Choice Credit (\$25F)</b>	No federal credit for private school donations	New \$1,700 nonrefundable credit; reduced by any state credit; 5-year carryforward
<b>Social Security Taxation</b>	Standard deduction not large enough to offset SS tax for many; thresholds fixed since 1980s	No SS tax for ~88% of retirees due to higher deductions; thresholds still fixed
<b>Estate &amp; Gift Tax Exemption</b>	Exemption set to drop in 2026 to ~\$6M per individual under TCJA sunset	Exemption permanently set at \$15M per person (\$30M joint); indexed. Portability, trusts, and gifting strategies remain important



# Individual Tax Policy Overview

## Lower Rates Locked In

- TCJA tax brackets (10–37%) made permanent
- Prevents reversion to higher pre-2017 rates

## Standard Deduction Increased

- Single: \$15,750
- Joint: \$31,500
- Indexed from 2024 forward

## New Senior Deduction (2025–2028)

- \$6,000 per taxpayer age 65+
- Phases out above \$75k/\$150k MAGI

Questions?





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CUSTOMIZED ACCOUNTING SERIES

# Month-End Close: Best Practices

October 1, 2025 | 8:30 am

Holiday Inn, Downtown Johnstown

