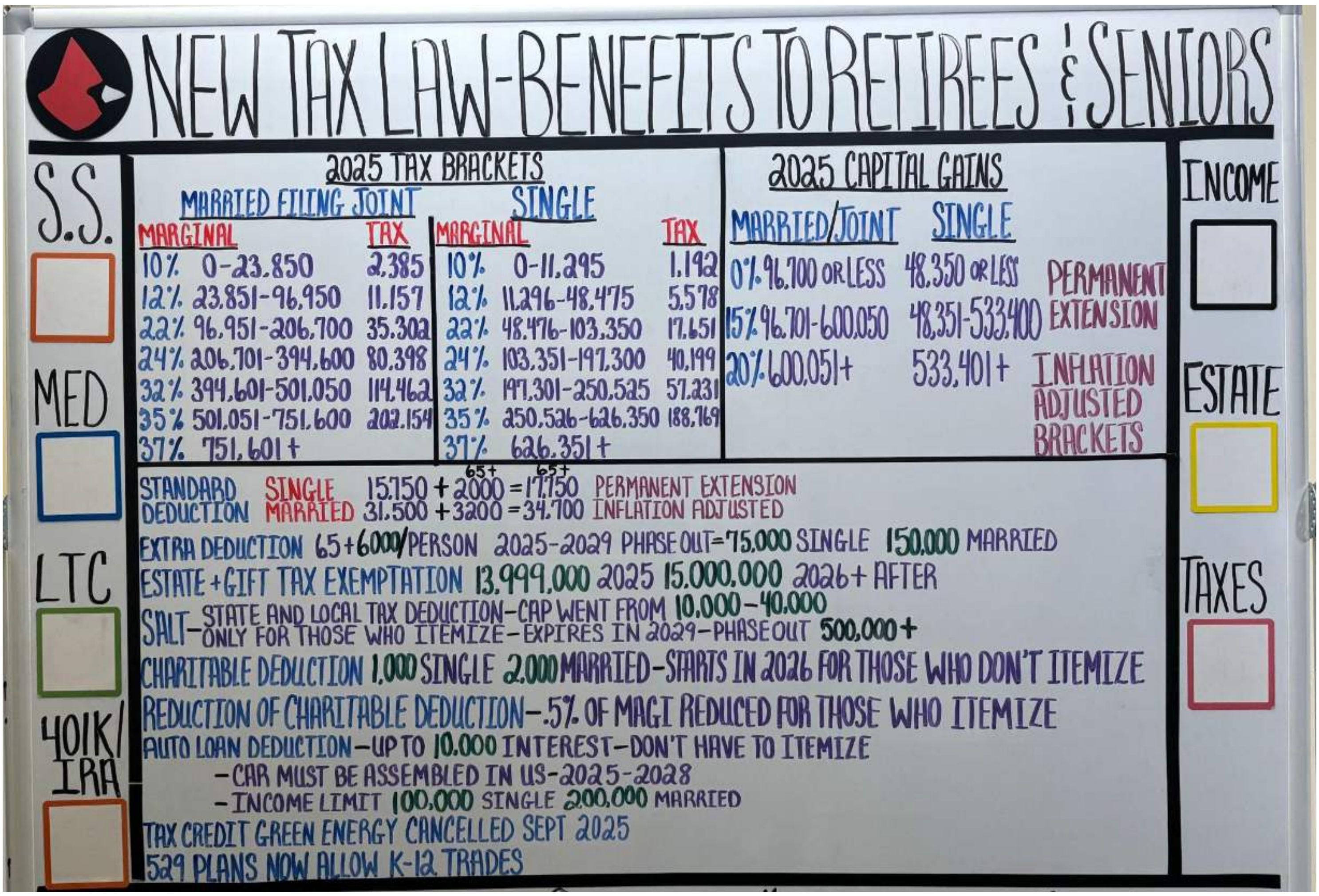
# CARDINAL ADVISORS

# New Tax Law-Benefits to Retirees & Seniors

Hans and Tom use the following documents to discuss taxes in the video entitled “New Tax Law-Benefits to Retirees & Seniors”.






July 2025

TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

# Retirement Planning Insights

**SPECIAL EDITION!**

**Summary of the recently signed into law "One Big Beautiful Bill Act" and its provisions most likely to impact personal income taxes for people in or near retirement**

## Tax Law Happenings

### The One Big Beautiful Bill Act was recently signed into law

The One Big Beautiful Bill Act (yes, that's it's formal name…) was signed into law by President Trump on July 4, 2025. From here on out, I'll refer to it as the OBBBA or the "bill." As expected, it kept a lot of the provisions of the Tax Cuts and Jobs Act, and also added some other tweaks.

The Tax Cuts and Jobs Act of 2017 changed a lot of the tax code to create an overall reduction of personal federal income taxes for most people, starting in 2018. However, most of the changes were scheduled to expire at the end of 2025.

Therefore, unless the changes were extended, made permanent or otherwise changed again, it was already baked into the Internal Revenue Code (i.e. the U.S. tax code) that the majority of the changes would revert back to pre-2018 provisions.

With that in mind, the last few years have been kind of a wait and see approach to try to get any sort of clarity as to whether the Tax Cuts and Jobs Act changes/reductions would be extended. In particular, it was widely expected that if Trump won the election in 2024, most or all of the Tax Cuts and Jobs Act would stay around in some form or fashion beyond 2025.

Fast forward to now; after a feverish amount of back and forth between the House and the Senate over the last month or so, the One Big Beautiful Bill Act was signed into law on July 4, 2025.

The final bill came in at a lean 870 pages, and you can find the full text of it here for anyone who's interested in some light reading. 😉

But seriously, the bill is a monster to try to get through. These bills aren't written in plain English as they often have lots of references to specific areas of the tax code instead of just spelling out in normal words what they're actually doing.

Furthermore, large swaths of the bill have essentially nothing to do directly with individual income taxes. As such, I decided to try my best at interpreting and summarizing the areas of the bill that are most likely to impact you all reading this; i.e. people in or near retirement.

And notice I said I'll, "…try my best at interpreting and summarizing…" That's because there are some areas of the bill that aren't entirely clear to me either, so I'm going to convert them to plain English to the best of my abilities. And there are some areas where I think the IRS needs to give formal clarification or interpretation, as the Congress-written language isn't as clear as it should be. But I'm going to try my darndest to get this as right as I can!

And I should add that just because I'm not covering something here doesn't mean it's not important or not potentially impactful. Such as the reductions in Medicaid funding and additional requirements for people to be eligible for Medicaid. My goal with this article is to try to summarize the areas of the tax code that are most likely to impact retirees and pre-retirees on their individual income tax returns.

Now, let's get into it!

**WHAT THE BILL IS NOT CHANGING**

Before talking about what the bill *is* changing, I want to mention a few things it's *not* changing:

**No changes to how Social Security is taxed**

Contrary to what you may have heard or read (including directly from the Social Security Administration itself), the bill makes NO changes to how Social Security is taxed.

Social Security is still taxable at the federal level, and the bill makes no particular carveouts or direct exemptions to this. As such, it's flat out false for anyone to say or insinuate the bill made Social Security not taxable.

However, what the bill did do is increase the amount of deductions and/or exemptions people can have on their tax returns, including people 65 or older. This will reduce total taxable income for many people receiving Social Security, all else equal. Which means even with Social Security still being taxable, people might end up paying less tax in total across their various sources of income, inclusive of their Social Security income. But that's not the same as saying Social Security isn't taxable!

**No extension to the "enhanced" Affordable Care Act premium tax credits**

Starting in 2021, under the American Rescue Plan Act, premium tax credits/subsidies for people who have health insurance through the Affordable Care Act, or ACA, became more generous, or "enhanced."

Specifically, for 2021 and 2022, there was temporarily not a hard income "cliff" around ACA credit eligibility. Before these enhancements, anyone whose gross income exceeded 4x the federal poverty level was flat out not eligible for any ACA credits. But for 2021 and 2022, the cliff went away and there was instead a gradual phasing out of credit eligibility as income increased.

Additionally, the temporary enhancements increased the amount of credits people could get for a given level of income.

While the enhancements were set to expire after 2022, the Inflation Reduction Act further extended them. Specifically, it extended the enhancements through the end of 2025. As such, barring any additional legislative changes or extensions, the enhancements are set to expire after this year.

The OBBBA did NOT extend the ACA premium tax credit enhancements. Therefore, starting in 2026, ACA premium tax credit rules will revert back to what they were before the 2021 enhancements started; i.e. anyone whose gross income (specifically a special definition of Modified Adjusted Gross Income) exceeds 4x the federal poverty level will not be eligible for any credits. Additionally, for folks who will still be eligible for credits, the amount of credits they'll get will be less than what they were under the temporary enhancements.

However, one thing the bill IS changing about the ACA is that, starting in 2026, all bronze and catastrophic plans purchased on the ACA exchange will automatically be treated as qualifying for the policyholder to contribute to a Health Savings Account, or HSA. Currently, most bronze and catastrophic plans on the exchange don't meet the requirements to qualify the holder for HSA contributions. That will change starting next year.

I'm sure there are other things *not* in the bill that will impact folks. But the few items mentioned above are the ones I felt most required some clarification and attention for the audience of folks reading this.

**WHAT THE BILL IS CHANGING**

**Permanent extension of the reduced tax rates under the Tax Cuts and Jobs Act (and some kind of one-off inflation adjustment for certain brackets)**

***Effective: 2025, no end date***

Starting in 2018, as a result of the Tax Cuts and Jobs Act, federal income tax rates were reduced from what they were in 2017 and prior. However, the reduced tax rates were structured to be temporary, whereby they'd automatically revert back to the higher levels starting in 2026 *unless* they were again changed or extended. Well, the OBBBA extended them permanently.

As such, the current federal tax rates of 10%, 12%, 22%, 24%, 32%, 35% and 37% are now permanent. However, I say "permanent" with a grain of salt because the tax code is essentially written in pencil in that it's always subject to legislative changes. Assume tax rates will again eventually change, as they have multiple times over the last century. But we don't know when they'll change, or by how much. For now though, the tax rates we currently have are "permanent."

As always, the dollar amounts of taxable income at which each bracket starts and stops will continue to increase with inflation each year.

Additionally, there is some language in the bill that appears to make some kind of change to the inflation for certain brackets. But I honestly can't figure out what exactly it's doing. The more I read it and the sections of the tax code it's referencing, the more I can't figure it out! For what it's worth, according to reputable sources such as the Tax Foundation, it appears this language is adding an additional year of inflation increase to the 10%, 12% and 22% brackets. I'm sure there will be more clarification about this in the coming weeks.

**Permanent extension of increased standard deductions AND an increase to those standard deductions**

***Effective: 2025, no end date***

Starting in 2018, as a result of the Tax Cuts and Jobs Act, the standard deduction amounts were approximately doubled from what they were in 2017 and prior. However, the increases were structured to be temporary, whereby they would automatically revert back to the lower levels starting in 2026 *unless* they were again changed or extended. Like making the lower tax rates permanent, the OBBBA made the higher standard deductions permanent.

Additionally, starting this year, there is a bit of an increase to the base standard deductions compared to what they otherwise would have been. Specifically, for 2025, here are the base standard deductions:

- Single: $15,750 (increase from $15,000)
- Married Filing Jointly: $31,500 (increase from $30,000)

As always, these amounts will continue to increase with inflation each year.

Also, there are still the additional standard deductions that people who are 65 or older can use; the OBBBA didn't make any changes to those. Specifically, for 2025, anyone who is 65 or older as of the end of the year can claim an additional standard deduction of:

- Single: $2,000
- Married Filing Jointly: $1,600 (per *each* spouse who's 65 or older as of the end of the year)

As always, these additional standard deductions for people 65 or older will continue to increase with inflation each year.

And before you ask, no, the base and additional standard deduction amounts mentioned above are separate from the potential $6,000 of extra deduction each person 65 or older can get as a result of the OBBBA. Read on for more about that…

**$6,000 personal exemption for people 65 or older**

***Effective: 2025 through 2028***

There's been a lot of confusion around this one. This is an EXTRA deduction you might be able to get *in addition to* the base and additional standard deduction amounts mentioned above.

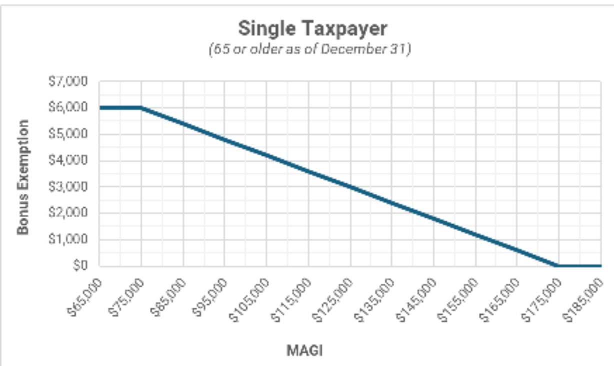
Technically this new deduction is a "personal exemption" instead of a standard deduction. Personal exemptions existed before the Tax Cuts and Jobs Act, but were temporarily removed from 2018 through 2025. The OBBBA permanently removed personal exemptions, except for this brand new one-off personal exemption, which is only scheduled to last for 2025 through 2028. Don't get hung up on the nuance of what's different between standard deductions and personal exemptions. For all intents and purposes, they largely function the same way. However, there are some twists to this particular personal exemption.

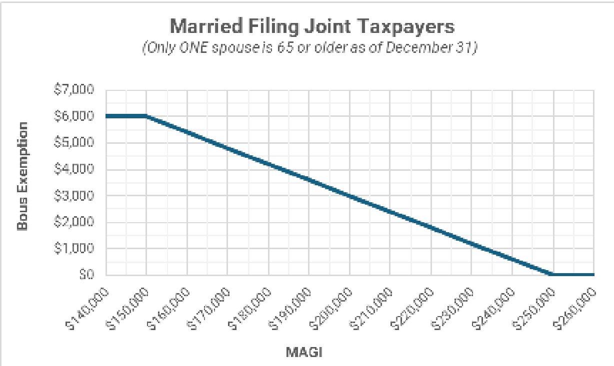
In order to qualify for it, a person needs to be at least 65 as of the end of the tax year. The amount of the exemption is $6,000 per qualifying person. Which means for Single tax filers, the exemption is $6,000. For Married Filing Joint filers, the exemption is $6,000 per spouse (again assuming each spouse is 65 or older as of the end of the year; if only one spouse is 65 or older, then that spouse is eligible for $6,000).

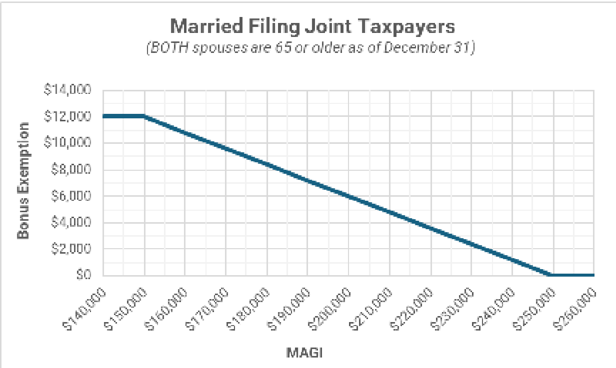
However, there are income phaseouts around this exemption. Specifically, for Single filers, the exemption starts to phase out at gross income of $75k and is fully phased out (i.e. the person will not get any of this personal exemption) at $175k. For Married Filing Joint filers, the gross income phase out begins at $150k and the exemption(s) is fully phased out at $250k. The amount of reduction of the exemption within the phase out range is 6% of the amount the person's gross income is in excess of the bottom of the phase out.

The specific measure of income used to determine the phase out is technically a measure of Modified Adjusted Gross Income, or MAGI. But for the vast majority of you reading this, your MAGI will simply be equal to your Adjusted Gross Income, or AGI. The MAGI's only additions to AGI are some foreign income-related exclusions.

Sounds complicated, I know. I thought showing the relationship of exemption amount (which I'll call "Bonus Exemption") to MAGI in graphical form might help. Here are graphs for three common scenarios: 1) Single filers, 2) Married Filing Joint filers where only one spouse is 65 or older and 3) Married Filing Joint filers where both spouses are 65 or older.




And I'd like to reiterate that these extra personal exemptions are effective starting this year, 2025, and last only through 2028. Additionally, there doesn't appear to be any inflation increases on the amounts of the exemptions or the dollar amounts of MAGI at which they phase out.

**Permanent extension of increased lifetime estate and gift tax exemption AND an increase to the amount**

***Effective: 2026, no end date***

Starting in 2018, as a result of the Tax Cuts and Jobs Act, the lifetime exemption on estate size and gifting was doubled from what it was in 2017 and prior. However, the increased amount was structured to be temporary, whereby it would automatically revert back to the lower level starting in 2026 *unless* it was again changed or extended. Well, the OBBBA extended the increase…permanently.

Additionally, starting in 2026, there is a bit of an additional increase to the lifetime estate size and gift exemption. For 2025, the current lifetime estate size and gift exemption is $13,990,000 per person. Normally, this would increase with inflation each year. As such, in 2026, we'd expect it would increase to something over $14,000,000 but less than $15,000,000.

As part of the OBBBA, starting in 2026, the lifetime exemption will be an even $15,000,000.

And, as always, this will continue to increase with inflation each year after that.

**Changes to the Alternative Minimum Tax exemption and income phase outs**

***Effective: 2026, no end date***

The Alternative Minimum Tax, or AMT, is a squirrely one so I won't get too into it here. But, in a nutshell, it's a parallel income tax calculation that's run alongside people's "normal" 1040 income tax calculation.

It was intended to prevent or minimize certain high income people from having too many deductions and therefore paying too little in tax. The modern day version of AMT has been in existence since 1986.

Originally, it was intended to impact just a small number of very high income taxpayers. However, over time, more and more people became impacted by it.

Particularly people who had a lot of State and Local Tax, or SALT, itemized deductions for their property taxes and state income taxes.

Starting in 2018, the Tax Cuts and Jobs Act made the AMT MUCH less likely to get triggered for most people. Specifically, it increased the “exemption” amount of income people could apply in their AMT calculation, and it increased the level of income at which the exemption would start to phase out.

However, like most of the provisions of the Tax Cuts and Jobs Act, these changes were temporary and set to expire at the end of 2025.

The OBBBA permanently extends the increased exemption amounts, but reverts the income phase out range back to what it was before the Tax Cuts and Jobs Act. Therefore, expect more people will be subject to the AMT again, but not as many as before the Tax Cuts and Jobs Act.

**Permanent extension of the reduction of amount of residential mortgage on which interest can be deducted**

***Effective: 2026, no end date***

One of the itemizable deductions allowed on a tax return is for interest paid on a residential mortgage. However, there are restrictions around this provision, such as what properties qualify and how much of a mortgage qualifies.

Under the Tax Cuts and Jobs Act, taxpayers are allowed to itemize interest paid on mortgages against their first and/or second homes, but only interest on an amount of mortgage not exceeding $750,000. Or at least, for mortgages obtained after 2017, the size limit has been $750,000. For mortgages obtained prior to then, the limit was $1,000,000. Under the Tax Cuts and Jobs Act, the mortgage size limit of $750,000 was set to expire at the end of 2025, at which point it would go back to $1,000,000

The OBBBA makes permanent the $750,000 mortgage size limit.

**Permanent extension of the elimination of miscellaneous itemized deductions**

***Effective: 2026, no end date***

Starting in 2018, as a result of the Tax Cuts and Jobs Act, many “miscellaneous” itemized deductions were no longer allowed. This included deductions for things such as tax return preparation costs, investment management fees, unreimbursed employee expenses, etc. Per the Tax Cuts and Jobs Act, such deductions were scheduled to again be allowed after 2025.

The OBBBA makes permanent the elimination of miscellaneous itemized deductions.

**Temporary increase to the limit for itemized deductions for State and Local Taxes**

***Effective: 2025 through 2029***

State and Local Taxes, or SALT, are most commonly 1) property taxes paid on residential real estate and 2) state income taxes paid.

Starting in 2018, as a result of the Tax Cuts and Jobs Act, the maximum itemized deduction allowed for SALT has been $10,000 per tax return. Prior to the Tax Cuts and Jobs Act changes, there was no limit on the total amount of SALT that could be deducted (but, like previously mentioned, large SALT deductions often resulted in taxpayers becoming subject to the Alternative Minimum Tax).

Per the Tax Cuts and Jobs Act, the temporary $10,000 limit on SALT is set to expire at the end of 2025 at which point there would again be no limit.

While the OBBBA ultimately makes permanent the $10,000 limit on SALT deductions, it at least adds in a temporary increase for 2025 through 2029.

Specifically, the SALT deduction limit is increased to $40,000 per return (which means whether filing Single or Married Filing Jointly, the max temporary deduction is $40,000. Married Filing Separately has a max temporary deduction of $20,000). Additionally, this temporary deduction amount will have 1% inflation applied to it each year.

However, there are income phase out limits to the increased amount. For 2025, the amount of the increase starts to reduce for MAGI in excess of $500,000. Note this $500,000 limit applies to both Single and Married Filing Jointly taxpayers. And the definition of MAGI is the same as for the temporary 65+ personal exemption; i.e. MAGI will simply equal AGI for the vast majority of people.

The amount of the reduction in increased limit is 30% of the amount the person’s MAGI exceeds $500,000. But the final deductibility limit won’t go below $10,000.

To put it more clearly, if your MAGI exceeds $600,000, you'll be phased out from any of the temporary increase and your SALT limit will be just $10,000. But if your MAGI is between $500,000 and $600,000, your SALT deduction limit will be linearly reduced from $40,000 to $10,000. For example, if your MAGI is $550k, your SALT deduction limit will be $25,000.

Additionally, the income phase out levels will also be increased by 1% per year for inflation.

### Permanent additional deduction for charitable contributions for filers using the standard deduction

***Effective: 2026, no end date***

The OBBBA adds a new deduction for charitable donations for people who use the standard deduction. If you itemize your deductions, you can't additionally take this deduction (though if you *do* itemized your deductions, most of your charitable donations are going to be included as part of your itemized deductions anyway; see the next section for more info).

This provision isn't entirely new, as it's a reincarnation of a temporary version of it that was around for a few years during COVID. But the deductibility limits will now be higher than what they were during COVID.

Under the OBBBA, starting in 2026, Single tax filers can claim the deduction for up to $1,000 of charitable donations. Married Filing Joint filers can claim the deduction for up to $2,000 of charitable donations.

There are no income phase outs around these deductions and no inflation increases on them either.

### Permanent AGI-based minimum level of charitable donations required in order to be deductible

***Effective: 2026, no end date***

The OBBBA adds a new wrinkle to how much of your charitable donations you can itemize if you itemize your deductions. Specifically, starting in 2026, you'll only be able to itemize donations to the extent the total of all of your qualified donations exceed 0.5% of your Adjusted Gross Income, or AGI.

This is conceptually similar to the 7.5% of AGI minimum already in place for qualified medical expenses; you can only deduct qualified medical expenses to the extent the total of all of your qualified expenses exceeds 7.5% of your AGI.

To use an example for the new rule starting next year for charitable donations: assume your AGI in 2026 will be $100,000 and you will make $2,000 in qualified charitable donations that year. 0.5% of your $100,000 of AGI will be $500. Which means only $2,000 - $500 = $1,500 will be eligible to be included as an itemized deduction. This is why I said in the previous section that "…*most* of your charitable donations are going to be included as part of your itemized deductions…"

### Temporary exclusion of income tax on up to $25,000 of income from tips

***Effective: 2025 through 2028***

Starting this year and through 2028, up to $25,000, per person, of income from tips would be excluded from federal income tax. This tip income would still be subject to Social Security and Medicare taxes, but it won't be subject to income tax.

It's still to be determined which lines of work would have their tip income qualify for the exclusion. The bill states it would generically be lines of work in which tips are, "…customarily and regularly…" received. But the full list of jobs is not spelled out. Stay tuned.

Also, there are income phase out limits around how much tip income can be excluded. The phase out starts at MAGI of $150,000 for Single filers, or $300,000 for Married Filing Joint filers. The amount of the reduction is 10% of the amount of MAGI in excess of the phase out level of income.

More specifically, for Single filers, they lose all tip exclusion after $400,000 of MAGI. Married Filing Joint filers lose all tip exclusion after $550,000 of MAGI. And for all amounts of MAGI in between, the amount of tip income that can be excluded from income taxation will be linearly reduced from $25,000 to zero.

### Temporary exclusion of income tax on up to $25,000 of overtime pay

***Effective: 2025 through 2028***

Starting this year and through 2028, up to $12,500 of overtime pay for Single filers, or up to $25,000 for Married Filing Jointly filers, can be excluded from federal income tax. Such income would still be subject to Social Security and Medicare taxes, but it wouldn't be subject to income tax.

I'm not clear on what exactly constitutes "overtime." Per the OBBBA, it says it needs to be, "…overtime compensation paid to an individual required under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate…" I frankly don't know what that means, as I've never looked at the Fair Labor Standards Act of 1938 before. I assume there will be more clarity around this going forward.

Also, there are income phase out limits around how much overtime income can be excluded. The phase outs are the same as for tip income; the phase out starts at MAGI of $150,000 for Single filers, or $300,000 for Married Filing Joint filers. And like with the tip income exclusion, the amount of the reduction of eligible overtime pay is 10% of the amount of MAGI in excess of the phase out level of income.

That similarly means Single filers with MAGI over $400,000 aren't eligible to have any overtime pay excluded, and Married Filing Jointly people with MAGI over $550,000 aren't eligible to have any overtime pay excluded.

**Temporary deduction of up to $10,000 of car loan interest**

***Effective: 2025 through 2028***

Starting this year and through 2028, up to $10,000 of interest on car loans can be deducted from income. However, the car needs to have had its final assembly done in the United States, and the loan needs to be taken out no early than 2025.

This deduction is not an itemized deduction, but would be its own separate category of deduction that can be taken whether you use the standard deduction or itemize deductions.

Also, there are income phase out limits around how much interest can be deducted. The phase out starts at MAGI of $100,000 for Single filers, or $200,000 for Married Filing Joint filers. The amount of the reduction is 20% of the amount of MAGI in excess of the phase out level of income.

More specifically, for Single filers, they lose all such auto loan interest deductibility after $150,000 of MAGI. Married Filing Joint filers lose all deductibility after $250,000 of MAGI. And for all amounts of MAGI in between, the amount of car loan interest that can be excluded from income taxation will be linearly reduced from $10,000 to zero.

**Recission of tax credits for purchase of electric vehicles**

***Effective: for cars acquired after September 30, 2025***

The OBBBA terminates tax credits for purchases of electric vehicles. Specifically, any electric vehicle acquired after September 30, 2025 will not be eligible for any credits.

**Recission of energy efficiency home improvement credits**

***Effective: for improvements made after December 31, 2025***

The OBBBA terminates tax credits for the cost of certain energy efficiency home improvements. Specifically, improvements made after December 31, 2025 will not be eligible for any credits.

The credit applies to the cost of purchase and installation of certain exterior doors, exterior windows or skylights, certain insulation and air sealing materials, etc.

**Recission of residential clean energy credits**

***Effective: for expenditures made after December 31, 2025***

The OBBBA terminates tax credits for the cost of purchasing and installing certain residential renewable energy systems such as solar, wind, geothermal, batteries, etc. Specifically, expenditures made after December 31, 2025 will not be eligible for any credits.

**Creation of "Trump" savings accounts for individuals under 18**

***Effective: 2026, no end date***

This is a wild one and I frankly can't quite fully follow it or figure it out. There is a lot going on here, and I'm guessing there will be a lot of clarifications from the IRS about this before all of the details and implementation facts are known with certainty.

But, to sum up, it appears the OBBBA is establishing an IRA-like account called a "Trump" savings account intended to be used as a savings vehicle for children under 18, where the funding of the account can only occur while the child is under 18. And then distributions from it will follow normal distribution rules for IRAs.

While this means these accounts aren't going to directly benefit most of you reading this, they may nonetheless be opened by many of you on behalf of children or grandchildren.

Contributions to Trump accounts won't be allowed until one year after the enactment of the OBBBA, or July 4, 2026. After that, contributions will be allowed up until the calendar year in which the account beneficiary turns 18. The maximum annual contribution is $5,000 (inflation adjusted after 2027), and there will not be any tax deferral or deductions on contributions.

The government will be making $1,000 contributions per year to every child born from 2025 through 2028. And it appears the government will be automatically opening accounts for children born in those years.

Investment options for Trump accounts will be limited to index exchange traded funds ("ETFs") or mutual funds whose expense ratios are not more than 0.1% per year.

Distributions are not allowed (at all, I think) until the year the beneficiary turns 18. And after that, it appears the distribution rules around Trump accounts are the same as normal IRAs; a 10% penalty on withdrawals before age 59 ½ (unless there is a penalty exception; just like with IRAs), otherwise, all distributions will be treated like normal IRA distributions where earnings are taxed as ordinary income and return of "basis" or contributions will be tax-free.

Yes, this means there will proration calculations that will need to be tracked, to keep tabs on how much basis there is in each Trump account vs how much growth/earnings. And the basis tracking of Trump accounts will be separate from basis tracking of actual/traditional IRAs the person may have.

This whole Trump account things seems messy so far and without much real benefit, in my opinion. But maybe I'm missing something. Stay tuned for additional details as they become more clear.

That's it, I hope you found this summary helpful. Again, I strive to be as accurate and thorough as possible with everything I write and put out to the world. But there is A LOT going on in the OBBBA, and it will take time for me and the rest of the industry to fully digest and understand it. This was my best crack at breaking it down as quickly and thoroughly as possible, without getting too much into areas not likely to direct impact most of you reading this.

# OBBBA 2025
## One Big Beautiful Bill Act of 2025
### Enacted July 4, 2025

**There is no "SECURE 3.0" included in this legislation; it does NOT contain any changes directly related to IRA or retirement plan rules.** For example, there are no changes to retirement account contribution limits or new Roth contribution rules. (This does not preclude the possibility of further tax legislation later this year that could include retirement changes.)

However, there are several provisions in the new law that may have an indirect impact on retirement savings decisions.

## Reduced Federal Income Tax Rates Extended Permanently

The reduced federal individual income tax rates, originally enacted in the 2017 Tax Cuts and Job Act, are extended permanently. This will expand the opportunity to do Roth IRA conversions at low brackets for future years.

## Estate and Gift Tax

The base federal estate and gift tax exclusions are reset at $15 million per person, or $30 million for a married couple with portability. The generation skipping transfer tax (GSTT) also increases to $15 million, but is not portable.

These rates are effective in 2026 with annual inflation increases for subsequent years.

## 20% Qualified Business Income Deduction (QBI)

The QBI deduction for self-employed and small business owners is permanent and income limitations have been expanded. Roth conversion planning around this deduction requires walking a fine line on how much to convert, since the conversion income can either increase the QBI deduction (by raising taxable income) or eliminate the deduction (by raising income so much that it exceeds the QBI income limits).

## Standard Deduction Increase

For 2025, the standard deduction increases to $15,750 (from $15,000) for individuals, and $31,500 (from $30,000) for married filing jointly. There are annual inflation increases for subsequent years.

## $6,000 Extra Senior Deduction

There is a new $6,000 addition to the standard deduction for seniors aged 65 and older for years 2025-2028. This is per person, so a married couple could deduct up to $12,000 if each spouse is aged 65 or over. This is in addition to the regular standard deduction AND the extra deduction for those aged 65 or blind. This new deduction will also be available to seniors who itemize.

The deduction phases out beginning with modified adjusted gross incomes of $75,000 for individuals and $150,000 for married filing jointly (MFJ). It phases out completely at $175,000 / $250,000.

**Observations:**
Married couples who qualify can reap a total deduction in 2025 of **$46,700**. This equals the standard deduction ($31,500), plus the extra standard deduction for age 65 or blind ($1,600 x 2 = $3,200), plus the new extra senior deduction ($6,000 x 2 = $12,000).

Whether Social Security benefits are taxable depends partly on modified AGI. This deduction is not an above-the-line deduction. It lowers taxable income, not AGI. So, it will not reduce or eliminate the taxable amount of Social Security benefits. The deduction reduces taxes on all income, even if there is no Social Security income.

Roth conversions can push clients over these phase-outs. So, this is another factor in the complicated Roth conversion decision-making process.

Taxpayers with income below the $75,000 / $150,000 limits will be in relatively low tax brackets, so the potential loss of a $6,000 deduction at their highest rate of 22% would cost $1,320 in taxes. In the long run, the Roth conversion might still be worth it.

This provision is just one of the many new tax breaks that come with income limits. Deductible contributions to retirement accounts or Health Savings Accounts (HSAs) as well as Qualified Charitable Distributions (QCDs) can help reduce income.

## SALT (State and Local Tax) Deductions for Itemizers

The SALT deduction is increased to $40,000, effective for 2025-2029, with a 1% increase each year. In addition, some pass-through business owners can work around the $40,000 limitation and get unlimited SALT deductions.

Marriage penalty:
The $40,000 deduction is the same for married and single individuals. Two single taxpayers could each qualify for the $40,000 deduction, depending on income levels.

Income limitations:
The $40,000 deduction begins phasing out at $500,000 (for both single and married), and phases out completely at $600,000, reverting to a maximum $10,000 deduction. A taxpayer with an income of over $600,000 would lose $30,000 of the SALT deduction.

**Observations:**
These higher SALT deduction levels could allow more taxpayers (especially in high tax states) to itemize their deductions for 2025-2029, since the $40,000 limit is higher than the current standard deduction for many people. For those who qualify, timing and bunching of other itemized deductions (for years 2025-2029), like charitable contributions, could add to the tax savings, allowing more opportunity to offset taxable Roth conversions.

Contributions to retirement accounts or HSAs or doing QCDs could lower AGI for those nearing the $500,000 SALT phase-out threshold. Only IRA owners (and beneficiaries) age 70 ½ or older qualify for QCDs.

## Reduction of Itemized Deductions for Those in the 37% Tax Bracket – Effective in 2026

Those in the 37% tax bracket who may qualify to itemize (for example, by qualifying for the increased SALT deductions) will have their itemized deductions reduced by limiting the tax benefit to 35% (instead of the full 37%).

## Charitable Deductions for Non-Itemizers – Effective in 2026

Taxpayers taking the standard deduction will now be able to make deductible charitable contributions, up to $1,000 for individuals and $2,000 MFJ. Itemized deductions for charitable contributions will be reduced by 0.5% of AGI.

**Observations:**
This change may adjust the calculus in advising clients whether to take QCDs. The deduction can reduce the tax cost of Roth conversions.

## Tax Deduction for Tips - Effective for 2025-2028

Maximum deduction is $25,000. The same $25,000 limit applies to both married and single taxpayers.

Income limitations: Phases out when income exceeds $150,000 for individuals, $300,000 for MFJ.

## Tax Deduction for Overtime - Effective for 2025-2028

Maximum deduction is $12,500 for individuals / $25,000 for MFJ.

Income limitations: Phases out when income exceeds $150,000 for individuals, $300,000 for MFJ.

## Child Tax Credit – Effective 2025

Permanently increases to $2,200 per child, effective in 2025, and beyond with annual inflation increases.

Income limits remain the same at $200,000 (individuals), and $400,000 (MFJ).

## Trump Accounts

Effective July 4th, 2026, parents and others can contribute up to a total of $5,000 per year on behalf of a child. Contributions by employers and nonprofits are also permitted.

Accounts for babies born between January 1, 2025 and December 31, 2028 will be seeded with a one-time government contribution of $1,000.