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July 2025

One Big Beautiful Bill Act

The One Big Beautiful Bill Act (OBBBA) was signed into law by President Trump on July 4, 2025. This bill is massive and has many tax law changes impacting deductions, credits, and energy incentives and savings options. While it is difficult to cover every detail, below are highlights of some of the most noteworthy updates to the tax code.

In the coming months, the Internal Revenue Service will release guidelines to help clarify and interpret many of these changes. Additionally, we'll need to wait and see whether states, including New York, will adopt the new federal changes. While New York generally aligns with federal tax laws, it does have the option to decouple from certain provisions.

Standard Deduction

The higher standard deduction and the elimination of personal exemptions are made permanent.

The standard deductions for 2025 are $15,750 for single filers, $23,625 for head of household, and $31,500 for married couples filing jointly.

Deduction for Seniors

From 2025 through 2028, taxpayers 65 and older may qualify for an additional $6,000 tax deduction aimed at offsetting taxable Social Security. The full $6,000 increase is available to taxpayers with a modified adjusted gross income (MAGI) of up to $75,000 for individuals, or $150,000 for married couples filing jointly. The deduction phases out for those with income above these limits.

State and Local Tax Deduction

Starting in 2025, the new legislation temporarily raises the state and local tax (SALT) deduction cap from $10,000 to $40,000. This increased cap will apply to individual taxpayers and will begin to phase out for those with income exceeding $500,000. From 2026 through 2029, both the $40,000 cap and the income threshold will increase by 1% annually. However, the cap is scheduled to return to $10,000 in 2030.

Child Tax Credit

Beginning in 2025, the maximum Child Tax Credit will increase to $2,200 per qualifying child—an increase of $200 over the previous maximum. The credit applies to families with children under age 17 who have valid Social Security numbers. Originally increased from $1,000 to $2,000 under the 2017 Trump tax cuts, the higher credit was set to expire after 2025. However, the new legislation makes the increased amount permanent and provides for annual inflation adjustments starting in 2026. The refundable portion of the credit—known as the Additional Child Tax Credit—will also rise to $1,700 in 2025. This amount will be indexed for inflation in future years.

Estate Tax Exemption

The current estate tax exemption for 2025 is $13.99 million per person. Starting in 2026, the estate tax exemption will increase to $15 million single and $30 million married.

Tax on Tips

Starting in 2025 and lasting through 2028, the new legislation introduces a temporary federal income tax deduction of up to $25,000 per year for qualified tip income.

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One Big Beautiful Bill

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This deduction is available to workers in occupations that typically receive cash tips reported to their employer for payroll tax purposes. It does not apply to individuals with an adjusted gross income (AGI) over $150,000, or $300,000 for joint filers. For taxpayers above these thresholds, the deduction is reduced by $100 for every $1,000 of additional income.

Overtime Pay

From 2025 through 2028, the legislation introduces a temporary above-the-line tax deduction for overtime pay. The deduction allows eligible taxpayers to deduct up to $12,500 in overtime pay per year, or $25,000 for married couples filing jointly. This benefit begins to phase out for individuals with adjusted gross income over $150,000, and for joint filers earning more than $300,000.

Auto Loan Interest

From 2025 through 2028, certain taxpayers may qualify for a temporary tax deduction of up to $10,000 per year for interest paid on new auto loans. To be eligible, the vehicle must be assembled in the United States and the deduction begins to phase out for individuals with annual income over $100,000, or $200,000 for married couples filing jointly.

Trump Accounts for Child Savings

The legislation establishes a new tax-advantaged savings account known as a "Trump account," designed to help families build wealth for their children. Children who are U.S. citizens and born between 2025 and 2028 will receive a one-time $1,000 federal deposit into their Trump account.

Parents can contribute up to $5,000 per year, with funds invested in a diversified fund tracking a U.S. stock index. Employers may also contribute up to $2,500 annually to an employee's child's account and, these contributions will not count as taxable income for the family. Account earnings grow tax-deferred and qualified withdrawals are taxed at long-term capital gains rates.

Charitable Deduction for Non-Itemizers

Beginning in 2026, the legislation establishes a permanent charitable deduction for non-itemizers, allowing taxpayers to deduct up to $1,000 if filing as single, or $2,000 if married filing jointly.

Charitable Deduction for Itemizers

Starting in the 2026 tax year, individuals who itemize deductions will only be able to deduct charitable contributions that exceed 0.5% of their adjusted gross income (AGI). For example, a taxpayer with a $250,000 AGI could only deduct donations above $1,250. Additionally, the new legislation limits the tax benefit of itemized charitable deductions to 35%, even for taxpayers in the 37% marginal tax bracket.

Green Incentives

The legislation eliminates multiple clean energy tax incentives for electric vehicles, home energy improvements, and commercial energy efficiency. Specifically, it ends the $7,500 tax credit for new electric vehicles and the $4,000 credit for used EVs after September 30, 2025. It also discontinues consumer tax credits for energy-efficient home upgrades, such as rooftop solar panels, electric heat pumps, and high-efficiency windows and doors, effective December 31, 2025.

In addition, the legislation repeals business-related incentives, including the qualified commercial clean vehicle credit, the alternative fuel vehicle refueling property credit, and the Section 179D deduction for energy-efficient commercial buildings.

Bonus Depreciation

The OBBBA restored and made permanent the 100% bonus depreciation deduction for qualifying property placed into service after January 19, 2025. Bonus depreciation for January 1, 2025 to January 19, 2025 remains at 40%.

Section 199A Pass-Through Business Deduction

Another key provision in the legislation permanently extends the Section 199A deduction for pass-through businesses, covering contractors, freelancers, gig workers, and other self-employed individuals.

Originally enacted under the Tax Cuts and Jobs Act (TCJA), this deduction allows eligible pass-through entities to deduct up to 20% of qualified business income, subject to certain limitations. It was previously set to expire after 2025, but the new law makes it permanent.

Gambling Winnings

Currently, taxpayers can deduct gambling losses dollar-for-dollar against their gambling winnings, up to the amount won as an itemized deduction. Starting January 1, 2026, the tax law will change to allow deductions of only 90% of gambling losses against gambling winnings as an itemized deduction.

Credit for Private School Scholarships

The legislation allows individuals to claim a tax credit for donations made to qualifying nonprofit organizations that provide scholarships for K-12 students to attend private schools. Donors to these school voucher funds can receive a 100% credit on contributions up to $1,700, with the credit becoming available starting in 2027.

To qualify, scholarship-granting organizations must award scholarships to eligible students residing within the state. Students from families with incomes up to 300% of their area's median gross income are eligible to receive these scholarships.

Elizabeth A. Zarnoch, EA
Vice President of Tax and Business Services

Tax Department Updates – Going Digital for 2025 and Beyond

We are continuing our transition to a more digital workflow for the 2025 tax season and beyond. Over the past few years, many clients have already adopted this approach and have shared positive feedback about the process.

Using our secure portal through client access on Valicenti.com, you can easily upload your tax documents online. Once your return is prepared, it will be sent to you via DocuSign for review and electronic signature. This streamlined process offers several key benefits:

- Faster processing and delivery
- Improved accuracy and enhanced security
- Saves time and postage (no need to mail or drop off documents)

Additional advantages of going paperless include:

- Secure document sharing with our office
  - » Easily send and receive tax-related documents
  - » Conveniently exchange any additional required information
- Reduced paper waste and more efficient communication

For clients who do not yet have a portal, we will be reaching out in the coming months to help you get started. The setup is quick and easy:

1. We will create your login credentials before the end of the year.
2. You will receive an email with a link to complete your Valicenti access and portal setup.
3. Once activated, you can upload documents at your convenience.

We strongly encourage you to take advantage of this improved and secure service. If you have any questions or need assistance with setting up your portal, please contact Melissa Mickley at mickleymb@valicenti.com.

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