Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

As you are aware, the nearly 900-page One Big Beautiful Bill Act(OBBBA), which includes 250 pages of tax provisions, was signed into law on July 4th. Although there are dozens of items in this tax bill, I am going to highlight the major items that will be of interest to most of you. In addition, **I have summarized by topic with headings to allow you to skip over the sections that are not of interest to you**. Please note: **California** and many other states have **not conformed to many of these changes**. This is a good time to think about tax planning moves that will help to lower your tax bill for this year and possibly next year.

Individuals

Tax rates and standard deductions and itemized deductions:

- Reduced income tax rates were made permanent, **effective 1-1-26**: The lower tax brackets from the 2017 Tax Cuts and Jobs Act(TCJA) are now permanent. The 7 marginal rates: 10%, 12%, 22%, 24%, 32%, 35% & 37%. The income ranges for each bracket continues to be adjusted for inflation.

- The higher standard deduction (around double the pre-2017 amount) is also made permanent and adjusted for inflation. **For 2025**, the standard deduction is $15,750 for singles and $31,500 for married filing jointly.

- The **personal exemption deduction** (other than the new senior deduction discussed below) that was suspended under the TCJA is **permanently eliminated**. Although the $600, $100, and $300 exemption deduction for trust and estate income tax returns were not eliminated.

- **Itemized deduction phaseouts are reinstated beginning 2026 for taxpayers in the 37% rate bracket**. Taxpayers in this bracket are capped for the benefit of itemized deductions at 35% of deductions. For those in the 37% bracket it becomes more important to use strategies to bring you below this bracket. These strategies include maximizing contributions to pre-tax retirement accounts and HSA's, deferring income or accelerating deductions, investing in tax-exempt bond and making sure to shift allowable itemized deductions to schedule C and E when possible.

- The $750,000 **cap on qualified home mortgage debt interest has been made permanent**. In addition, beginning with 2026, **mortgage insurance premiums will again be treated as deductible mortgage interest.**

- **Educator expenses in excess of the above-the-line deduction of $300 for 2025 will be an itemized** deduction and include additional educators and supplies starting in 2026.

- The temporary suspension of deducting **miscellaneous itemized deductions** has been made **permanent**. This means you will not be able to deduct unreimbursed employee business expenses

Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

which makes it more important than ever to discuss having an accountable reimbursement plan with your employer, and to negotiate with your employer to pay for your professional licenses, dues and work tools.

- **The unified estate and gift tax exclusion was made permanent and increased to $15 million** per person effective 2026. This figure will be inflation-adjusted annually.

- There is now a **1% excise tax(on foreign transfers**) on remittance transfers from U.S. senders to recipients outside the U.S. with certain exemptions. This applies to transfers made after 12-31-25.

Other Individual items Effective 2026:

- **Alternative Minimum Tax (AMT) exemption** was permanently increased starting in 2026 to $500K and $1 million for joint filers.

- **Charitable contribution deduction is modified for** the following changes: **non-itemizers can permanently deduct up to $1,000 ($2,000 for married filing jointly)** for cash contributions to qualifying charities . The substantiation of charitable contributions remains the same. If you deduct $250 or more to one charity you must have a written acknowledgment from the charity. The written acknowledgement, among other information to include, must include a statement that no goods or services were received in connection with the donation.

- **The 60% of adjusted gross income(AGI) limit for cash gifts to public charities** is permanently extended.

- **The charitable contribution deduction** for individuals who itemize(vs standard deduction) is only available if all the taxpayer's contributions **in aggregate exceed .5% of your AGI** computed without regard to the charitable deduction. For example, if your 2026 AGI is $100,000 and you make qualified charitable contributions of $4,000, you would only be able to currently deduct $3,500 of your charitable contributions. ($4,000- ($100,000 x.5%)). Unused deductions are carried forward 5-years to use in a subsequent year.

Two strategies to minimize the impact of the .5% floor on charitable deductions:

1. Make larger contributions in 2025 to avoid the floor effective 2026 and
2. If you are over 70.5 years old, make your qualified charitable distribution directly from your IRA to the charity. The 2025 annual limit is $108,000 per individual.

State and Local Tax (SALT) Deduction

The current $10,000 limit on the SALT deduction is temporarily raised to $40,000, starting in 2025. The $40,000 cap will be adjusted for inflation, with a 1% increase each year through 2029. It reverts back to

Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

$10,000 beginning in 2030. The benefit of the higher SALT deduction phases out for taxpayers with a modified adjusted gross income exceeding $500,000, adjusted annually for inflation. The cap reduces gradually for those earning above this threshold, but not below $10,000.

Deduction for Seniors

Although there was **no change to the way Social Security benefits are taxed**, a temporary senior deduction of $6,000 per individual for aged 65 and older is available from 2025 to 2028. Note: this deduction amount phases out when your modified adjusted gross income exceeds $75K for single filers and $150K for married filing jointly.

Gambling loss deductions limited to 90% beginning 2026. The previous rule allowed you to deduct your gambling losses to the extent of your gambling winnings, however under this new rule, you will only be able to deduct 90% of your losses against your gambling winnings essentially paying tax on 10% of your gross winnings.

Green Energy Credits are going away.

The new tax bill significantly cuts back and ends many green energy income tax credits that were expanded under the previous tax bill. In addition, this bill blocks future extensions of green energy credits without legislation approval, so Congress will have to pass a new law to revive incentives later.

- **Energy Efficient home improvement credit** such as for heat pumps, windows, and insulation **ends 12/31/25.**

- **Residential Clean Energy credit** for renewable electricity production such as by wind and **solar** as well as the **credits** for energy storage systems **ends 12/31/25.**

- The deduction for **energy efficient commercial buildings ends** for construction beginning after 6/30/26.

- **Energy efficient manufactured homes** tax credit **ends** 6/30/26.

- **Investment tax credit and production tax credit** for clean electricity for investors in the development of qualified energy properties ends 12/31/26, unless construction began before 7/4/26.

- The Clean **Vehicle Credit** (EV tax credit) for **new and used** plug-in electric vehicles and for **commercial clean vehicles end on 9/30/25.** Alternative fuel vehicle refueling property credit ends June 30, 2026.

Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

Family and Child tax benefits

- The **child tax credit** is made permanent and retains the favorable income thresholds and refundability rule. The "other" dependent tax credit is also made permanent.

- The nonrefundable child tax credit increases to $2,200 for 2025 and starting in 2026, both the nonrefundable and refundable credits will be indexed for inflation.

- Beginning with the 2026 tax year, the **Child and dependent care credit** is increased from a maximum of 35% of eligible costs to 50% of eligible costs. The phasedown of the credit to 20% for those with AGI over $75K ($150K MFJ) still applies. **The employer exclusion assistance from taxable wages for dependent care is increased from $5,000 to $7,500 beginning with 2026.**

- **New "Trump Accounts", a new type of tax deferred investment account for children** who are U.S. citizens. Under a pilot program, parents can make an election for children born 2025-2028, to have $1,000 treated as a tax payment made for the taxable year and will automatically receive a federal contribution and after July 4, 2026, parents and others can make an after-tax contribution of up to $5,000(adjusted annually for inflation beginning 2028) per year. Contributions are allowed until the child turns 18. Distributions are prohibited before the child turns 18, with some exceptions. Be aware there are rules that apply for types of investments that can be held in these accounts. These accounts are offered to incentivize savings, and the main benefit is in the form of the $1,000 initial deposit coming from the federal government.

- **529 saving plans for higher education expenses have been expanded.** Beginning 2026, the $10,000 limit for tax free withdrawals for primary and secondary school expenses increased to $20,000. In addition, a tax-free distribution from the 529 accounts is allowed to cover expenses of postsecondary credentialing expenses for distributions made after 7/4/25.

- **Scholarship contribution credit and income exclusion**. Beginning in 2027, there is a new tax credit of up to $1,700 for cash contributions to qualifying scholarship-granting organizations that provide scholarships for children to attend public, private, or religious schools in the organization's state. The contribution cannot be deducted as a charitable deduction and the scholarship amounts are not income to the recipient if used for qualified K-12 educational expenses.

- **Premium Tax Credit(PTC(modified** (think: Covered California/Obamacare). The previous enhancements for PTC expire after 2025. This means the federal government will not be funding the 90% of the cost of PTE as it has in the past, and thus the individual states will be funding most of the cost of PTE and you may see an increase in your portion of premiums paid. In addition, the cap on repaying excess advance credits has been removed. Beginning in 2028, pre-enrollment verification of income, immigration, and other factors is required, income changes alone no longer qualify someone for a special enrollment period.

Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

New temporary deductions and employment provisions.

- For years 2025 through 2029 there is a **deduction of up to $25,000 for qualified tips** received in traditionally tipped occupations that are reported to the IRS on a form W2 or 1099. This deduction phases out for modified AGI of $150k ($300K Married filing joint).

- **Self- employed can deduct tips only if business income exceeds expenses.**

- There is a temporary **deduction for overtime pay up to $12,500** ($25K married filing joint). This deduction phases out with AGI of $150k ($300K for married filing joint). Overtime pay must be properly reported on form W2 or 1099. Specifically, this is for overtime pay that exceeds an employee's regular rate of pay.

These are deductions that reduce taxable income, but do not affect withholding for federal income taxes or social security and Medicare taxes, which will still apply. Workers will receive the benefit when filing their tax returns.

- There is a temporary **deduction of up to $10,000 for interest paid on loans to purchase new personal-use vehicles** for U.S. assembled vehicles secured by the loan. This deduction phases out with modified AGI above $100K ($200K married filing joint).

Exclusions from gross income.

- Qualified small business stock exclusion is available to noncorporate taxpayers. **Taxpayers could exclude up to 100% of the gain on the sale of certain small business stock.**
- The **exclusion for student loan forgiveness** cancellation of debt(COD) income **was not extended**. However, the bill did keep the exclusion for COD income due to the student's death or disability.

Business deductions.

Qualified Business Income (QBI) Deduction

- The QBI deduction is made permanent, rather than allowing it to expire at the end of 2025 as initially scheduled.
- The bill retains the 20% deduction rate, not increasing it as initially proposed in some versions.

Cynthia A. Wilkinson, CPA
2010 Crow Canyon Place, Suite 100
San Ramon, CA 94583
(925) 277-3424, Fax (925) 820-7814
cynthia@cpacyndi.com, www.cpacyndi.com

- The income thresholds at which the deduction begins to phase out for certain businesses (Specified Service Trades or Businesses, or SSTBs) are increased.
- An inflation-adjusted minimum deduction of $400 for taxpayers with at least $1,000 of QBI from one or more active trades or businesses in which they materially participate is allowed even if the actual calculation is lower.

Bonus Depreciation and Expensing

- 100% bonus depreciation is made permanent, replacing the phased-down 40% for property placed in service after January 19, 2025. And the bill created a new class of 100% bonus-eligible property for nonresidential real property in the U.S. used in manufacturing, agricultural or chemical production or certain refining operations. Used equipment may also qualify under limited conditions.

- The Section 179 first year deduction for business property purchases limit is increased and permanently indexed for inflation. For 2025, the limit is $2.5 million, with a phase-out starting at $4 million of total qualifying purchases.

Research and Development Credit

- The **research & development tax credit** is expanded and rules that previously required spreading out R&D costs over five years are repealed.

- **Deduction for business meals for** de minimis **employee meals,** and meals provided for the convenience of the employer, are **eliminated beginning in 2026.**

- **Form 1099-K reporting** restores the threshold to $20,000 and more than 200 transactions.

- **Form 1099-NEC and 1099-MISC filing thresholds increase to $2,000** from $600 effective for year 2025 and this amount adjusts annually for inflation.

- **No claim for credit or refunds allowed for employee retention credit(ERC)** filed after Jan. 31, 2024, if related to wages paid after June 30, 2021.

- Permanently **extends the Qualified Opportunity Zone programs** and updates the tax benefits for investments made after 2026.