

One Big Beautiful Bill Act Changes for 2025

The One Big Beautiful Bill Act (OBBBA) became law on July 4, 2025. It contains numerous changes in federal tax law, some of which are effective for 2025. Although neither the *Annual Federal Tax Refresher* (AFTR) course text nor final exam reflects those changes, it is important that tax preparers have up-to-date information with which to prepare clients' federal income tax returns. The following information addresses those 2025 changes more likely to be of importance to preparers and includes:

- New standard deduction amounts;
- New maximum state and local tax (SALT) deduction;
- New senior deduction;
- Increased Child Tax Credit;
- Refundable part of Adoption Tax Credit added;
- New tax deduction for tip income;
- New tax deduction for overtime pay;
- New car loan interest deduction;
- Additional elementary and secondary expenses qualify for tax-free §529 distributions;
- Elimination of certain clean energy incentives; and
- Repeal of the revision to de minimis rules for third-party network transactions.

Standard Deduction Made Permanent

OBBBA, §70102 makes permanent the standard deduction that was increased under the Tax Cuts & Jobs Act of 2017 and scheduled to end for tax years after 2025. In addition to making the standard deduction permanent, the new law increases the 2025 standard deduction to:

- \$31,500 for married taxpayers filing jointly and surviving spouses;
- \$23,625 for taxpayers filing as head of household; and
- \$15,750 for taxpayers filing as –
 - Single, or
 - Married filing separately

The increase in the standard deduction is retroactive to 2025 and is adjusted for inflation in years after 2025.

Deduction for State & Local Taxes (SALT Deduction)

OBBBA, §70120 temporarily increases the deduction for state and local taxes—frequently referred to as the “SALT deduction”—from \$10,000 to \$40,000 in 2025. The limit increases to \$40,400 in 2026. For calendar years after 2026 and before 2030, the limitation is equal to 101% of the dollar amount in effect in the preceding calendar year. The SALT limitation for 2030 and later reverts to its current \$10,000.

Reduction of Limitation Based on Income

The SALT limitation is reduced for taxpayers with incomes in excess of \$500,000 (\$250,000 in the case of a married taxpayer filing a separate return), adjusted by 1% annually. The reduction in the SALT limitation is 30% of the amount by which the applicable MAGI exceeds the threshold. The SALT limitation, reduced by the amount of a taxpayer's MAGI exceeding the applicable threshold, will never be less than \$10,000.

Most Personal Exemptions Permanently Eliminated, Senior Exemption Authorized

OBBBA, §70103 permanently eliminates the deduction for personal exemptions—exemptions that were temporarily eliminated under the Tax Cuts and Jobs Act of 2017—but authorizes a temporary senior deduction in calendar years 2025 through 2028.

The temporary deduction for seniors is equal to \$6,000 for each qualified individual. A qualified individual is defined as an individual who has attained age 65 before the close of the taxable year. The deduction for qualified individuals is reduced, but not below zero, by 6% of the taxpayer's modified adjusted gross income (MAGI) exceeding \$75,000 (\$150,000 in the case of a joint return).

Child Tax Credit

OBBBA, §70104 increases the amount of the nonrefundable child tax credit to \$2,200 per child beginning in 2025 and makes the refundable part of the child tax credit (ACTC) permanent. Both are adjusted for inflation. When being adjusted for inflation, any increase that is not a multiple of \$100 must be rounded to the next lower multiple of \$100. For example, an adjustment of \$175 as a result of indexing would be rounded to \$100.

In addition, both the income phaseout threshold amounts of \$200,000 (\$400,000 in the case of a joint return) and the \$500 nonrefundable credit (ODC) are made permanent.

Part of Adoption Tax Benefit Refundable

The adoption credit is a nonrefundable tax credit designed to offset qualified adoption expenses for eligible taxpayers adopting an eligible child or children. The adoption assistance program enables a taxpayer to exclude from income limited amounts:

- Paid by the taxpayer to adopt an eligible child; or
- Paid for the taxpayer by an employer to offset qualified adoption expenses under a qualified adoption assistance program.

The limit on incurred qualified adoption expenses is \$17,280 (2025) and is annually indexed for inflation.

OBBBA, §70402 changes the benefit by providing that up to \$5,000 of the adoption credit is refundable, meaning that a taxpayer may receive an adoption tax credit of up to \$5,000 despite his or her income tax liability.

Tax on Tips

OBBBA, §70201 provides for a tax deduction for qualified tips to taxpayers who itemize deductions and to taxpayers who are non-itemizers. The maximum amount of the tax deduction is \$25,000 but is reduced by \$100 for each \$1,000 that the taxpayers' MAGI exceeds \$150,000 (\$300,000 in the case of a joint return).

Tax on Overtime

OBBA, §70202 provides for a deduction beginning in 2025 and extending through 2028 for qualified overtime compensation¹. The deduction is available to itemizing taxpayers and non-itemizing taxpayers and is limited to no more than \$12,500 (\$25,000 in the case of a joint account). The deduction is reduced, but not below zero, by \$100 for each \$1,000 by which the taxpayer's MAGI exceeds \$150,000 (\$300,000 in the case of a joint return).

Car Loan Interest Deduction

OBBA, §70203 provides for a temporary, deduction of qualified passenger vehicle loan interest² not exceeding \$10,000—including interest on refinancing to the extent of the financed indebtedness—beginning in 2025 and continuing through 2028. The deduction is available to taxpayers who itemize deductions as well as those who are non-itemizers. The car loan interest deduction is reduced by \$200 for each \$1,000 (or portion) by which the taxpayer's MAGI exceeds \$100,000 (\$200,000 in the case of married taxpayers filing jointly).

New §529 Elementary and Secondary School Expenses

Qualified tuition programs under §529 include a prepaid tuition plan and a college savings plan. Under the college savings plan, a contributor may make contributions to the plan that are considered nonqualified gifts to the designated beneficiary. Those gifts are then invested, and both the contributions and earnings on the contributions may be accessed tax-free to pay qualified higher education expenses at an eligible educational institution. When initially authorized, an eligible educational institution was limited to colleges, universities, vocational schools, and other post-secondary educational institutions.

The Tax Cuts and Jobs Act of 2017 broadened the definition of eligible educational institution under a §529 College Savings Plan to include both elementary and secondary schools and limited the annual distribution for elementary and secondary schools to \$10,000 solely for tuition. OBBA, §70413 provides for an expanded definition of qualified higher education expenses when applied to elementary and secondary schools effective July 5, 2025 to include:

- Tuition;
- Curriculum and curricular materials;
- Books and other instructional materials;
- Online educational materials;
- Tuition for tutoring or educational classes outside of the home, including at a tutoring facility, but only if the tutor or instructor is not related to the student and—
 - is licensed as a teacher in any State,
 - has taught at an eligible educational institution, or

¹ "Qualified overtime compensation," for purposes of the deduction, means compensation paid to an individual under section 7 of the Fair Labor Standards Act of 1938 that requires employers to pay nonexempt employees at a rate at least one and one-half times their regular rate for all hours worked over 40 in a workweek. It does not include any qualified tip income.

² "Qualified passenger vehicle loan interest" means the interest paid or accrued during the tax year on indebtedness incurred by the taxpayer for the purchase of a passenger vehicle for personal use. However, interest incurred on indebtedness owed to a person related to the taxpayer is not considered qualified passenger vehicle loan interest.

- is a subject matter expert in the relevant subject;
- Fees for a nationally standardized norm-referenced achievement test, an advanced placement examination, or any examinations related to college or university admission;
- Fees for dual enrollment in an institution of higher education; and
- Educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies.

Clean Energy Incentives – Non-Commercial

OBCCA, §70502 eliminates the tax credit of up to \$7,500 authorized under the Inflation Reduction Act for the purchase of new clean vehicles purchased after September 30, 2025. Similarly, §70501 eliminates the tax credit of up to \$4,000 authorized under the Inflation Reduction Act for the purchase of previously-owned clean vehicles purchased after September 30, 2025.

Payment Card and Third-Party Transaction Reporting Requirements

Prior to passage of the American Rescue Plan Act of 2021 (ARPA), a payment settlement entity (PSE) that was a third-party settlement organization was required to furnish Form 1099-K, *Payment Card and Third Party Network Transactions* to participating payees when amounts exceeded a *de minimis* exemption, i.e., to participating payees who had:

- Sales totaling more than \$20,000 in aggregate payments, and
- More than 200 sale transactions.

ARPA changed those requirements for years after December 31, 2021, to require reporting and furnishing of Form 1099-K by TPOs to participating payees when amounts exceeded \$600. Since that time, their full implementation has been repeatedly deferred.

The One Big Beautiful Bill Act (OBCCA), §70432, repeals the revision to the rules for third-party network transactions as if the repeal had been included in the American Rescue Plan Act of 2021. Accordingly, third-party settlement organizations are required to furnish Form 1099-K, *Payment Card and Third Party Network Transactions* to participating payees when amounts exceed a *de minimis* exemption, i.e., to participating payees who had:

- Sales totaling more than \$20,000 in aggregate payments, and
- More than 200 sale transactions.

Regardless of whether or not the taxpayer received a 1099-K, a taxpayer who receives payments for services or for selling goods at a gain must report all income on his or her tax return.