

2025 Tax Update

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The One Big, Beautiful Bill Act (OBBBA)

- Signed into law by President Trump on July 4, 2025
- Cornerstone of OBBBA was the permanent extension of provisions from the Tax Cuts and Jobs Act (TCJA) of 2017 that were set to expire at the end of 2025
- OBBBA also contained some interesting new items

Tax Rates & Standard Deduction

- Tax rates and brackets (which are lower than pre-TCJA)
- Higher Standard deduction (but adds an additional bump) for 2025

Standard deduction amounts

Filing type	2025 pre-OBBBA	New 2025 OBBBA base amount
MFJ & Surviving Spouse	\$30,000	\$31,500
HoH	\$22,500	\$23,625
Single & MFS	\$15,000	\$15,750
Additional standard deduction for taxpayers age 65+ and/or blind still apply.		

New Personal Exemption Deduction for Seniors

- Taxpayers age 65+ are eligible for a new personal exemption deduction (in addition to either standard or itemized deductions) of \$6,000
- Married taxpayers can each claim the \$6,000 deduction if they are both age 65+
 - Deduction starts to phase out when the taxpayer's adjusted gross income exceeds \$75,000 (\$150,000 for married taxpayer's filing jointly)

SALT Deduction

- OBBBA makes \$10,000 base SALT deduction permanent and temporarily increases the deduction to \$40,000 for tax years 2025 through 2029
 - Amount over \$10,000 is phased out once adjusted gross income exceeds \$500,000
 - These amounts are all cut in half for married taxpayer's filing separately

Charitable Contributions

- New charitable contribution deduction for non-itemizers for cash contributions starting in 2026
 - Limited to \$1,000 (\$2,000 for married taxpayers filing jointly)
- New 0.5% of AGI floor for charitable itemized deductions beginning in 2026
- New tax credit (not a deduction) for donations to certain scholarship organizations, starting in 2027

Home Mortgage Interest Deduction

- OBBBA permanently:
 - Limits interest to the first \$750,000 of acquisition debt;
 - Eliminates interest on equity debt
 - Brings back deduction for mortgage insurance premiums

Gambling losses

- OBBBA limits the deduction for gambling losses to 90%
 - Taxpayers can still only deduct gambling losses to the extent of winnings, but only 90% of losses can be counted
 - This provision starts with the 2026 taxable year

New Itemized Deduction Phaseout for High Earners

- OBBBA reintroduces the overall limitation on itemized deductions for high earners, starting in 2026, but uses a new formula
- Itemized deductions are reduced by $\frac{2}{37}$ of the lesser of:
 - The taxpayer's total itemized deductions; or
 - The taxpayer's taxable income (increased by the amount of itemized deductions without this reduction) as exceeds the dollar amount at which the 37% rate bracket begins

Qualified Business Income Deduction - §199A

- OBBBA makes the 20% deduction permanent and increases the phaseout range (thus making the deduction phaseout slower for higher earners)
 - The original House version of OBBBA increased the deduction to 23% - we may see this higher deduction amount re-introduced in future tax legislation
- OBBBA creates a new minimum §199A deduction of \$400 for small business owners who have at least \$1,000 of qualified business income

New Below-the-Line Deductions for Non-Itemizers

- OBBBA creates three new deductions born from President Trump's campaign promises that are treated as “below-the-line” but are not itemized deduction:
 - Deduction for qualified tips
 - Deduction for qualified overtime
 - Deduction for qualified car loan interest
- All three new deductions are available for 2028 through 2028 taxable years only

Deduction for Qualified Tips

- Maximum deduction = \$25,000
- Tips must be reported on W-2 or 1099
- Tips must be voluntary and in an amount determined by the customer (mandatory service charges don't count)
- Deduction is phased out for taxpayers with income over \$150k (\$300k for married taxpayers filing jointly)
- Must have SSN
- Married taxpayers must file jointly

Deduction for Qualified Overtime

- Maximum deduction = \$12,500 (\$25,000 for married taxpayers filing jointly, even if only one spouse receives overtime)
- Overtime must be reported on W-2
- Only premium portion of overtime qualified
- Overtime is defined by federal law (not state law)
- Deduction is phased out for taxpayers with income over \$150k (\$300k for married taxpayers filing jointly)
- Must have SSN
- Married taxpayers must file jointly

Deduction for Qualified Car Loan Interest

- Maximum deduction = \$10,000
- Deduction if phased out for taxpayers with income over \$100k (\$200K for MFJ)
- Vehicle must be purchased after 12/31/2024 and loan must be secured by the vehicle
- Vehicle must be assembled in the United States (use window sticker to determine final assembly point)
- New lender reporting requirement

Miscellaneous Tax Cuts and Jobs Act Provisions Extended Permanently

- Elimination of 2% miscellaneous itemized deductions
- Limiting personal casualty losses only to Presidentially-declared disasters (with some modifications for Governor-declared disasters)
- Excess business loss limitations
- Elimination of moving expense deduction except for active duty military (with minor expansion for members of the intelligence community)

Trump Accounts

- New IRA-like accounts for minors (tax deferred growth)
- Contributions are generally not deductible
- No earned income requirement
- \$5,000 annual contribution limit
- Pilot program allows parents to apply for \$1,000 government seed money for children born after 2025
- Employers can make contributions up to \$2,500 as a tax free employee benefit (for the employee's children)

Trump Accounts (cont.)

- No distributions before age 18
- Distributions are taxable, except that nondeductible contributions that provide basis are not taxable when distributed
- Compare Trump Accounts vs. 529 College Savings Accounts vs. UTMA investment accounts
 - Each has their pros and cons

Trump Accounts (cont.)

- Will be a great option for parents and grandparents to get started on investing early
- Earnings will avoid kiddie tax rules
- Imagine \$5,000 contribution every year from age 0 to age 10. With no other contributions and consistent 8% rate of return, that initial \$50,000 investment over the first 10 years of life will grow to nearly \$6 million by age 65
 - These accounts will turn out to be one of the very best ways to help generate long-term wealth for children and grandchildren

§529 College Savings Accounts

- OBBBA expanded the amount and type of K-12 expenses that can be paid for with §529 funds
 - Planning pointer: Don't do it. College savings work best when money has time to grow.

Early Termination of Energy Credits

- All three clean vehicle credits are terminated for vehicles acquired after September 30, 2025
 - Must at least sign a binding written contract to purchase the vehicle and make a payment by September 30, 2025
- Home energy credits under §§25C and 25D are terminated after December 31, 2025
 - These are the credits for energy efficient windows, doors, A/C units, solar, home batteries, and more
 - Projects must be completed by December 31, 2025

Thank you

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