

FOSTER & SCHMALKUCHE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
2135 ROUTE 44-55
P.O. BOX 300
GARDINER, NEW YORK 12525

(845)255-1813

FAX (845) 255-4507

www.fandscpa.com

FREDERICK W. SCHMALKUCHE, CPA/PFS, CFP®
PATRICIA A. PHILIPP, CPA/ABV/CFF, CVA

MILDRED M. CIARLANTO, CPA/PFS
SONIA H. SMITH, CPA
BRETT M. BOLAND JR., CPA

HOWARD FOSTER, RETIRED

MEMBER:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Dear Client,

We are writing to inform you of significant developments in federal tax legislation. On July 4, 2025, President Trump signed into law the One Big, Beautiful Bill Act (OBBBA), a reconciliation package that includes a broad array of tax provisions affecting individuals, businesses and international taxpayers. The provisions in the new law go into effect on various dates, but most of the key ones affecting individuals apply to the current tax year.

We're writing to give you a brief rundown of what's in the new law and how it might affect you. We will continue to closely monitor any potential regulatory guidance as it's developed by the IRS. See our website for the most up to date information available.

OVERVIEW OF OBBBA TAX CHANGES AFFECTING INDIVIDUALS

The following is a brief overview of OBBBA's key changes affecting individuals.

Tax Rates and Brackets. OBBBA makes permanent the current tax rates, which had been set to revert to higher rates at the end of 2025. Tax brackets will continue to be indexed for inflation.

Personal Exemptions and Standard Deduction. TCJA repealed the personal exemption deductions, but nearly doubled the standard deduction amounts for taxpayers who do not itemize their deductions. OBBBA makes these changes permanent and increases the standard deduction for the 2025 to \$15,750 for single filers, \$23,625 for heads of household, and \$31,500 for married filing jointly. These amounts will be indexed for inflation in future years.

Deduction for State and Local Taxes (SALT). For taxpayers who itemize, TCJA capped the deduction for state and local taxes at \$10,000. OBBBA provides relief by increasing the cap to \$40,000 for 2025. The amount is increased to \$40,400 for 2026 and then indexed for inflation annually before reverting to the current \$10,000 limit in 2030. The enhanced cap is phased out for taxpayers with modified adjusted gross income over \$500,000.

New Deduction for Tip Income (No Tax on Tips). OBBBA creates a new deduction of up to \$25,000 for qualified tips received by an individual in an occupation which customarily and regularly receives tips during a given tax year. The deduction is allowed for both employees and independent contractors. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

New Deduction for Overtime Pay (No Tax on Overtime). OBBBA creates a new deduction for up to \$12,500 (\$25,000 in the case of a joint return) for "qualified overtime compensation" (defined as overtime compensation paid to an individual under Section 7 of the Fair Labor Standards Act). The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

New Senior Deduction (No Tax on Social Security). OBBBA adds a deduction for all individuals who have reached age 65 before the end of the tax year. The deduction amount is \$6,000 per individual. The senior deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$75,000 (\$150,000 in the case of a joint return). The deduction, which is allowed for the 2025-2028 tax years, is available regardless of whether you itemize or take the standard deduction.

New Deduction for Car Loan Interest. OBBBA creates a new deduction of up to \$10,000 for interest paid on debt incurred after December 31, 2024, for the purchase of a qualifying new vehicle assembled in the U.S. and secured by the vehicle. The deduction is allowed for tax years 2025 through 2028 and begins to phase out when the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of a joint return). The deduction is available regardless of whether you itemize or take the standard deduction.

Trump Accounts. OBBBA creates Trump accounts, a new type of tax-advantaged savings account administered by banks and other financial institutions. Starting in 2026, parents of any child under age 18 may open a Trump account for their child. Aggregate contributions are limited to \$5,000 annually, but the limit does not apply to contributions from tax-exempt entities such as private foundations. Beginning at age 18, account holders may begin accessing funds for a limited set of purposes, including higher education. Under a pilot program, for U.S. citizens born between January 1, 2024, and December 31, 2028, the federal government will contribute \$1,000 per child into every eligible account.

Enhancements to 529 Plans. Beginning in 2026, OBBBA increases the annual limit on K-12 education distributions from 529 savings plans from \$10,000 to \$20,000. Beginning on July 5, 2025, it allows distributions to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary public, private, or religious school, including: curriculum and curricular materials; books or other instructional materials; online educational materials; tutoring or educational classes outside the home; certain testing fees; fees for dual enrollment in an institution of higher education; and certain educational therapies for students with disabilities.

Charitable Contribution Deduction. Beginning in 2026, OBBBA provides a charitable contribution deduction for non-itemizers of up to \$1,000 in cash contributions for single filers (\$2,000 for married filing jointly). For individuals who elect to itemize, OBBBA imposes a new 0.5-percent adjusted gross income floor on charitable contributions (i.e., it reduces any deduction by 0.5-percent of adjusted gross income). There will also be a tax credit available for contributions to scholarship granting organizations.

Child Tax Credit. OBBBA permanently increases the child tax credit to \$2,200 per child beginning in 2025 and indexes it for inflation.

Adoption Credit. OBBBA makes the adoption tax credit partially refundable up to \$5,000 (indexed for inflation) beginning in 2025.

Deduction for Mortgage Insurance Premiums. Beginning in 2026, OBBBA permanently restores the deduction for mortgage insurance premiums (previously available from 2018 through 2021) by treating such premiums as interest on acquisition indebtedness. As before, the deduction is phased out for taxpayers with adjusted gross income above \$100,000 (\$50,000 for married filing separately).

New Limit on Gambling Losses. Under current law, deductions for gambling losses are limited to gambling winnings. Beginning in 2026, OBBBA limits the deduction for gambling losses to 90 percent of the amount of such losses. Any deduction remains limited to the amount of gambling winnings.

Termination of Clean Energy Credits. OBBBA terminates the new clean vehicle credit and the previously owned clean vehicle credit for vehicles acquired after September 30, 2025. It also terminates the energy efficient home improvement credit and residential clean energy credit at year's end. Beginning with tax year 2026 there will be no tax credits available for energy improvements to your home.

Estate and Gift Tax Exemption. The increased exemption is made permanent and raised to \$15 million per individual (\$30 million for married couples) in 2026, indexed for inflation.

As you can see, the tax provisions in the OBBBA are extensive and quite complicated.

Please contact us if you have any specific questions on how these changes will impact your tax situation, and what kind of strategies we can adopt to ensure that you get the best possible outcomes under the new rules.

Sincerely,

Foster & Schmalkuche, PC