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Five key tax changes in the One Big Beautiful Bill Act

15 July 2025, 10:21 UTC, written by UBS Editorial Team

The *One Big Beautiful Bill Act* was signed into law on July 4, 2025. It contains trillions of dollars of tax cuts. Which provisions will have the biggest impact, and what actions should be considered?

According to an analysis by the non-partisan Tax Policy Center, the new tax law will result in a tax cut for about 85% of households, with an average tax savings of $2,860 per household starting in 2026. However, some provisions are set to expire in 2030, at which point the average tax savings will fall to about $2,060 per household.

Here are five significant changes from the new tax law.

Note: Many details of the new tax law remain unclear. This article represents our best understanding at the time of writing. Review tax- or investment-related decisions with your financial advisor and your tax advisor before making any changes.

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#1: Extension and expansion of tax cuts

The 2017 Tax Cuts and Jobs Act (TCJA) made sweeping changes to personal income taxes that were set to expire at the end of 2025—for example, lower tax brackets, higher standard deductions, expanded child tax credits, an income tax deduction for small pass-through businesses, a cap on State and Local Tax (SALT) deductions, and a higher gift and estate tax exemption.

The new tax law extends many provisions, with some becoming permanent. For example:

- **Marginal income tax rates**: Permanent extension of the income tax brackets set under the 2017 TCJA: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The income thresholds for each tax bracket will continue to be adjusted for inflation. The new tax bill also applies an additional year of inflation adjustments to the 10%, 12%, and 22% tax brackets, which will further reduce families' effective income tax burdens.

- **Standard deduction**: Permanent increase from $15,000 (single filer)/$30,000 (married filing jointly (MFJ)) to $15,750 (single)/$31,500 (MFJ) starting in tax year 2025. These amounts will be adjusted for inflation for tax year 2026 and thereafter.

- **65-plus-year-old "bonus" deduction:** Prior to the new tax law, individuals aged 65 or older are entitled to a deduction. The new tax law temporarily increases this deduction from $2,000 (unmarried/not surviving spouse)/$1,600 per married person to $6,000 per person. This increased deduction is available for those itemizing deductions and those claiming the standard deduction, as long as they have a Social Security Number. The deduction is subject to a phase-out to the extent that modified adjusted gross income (MAGI) exceeds $75,000 (single)/$150,000 (MFJ) The senior deduction is effective for tax years 2025 through 2028.

- **Repeal of personal exemptions:** Prior to 2018, taxpayers could deduct a personal exemption for themselves and their dependents in addition to the standard deduction. The 2017 TCJA temporarily eliminated these deductions, and a host of others. The new tax bill permanently eliminates personal exemptions (other than the deduction for those 65 years or older, noted above, which is only temporary).

- **State and local income tax (SALT) deduction cap:** Temporary increase in the amount of state and local income and property taxes that families may deduct for federal income tax purposes for tax years 2025 through 2029. The so-called "SALT cap" is increased from $10,000 (single or MFJ)/$5,000 (married filing separately [MFS]) to $40,000 (single or MFJ)/$20,000 (MFS). The increased SALT deduction cap is subject to a phase-out for those with MAGI exceeding $500,000 (single or MFJ)/$250,000 (MFS). The deduction cap and income phase-out levels will increase by 1% each year for tax years 2026 through2029, and then the cap will revert to $10,000 beginning in tax year 2030.

- **Child tax credit:** Permanent increase to the tax credits for families with children under age 17 with certain modifications. The child tax credit is increased from $2,000 to $2,200 per child. Moreover, the additional child tax credit (ACTC)—the refundable portion of the child tax credit—is permanently increased to $1,400. Both credits will be adjusted for inflation for tax years after 2025. Because the ACTC portion of the tax credit is refundable, eligible taxpayers can receive a refund even if their tax liability is below the full tax credit amount. To qualify for the ACTC, individuals must have earned income of at least $2,500, and the child and at least one parent must have a Social Security number. These credits are phased out for those with modified adjusted gross income of more than $200,000 (single)/$400,000 (MFJ)—levels that will not be indexed for inflation.

- **Gift and estate tax exemption:** Permanently increased the lifetime amount of wealth that someone can give or bequest to others without triggering federal gift and estate taxes. The lifetime exemption is increased from $13.99 million (single)/$27.98 million (MFJ) to $15 million (single)/$30 million (MFJ) starting in tax year 2026 and will be indexed for inflation for transfers in tax year 2027 and thereafter. This increase also affects the Generation Skipping Transfer (GST) tax, which applies to certain gifts and transfers to those who are two or more generations (or a certain number of years, in the case of unrelated individuals) younger than the donor.

- **Section 199A deduction:** This provision allows households with income from pass-through businesses, such as sole proprietorship, partnerships, and S corporations, to exclude up to 20% of their pass-through business income (plus 20% of qualified real estate investment trust dividends) and qualified publicly traded partnership income) from federal income tax. First introduced in the 2017 TCJA, this new tax law makes the deduction permanent. The new tax law also creates a new minimum deduction of $400 for those with at least $1,000 in qualified business income and who otherwise qualify, even if the 20% calculation would give a smaller deduction.

- **529 College Savings plans:** Increases the amount that families can withdraw for elementary or secondary education (K-12), such as tuition and books, from $10,000 per year to $20,000 per year. The law also expands the definition of "qualified higher education expenses" to include new items such as standardized testing fees, books, online resources, tutoring, educational therapies for students with disabilities, tuition and materials for certificate programs, trade schools, and other credentialing programs recognized under federal law. The expanded definition of qualified higher education expenses is effective as of 4 July 2025, while the increased amount is effective beginning in the 2026 tax year.

#2: Taxes on tips and overtime

For tax years 2025 through 2028, qualified tip income (for eligible occupations as determined by the Treasury Department) is eligible for a $25,000 deduction (regardless of filing status), phased out for incomes above $150,000 (single)/$300,000 (MFJ).

During the same period, taxpayers may deduct up to $12,500 (single)/$25,000 (MFJ) of qualified overtime compensation, phased out at the same income thresholds.

#3: Car loan interest deduction

The new tax law will allow a new deduction of interest payment by individuals relating to the purchase of a qualified passenger vehicle for tax years 2025 to 2028. This deduction is limited to $10,000, is only allowed for loans taken out from 2025 to 2028, and only applies to new cars assembled in the United States. The $10,000 cap is subject to a phase out for those with adjusted gross income (AGI) over $100,000 (single)/$200,000 (MFJ). The deduction is not available for leased vehicles or those used for commercial purposes.

#4: Trump Accounts

Trump Accounts are a new type of tax-advantaged account available for the benefit of any US citizen child. **Contributions to Trump Accounts may only be made after 4 July 2026.**

Each eligible child born from 2025 to 2028 will automatically receive a one-time $1,000 credit to their Trump Account when a parent files a tax return listing the child.

Parents, family, and friends may contribute up to $5,000 per year (combined) per child. Contributions generally are made on an after-tax basis, unlike most contributions to an IRA. Employers will also be able to contribute up to $2,500 per year (tax-free to the employee and deductible for the employer but counting toward the aforementioned $5,000 limit) until the child turns 18. Nonprofits and government entities may also contribute without limitation.

Contribution limits will be adjusted for inflation each year. Contributions for a calendar year must be made by 31 December (rather than the due date of the filer's tax return). Any contributions will count against the donor's annual gift tax exclusion (i.e., $19,000 per donee in 2025) for the account beneficiary. Contributions must be invested in a diversified US stock index mutual fund or ETF with an expense ratio of 0.1% or less.

No distributions are allowed until the calendar year in which the beneficiary turns 18, at which point it appears that the account effectively becomes an IRA. Funds in the Trump Account will grow tax-deferred until funds are distributed. Upon distribution, earnings (i.e., withdrawals in excess of taxpayer contributions) will be subject to ordinary income taxation and may be subject to an additional 10% early withdrawal penalty if not used for qualified expenses before the age of 59 ½. Certain contributions—such as the initial $1,000 credit, employer contributions, and government/nonprofit contributions—are treated as pre-tax contributions and thus taxable upon distribution.

Rollovers to another Trump Account are tax-free. If the beneficiary dies before age 18, the account will be distributed, with the earnings being taxable to the heir or estate.

#5: Charitable deductions

Since the 2017 TCJA, charitable deductions were only available to those who itemized their deductions. The new tax law allows taxpayers taking the standard deduction to also deduct up to $1,000 (single)/$2,000 (MFJ) in charitable donations starting in tax year 2026. Only cash contributions qualify for this deduction, not donations of property or securities. Contributions to Donor-Advised Funds are not eligible for this deduction.

For those who itemize deductions, only charitable contributions exceeding 0.5% of adjusted gross income (AGI) will be deductible. There is a permanent limit of 60% of AGI on cash gifts to qualified charities. Additionally, the maximum tax benefit from itemized deductions is capped at 35%—down from the previous 37%.

Next steps

We hope that you find this overview of key provisions to be helpful. The IRS will issue regulations to interpret and clarify these provisions, so there will be more details to come.

To learn more, including changes that we didn't address here—e.g., special depreciation rules, qualified opportunity zones and rural qualified opportunity funds, the qualified small business stock exclusion, and clean energy credits —ask your UBS financial advisor for a copy of the most recent alert from the Advanced Planning Group, titled *The One Big Beautiful Bill Act Becomes Law*.

Please be sure to discuss these provisions with your financial advisor and your tax advisor, who can help you determine how these changes may affect your financial plan and your tax strategy. For example, families may want to consider the following:

- Revisiting trust and estate strategies in light of the increased lifetime exemption, which may allow for larger gift and estate tax-free transfers to heirs or trusts,

- Contributing to a Trump Account (when permitted, starting next year) to harness tax-deferred growth for a child's future qualified expenses, and

- Adjusting the timing of taxable income realization and charitable giving to manage the changed rules regarding deductions and credits.

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