Evelyn M. Dobson, CPA MTax
Tax and Accounting Services

Dear Client:

The One Big Beautiful Bill Act has fundamentally reshaped federal taxation for 2025 and beyond. The following should help in understanding the changes which may affect you and your family:

- Understand permanent extensions of the Tax Cuts and Jobs Act (TCJA) provisions and new tax rates
- Maximize new deductions for tips, overtime, and car loan interest
- Navigate the increased $40,000 State and Local Tax (SALT) cap and modified itemized deductions
- Leverage of 100% permanent bonus depreciation and doubled IRC §179 limits
- Plan for enhanced business credits and Qualified Business Income (QBI) deduction improvements
- Access essential strategies to reduce tax liability and avoid costly mistakes in this pivotal tax year.

The One Big Beautiful Bill Act passed in July 2025, made some long-awaited permanent changes to the tax code. But as we approach the end of the year, our focus must shift to the new, temporary provisions—the parts of the law that offer short-term tax breaks but come with strict limits and phaseouts. These are the areas where smart, timely planning can make a real difference to your 2025 tax bill.

Remember, many of these benefits are only available through 2028 or 2029, so now is the time to act. Here are steps you can take today to get the most out of the OBBBA's temporary provisions.

Do Not Automatically Dismiss Itemizing Your Deductions

For many years, most taxpayers benefited from simply taking the standard deduction, thanks to its high amount. However, the OBBBA includes a temporary boost to the State and Local Tax, or SALT, deduction cap, which now stands at an elevated $40,000 (for both married couples filing jointly and single filers), up from the original $10,000 limit. This higher cap applies from 2025 through 2029.

For 2025, the standard deduction is $31,500 for married couples and $15,750 for singles. If your total itemized deductions—including mortgage interest, charitable giving, and state and local taxes (up to the new $40,000 cap)—add up to more than your standard deduction, you should itemize your deductions.

The new $40,000 SALT cap is not for everyone. It begins to phase out if your modified adjusted gross income is over $500,000 (for all filers). If your MAGI (Modified Adjusted Gross Income) reaches $600,000, your SALT deduction is capped back at the original $10,000 limit. If you are near that $500,000 threshold, be careful about realizing large capital gains or executing a large Roth conversion this year, as the extra income (known as the "SALT torpedo") could eliminate the benefit entirely.

Maximize the New Targeted Deductions—If You Qualify

The OBBBA introduced several new, temporary above-the-line deductions (available whether you itemize or take the standard deduction) specifically designed to help middle income workers. These are not tax-free windfalls—they have very strict income and benefit limits you must be aware of to maximize the benefit.

The Qualified Overtime Pay Deduction

This deduction is available for "qualified overtime compensation" and is capped at $25,000 for married couples filing jointly and $12,500 for singles. Crucially, you must understand how to calculate the benefit: Only the extra "half-time" portion of your time and-a-half pay qualifies for the deduction, not the full overtime hourly rate. This benefit is designed to target middle-income earners; for a married couple, it begins to disappear if your MAGI hits $300,000 and is entirely gone once your MAGI reaches $550,000.

The Qualified Tips Income Deduction

This deduction allows you to write off qualified tip income up to $25,000 per tax return, regardless of whether you file as married or single. The main planning takeaway here is ensuring proper reporting. The deduction is only available for tips that are formally reported to your employer on a Form W-2 or the appropriate Form 1099 for contractors. Like the overtime deduction, this break phases out sharply for higher earners, starting at a MAGI of $300,000 for married couples and $150,000 for singles, and is fully eliminated at $550,000 and $400,000, respectively.

The Auto Loan Interest Deduction

This provision introduces a temporary, above-the-line deduction for interest paid on certain car loans, capped at $10,000. The most important thing to verify is that your vehicle meets the specific criteria. It must be interest on a loan for a new, personal-use vehicle with final assembly in the United States. Leased vehicles are explicitly excluded. This deduction is aimed at taxpayers with lower MAGI, starting to phase out at $200,000 for married couples and $100,000 for singles, and is completely gone by $250,000 for married filers and $150,000 for singles.

If you are 65 or older, the OBBBA offers a new, temporary deduction for seniors of up to $12,000 for married couples ($6,000 per eligible spouse) and $6,000 for single filers. This is a very welcome tax break, but it is fragile.

This deduction is targeted, meaning it is quickly phased out. It begins to disappear for married couples with a MAGI (Modified Adjusted Gross Income) over $150,000 and for singles over $75,000.

If you are a senior who is close to the $150,000 MAGI limit, a large Roth conversion could easily push your income over the threshold, causing you to lose this entire $12,000 deduction.

Optimize Income to Qualify for the Best Breaks

Many of the OBBBA's most valuable, temporary provisions are income-sensitive, particularly those new targeted deductions and the elevated SALT cap. The bottom line is that for many taxpayers, keeping your MAGI below the phaseout thresholds is the single most important action you can take to lower your 2025 tax bill.

If you are nearing any of the income phaseouts (like the $300,000 for tips/overtime, or the $500,000 for the elevated SALT cap), consider deferring income until 2026. This might include:

- Postponing the sale of highly appreciated stock to avoid a large capital gain.
- Delaying the exercise of nonqualified stock options.

- Maximizing your 401(k) and health savings account contributions to reduce your current-year MAGI.
- Holding off on large Roth conversions. A proactive approach to these expiring OBBBA provisions is essential for year-end.

A proactive approach to these expiring OBBBA provisions is essential for year-end. Don't let the technical limitations and phaseouts catch you by surprise—with a little planning now, you can lock in significant savings for 2025.

Early in 2026 you will begin receiving tax forms. These are important to the filing of a complete and accurate tax return. Remember, the IRS receives these forms as well. They may include:

W-2 – Wages paid

W-2G – Gambling winnings (remember to get your gambling losses from your casino)

1099s for:

- Dividends
- NEC – Non-employee compensation statements
- R's – Retirement distributions
- B – Brokerage statements
- Misc. – Miscellaneous income
- G – Unemployment compensation and state refunds
- 1099 for your Social Security – this is still a much needed item for the accuracy of your tax return as Social Security remains taxable, depending upon income.
- 1099-K for Income
- 1099-SA – Health Savings Accounts

1098's for:

- Mortgage Interest
- 1098-T Tuition statement

Evelyn M. Dobson, CPA MTax
Tax and Accounting Services

Additionally, be on the lookout for K-1 forms from S corporations and Partnerships as well as from Estates and Trusts.

I will also need to review any child and dependent care paid. Be certain to provide name, address and identification number of the provider.

If you received any communication from the IRS this year, include a copy as well as a list of Estimated Tax Payments you made and date made.

The IRS is still interested in any foreign bank account you may have had signature on in 2025 and the amount in the account. If at anytime the amount was $10,000 or more a Foreign Bank Account Reporting (FBAR) report is due to be filed.

Cryptocurrency is also still on the IRS radar and if you have any transactions with crypto I will need to know to properly report to the Internal Revenue Service.

Credits are still a useful tool in tax reduction. If you purchased an electric vehicle before September 30, 2025 or made energy savings improvements to your personal residence before December 31, 2025, I will review and determine if the purchase will qualify you for a credit.

As always, my firm is interested in working with you to reduce your tax liability through a number of available credits and tax opportunities.

I wish you the happiest of holiday seasons and look forward to a healthy and successful 2026!

Sincerely,

Evelyn Dobson

Evelyn Dobson, CPA, MTax