Enrolled Agent
Member: National Association of Enrolled Agents
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Feltz Associates LLC

Nancy M. Feltz Paparazzo, E.A.
Tax Preparation
250 Maywood Ave. Suite E
Maywood, NJ 07607
(201) 487-0311 (201) 487-3450 FAX
mirjo1@msn.com hello@nancyfeltz.com

December 10, 2025

Subject: Important Tax Law Changes: Highlights from the **One Big Beautiful Bill Act (OBBBA)**

Dear Valued Client,

I am writing to inform you of significant changes to the federal tax law following the enactment of the One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025. This new law extends and modifies many provisions from the Tax Cuts and Jobs Act (TCJA) and introduces new deductions and planning opportunities for individuals. Below, we summarize the most important changes that may affect your tax situation for 2025 and beyond.

1. Individual Tax Rates and Standard Deduction

- The lower individual tax rates introduced by the TCJA, including the top 37% rate, are now permanent and will not revert to pre-2018 levels.
- The standard deduction is permanently increased and further enhanced: for 2025, it is $23,625 for heads of household and $15,750 for single filers, with inflation adjustments in future years.
- An additional $6,000 deduction is available for taxpayers age 65 and older (per person), for tax years 2025–2028, subject to a phase-out at higher incomes.

2. State and Local Tax (SALT) Deduction

- The cap on the deduction for state and local taxes is increased to $40,000 ($20,000 for married filing separately) for 2025, with a phase-out for higher-income taxpayers. The cap will revert to $10,000 after 2029.

3. New and Enhanced Deductions for Working Individuals

- **Tip Income Deduction:** For 2025–2028, up to $25,000 of qualified tips received in certain occupations may be deducted, subject to income phase-outs and reporting requirements.
- **Overtime Pay Deduction:** For 2025–2028, the "premium" portion of overtime pay (the amount above regular pay) is deductible, up to $12,500 ($25,000 for joint filers), with similar phase-outs and reporting.
- **Car Loan Interest Deduction:** For 2025–2028, up to $10,000 per year of interest paid on loans for new, U.S.-assembled personal vehicles may be deducted, subject to income limits and reporting.

4. Child and Family Benefits

- The expanded child tax credit is made permanent and increased to $2,200 per qualifying child, with inflation adjustments and stricter Social Security Number requirements.
- The adoption credit is now partially refundable (up to $5,000), and the dependent care assistance exclusion is increased to $7,500 ($3,750 for married filing separately).

5. Charitable Contributions

- A new above-the-line charitable deduction of $1,000 ($2,000 for joint filers) is available to non-itemizers. Note that this above the line does NOT include Clothing, etc donations.
- For itemizers, only contributions exceeding 0.5% of adjusted gross income (AGI) are deductible, with carryforward rules for excess contributions. Note here that in some cases taxpayers might double up contributions in one year to maximize the tax savings every other year. Careful review required.

6. Mortgage and Other Itemized Deductions

- The $750,000 cap on the mortgage interest deduction is made permanent, and mortgage insurance premiums are now treated as interest.
- Miscellaneous itemized deductions remain suspended, except for educator expenses (now expanded).

7. Estate and Gift Tax

- The estate and gift tax exemption is permanently increased to $15 million per individual (indexed for inflation starting in 2027).

8. Qualified Small Business Stock (QSBS)

- For QSBS acquired after July 4, 2025, the exclusion of gain is phased: 50% after three years, 75% after four years, and 100% after five years. The per-issuer gain exclusion limit is increased to $15 million, and the gross asset test is raised to $75 million (both indexed for inflation).

9. Opportunity Zones and Other Investment Incentives

- The opportunity zone program is renewed with a decennial re-designation process, and the ability to defer capital gains by investing in Qualified Opportunity Funds is extended indefinitely for new investments after 2026.

10. Other Notable Provisions

- The limitation on excess business losses for noncorporate taxpayers is made permanent.
- The deduction for qualified business income (QBI) is made permanent, with higher phase-in thresholds and a new minimum deduction for active business income.

Action Steps: I recommend reviewing your current tax situation and considering how these changes may affect your 2025 tax return and future planning. Some provisions, such as the new deductions for tips, overtime, and car loan interest, are only available for a limited time (2025–2028). Others, like the increased standard deduction and child tax credit, are permanent.

If you have questions about how the OBBBA affects you, or if you would like to discuss tax planning strategies to maximize your benefits under the new law, please contact this office.

Sincerely,

Nancy M Feltz Paparazzo, EA

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This letter is intended as a general overview. For advice tailored to your specific circumstances, please consult with your tax advisor.