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## Income, Equity, and Tax Strategy After OBBBA: What You Need to Know

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This article focuses on the tax, investment, and planning-related elements of the One Big Beautiful Bill Act (OBBBA). While the law includes a wide range of economic and social provisions, our analysis focuses on areas most relevant to individuals, families, and business owners from a financial planning perspective. Our goal is to help you use 2025's unique planning window to your advantage, without getting lost in technical details or partisan distractions.

### A NEW CHAPTER FOR TAX PLANNING

Signed into law on July 4, 2025, the One Big Beautiful Bill Act (OBBBA) builds upon the 2017 Tax Cuts and Jobs Act (TCJA) and introduces significant changes to income tax rules, deductions, and adjusted gross income (AGI) thresholds. While many headline provisions are made permanent, several new AGI-based phaseouts and deduction caps take effect in 2026.

For individuals, families, and business owners, the bill presents not just legislative changes, but a new set of planning opportunities. With 2025 offering a unique window before tighter thresholds and phaseouts kick in, now is the time to reassess your approach to income, equity, and tax strategy.

### REFRAMING CASH FLOW AND INCOME IN LIGHT OF THE NEW LAW

The tax code changes introduced by OBBBA shift the cash flow and income planning landscape in several important ways, especially in 2025, before new thresholds and floors begin to tighten.

**Permanent Tax Brackets + Inflation Adjustment:** The TCJA-era tax brackets are now permanent, preserving current marginal rates. Beginning in 2026, a one-time inflation adjustment will widen the 12% and 22% brackets, which may benefit middle-income taxpayers or retirees in multi-year income planning.

**Standard and Senior Deduction Increases:** The standard deduction increases to \$31,500 (Married Filing Jointly) and \$15,750 (Single) in 2025. A new \$6,000 senior deduction applies to each taxpayer over age 65, but it begins phasing out at

AGI of \$75,000 (single) or \$150,000 (MFJ). The deduction phases out completely at AGI of \$175,000 (Single) and \$250,000 (MFJ).

**Pease Limitation Repealed for High-Income Households:** OBBBA permanently repeals the original Pease limitation and replaces it with a new cap on itemized deductions for taxpayers in the top 37% tax bracket (taxable income above \$751,600 for Married Filing Jointly or \$626,350 for Single/Head of Household), beginning in 2026. For those in the 37% tax bracket, the new law reduces allowable itemized deductions by 2/37 of the lesser of total itemized deductions or the total amount by which their taxable income plus total itemized deductions exceeds the 37% bracket threshold (before applying the limitation).

**SALT Deduction Cap Temporarily Expanded:** Alongside changes to the standard deduction, OBBBA also revisits one of the most contested TCJA provisions: The State and Local Tax (SALT) cap. The SALT deduction cap increases from \$10,000 to \$40,000 in 2025 and will increase at a fixed rate of 1% annually through 2029. The deduction will revert to \$10,000 in 2030. The \$40,000 SALT cap applies to both Single and MFJ. The deduction begins phasing out at \$500,000 AGI, reducing linearly to \$10,000 at \$600,000 AGI for 2025.

**HSA Contribution Expansion:** Starting in 2026, OBBBA expands access to Health Savings Accounts (HSAs) by redefining which plans qualify as High-Deductible Health Plans (HDHPs). Under the new rules, all Bronze and Catastrophic plans offered on ACA exchanges will automatically qualify as HDHPs—even if they don't meet the usual deductible or out-of-pocket thresholds. This change opens the door to more HSA-eligible participants, though contribution limits themselves remain unchanged. HSAs continue to offer triple tax benefits: pre-tax contributions, tax-deferred growth, and tax-free withdrawals for qualified medical expenses.

## CHARITABLE GIVING: FAMILIAR TOOLS, NEW CONSTRAINTS

Just as AGI thresholds impact your SALT deduction, they'll now begin to reshape charitable giving benefits as well. These changes create a brief window in 2025 for more flexible and efficient giving.

### Charitable Giving Floors and New Above-the-Line Deduction

Starting in 2026, itemized charitable deductions are only allowed to the extent they exceed 0.5% of AGI. For example, a \$10,000 donation with a \$400,000 AGI only gets an \$8,000 itemized deduction.

Even non-itemizers now get a \$2,000 above-the-line deduction (MFJ) or \$1,000 (Single) starting in 2026. This creates modest, universal charitable benefit, no phaseout or AGI cap.

## BUSINESS OWNERS AND THE SELF-EMPLOYED: A CLEARER PATH FORWARD

While individual deductions are becoming more constrained, business owners receive a rare set of wins, if they act in 2025. These changes can dramatically reduce AGI before deduction thresholds and phaseouts begin in 2026.

**Bonus Depreciation Reinstated:** The bill restores the 100% bonus depreciation deduction for qualified property placed in service after 1/19/2025.

**Section 179 Equipment Expensing Expanded:** Self-employed and small business owners can now immediately deduct the cost of qualifying equipment, vehicles, and software—up to \$2.5 million per year, up from the prior limit of \$1.25 million in 2025.

#### **Section 174 Research & Deductions Restored**

OBBBA eliminates the TCJA requirement to amortize R&D expenses over 5 years. Starting in 2025, these expenses are fully deductible in the year incurred. Small businesses with gross receipts less than \$31 million may apply this retroactively for tax years 2022–2024 or claim those deductions over one or two years starting in 2025.

**QBI Deduction Made Permanent:** The 20% Qualified Business Income deduction is now permanent. The phase-in thresholds for SSTB increase to \$75,000 (S) and \$150,000 (MFJ). For businesses with at least \$1,000 QBI, a minimum deduction of \$400 is now available.

**Auto Loan Interest Deduction** From 2025–2028, you can deduct up to \$10,000 of auto loan interest on loans taken out after 12/31/2024, even as a standard deduction filer. Vehicle must be U.S.-assembled, weigh less than 14,000 lbs., and the deduction phases out above \$100K AGI (S), \$200K (MFJ).

**Section 1202 and QSBS Strategies Still Valuable:** Section 1202 treatment of Qualified Small Business Stock (QSBS) is preserved. OBBBA raises the eligibility threshold from \$50M to \$75M in gross assets. For stock acquired after July 4, 2025, the capital gains exclusion increases to \$15M (or 10x basis, whichever is greater), indexed for inflation starting in 2027. Stock acquired on or before that date retains the original \$10M exclusion. This means founders and early employees holding shares at different dates may qualify for different exclusion caps depending on acquisition timing.

## EXAMPLE CASE STUDY: BRINGING IT ALL TOGETHER – JAMES AND ELAINE’S TAX YEAR PLAYBOOK

James (self-employed, \$300k income) and Elaine (\$150k W-2) live in Massachusetts and are in their early-60s, preparing to retire in a few years. Their goals: reduce AGI, fund charitable priorities, and set up for future Roth conversions.

#### **2025 Planning Moves:**

- Max out SEP Contribution
- \$40,000 donor-advised fund gift
- Prepay two years’ property tax \$20,000
- Purchase \$75,000 in business equipment (post 1/19/25)
- Deduct \$15,000 in prior-year R&D software costs
- Convert \$90,000 to Roth IRA while staying in the 24% bracket

**Total AGI reduction: Over \$125,000**

#### **What Wouldn’t Have Been Allowed Before OBBBA:**

- SALT deduction would've been capped at \$10,000, not \$40,000
- Section 174 R&D expenses would have been amortized, not fully deductible
- Bonus depreciation deduction of \$75,000 would have been limited to \$30,000 deduction (40%)

**Planning Insights:** They lowered AGI by over \$125,000, reclaimed full SALT and business deductions, and created more space for a Roth conversion—setting up a more efficient retirement and estate strategy.

## READY TO OPTIMIZE YOUR 2025 STRATEGY?

If your income, deductions, or equity comp could push you over key AGI thresholds, now is the time to act. As 2025 progresses, proactive planning will be key.

- Can I manage AGI to reclaim or preserve deductions?
- Should I bunch charitable gifts this year?
- Is now the right time to convert to a Roth IRA?
- Am I coordinating equity events and deductions for tax efficiency?

Review your full financial picture with your CPA, financial advisor, and your estate attorney to ensure you're aligning income, deductions, and long-term goals. If you'd like to discuss your specific plan, schedule a planning review with your Grimes advisor to help align your financial strategy with the new OBBBA rules.

**Up Next:** Read Part 2: How OBBBA Reshapes Estate Planning, Gifting, and Multigenerational Wealth Strategy

### IMPORTANT DISCLOSURES:

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