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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 the 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 in 2025 to \$31,500 (Married Filing Jointly) and \$15,750 (Single). A new \$6,000 senior deduction applies to each taxpayer age 65 or older, but it begins phasing out at AGI of \$75,000 (Single) or \$150,000 (MFJ), reducing by \$0.06 per dollar above those thresholds. It phases out completely at AGI of \$175,000 (Single) or \$250,000 (MFJ).

New Limitation on Itemized Deductions for Top Earners

Beginning in 2026, 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). The new rule reduces itemized deductions by 3% of the amount by which taxable income exceeds the threshold, up to a maximum reduction of 80% of total deductions, effectively capping the value of each deduction dollar at \$0.35.

Itemized Deduction Cap for High-Income Taxpayers

In addition to the Pease limitation, OBBBA imposes a new cap: If you're in the 37% bracket, your itemized deductions are further limited to the value of the next lower bracket (35%), regardless of how much you give or deduct.

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, then gradually phases back down through 2029. The \$40,000 SALT cap applies to both Single and MFJ. However, MFS filers get only \$20,000, and the deduction begins phasing out at \$500,000 AGI, reducing linearly to \$10,000 at \$600,000 AGI.

HSA Contribution Expansion – More Room for Tax-Free Growth

Starting in 2026, Health Savings Account (HSA) contribution limits will increase by 25% across the board, and eligibility expands modestly for older dependents and certain plan designs. HSAs remain one of the few vehicles offering triple tax advantages: 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 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.

Example Case Study: The Clark Family's Timing Advantage

The Clarks have an AGI of \$800,000 and typically donate \$100,000 per year to their donor-advised fund. In 2025, their advisor recommends front-loading three years of giving (\$300,000) before the new charitable limits begin in 2026.

In 2025, they deduct the full \$300,000 at a 37% rate, saving \$111,000 in taxes. In 2026, a 0.5% AGI floor and a 35% cap on deduction would reduce their total benefit to \$103,600, a loss of \$7,400 in tax savings.

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.

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 \$1.25 million in 2025.

Section 174 Research & Deductions Restored

OBBA eliminates the TCJA requirement to amortize R&D expenses over 5 years. Starting in 2025, these expenses are fully deductible in the year incurred.

QBI Deduction Made Permanent

The 20% Qualified Business Income deduction is now permanent and applies fully to incomes up to: \$400,000 (Single), \$800,000 (MFJ). Previous phaseouts began at ~\$197k/\$394k in 2025

Auto Loan Interest Deduction

From 2025–2028, you can deduct up to \$10,000 of auto loan interest—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, \$400k income) and Elaine (\$200k W-2) live in Massachusetts and are in their mid-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 solo 401(k): \$50,000
- \$40,000 donor-advised fund gift
- Prepay two years' property tax
- Purchase \$75,000 in business equipment
- Deduct \$18,000 in prior-year R&D software costs
- Convert \$90,000 to Roth IRA while staying in the 24% bracket

Total AGI reduction: Over \$200,000

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
- Section 179 limits would have phased out the \$75,000 equipment deduction
- Their QBI deduction would have started phasing out near \$364,000 AGI

Planning Insights: They lowered AGI by over \$200,000, reclaimed full SALT and business deductions, preserved the senior deduction, 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 Roth?
- 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.

Coming in Part 2: How OBBBA Reshapes Estate Planning, Gifting, and Multigenerational Wealth Strategy

IMPORTANT DISCLOSURES:

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