Individual Updates

This section highlights two major developments affecting individual taxpayers: The *One Big Beautiful Bill Act* (OBBBA), signed into law on July 4, 2025, and the repeal of the Windfall Elimination Provision (WEP) under the *Social Security Fairness Act*, signed in January 2025. These legislative changes carry important implications for tax planning, return preparation and retirement benefit coordination.

OBBBA Impacts - Individual

The OBBBA, signed under Public Law No. 119-21 on July 4, 2025, introduces broad tax reforms, including the permanent extension of TCJA rates, expanded deductions and significant changes to estate and SALT rules. While the bill is still commonly called the OBBBA, the short name was removed right before passage. As such, the official name is H.R. 1 of the 119th Congress. Some of these provisions begin with the 2025 tax year, while others impact 2026 tax years and beyond.

Extension of reduced income tax rates – §70101

This provision permanently extends the individual income tax rates introduced by TCJA, which were previously set to expire after Dec. 31, 2025. The amendment to §1(j)(1) eliminates the sunset clause, ensuring that the reduced marginal rates of 10%, 12%, 22%, 24%, 32%, 35% and 37% remain in place.

Takeaways

This provision is intended to:

- Lock in the TCJA's lower marginal tax rates
- Prevent automatic rate hikes in 2026
- Provide continued tax relief to individuals and families
- Control the way bracket thresholds grow with inflation for better targeting of rate brackets

The 10%, 12% and 22% brackets still use the standard inflation chained consumer price index (CPI-U).

24% and higher brackets will use limited or slower inflation indexing. Brackets above 22% grow more slowly, meaning more income gets taxed at higher rates over time. This doesn't change the tax rate but changes how quickly the taxpayer will get pushed into a higher bracket.

Extension and enhancement of increased standard deduction – §70102(c)

First, the law permanently preserves the TCJA's enhanced standard deduction amounts. Under prior law, the increased deduction was set to revert to pre-2018 levels beginning in 2026. By eliminating the Jan. 1, 2026, sunset provision under §63(c)(7), the new legislation ensures that the higher TCJA deduction amounts will remain in effect indefinitely beyond 2025.

Second, the law increases the base standard deduction amounts beginning in tax year 2025. For married taxpayers filing jointly (MFJ), the new base deduction is $31,500, representing an increase over the inflation-adjusted TCJA amount of approximately $30,000, which was the amount originally slated for 2025 [§63(c)(2)]. The new base amount for single filers is $15,750, exceeding the prior 2025 inflation-adjusted amount of $15,000. The head of household base amount was $22,500, now raised to $23,625 as amended. These amounts are subject to future inflation adjustments using the chained CPI-U methodology.

Takeaways

- This provision offers broad-based tax relief by reducing taxable income for all filers who don't itemize.
- Low- and middle-income taxpayers benefit most, as a higher deduction lowers their tax liability directly, delivering tax savings to many U.S. households starting in 2025.

Termination of deduction for personal exemptions other than the temporary senior deduction – §70103

The personal exemption, initially suspended for tax years 2018 through 2025, is now permanent, eliminating the availability of personal exemptions for all taxpayers and dependents going forward.

Takeaways

- The personal exemption termination was made permanent.
- Under the *Tax Cuts and Jobs Act* (TCJA) (2018-2025), the personal exemption $5,200 per person (2025) was temporarily suspended as a deduction lowering taxable income.
- H.R. 1 makes this suspension permanent by removing the expiration date (Jan. 1, 2026) in §151(d)(5).

NATP observation: The personal exemption amounts, including annual inflation adjustments, continue to exist "behind the scenes" to determine income requirements for a qualifying relative, for example.

Temporary deduction for seniors

Beginning in tax year 2025 and continuing through 2028, individuals age 65 or older by year-end may claim a new deduction of $6,000. On a joint return, each spouse may qualify, allowing for up to $12,000 in total deductions if both meet the age requirement, income limitations and file a joint return.

The deduction is a stand-alone reduction in income, based solely on age, temporarily established as a way to reduce senior's taxable income.

Note: The additional standard deduction for seniors age 65 or blind [§63(f)] remains intact at $1,600 (2025), increased to $2,000 if the individual is also unmarried and not a surviving spouse (Rev. Proc. 2024-40).

The deduction is subject to a 6% phaseout based on a modified adjusted gross income (MAGI) exceeding $75,000 for single filers and $150,000 for joint filers. For this purpose, MAGI includes income typically excluded under specific foreign income provisions, such as those in §§911, 931 and 933.

The senior must possess a valid Social Security number (SSN) to claim the deduction. An omission or invalid SSN is treated as a mathematical or clerical error, authorizing the IRS to adjust the return accordingly. In addition, married individuals must file a joint return to be eligible; married filing separately is not permitted for this deduction.

NATP observation: The new deduction for seniors partly addresses President Trump's campaign promise to make Social Security benefits received nontaxable.

Summary table - 2025 senior deduction (age 65+)

Filing Status	Full Deduction	Phase-Out Range (MAGI)	Phase-Out Rate	Max Deduction if Both Eligible
Single	$6,000	$75,000 - $175,000	6% per $1 over	$6,000
MFJ	$12,000	$150,000 - $250,000	6% per $1 over	$12,000

Takeaways

Provision	Effect
Personal exemption	Permanently eliminated
Senior deduction	Temporarily $6,000 per person, 2025-2028
Income-tested	Phases out starting at $75,000/$150,000
Joint return required	Married couples must file jointly
SSN required	Must be included for each senior to qualify

Extension and enhancement of increased child tax credit (CTC) – §70104

Several changes to the CTC will take effect beginning in tax year 2025. The increase from $1,000 to $2,000 per child, originally enacted under TCJA and previously scheduled to expire after 2025, is now made permanent for tax purposes. Additionally, the $500 other dependent credit and the modified adjusted gross income (MAGI) phase-out threshold of $200,000 ($400,000 if MFJ) are retained without change.

Effective for tax year 2025, the maximum credit per qualifying child increases from $2,000 to $2,200. Beginning in 2026, this amount will be adjusted annually for inflation. The refundable portion of the credit remains capped at $1,400 per child but will also be adjusted annually for inflation using the CPI. The $2,200 base amount uses calendar year 2017 as its reference year, while the $1,400 refundable limit uses 2024 as its base year. Adjustments will be rounded down to the nearest $100 in both cases.

To qualify for the CTC, the child must have a valid SSN issued to a U.S. citizen or a qualifying legal resident. For joint filers, at least one spouse must also have a valid SSN. All SSNs must be issued before the return due date, generally April 15. If a valid SSN is not provided, the IRS may treat the omission as a mathematical or clerical error and disallow the credit.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Takeaways

Provision	Summary of Effect
Makes $2,000+ CTC permanent	Prevents reversion to $1,000 credit after 2025 (TCJA sunset blocked)
Increases CTC to $2,200	Begins in 2025; indexed for inflation starting in 2026
Refundable portion = $1,400	$1,700 for 2025; indexed for inflation starting in 2026
SSNs required	Valid SSNs required for qualifying child and at least one parent (for joint returns); must be issued by return due date
IRS enforcement	Missing SSN = clerical error (automatic disallowance

Enhancement of child and dependent care tax credit (CDCTC) – §70405

Effective for tax years beginning after Dec. 31, 2025, OBBBA enhances the child and dependent care tax credit in two significant respects:

- First, the maximum applicable percentage increases from 35% to 50%. This change provides a larger credit for lower-income taxpayers with qualifying child and dependent care expenses.
- Second, the phase-out structure is revised to include two tiers based on adjusted gross income (AGI).
  - Under Tier 1, the credit percentage is reduced by one percentage point for each $2,000 (or fraction thereof) of AGI over $15,000. However, the percentage cannot be reduced below 35% in this phase.
  - Under Tier 2, for AGI above $75,000 ($150,000 for joint filers), the percentage is further reduced by one percentage point for each $2,000 ($4,000 for joint filers) over that threshold. This reduction continues until the percentage reaches the statutory floor of 20%.

The table below summarizes the break points for the percentage decreases.

Filing Status	MAGI for 50% Rate	MAGI for 35% Rate	Tier 2 Begins	MAGI for 20% Rate
Single	$15,000	$45,000	$75,000	$105,000
Joint	$15,000	$45,000	$150,000	$210,000

The prior provision under TCJA provided a maximum credit rate of 35%, with a single-phase reduction down to 20% based on AGI. The new two-tier system preserves more credit for taxpayers with moderate incomes while continuing to limit the benefits at higher income levels.

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

Example 1: low-income, single parent

- Filer: single parent
- AGI: $14,000
- 2 dependents
- Qualifying expenses: $6,000
- Applicable %: 50% (no phase-out)
- Credit: 50% of $6,000 = $3,000

Example 2: single filer with AGI = $25,000

- 1 dependent
- First $10,000 over $15,000 results in 5 intervals of $2,000 = 5% point reduction
- Applicable % = 50% - 5% = 45%
- Qualifying expenses: $4,000
- Credit: 45% of $3,000 = $1,350

Example 3: joint return with AGI = $160,000

- 2 dependents
- First, reduce from 50% to 35% as income exceeds $15,000 →73 intervals over $15,000 = 73% reduction → capped at 35%
- AGI exceeds $150,000 by $10,000→ 3 intervals of $4,000 (round up)→ Further 3%-point reduction from 35%→ final applicable % = 35% - 3% = 32%
- Qualifying expenses: $6,000
- Credit: 32% of $6,000 = $1,920

Example 4: joint return with AGI = $195,000

- 2 dependents
- Income > $150,000 by $45,000 = 12 intervals of $4,000→ 12% reduction from 35%→ applicable % = 35% - 12% = 23%
- Qualifying expenses: $6,000
- Credit: 23% of $6,000 = $1,380

This table summarizes the example calculations under the enhanced CDCTC, filed on Form 2441, *Child and Dependent Care Expenses*. The credit starts at 50% of qualifying expenses, with a two-tier phaseout. Tier 1 reduces the credit by 1 percentage point for every $2,000 of AGI above $15,000 (all filers), down to a floor of 35%. Tier 2 further reduces the applicable percentage by 1 point per $2,000 (or $4,000 for joint filers) over $75,000 (or $150,000 for joint), down to a minimum of 20%.

Example	Taxpayer Profile	Phaseout Details	Applicable %	Formula	Credit
1	Single filer, 2 dependents, AGI = $14,000	No reduction: AGI <$15,000 (Tier 1 not triggered)	50%	50% × $6,000	$3,000
2	Single filer, 1 dependent, AGI = $25,000	Tier 1: $10,000 over $15,000 → 5 × $2,000 = 5% reduction	45%	45% × $3,000	$1.350
3	Married filing jointly, 2 dependents, AGI = $160,000	Tier 1: Full reduction to 35% cap Tier 2: $10,000 over $150,000 →3 × $4,000 = 3% → 35% - 3% = 32%	32%	32% × $6,000	$1,920
4	Married filing jointly, 2 dependents, AGI = $195,000	Tier 1: Full reduction to 35% Tier 2: $45,000 over $150,000→ 12 × $4,000 = 12% →35% - 12% = 23%	23%	23% × $6,000	$1,380

The table below summarizes the key calculation mechanics and statutory enhancements to the CDCTC, effective for tax years beginning after Dec. 31, 2025.

Provision	Summary
Effective date	Applies to tax years beginning after Dec. 31, 2025
Maximum applicable %	Increased from 35% to 50%
Tier 1 phaseout	1 percentage point reduction per $2,000 (or fraction) of AGI over $15,000; not below 35%
Tier 2 phaseout	Further 1 point reduction per $2,000 (or $4,000 joint) over $75,000 ($150,000 joint); floor of 20%
Qualified expenses	$3,000 for one dependent; $6,000 for two or more
Credit calculation	Applicable % × qualified expenses (subject to caps)
Statutory floor	Credit percentage cannot drop below 20%

NATP observation: The floor of 20% still applies. No matter how high the AGI, the credit rate won't fall below 20%. The credit is still subject to existing expense caps ($3,000 for one, $6,000 for two or more dependents).

Enhancement of the dependent care assistance program – §70404

Beginning in tax year 2026, §129(a)(2)(A) increases the annual contribution limits for employer-provided dependent care assistance programs (DCAPs), commonly referred to as dependent care flexible spending arrangements (FSAs). The new limits are $7,500 per year ($3,750 for married individuals filing separately), up from the current $5,000 ($2,500 MFS).

DCAPs allow employees to set aside pre-tax income to pay qualifying dependent care expenses, such as day care, preschool and certain adult care services. Contributions are excluded from gross income, thereby reducing federal income, Social Security and Medicare taxes.

Although married individuals filing separately (MFS) may receive dependent care benefits through §129, they are not eligible to claim the child and dependent care credit on Form 2441. This credit is available only to taxpayers who file jointly (MFJ).

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

NATP observations: The increased limit helps families with higher annual child or dependent care costs, allowing greater tax-preferred deferral. This enhancement is beneficial for two-earner households with substantial qualifying care expenses. Taxpayers may not claim the same expenses for both the child and dependent care credit and DCAP exclusion.

Limitation on individual deductions for certain state and local taxes, etc. (SALT) – §70120

Under the revised §164(b), the annual cap on SALT deduction temporarily increased to $40,000 ($20,000 for MFS) for tax year 2025. The limit rises slightly to $40,400 for 2026. For years 2027 through 2029, it will be adjusted annually to 101% of the prior year's cap. Beginning in 2030, the deduction limit reverts to its original $10,000 cap ($5,000 for married filing separately), as enacted under the TCJA.

Importantly, eligibility to claim the enhanced SALT deduction for tax years 2025-2029 is subject to a MAGI threshold. For tax year 2025, the threshold is $500,000 ($250,000 MFS). The SALT deduction dollar limit is reduced by 30 percent of the excess (if any) of the taxpayer's MAGI over the threshold amount [§164(b)(7)(B)]. These thresholds will adjust to $505,000 ($252,500 MFS) in 2026 and continue to increase by 1% annually through 2029. **In no case will the deduction fall below the original $10,000 ($5,000 MFS) limit.**

Example: phase-out calculation

In 2025, Kevin and Maria are married, filing jointly, and live in a high-tax state. Between property taxes and state income taxes, they paid $42,000 in SALT expenses for the year.

The SALT deduction cap for 2025 is $40,000. But Kevin and Maria's MAGI is $595,000, which triggers the phaseout.

Their deduction is calculated as follows:

- Excess MAGI above the threshold: $595,000 - $500,000 =$95,000
- Phaseout reduction: 30% x $95,000 = $28,500
- Adjusted SALT cap: $40,000 - $28,500 = $11,500

Instead of deducting the full $40,000 allowed, Kevin and Maria are limited to $11,500. The remaining $30,500 of their $42,000 in actual SALT expenses is not deductible.

The law also preserves the existing workaround for the SALT deduction limitation through the pass-through entity tax (PTET) framework. This provision allows certain state-level income taxes paid by partnerships or S corporations to be deducted at the entity level, with a deduction or credit flowing through to individual partners or shareholders, depending on the applicable state's law. As a result, the PTET election continues to provide a viable strategy for mitigating the SALT deduction limitation, particularly for high-income taxpayers in states that allow the election.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

NATP observation: Early versions of the proposed SALT deduction changes excluded owners of specified service trades or businesses (SSTBs) from benefiting under the increased deduction caps. This restriction was removed in the final version of the law, which allows service-based business owners to qualify for the SALT cap enhancements if they meet the applicable income thresholds.

No tax on tips – §70201

This provision (§224) allows individuals to deduct up to $25,000 per year in qualified cash tips from their taxable income. The deduction is available for tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

To qualify, the taxpayer must work in an occupation that customarily and regularly received tips on or before Dec. 31, 2024, as determined and published by the Secretary of the Treasury within 90 days of enactment. The deduction is available to both employees and self-employed individuals. However, for self-employed individuals, the deduction is limited to the extent that business income (including tips) exceeds business expenses. **Married taxpayers must file jointly to claim the deduction.**

Note: The Treasury released a list on Aug. 28, which can be found here Tipped-Occupations-Detailed-8-27-2025.pdf

The tips must be reported on IRS-approved wage statements, including Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, or employer-furnished wage statements (e.g., Forms W-2, *Wage and Tax Statement*, Form 1099-NEC, *Nonemployee Compensation*, Form 1099-K, *Payment Card and Third Party Network Transactions*, or other applicable wage statements). These statements must meet IRS statutory criteria under §§ 6041(d)(3), 6041A(e)(3), 6050W(f)(2) or 6051(a)(18). Additionally, the taxpayer must provide a valid SSN on their Form 1040.

The deduction is capped at $25,000 per year and phases out if the taxpayer's MAGI exceeds:

- $150,000 for individuals
- $300,000 for joint filers

The deduction is reduced by $100 for every $1,000 over the threshold. MAGI is the taxpayer's AGI for the taxable year increased by any amount excluded by §§911, 931 or 933.

Definition of qualified tips

The term qualified tips refers to cash tips received by an individual in an occupation that customarily and regularly received tips on or before Dec. 31, 2024, as designated by the Secretary of the Treasury. Cash tips include amounts paid by customers in cash or by card (credit/debit) and, in the case of employees, tips distributed under tip-sharing arrangements. To qualify, tips must be voluntary, not subject to negotiation and determined solely by the customer. Tips received in a specified service trade or business (SSTB) as defined under §199A(d)(2) are excluded unless the recipient is an employee of an employer that is not an SSTB. The Secretary may issue further regulations establishing additional requirements to determine, for instance, which rule dominates in complicated cases.

Discussion: In a Medspa business, a nurse (healthcare – SSTB industry) works in a spa setting (non-SSTB) administering Botox injections. Which will rule? The spa, which is a typical setting for tips, or the fact that the employee is from an SSTB industry? Will the nurse's tips be eligible for exclusion? Beginning in 2026, IRS withholding tables will be updated to reflect the new deduction. Employers who pay tips will face increased reporting requirements, including disclosing the amount of tips and the recipient's occupation. Additionally, the bill expands the FICA tip credit to cover beauty service businesses, such as hair, nail, spa and esthetic services.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Example

Maria works full-time as a restaurant server in Texas, where she earns:

- Base wage: $2.13/hour x 2,000 hours = $4,260
- Tips: $150/day x 5 days/week x 50 weeks = $37,500
- Total earnings: $41,760

The table below compares Maria's 2025 federal tax liability across five reporting and legislative scenarios. Each example highlights the interaction between income inclusion, standard deduction levels and the $25,000 tip deduction with FICA consistently applied to all reported income.

Scenario	Reported Income	Deductions	Taxable Income	Income Tax	FICA Tax (7.65%)	Total Tax	Compliant/ Non-compliant
1. TCJA – Full Tip Reporting	$41,760	$15,750	$26,010	$2,883	$3,195	$6,078	Compliant
2. TCJA – 50% Tips Reported	$23,010	$15,750	$7,260	$726	$1,760	$2,486	Non-compliant
3. TCJA – 75% Tips Reported	$32,385	$15,750	$16,635	$1,758	$2,477	$4,235	Non-compliant
4. Post-TCJA Expiration	$41,760	$13,600	$28,160	$3,150	$3,195	$6,345	Compliant
5. OBBA – $25,000 Tip Deduction	$41,760	$40,750*	$1,010	$101	$3,195	$3,296	Compliant

Notes:

- Under scenario five (OBBBA), Maria deducts ***$25,000 of reported tips plus the standard deduction**, reducing her taxable income dramatically.
- FICA tax remains due on all reported tips, regardless of the deduction.
- Scenarios two and three reflect common but **noncompliant** tip underreporting, shown here for comparison.
- These amounts are an approximation.

Takeaways

Feature	Summary
Deduction limit	Up to $25,000 per year in qualified cash tips; available above-the-line to both itemizers and non-itemizers
Eligible occupations	Must be in a trade or business where tips were customarily received on or before Dec. 31, 2024, as designated by the Secretary of the Treasury
Income phaseout	Deduction reduced by $100 for every $1,000 (or fraction thereof) over $150,000 MAGI (single) or $300,000 (joint)
MAGI definition	AGI increased by amounts excluded under §§ 911, 931 or 933
Excluded trades	Tips received in an SSTB (as defined under §199A) are excluded unless recipient is an employee of a non-SSTB employer
Tip criteria	Tips must be voluntary, non-negotiated and determined solely by the customer
Timeframe	Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029
Reporting and substantiation	Tips must be reported on IRS-acceptable forms (e.g., Form 4137, W-2, 1099-NEC, 1099-K); taxpayer must provide a valid SSN

No tax on overtime – §70202

This is a temporary deduction effective for tax years 2025-2028. Overtime compensation received during the taxable year is reported separately on either Form W-2 [§6051(a)(19)] or on an information return [§6041(d)(4)] and is temporarily deductible from taxable income. Only overtime that qualifies under Section 7 of the *Fair Labor Standards Act* of 1938 is eligible; that is, pay for hours worked in excess of the standard workweek, calculated at a rate above the individual's regular hourly rate, commonly called time-and-a-half or premium pay.

Importantly, qualified overtime compensation excludes any amount categorized as qualified tips under §224(d).

Deduction limitations

The deduction is subject to two primary limitations, a dollar cap and an income-based phaseout.

First, the maximum deduction is $12,500 for single filers and $25,000 for MFJ.

Second, the deduction is gradually reduced for higher-income taxpayers. For every $1,000 that a taxpayer's MAGI exceeds $150,000 ($300,000 MFJ), the deduction is reduced by $100.

For this purpose, MAGI includes AGI increased by any amounts excluded under §§911, 931 or 933.

Phase-out Ranges for Overtime Deduction				
Filing Status	**Maximum Deduction**	**Phase-Out Begins at MAGI**	**Fully Phased Out at MAGI**	**Phase-Out Rate**
Single	$12,500	$150,000	$275,000	$100 reduction per $1,000 over threshold
MFJ	$25,000	$300,000	$550,000	$100 reduction per $1,000 over threshold

Additional requirements

The deduction is permitted only when the taxpayer includes the recipient's SSN on the return [(§225(d)(1)]. Additionally, in the case of married individuals as defined under §7703, the deduction is available solely if the taxpayer and spouse file a joint return.

Example

Maria is a restaurant shift supervisor earning $20/hour. In 2025, she works 250 hours of overtime at time-and-a-half.

- Regular pay rate: $20/hour
- Overtime pay rate: $30/hour [($20 + (.5 x 20)]

To calculate the amount of overtime Maria may deduct, consider only the amount above her regular pay rate, or $10, commonly called premium portion.

Deductible overtime = $10 x 250 hours = $2,500.

Maria, whose AGI is $90,000, includes her SSN and all relevant info on her tax return and can deduct $2,500 from her taxable income under this section.

Example

Jason is a high-income software engineer earning $20,000 of overtime pay in 2025. Jason and his spouse have a joint AGI of $325,000, which exceeds the $300,000 MFJ income cap. His deduction will phase out at a rate of $100 per $1,000 over the cap. The excess amount over MAGI is $25,000 = $325,000 - $300,000.

The amount Jason can deduct is calculated as follows: $25,000 / $1,000 = 25 x $100 = $2,500

Jason's reduced deduction = $25,000 - $2,500 = $22,500

He also forgot to include his SSN on his return, which causes him to lose the entire deduction due to compliance rules under §225(d).

Effective date: Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

Practitioner tip: Many payroll companies total overtime separately. Employees should bring in their last paystub of the year to see if the total is captured.

Additional notes

- Non-itemizers can also claim this deduction.
- Abuse prevention: IRS is authorized to regulate and prevent abuse, such as recharacterizing wages as "overtime".

Deductible car loan interest – §70203

For tax years 2025 through 2028, interest paid on a loan to purchase a qualifying passenger vehicle for personal use may be deducted under a temporary provision in §163(h)(2). To qualify, the loan must be incurred after Dec. 31, 2024, and secured by a first lien on the vehicle. The interest is only deductible if the taxpayer includes the vehicle's identification number (VIN) on their return. Refinancing of such loans is also eligible for the deduction, but only to the extent the refinanced amount does not exceed the original loan principal.

However, the deduction is subject to several exclusions. Interest on loans for fleet sales, commercial-use vehicles, leased vehicles, salvage-title vehicles or vehicles intended for scrap or parts is not deductible. Additionally, loans from related parties, defined under §267(b) or §707(b)(1), are excluded from eligibility.

Deduction limits

The deduction is capped at $10,000 of interest per taxable year. It is also phased out for higher-income taxpayers. The phaseout begins when a taxpayer's MAGI exceeds $100,000 ($200,000 for joint filers). The allowable deduction is reduced by $200 for every $1,000 (or part thereof) of MAGI above the applicable threshold.

Car Loan Interest Deduction Phase-Outs				
Filing Status	**Max Deductible Interest (per year)**	**Phase-Out Begins at MAGI**	**Fully Phased Out at MAGI**	**Rate**
Single	$10,000	$100,000	$150,000	Reduce by $200 for every $1,000 over threshold
MFJ	$10,000	$200,000	$250,000	$200 reduction per $1,000 MAGI over threshold

Qualified vehicle definition

To qualify, the vehicle must be intended for the taxpayer's original use and primarily manufactured for use on public roads. Eligible vehicles include cars, minivans, vans, SUVs, pickup trucks and motorcycles, as long as they have at least two wheels and a gross vehicle weight rating (GVWR) under 14,000 pounds. The vehicle must also be classified as a motor vehicle under the *Clean Air Act* and the final assembly must be in the United States. Final assembly means the process by which a manufacturer produces a vehicle at or through the use of a plant, factory or other place from which the vehicle is delivered to a dealer with all the component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

Availability to non-itemizers

Importantly, this deduction is available to both itemizers and non-itemizers. Under §63(b)(7), taxpayers who do not itemize need to monitor the IRS draft Form Schedule 1-A (Form 1040). *Additional Deductions*.

Effective dates: Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

NATP observation: The interest incurred on business-use vehicles remains deductible for the percentage of business use of that vehicle(s) on the business return associated with the use of that vehicle(s).

As this provision allows a deduction for personal-use interest, and the taxpayer also uses the vehicle for business, the following combined treatment is reasonable:

- The business-use portion will go on Form 1040, Schedule C, *Profit or Loss From Business*, if self-employed, or allocated via K-1's for partnerships or S-corporations.
- As the OBBBA permits a personal-use deduction for both itemizers and non-itemizers, additional IRS guidance is needed to clarify how the remaining non-business portion can be properly deducted on Form 1040.

Extension and modification of limitation on deduction for qualified residence interest – §70108

Under current law, the deduction for qualified residence interest is limited to acquisition debt of up to $1 million ($500,000 if MFS) for loans incurred on or before Dec. 15, 2017. The limit for loans incurred after that date is $750,000 ($375,000 if MFS). These limitations, enacted under the TCJA, were set to expire after 2025.

The OBBBA makes the TCJA limitations permanent by removing the scheduled sunset date. As a result, the $750,000 acquisition debt cap remains in effect indefinitely for post-2017 mortgages.

The new law also reinstates the deduction for mortgage insurance premiums (PMI), treating them as qualified residence interest. Taxpayers may first claim the deduction for PMI as qualified residence interest for tax year 2026 (tax years after Dec. 31, 2025). The deduction is not available for tax years 2022 through 2025, but is reinstated for 2026 and subsequent years, subject to the other requirements and limitations of §163(h)(3)(E) and (F).

The change includes Veterans Administration (VA) funding fees, which are treated as deductible under the same rules.

When claiming this deduction, taxpayers must carefully consider the timing of any VA funding fee refunds. For example, if a veteran later qualifies for an exemption and receives a refund, the timing of that refund may impact how the deduction is reported:

- If the refund occurs in the same tax year as the original payment, it is generally appropriate to reduce the original expense reported on the return.
- If the refund occurs in a subsequent tax year, the tax benefit rule applies. In that case, the refunded amount must be included in income in the year it is received, rather than adjusting the prior year's expense.

The prior provision, which applied only through 2025, is amended to allow deductibility for years beginning after 2017, without a sunset.

Effective date: Applies for tax years beginning after Dec. 31, 2025.

To assist taxpayers and preparers in accurately calculating deductible home mortgage interest, the following worksheets should be used as guided by IRS Publication 936, *Home Mortgage Interest Deduction*. These worksheets help determine the average mortgage balance, track acquisition debt limits and evaluate the portion of interest that qualifies for deduction under current laws. Use the worksheets sequentially, completing each step thoroughly before moving to the next. The worksheets are especially useful when a taxpayer has multiple mortgages or refinanced loans, as they ensure compliance with applicable limitations.

Table 1. Worksheet to Figure Your Qualified Loan Limit and Deductible Home Mortgage Interest for the Current Year.

Part I. Qualified Loan Limit

Part II. Deductible Home Mortgage Interest

Table 1. **Worksheet To Figure Your Qualified Loan Limit and Deductible Home Mortgage Interest for the Current Year**

See the ***Table 1 Instructions***. *Keep for Your Records*

Part I Qualified Loan Limit

1.	Enter the average balance of all your grandfathered debt. See the line 1 instructions	**1.**	
2.	Enter the average balance of all your home acquisition debt incurred after October 12, 1987, and prior to December 16, 2017. See the line 2 instructions	**2.**	
3.	Enter $1,000,000 ($500,000 if married filing separately)	**3.**	
4.	Enter the larger of the amount on line 1 or the amount on line 3	**4.**	
5.	Add the amounts on lines 1 and 2. Enter the total here	**5.**	
6.	Enter the smaller of the amount on line 4 or the amount on line 5	**6.**	
	• If you have no home acquisition debt incurred after December 15, 2017, or the amount on line 6 is $750,000 ($375,000 if married filing separately) or more, line 6 is your qualified loan limit. Enter this amount on line 11 and go to Part II, line 12. • If you have home acquisition debt incurred after December 15, 2017, go to line 7.		
7.	Enter the average balance of all your home acquisition debt incurred after December 15, 2017. See the line 7 instructions	**7.**	
8.	Enter $750,000 ($375,000 if married filing separately)	**8.**	
9.	Enter the larger of the amount on line 6 or the amount on line 8	**9.**	
10.	Add the amounts on lines 6 and 7. Enter the total here	**10.**	
11.	Enter the smaller of line 9 or line 10. **This is your qualified loan limit**	**11.**	

Part II Deductible Home Mortgage Interest

12.	Enter the total of the average balances of all mortgages from lines 1, 2, and 7 on all qualified homes. See the line 12 instructions	**12.**	
	• If line 11 is less than line 12, go on to line 13. • If line 11 is equal to or more than line 12, stop here. All of your interest on all the mortgages included on line 12 is deductible as home mortgage interest on Schedule A (Form 1040).		
13.	Enter the total amount of interest that you paid on the loans from line 12. See the line 13 instructions	**13.**	
14.	Divide the amount on line 11 by the amount on line 12. Enter the result as a decimal amount (rounded to three places)	**14.**	× .
15.	Multiply the amount on line 13 by the decimal amount on line 14. Enter the result. **This is your deductible home mortgage interest.** Enter this amount on Schedule A (Form 1040)	**15.**	
16.	Subtract the amount on line 15 from the amount on line 13. Enter the result. **This isn't home mortgage interest.** See the line 16 instructions	**16.**	

Example 1: one principal residence only

Jim and Janet Smith purchased a principal residence on May 29, 2018. The average mortgage balance of the home in 2024 is $850,000.

The taxpayers paid $18,000 in mortgage interest in 2024. This amount was reported to the taxpayers on Form 1098. Assuming they are MFJ, the following breaks down how much mortgage interest they can deduct.

Part I. Qualified Loan Limit

- Line 1: no grandfathered debt
- Line 2 is zero, as no grandfathered debt
- Line 3 is zero, as there is no grandfathered debt
- Line 4 is zero, as Lines 1 and 3 are zero
- Line 5 is zero, as Lines 1 and 2 are zero
- Line 6 is zero, as Lines 4 and 5 are zero
- Line 7: The average balance of all home acquisition debt incurred after Dec. 17, 2017, which is $850,000
- Line 8: As the taxpayers are married filing joint, this amount is $750,000
- Line 9: Enter the larger of the amount on Lines 6 or 8. In this case, Line 8 is the greater amount ($750,000)
- Line 10: Add the amounts on Lines 6 and 7, which equals $850,000
- Line 11: Enter the smaller of Line 9 or Line 10. This is the qualified limit. In this case, use the amount on Line 9, $750,000

Part II. Deductible Home Mortgage Interest

- Line 12: Enter the total of the average balances of all mortgages from Lines 1, 2 and 7. This amount is $850,000. If Line 11 is less than Line 12, go to Line 13. In this case, Line 11 is less than Line 12.
- Line 13: Enter the total amount of interest you paid on the loans from line 12. In this case, the amount is $18,000.
- Line 14: Divide the amount on Line 11 by the amount on Line 12 ($750,000 / $850,000 = 0.882)
- Line 15: Multiply the amount on Line 13 by the decimal amount on line 14 ($18,000 x 0.882 = $15,876). This is the deductible home mortgage interest. Enter this amount on Form 1040, Schedule A, Line 8a.
- Line 16: Subtract the amount on Line 15 from the amount on Line 13. $2,124 ($18,000 - $15,876) is the non-deductible portion of the $18,000 mortgage interest paid.

Their completed worksheet is as follows:

Form 1040	Home Mortgage Limit Worksheet A	2024

Name: Jim & Janet Smith

Taxpayer Identification Number: ***-**-1111

Part I Qualified Loan Limit

1.	Enter the average balance of all your grandfathered debt. See the line 1 instructions	1.	
2.	Enter the average balance of all your home acquisition debt incurred prior to December 16, 2017. See the line 2 instructions	2.	
3.	Enter $1,000,000 ($500,000 if married filing separately)	3.	1,000,000
4.	Enter the larger of the amount on line 1 or the amount on line 3	4.	1,000,000
5.	Add the amounts on lines 1 and 2. Enter the total here	5.	
6.	Enter the smaller of the amount on line 4 or the amount on line 5 ● If you have no home acquisition debt incurred after December 15, 2017, line 6 is your qualified loan limit. Enter this amount on line 11 and go to Part II, line 12. ● If you have home acquisition debt incurred after December 15, 2017, go to line 7.	6.	
7.	Enter the average balance of all your home acquisition debt incurred after December 15, 2017. See the line 7 instructions	7.	850,000
8.	Enter $750,000 ($375,000 if married filing separately)	8.	750,000
9.	Enter the larger of the amount on line 6 or the amount on line 8	9.	750,000
10.	Add the amounts on lines 6 and 7. Enter the total here	10.	850,000
11.	Enter the smaller of line 9 or line 10. **This is your qualified loan limit**	11.	750,000

Part II Deductible Home Mortgage Interest

12.	Enter the total of the average balances of all mortgages on all qualified homes. See the line 12 instructions ● If line 11 is less than line 12, go on to line 13. ● If line 11 is equal to or more than line 12, stop here. All of your interest on all the mortgages included on line 12 is deductible as home mortgage interest on Schedule A (Form 1040 or 1040-SR), line 8a or 8b, whichever applies.	12.	850,000
13.	Enter the total amount of interest that you paid. See the line 13 instructions	13.	18,000
14.	Divide the amount on line 11 by the amount on line 12. Enter the result as a decimal amount (rounded to three places)	14.	0.882
15.	Multiply the amount on line 13 by the decimal amount on line 14. Enter the result. **This is your deductible home mortgage interest.** Enter this amount on Schedule A (Form 1040 or 1040-SR), line 8a or 8b, whichever applies	15.	15,876
16.	Subtract the amount on line 15 from the amount on line 13. Enter the result. **This is not home mortgage interest.** See line 16 instructions	16.	2,124

Deductible Points

			Points reported on Form 1098		Points not reported on Form 1098
17.	Points paid during current year	17.		17.	
18.	Decimal amount from Part II, line 14	18.	0.882	18.	0.882
19.	Points deductible as home mortgage interest	19.		19.	
20.	Points not deductible as home mortgage interest	20.		20.	

Example 2: one principal residence and a second home

Jim and Janet Smith purchased their principal residence on Dec. 10, 2018. The average mortgage balance in 2024 is $675,000. The second home was purchased on June 5, 2020, and had an average mortgage balance of $350,000 in 2024.

They paid mortgage interest of $13,000 on the principal residence and $6,000 for their second home. Assuming they are MFJ, the following breaks down how much mortgage interest they can deduct.

Part I. Qualified Loan Limit

- Line 1: no grandfathered debt
- Line 2 is zero, as no grandfathered debt
- Line 3 is zero, as there is no grandfathered debt
- Line 4 is zero, as Lines 1 and 3 are zero
- Line 5 is zero, as Lines 1 and 2 are zero
- Line 6 is zero, as Lines 4 and 5 are zero
- Line 7: Enter the average balance of all your home acquisition debt. In this case, the total of the average balances for the principal residence and the second home is $1,025,000. ($675,000 + $350,000)
- Line 8: Enter $750,000, as the taxpayers are married, filing jointly.
- Line 9: Enter the larger of the amount on Lines 6 or 8. In this case, Line 8 is the greater amount at $750,000.
- Line 10: Add the amounts on Lines 6 and 7. In this case, that amount is $1,025,000
- Line 11: Enter the smaller of Lines 9 or 10. In this case, Line 9 is $750,000, which is the smaller amount.

Part II. Deductible Home Mortgage Interest

- Line 12: Enter the total of the average balances of all mortgages on Lines 1, 2 and 7. This amount is $1,025,000.
- If Line 11 is less than Line 12, go to Line 13. In this case, Line 11 ($750,000) is less than Line 12 ($1,025,000).
- Line 13: Enter the total amount of interest that you paid on the loans from Line 12. The amount of interest paid on the loans is $19,000; which comes from $13,000 for the principal residence and $6,000 for the second home.
- Line 14: Divide the amount on Line 11 by the amount on Line 12. In this case, it equals 0.732. ($750,000 / $1,025,000)
- Line 15: Multiply the amount on Line 13 by the decimal amount on Line 14. In this case, that amount is $13,908 ($19,000 x 0.732). This is the taxpayers deductible home mortgage interest, which goes on Form 1040, Schedule A, Line 8a
- Line 16: Subtract the amount on Line 15 from the amount on Line 13. In this case, that equals $5,092. ($19,000 - $13,908). Below is a completed Home Mortgage Limit Worksheet.

Form 1040	Home Mortgage Limit Worksheet A	2024

Name: Jim & Janet Smith

Taxpayer Identification Number: ***-**-1111

Part I Qualified Loan Limit

1.	Enter the average balance of all your grandfathered debt. See the line 1 instructions	1.	
2.	Enter the average balance of all your home acquisition debt incurred prior to December 16, 2017. See the line 2 instructions	2.	
3.	Enter $1,000,000 ($500,000 if married filing separately)	3.	1,000,000
4.	Enter the larger of the amount on line 1 or the amount on line 3	4.	1,000,000
5.	Add the amounts on lines 1 and 2. Enter the total here	5.	
6.	Enter the smaller of the amount on line 4 or the amount on line 5 ● If you have no home acquisition debt incurred after December 15, 2017, line 6 is your qualified loan limit. Enter this amount on line 11 and go to Part II, line 12. ● If you have home acquisition debt incurred after December 15, 2017, go to line 7.	6.	
7.	Enter the average balance of all your home acquisition debt incurred after December 15, 2017. See the line 7 instructions	7.	1,025,000
8.	Enter $750,000 ($375,000 if married filing separately)	8.	750,000
9.	Enter the larger of the amount on line 6 or the amount on line 8	9.	750,000
10.	Add the amounts on lines 6 and 7. Enter the total here	10.	1,025,000
11.	Enter the smaller of line 9 or line 10. **This is your qualified loan limit**	11.	750,000

Part II Deductible Home Mortgage Interest

12.	Enter the total of the average balances of all mortgages on all qualified homes. See the line 12 instructions	12.	1,025,000
	● If line 11 is less than line 12, go on to line 13. ● If line 11 is equal to or more than line 12, stop here. All of your interest on all the mortgages included on line 12 is deductible as home mortgage interest on Schedule A (Form 1040 or 1040-SR), line 8a or 8b, whichever applies.		
13.	Enter the total amount of interest that you paid. See the line 13 instructions	13.	19,000
14.	Divide the amount on line 11 by the amount on line 12. Enter the result as a decimal amount (rounded to three places)	14.	0.732
15.	Multiply the amount on line 13 by the decimal amount on line 14. Enter the result. **This is your deductible home mortgage interest.** Enter this amount on Schedule A (Form 1040 or 1040-SR), line 8a or 8b, whichever applies	15.	13,908
16.	Subtract the amount on line 15 from the amount on line 13. Enter the result. **This is not home mortgage interest.** See line 16 instructions	16.	5,092

Deductible Points

			Points reported on Form 1098		Points not reported on Form 1098
17.	Points paid during current year	17.		17.	
18.	Decimal amount from Part II, line 14	18.	0.732	18.	0.732
19.	Points deductible as home mortgage interest	19.		19.	
20.	Points not deductible as home mortgage interest	20.		20.	

Form 1040	Mixed Use Mortgage Worksheets	2024

Name: Jim & Janet Smith

Taxpayer Identification Number: ***-**-1111

Description of loan/property: Principal Residence — Loan Origination Date: 12/10/18 — Unit No. 1

1. Enter the total principal amount paid in 2024	1.	
2. Number of months loan was outstanding in 2024	2.	12
3. Home equity debt NOT used to buy/build/improve home on 12/31/23 (or the first day mortgage was outstanding)	3.	
4. Home equity debt NOT used to buy/build/improve home on 12/31/24 (or the last day mortgage was outstanding)	4.	
5. Grandfather debt balance on 12/31/23 (or the first day the mortgage was outstanding)	5.	
6. Grandfather debt balance on 12/31/24 (or the last day the mortgage was outstanding)	6.	
7. Average balance for 2024 of grandfather debt	7.	
8. Pre-12/16/17 home acquisition/improvement debt balance on 12/31/23 (or the first day mortgage was outstanding)	8.	
9. Pre-12/16/17 home acquisition/improvement debt balance on 12/31/24 (or the last day mortgage was outstanding)	9.	
10. Average balance for 2024 of pre-12/16/17 home acquisition debt	10.	
11. Post-12/15/17 home acquisition/improvement debt balance on 12/31/23 (or the first day mortgage was outstanding)	11.	675,000
12. Post-12/15/17 home acquisition/improvement debt balance on 12/31/24 (or the last day mortgage was outstanding)	12.	675,000
13. Average balance for 2024 of post-12/15/17 home acquisition debt	13.	675,000
14. Average balance for 2024 of all types of debt	14.	675,000

Mixed Use Mortgage Summary

Average balance grandfather debt for 2024; enter the result on Home Mortgage Limit Worksheet A, line 1	
Average balance pre-12/16/17 home acquisition/improvement debt for 2024; enter the result on Home Mortgage Limit Wrk A, line 2	
Average balance post-12/15/17 home acquisition/improvement debt for 2024; enter the result on Home Mortgage Limit Wrk A, line 7	
Average balance of all debt types for 2024; enter the result on Home Mortgage Limit Worksheet A, line 12	

Form 1040	Mixed Use Mortgage Worksheets	2024

Name: Jim & Janet Smith

Taxpayer Identification Number: ***-**-1111

Description of loan/property: Second Home — Loan Origination Date: 06/05/20 — Unit No. 2

1. Enter the total principal amount paid in 2024	1.	
2. Number of months loan was outstanding in 2024	2.	12
3. Home equity debt NOT used to buy/build/improve home on 12/31/23 (or the first day mortgage was outstanding)	3.	
4. Home equity debt NOT used to buy/build/improve home on 12/31/24 (or the last day mortgage was outstanding)	4.	
5. Grandfather debt balance on 12/31/23 (or the first day the mortgage was outstanding)	5.	
6. Grandfather debt balance on 12/31/24 (or the last day the mortgage was outstanding)	6.	
7. Average balance for 2024 of grandfather debt	7.	
8. Pre-12/16/17 home acquisition/improvement debt balance on 12/31/23 (or the first day mortgage was outstanding)	8.	
9. Pre-12/16/17 home acquisition/improvement debt balance on 12/31/24 (or the last day mortgage was outstanding)	9.	
10. Average balance for 2024 of pre-12/16/17 home acquisition debt	10.	
11. Post-12/15/17 home acquisition/improvement debt balance on 12/31/23 (or the first day mortgage was outstanding)	11.	350,000
12. Post-12/15/17 home acquisition/improvement debt balance on 12/31/24 (or the last day mortgage was outstanding)	12.	350,000
13. Average balance for 2024 of post-12/15/17 home acquisition debt	13.	350,000
14. Average balance for 2024 of all types of debt	14.	350,000

Mixed Use Mortgage Summary

Average balance grandfather debt for 2024; enter the result on Home Mortgage Limit Worksheet A, line 1	
Average balance pre-12/16/17 home acquisition/improvement debt for 2024; enter the result on Home Mortgage Limit Wrk A, line 2	
Average balance post-12/15/17 home acquisition/improvement debt for 2024; enter the result on Home Mortgage Limit Wrk A, line 7	1,025,000
Average balance of all debt types for 2024; enter the result on Home Mortgage Limit Worksheet A, line 12	1,025,000

Takeaways

Provision	Impact
Mortgage interest deduction cap ($750,000)	Permanently extended. The TCJA's $750,000 acquisition debt cap now applies to all mortgages after 2017. The pre-2018 grandfathered debt of $1 million is still in effect.
PMI (private mortgage insurance) deductible	Permanently deductible as qualified residence interest starting in tax year 2026; the first time since it expired after 2021.
Applies after 2025	All changes apply to taxable years beginning after Dec. 31, 2025.
Benefits newer homebuyers	Particularly advantageous to post-2017 buyers, especially those with low down payments and PMI, now fully deductible as mortgage interest.

Changes to charitable contributions

New floor of 0.5% imposed on charitable contributions – §70425(a)

This amendment, effective for 2026, introduces a 0.5% floor on the itemized deduction for charitable contributions; it does not affect the additional charitable deduction for non-itemizers. Taxpayers can only deduct the portion of their charitable contributions that exceeds 0.5% of their contribution base (generally, their AGI). Specifically, the revised §170(b)(1) allows individuals to deduct only the amount of total charitable contributions that goes beyond this 0.5% threshold.

This means taxpayers will not receive a tax benefit for the first 0.5% of their contribution base donated to charity. Only amounts contributed beyond this threshold are eligible for a deduction, subject to other existing percentage limitations for charitable deductions.

Example

Mary Ann contributes $1,500 a year to her church. To calculate her new contribution limitation, multiply her AGI of $100,000 by 0.5% (.005) and reduce the original contribution accordingly ($100,000 x .005 = $500). This results in a reduced contribution of $1,000 = $1,500 - $500.

The first $500 of Mary Ann's contribution is a non-deductible amount generated by applying the 0.5% floor to her contribution. The remaining amount over the floor is her new contribution amount.

Note that Mary Ann's contribution to her church is also subject to the existing 60% AGI limitation that historically applies to gifts to 50% organizations such as churches. Her deduction of $1,000, as reduced, is still well under the $60,000 ($100,000 x 60%) that also limits her deductions to these types of organizations.

Summary:

Limitation Applied	Amount Affected	Reason
0.5% floor	$500 disallowed	New rule under amended §170(b)(1)
60% AGI cap	No effect	Deductible portion ($1,000) is within limit

Effective date: Applicable tax years after Dec. 31, 2025.

Cash contributions limitation clarification – §70425(b)

Section 170(b)(1)(G) was updated to clarify the 60% AGI limit for cash contributions to public charities. The maximum deduction for cash contributions remains capped at 60% of the taxpayer's contribution base. Contributions under subparagraphs (A) and (G) of §170(b)(1) are now coordinated explicitly to avoid exceeding combined deduction limits, ensuring consistency in applying the percentage of ceilings across different categories of charitable gifts.

Effective date: Applicable tax years after Dec. 31, 2025.

Charitable deduction for non-itemizers – §70424(a)

Non-itemizing taxpayers may now permanently deduct charitable contributions as a below-the-line reduction to AGI, as long as contributions are made in cash to a public charity and properly substantiated under §170(p).

The maximum deduction for single filers is $1,000 or $2,000 (MFJ), which is effective for tax years after Dec. 31, 2025.

Takeaways

- **New 0.5% floor carryforward opportunities:** Disallowed contributions due to the new floor can still be carried forward if total contributions exceed other applicable deduction limits, preserving the tax benefit in future years.
  - **Planning impact:** Taxpayers with smaller charitable giving patterns or those with income volatility could see deductions reduced or eliminated in low-income years. Planning to bundle donations in alternate years or increase contribution levels may help maximize tax benefits.
- **Consistency across limits:**
  - Updates to §170 ensure the new floor integrates smoothly with existing limitations on cash gifts and other types of charitable contributions, preventing unintended overstatements or conflicts.

- **Charitable deduction for non-itemizers:**
  - This permanent charitable contribution deduction is available for taxpayers who do not itemize.
  - Specifically, the provision amends §170(p) to increase the below-the-line deduction limit for charitable contributions made by non-itemizing individuals:
    - The maximum deduction for single filers increases from $300 to $1,000
    - The maximum deduction for married individuals filing jointly increases from $600 to $2,000
  - The non-itemizers' charitable deduction is a below-the-line deduction, deducted from adjusted gross income in arriving at taxable income (§63(b)(4))

Effective date: The increased and permanent deduction will apply to taxable years beginning after Dec. 31, 2025, ensuring the change becomes effective starting with 2026 tax filings.

Termination of miscellaneous itemized deductions other than educator expenses – §70110

TCJA temporarily suspended miscellaneous itemized deductions subject to the 2% adjusted gross income (AGI) threshold through 2025. These deductions included unreimbursed employee expenses, tax preparation fees, investment expenses and other similar items.

This suspension becomes permanent by removing the sunset provision in §67(g). As a result, taxpayers still cannot deduct a broad range of previously eligible expenses. Specifically, deductions will be disallowed for unreimbursed employee costs, investment advisory fees, union dues, tax prep fees, hobby expenses and safe deposit box fees.

Educator expenses have been added to the definition of what is not a miscellaneous itemized deduction subject to the 2% of AGI floor. Section 62(a)(2)(D) was not repealed. The OBBBA did not specifically modify the existing educator expense deduction limits. The rules for 2025, as established by the IRS under OBBBA, are: 1) Up to $300 for eligible educators in unreimbursed classroom expenses and 2) Up to $600 total for a married couple filing jointly, but no more than $300 for each spouse. As such, educators are presumably still allowed the $300 ($600 MFJ) above-the-line deduction (Form 1040, Schedule 1, Part II, *Adjustments to Income*, Line 11). The scope of who qualifies has also expanded to include not just classroom teachers, but also interscholastic sports administrators or coaches.

Effective date: Applicable tax years after Dec. 31, 2025.

Note: Taxpayers who homeschool their children do not meet the statutory definition of eligible educators and therefore do not qualify for the educator expense deduction.

NATP observation: While OBBBA broadens the scope of educator expenses and excludes them from the definition of disallowed miscellaneous itemized deductions under §67, it does not alter the above-the-line limit of $300 per educator under §62(a)(2)(D) for tax year 2025. Itemization of additional educator expenses above this cap will require IRS clarification starting in tax year 2026.

Limitation on tax benefit of itemized deductions – §70111

Beginning in tax years after Dec. 31, 2025, a limitation to itemized deductions will apply under §68. This provision reduces the tax benefit of itemized deductions for high-income taxpayers by phasing out a portion of those deductions once income exceeds specified thresholds.

Specifically, the reduction equals 2⁄37 of the lesser of:

- The taxpayer's total itemized deductions, or
- The excess of the taxpayer's AGI over the threshold at which the 37% tax bracket begins

As a reference point, the 2024 thresholds for the 37% bracket are approximately $609,350 for single filers and $731,200 for joint filers. As AGI increases beyond these thresholds, affected taxpayers will experience a proportional reduction in allowable itemized deductions, thereby increasing their effective tax liability.

This provision revives a mechanism that was in effect prior to the TCJA and is intended to limit the benefit of deductions for taxpayers in the highest income brackets.

Example: §68 limitation – tax year 2026

Taxpayer profile: Married filing jointly with AGI of $800,000 and total itemized deductions of $50,000

Assumptions and timing:

- Tax year 2026 – using 2025 IRS thresholds (37% bracket starts at $751,600 (MFJ)
- §68 reinstated: deduction reduction equals 2/37 of the lesser of (1) total deductions or (2) tax bracket AGI excess
- AGI excess = $800,000 - $751,600 = $48,400

Step-by-step calculation:

AGI excess over 37% threshold: $48,400

Comparison to itemized deductions:
Lesser of (a) $48,400 or (b) $50,000

Calculate phaseout amount:
2/37 × $48,400 = ($0.05405 × $48,400) ≈ $2,616

Allowable itemized deductions:
$50,000 - $2,616 = $47,384

Notes for tax professionals:

- This example uses 2025 thresholds; actual 2026 numbers may vary. The IRS typically adjusts for inflation near year-end.
- §68 applies a fixed ratio (2/37) to lesser of deductions or AGI tax bracket excess, which simplifies calculation but disproportionately affects higher-income taxpayers.
- Unlike TCJA's full repeal, this reinstated limitation narrows the tax advantage at the top-income levels without fully eliminating itemized deductions.

NATP observation: High-income taxpayers will lose part of their itemized deductions as their AGI rises into the 37% bracket threshold.

Effective date: Applies to tax years beginning after Dec. 31, 2025.

Takeaways

Provision	Effect
Miscellaneous deductions repealed	Permanently eliminates the 2%-of-AGI floor for itemized deductions such as unreimbursed employee expenses and tax prep fees
Expanded educator expense deduction	Allows a full deduction under §162 for educators, coaches, and non-classroom supplies; the $300 cap no longer applies
Restoration of Pease-like limitation	Itemized deductions are reduced by 2⁄37 of the lesser of (1) total deductions or (2) taxable income within the 37% bracket threshold
High-income taxpayers most affected	Limitation begins at the 37% tax bracket threshold (e.g., $751,600 MFJ for 2025) and can significantly reduce itemized deductions
QBI deduction unaffected	The §68 limitation does not apply when computing the §199A QBI deduction
Effective date	Applies to tax years beginning after Dec. 31, 2025

Trump Accounts – §70204

A new long-term savings vehicle, referred to as Trump Accounts, has been established to support financial education, retirement readiness and asset accumulation for individuals under age 18 for whom a valid SSN has been issued. These accounts are structured as modified traditional IRAs under §408(a), incorporating distinct eligibility, contribution and distribution rules designed for minors.

A one-time $1,000 deposit will be made into accounts opened for qualifying children born after Dec. 31, 2024, and before Jan. 1, 2029. Eligibility is restricted to individuals under age 18 (but only those individuals born between the years mentioned above and have a valid SSN will receive a $1,000 deposit). Contributions to Trump Accounts are permitted only while the beneficiary is under age 18, and distributions are prohibited until the calendar year in which the beneficiary turns 18. Additionally, contributions must be explicitly designated as Trump Account contributions at account creation. Following the legislation's enactment, a mandatory 12-month waiting period applies before contributions may begin.

Annual contributions are limited to $5,000 per beneficiary, not including rollovers. This limit is indexed for inflation beginning in 2028 and will be rounded to the nearest $100. Contributions may be made by parents, employers, charitable organizations and governmental bodies, subject to the annual contribution limit. Employer contributions on behalf of minor employees are excludable from gross income under the newly added §128. Charitable and government entities may also make general funding contributions based on specified eligibility requirements, such as birth year or geographic region.

Earnings on investments within Trump Accounts grow tax-deferred. While the accounts generally follow traditional IRA treatment, additional IRS guidance is expected to clarify tax implications upon distribution. Permissible investments are restricted to mutual funds and indexed ETFs, reinforcing the program's long-term, education-focused savings intent.

To encourage early adoption, §6434 establishes a contribution pilot program that offers a $1,000 nonrefundable tax credit to initiate a Trump Account for eligible children born between Jan. 1, 2025, and Dec. 31, 2028. A total of $410 million has been appropriated to fund this program, available through Sept. 30, 2034.

Example

Emma is born in 2026. Her parents elect to open a Trump Account.

- When she is born, the Treasury deposits a $1,000 pilot program credit into her account.
- Her parents contribute $2,500 annually.
- At ages 16 and 17, her employer contributes $2,500 each year while she works a summer job. Employer contributions are authorized under §128 and excluded from her gross income.
- Over 17 years, total contributions equal approximately $50,000.
- Funds are invested in an appropriate index fund.
- At 18, she begins using the Trump Account for any purpose.

Impact: By age 18, Emma has accumulated more than $70,000 in tax-deferred savings, funded through family, employer and public contributions, without incurring personal tax liability.

Example:

Noah, born in 2027, has a Trump Account, however:

- His family contributes $7,000 in a single year, exceeding the $5,000 annual contribution limit
- At age 16, they attempt to withdraw $2,000 from the account to purchase a laptop

Outcome:

- The excess contribution results in a 100% tax on earnings attributable to the excess amount
- The early withdrawal is not permitted and may be subject to penalties under §530A(f)

Treatment of contributions for tax purposes

- The investment in the contract under §72 excludes:
  - Government-funded pilot contributions under §6434
  - Charitable/governmental contributions under §139J
  - Employer contributions under §128
- This exclusion affects how taxable amounts are calculated upon distribution.

Features of the Trump Account

- Employer and charitable contributions may be excluded from the beneficiary's gross income if eligibility requirements are met.
- Investment earnings grow tax-deferred, and qualified distributions are not taxable.
- Trustees are subject to strict reporting, compliance and recordkeeping requirements under §530A(i).
- Anti-fraud penalties apply to improper or fraudulent claims of the $1,000 contribution credit under §6434, including penalties under §6659.

In addition to its core structure as a child-focused, tax-advantaged savings account, the Trump Account established under §530A includes highly specific contribution, custodianship, reporting and distribution rules. The following table distills statutory references and compliance conditions essential for accurate interpretation and administration.

Topic	Provision Summary	Statutory Reference (H.R. 1 §)
Qualified distributions	Allowed beginning in the year the beneficiary turns 18. Must be used for IRS-defined purposes such as education, first-time home purchase, or disability expenses.	§530A(d)(1)-(2), §530A(e)(2)(C)
Contribution limit	$5,000 per year per beneficiary (non-exempt); adjusted for inflation after 2027. Exempt contributions include rollovers, §6434 deposits and §139J gifts.	§530A(c)(2), (c)(2)(B), (c)(2)(C)
Excess contribution penalty	6% excise tax under §4973(b) unless corrected timely. If not corrected, a 100% tax on earnings attributable to excess may apply.	§530A(h)(5), §4973(b); §530A(d)(5)(C)
Correction of excess	Excess may be distributed before tax filing deadline; distribution is not taxable, but earnings on the excess may be taxed at 100% if not timely corrected.	§530A(d)(5)(A)-(C)
Custodianship and ownership	Until age 18, accounts are custodial under §408(h). Control resides with parent/ guardian. After age 18, beneficiary gains access/control.	§530A(h)(2), §408(h)
Third-party contributions	Employer contributions excluded up to $2,500/year under §128; qualified gifts from charities or governments excluded under §139J.	§128(a)-(b), §139J(a)-(b), §530A(c)(2)(B)(ii)-(iii)
Rollover rules	Trustee-to-trustee only. Must transfer entire account balance. Rollovers allowed to other Trump Accounts or to ABLE accounts at age 17.	§530A(d)(3), (d)(4), (e)
Post-17 reporting	Trustee reporting ends in year beneficiary turns 17, unless rollover or death occurs. Must still report fair market value and all distributions.	§530A(i)(1)-(3)
Death of beneficiary	Trump Account ceases to exist upon death. Account treated as inherited IRA; FMV included in income of heir or estate.	§530A(d)(6)(A)-(C)
Prohibited investments	No investments allowed other than mutual funds or indexed ETFs before age 18.	§530A(b)(1)(C)(iii), §530A(e)(3)
Interaction with other plans	Contributions to Trump Accounts do not reduce IRA contribution limits for the minor or others.	§530A(h)(3), silent on 529/ESA integration
Fraud penalties	Fraudulent claims for §6434 credit are subject to accuracy- and fraud-based penalties, including §6662 and §6663.	§6434(h), §530A(d)(2)(C), §6693, §6662, §6663

§529 plans

§529 expansion of qualified expenses for K-12 education – §70413

Modifications to §529 plans in this section are two-fold: expansion of the scope of eligible expenses and an increase in the cap on annual §529 plan distributions for K-12 tuition. The limit increases from the previous $10,000 per student to $20,000 per student. This higher limit provides families with substantially more flexibility to fund private or alternative schooling using their §529 savings.

Newly eligible K-12 expenses include:

- Tuition at public, private or religious schools
- Curriculum, books and online materials
- Tutoring or external educational classes, if the instructor is qualified and not related to the student
- Standardized testing fees, such as AP exams or SAT/ACT
- Dual enrollment fees for college courses taken in high school
- Educational therapies for students with disabilities (e.g., speech, physical therapy)

Effective date: Taxable years after July 4, 2025. The increase to $20,000, applies to tax years after Dec. 31, 2025.

New coverage for postsecondary credentialing expenses – §70414

The OBBBA expands §529 plan coverage to include expenses related to obtaining industry-recognized postsecondary credentials as qualified higher education expenses under §529(e)(3)(C), adding them to the list formally reserved only for traditional college expenses.

Newly eligible postsecondary credential expenses:

- Tuition, fees and materials for approved training programs
- Testing fees for credential or license exams
- Continuing education is needed to maintain credentials

Qualifying programs must be:

- On a state-approved workforce list under §122(d) of the *Workforce Innovation and Opportunity Act*
- Listed in the Veterans Benefits Administration's WEAMS directory
- Examination is required to obtain or maintain the credential widely recognized as providing reputable credentials in the occupation

- Certified by the Secretary, after consultation with the Secretary of Labor as being a reputable program for obtaining a recognized postsecondary credential

Qualifying credentials include:

- Industry-recognized certificates or licenses
- Apprenticeship completion certificates
- Occupational or professional licenses issued by a state or the federal government
- Credentials recognized under the *Workforce Innovation and Opportunity Act*, Section 3

Effective date: Applies to §529 distributions made after July 4, 2025.

Takeaway

These provisions significantly expand the flexibility and utility of §529 accounts, allowing families to use funds not only for college, but also for K-12 education, vocational training, credentialing and licensing programs.

Note: The new law does not allow §529 plan funds to be used for homeschooling expenses. Even though it expands the scope of qualified education costs for other types of schooling, it omits homeschool costs such as curriculum or materials. Families who homeschool won't be able to use §529 funds for those expenses under these amendments.

Adoption credit

Enhancement of the adoption credit – §70402

Refundability added

Under prior law, the adoption credit under §23 was nonrefundable, meaning it could only reduce tax liability to zero. Any unused amount could be carried forward for up to five years.

Beginning with tax years after Dec. 31, 2024, up to $5,000 of the adoption credit is refundable annually, even if a taxpayer has no tax liability. If a taxpayer adopted two children in the same year, the total amount of refundable adoption credit is $5,000 total, rather than $5,000 per child. Any credit above $5,000 remains nonrefundable and subject to carry forward under existing rules which limit the nonrefundable portion of the carryforward to five years. The maximum adoption credit for 2025 is $17,280 (inflation-adjusted) per child. For 2025 the income phaseout begins at $259,190 and the credit is eliminated once a taxpayers MAGI is at $299,190 and will be adjusted for inflation thereafter.

Effective date: Applicable for tax years beginning after Dec. 31, 2024.

Inflation adjustments modified

Previously, the adoption credit and related income phaseout thresholds were indexed for inflation using 2001 as the base year. The amendment maintains these adjustments but adds a special inflation adjustment for the new $5,000 refundable portion, using 2024 as the base year with indexing beginning in 2025.

If the inflation-adjusted amounts are not multiples of $10, they will be rounded to the nearest $10.

Carryforward rules clarified

The refundable portion of the credit may not be carried forward; only the nonrefundable portion may be applied to future tax years.

The first $5,000 of the adoption credit (as made refundable by the OBBBA starting in 2025) is refundable only in the year it is claimed. If the taxpayer doesn't use it that year, (for instance, if they don't file or miss the tax deadline) it cannot be carried forward. In this case, the refundable portion of the adoption credit is lost.

Effective date: Applicable for tax years beginning after Dec. 31, 2024.

Expansion of special needs adoption

Section 70403 authorizes Indian tribal governments to determine whether a child qualifies as having special needs for purposes of the adoption credit. This determination is not based on a uniform federal definition. Instead, the definition of a child with special needs is established at the state level, and it varies by state. Taxpayers must refer to the specific criteria set by the relevant state or tribal authority to determine whether a child meets the special needs requirements for the credit.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Individual alternative minimum tax (AMT) exemption amounts permanently increased and phaseout thresholds modified – §70107

Changes to the individual AMT regime include maintaining the higher exemption amounts set by TCJA, setting the exemption phaseout threshold at $500,000 for single taxpayers ($1 million MFJ) and increasing the phase-out rate for higher-income taxpayers from 25% to 50%.

An individual's AMT liability is calculated by subtracting an exemption amount from their alternative minimum taxable income (AMTI). Exemption amounts are phased out above certain income thresholds at a statutory rate.

The individual AMT exemption amounts, $109,400 for joint filers and $70,300 for single filers, will continue to be adjusted for inflation. The new law clarifies that inflation indexing for the exemption amounts will be based on 2017, while the $1 million phaseout threshold for joint filers will be adjusted using 2025 as the base year.

In addition to these structural updates, the phaseout of the AMT exemption is accelerated. The reduction rate is increased from 25% to 50%, meaning that for each dollar of income above the phaseout threshold, the exemption amount is now reduced by 50 cents instead of 25 cents. This change effectively compresses the range over which the exemption phases out, potentially subjecting higher-income taxpayers to greater AMT liability more quickly.

Effective date: These modifications take effect for tax years beginning after Dec. 31, 2025.

Takeaways

Change	Impact (per AMT provisions in H.R. 1)
AMT exemption made permanent	Locks in post-TCJA exemption amounts; ensures most middle-and upper-middle-income taxpayers continue to avoid AMT liability
AMT phase-out rate increased to 50%	Higher-income taxpayers lose the exemption more rapidly; significantly increases AMT exposure for upper-income individuals
Inflation indexing clarified	Codifies annual cost-of-living adjustments using Chained CPI; maintains real value of exemption and phase-out thresholds over time
Effective beginning in 2026	Prevents automatic reversion to 2017 exemption levels; provides stability beyond TCJA sunset

Estate and gift tax exemption – §70106

The estate and gift tax exemption under §2010 was increased to $15 million and made permanent. The amount will be indexed for inflation using updated reference years, such as 2025, for tax years starting in 2026.

Takeaways

Provision	Effect
Base exemption raised	From $5 million→ to $15 million, starting in 2026
Sunset prevented	Makes TCJA-level estate/gift exemptions permanent and expanded
Major tax savings	Benefits estates and gifts above ~$6-7 million
Who benefits?	High-net-worth individuals, family business owners, farmers, and estate planners
Inflation-adjusted	Like before, but now from a much higher base ($15 million vs. $5 million)

Casualty losses

The OBBBA made three changes to casualty losses. Those changes are:

- Extending the limitation on personal casualty losses to those only due to a federally declared disaster
- Allowing state-declared disasters to qualify
- Extending the treatment for qualified disaster losses

Each of these provisions will be discussed in the Casualty and Theft Losses section of this text.

Takeaways:

Provision	Effect
TCJA limitation extended	Casualty losses are only deductible in declared disasters, made permanent
State-declared disasters allowed	Broadens eligibility beyond federal disasters
Starts in 2026	Applies to losses from tax year 2026 onward

Sunsetting of individual green energy tax credits – §§70501-70506

Several high-profile energy-related tax credits, many of which were recently expanded or reinstated, are scheduled for repeal under OBBBA. These changes may impact tax planning for electric vehicle purchases, residential solar systems and energy-efficient home improvements. The expiration of these incentives reduces the availability of energy-related tax savings after 2025.

Tax professionals should take note of the key termination dates and advise clients accordingly as these provisions wind down.

The table below summarizes the repeal of select energy-related tax credits and deductions under H.R. 1. Each provision has a distinct effective date for its phaseout or repeal, affecting eligibility for both individuals involved in clean energy investments and installations.

Note: Fact Sheet 2025-05 released on Aug. 21, 2025, contains additional information regarding the expiration of energy credits.

Credit	Termination Rule	Practical Cut-Off
Clean vehicle credit	Ends for vehicles acquired after Sept. 30, 2025	Binding contract before deadline may still qualify if delivery in 2026
Previously owned clean vehicle Credit	Ends for vehicles acquired after Sept. 30, 2025	Same acquisition rule as new clean vehicle credit
Residential clean energy credit	Ends for expenditures made after Dec. 31, 2025	Payment and work must be made by deadline
Energy efficient home improvement credit	Ends for property installed after Dec. 31, 2025	Must be fully installed/ usable by deadline
Alternative fuel vehicle refueling property credit	Ends for property installed & operational after June 30, 2026	Must be installed and functional by deadline

Determining factors:

Clean vehicle credit

- Credit terminated for vehicles acquired after Sept. 30, 2025
- Under the new rule, the credit ends for vehicles **acquired (purchased)** after Sept. 30, 2025. "Placed in service" typically refers to the date the taxpayer accepts delivery of the vehicle. Therefore, for this credit, if a taxpayer enters into a binding contract to acquire a vehicle before Sept. 30, 2025 and a payment on or before Sept. 30, but takes delivery in 2026, the credit could still apply.

Previously owned clean vehicle credit

- Credit terminated for vehicles acquired after Sept. 30, 2025

Residential clean energy credit (solar-related)

- This credit is based on when the work is finished, not when it is paid for.
- If the installation of clean energy property is completed after Dec. 31, 2025, the credit is not available, even if you paid in full before that date.
- For projects involving the construction or reconstruction of a home, the credit applies only if your first use of the home begins on or before Dec. 31, 2025.
- To qualify for the credit, the work (installation or original use of the home) must be finished by the end of 2025. Prepaying for property or construction before that date will not lock in the credit.

Energy efficient home improvement credit

- Credit terminated if installed after Dec. 31, 2025 (not merely purchased or contracted). Installation must be completed and available to use by Dec. 31, 2025. Work completed after this date would not be eligible, even if contracted earlier.

Alternative fuel vehicle refueling property credit

- Credit terminated if fully installed and available to use, after June 30, 2026. To qualify, equipment must be fully installed and functional by June 30, 2026.

Extension and modification of qualified transportation fringe benefits – §70112

The $20/month qualified bicycle commuting reimbursement under §132(f) is eliminated after Dec. 31, 2025. The Section is streamlined by removing outdated and seldom-used fringe benefit provisions. Additionally, the base year for inflation adjustments to fringe benefit limits (e.g., for transit passes and qualified parking) is changed from 1998 to 1997, leading to minor adjustments in future annual limits.

Additionally, §274 is revised to simplify and reinforce the disallowance of employer deductions for transportation fringe benefits. Redundant language, including provisions specific to bicycle reimbursements, is removed to create a more cohesive framework.

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

Key takeaways

- The bicycle commuting reimbursement is no longer excludable from employee income.
- Transit and parking benefits remain excludable under §132(f).
- Employers remain ineligible to deduct the cost of these benefits, continuing the *Tax Cuts and Jobs Act* (TCJA) policy under §274(a)(4).

Extension and modification of limitation on deduction and exclusion for moving expenses – §70113

The TCJA suspended the exclusion from gross income for most taxpayers' employer-paid moving expenses under §132(g). From 2018 onward, only active duty Armed Forces members who moved pursuant to a military order and incident to a permanent change of station were eligible for the exclusion.

The OBBBA expands the exclusion to include certain members of the U.S. intelligence community, as defined by the *National Security Act of 1947*. These individuals may now exclude employer-paid or reimbursed moving expenses from income if the move is made pursuant to an official transfer or assignment, aligning their treatment with that of active-duty military personnel.

Effective date: Tax years after Dec. 31, 2025.

Takeaways

Provision	Impact
Deduction suspended for most	Ordinary taxpayers can't deduct moving expenses
Exception for intelligence employees	New eligibility group added (same treatment as military)
Employer reimbursements taxable	Unless you're military or in the intelligence community
Applies from 2026	Extension of TCJA rule becomes permanent

Extension and modification of limitation on wagering losses – §70114

Beginning in 2026, the tax rules for gambling losses are more restrictive. The prior rule under §165(d), which allows deductions for gambling losses up to the amount of winnings, is replaced by a two-part limitation.

First, taxpayers may deduct only 90% of their yearly gambling losses. Second, those deductible losses cannot exceed total gambling winnings, maintaining a key restriction from prior law. For instance, if a taxpayer has $10,000 in losses and $12,000 in winnings, only $9,000 (90% of losses) is deductible. If winnings are just $8,000, the deduction is capped at $8,000.

The new law also broadens what counts as a wagering loss. Any expense tied to gambling activity, such as travel, admission fees and lodging, falls under the same 90% and winnings-based limits.

Wagering losses can still only be a miscellaneous itemized deduction on Form 1040, Schedule A, under §165(h). This Section is not available to non-itemizers.

Note: There is a new bill introduced that would reverse this legislation. The FAIR BET Act would repeal the 90% limitation and restore a full 100% deductibility of gambling losses. However, as of this writing, the Senate Republicans have blocked attempts to undo the 90% cap.

NATP observation: Previously, only direct losses from bets were limited; now, related gambling expenses such as travel, lodging and admission fees contribute towards the 90% cap.

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

Takeaways

Provision	Summary
New cap	Only 90% of total gambling-related losses may be deducted.
Still capped by winnings	Deduction may not exceed total gambling winnings for the year.
Expands scope	Now includes expenses incurred in conducting gambling, such as travel, lodging and fees.
Starts in 2026	Applies to both casual and professional gamblers, beginning after Dec. 31, 2025.

ABLE accounts

Extension and enhancement of increased limitation on contributions to ABLE account – §70115

The increased contribution limits introduced initially by TCJA are now permanent. Beneficiaries who are employed may continue to contribute an additional amount to their Achieving a Better Life Experience (ABLE) account, beyond the standard annual contribution limit tied to the gift tax exclusion (e.g., $19,000 for 2025). The additions equal the lesser of the federal poverty line for a one-person household or the individual's compensation includable in gross income. The amounts for the federal poverty line and the gift tax exclusion are adjusted annually.

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

Extension and enhancement of saver's credit allowed for (ABLE) contributions – §70116

The saver's credit, a nonrefundable credit under §25B designed to encourage retirement savings among low- and moderate-income individuals, is permanently extended to include ABLE account contributions. This parity with IRA and 401(k) contributions increases the attractiveness of ABLE savings for eligible individuals. OBBBA introduces an additional calculation formula for qualified retirement contributions, elective deferrals and voluntary employee contributions made in tax years prior to 2027. Beginning in the 2027 tax year, it increases the credit amount to $2,100, amending §25B(d)(1).

The *Setting Every Community Up for Retirement Enhancement Act* (SECURE) 2.0 replaced the traditional saver's credit with the saver's match, a government contribution that phases in starting in 2027. To restore consistency, OBBBA permanently reinstates the saver's credit for contributions to ABLE accounts, extending eligibility beyond the previous sunset of Dec. 31, 2025.

Extension of rollovers from qualified tuition programs in ABLE accounts permitted – §70117

Individuals may roll over funds from a §529 college savings plan into an ABLE account without tax or penalty if the ABLE account is owned by the designated beneficiary of that §529 account or a member of the designated beneficiary's family. This provision was made permanent, amending §529(c)(3)(C)(i)(III). Rolled-over amounts count toward the overall limitation on amounts that can be contributed to an ABLE account within a tax year.

Effective dates: The ABLE provisions, except for the increase in the saver's credit amount, will apply for tax years beginning after Dec. 31, 2025. The increase in the saver's credit amount is effective for tax years beginning after Dec. 31, 2026.

Extension of Sinai Peninsula combat zone and additions – §70118

Effective Jan. 1, 2026, military personnel stationed in the Sinai Peninsula will permanently qualify for combat zone tax benefits. With the removal of the expiration clause, income earned during Sinai service can now be permanently excluded from federal income taxation.

In addition to solidifying the Sinai designation, the legislation broadens the scope of hazardous duty areas eligible for tax exclusions. Service members stationed in Kenya, Mali, Burkina Faso and Chad will be treated similarly for any period during which hostile fire or imminent danger pay is authorized under 37 U.S.C. §310. These countries are added to the list of qualified areas, granting affected personnel access to the same tax benefits available in formal combat zones.

The provision also streamlines the statute by eliminating expired and redundant subsections (c) and (d) from the original law (§11026).

Takeaways

Provision	Effect
Sinai tax benefit made permanent	Military members continue to receive combat-zone-like tax treatment indefinitely.
Expanded zones	Kenya, Mali, Burkina Faso and Chad added as eligible tax-exclusion locations.
Eligibility tied to danger pay	Benefits apply only during periods when special pay is authorized.
Effective 2026	Applies to service from tax year 2026 onward.

Extension and modification of exclusion from gross income of student loans discharged on account of death or disability – §70119

Section 108(f)(5) is amended to permanently exclude from gross income certain student loan discharges resulting from the borrower's death or total and permanent disability. Under the *American Rescue Plan Act*, this exclusion was temporary and set to expire after 2025. The new provision removes the expiration date, making the exclusion permanent.

The exclusion applies to a broad range of education loans; it is not limited to federal forgiveness programs.

The exclusion applies broadly to:

- Federal student loans under *Title IV of the Higher Education Act of 1965*, including direct loans and Perkins loans
- Private education loans as defined under 15 U.S.C. §1650(a)

The borrower's SSN must be included on the taxpayer's return to qualify for the exclusion. Failure to report the SSN may be treated by the IRS as a mathematical or clerical error, potentially disqualifying the exclusion unless corrected.

Effective date: This provision applies to discharges after Dec. 31, 2025.

Takeaways

Provision	Summary
Income exclusion	Made permanent for loans discharged due to death and permanent disability
Inclusion of private loans	Expansion beyond federal loans
SSN requirement	Mandatory to prevent exclusion denial
Effective date	Applies to discharged loans after Dec. 31, 2025

The table below summarizes the changes as a result of the OBBBA.

Category	Pre-H.R. 1	Post-H.R. 1 Reform	Key Dates	Tax/Planning Implications
Repayment plans	Multiple IDR options (SAVE, PAYE, ICR)	Only two plans: Fixed-term (10-25 yrs) and new RAP (1%-10% of income, forgiveness after 30 years)	New loans: July 1, 2026 (Std/ RAP); Legacy IDR transition window through July 2028	Higher lifetime costs; fewer forgiveness paths; more rigid repayment
Forgiveness programs	PSLF & IDR-based forgiveness at 10-25 yrs	Proposed: PSLF eligibility narrowed; RAP forgiveness only after 30 years	Immediate phase-out starts; 2028 full transition	PSLF access uncertain; delayed discharge increases total repayment
Loan limits	Parent/Grad PLUS up to full cost of attendance	Caps: Parent PLUS – $20K/yr, $65K total; Grad PLUS – up to $200K for profes-sional degrees with no new borrowers	July 1, 2026	Limits federal borrowing; increased private loan reliance
Deferment and forbearance	Economic hardship/ unemployment deferment available; generous forbearance	No deferment for new borrowers post-2027; forbearance capped at 9 months per 2 years	July 1, 2027	Increases financial pressure during crises; less flexibility
Interest accrual	SAVE paused interest	Interest resumes on all loans	Aug. 1, 2025	Ballooning balances for those who don't pay interest monthly
Tax on forgiven debt	Forgiven debt excluded from income under ARPA	Taxable again for discharges post-Dec. 31, 2025	Dec. 31, 2025	Clients face tax bills on forgiven balances starting 2026
Institutional account-ability	Broad eligibility for aid	Schools with poor outcomes may lose access to federal loans	Ongoing	Limited access to loans may impact school selection
Pell Grant access	Included part-time and vocational	No change to less-than-half-time Pell in final law. Adds "Workforce Pell Grants" for eligible workforce programs (no graduate students)	Immediate	Fewer grant pathways; reduced affordability for nontraditional students

Tax credit for contributions of individuals to scholarship-granting organizations (SGO) – §70411(a)

This is a new tax credit, designed to incentivize private donations to state-governed organizations that help eligible students pay for elementary and secondary education expenses. The credit is non-refundable, capped at $1,700 and lowers taxable income for donors. If a donor also claimed a state-level credit for the same contribution, the federal credit will be reduced accordingly. Donors also can't double-dip by taking a charitable deduction on the same gift. However, if the credit exceeds the donor's tax liability in a given year, they may carry it forward for up to five years.

The technical details include important facts about the new credit:

- Donors must contribute to SGOs certified by a covered state, a state that opts into the program and submits a list of eligible SGOs to the IRS via its governor or authorized official. Donations to SGOs not on the IRS-approved list do not qualify.
- Only cash donations qualify.
- These contributions must support scholarships for K-12 students from households earning up to 300% of the area median gross income (AMGI), as defined in §42.
- Scholarships must be used for qualified elementary and secondary education expenses under §530(b)(3)(A), including tuition, books, supplies, tutoring and special needs services.
- The maximum annual credit is $1,700 per taxpayer and is reduced by any state tax credits received for the same contribution.
- Only U.S. citizens or residents may claim the credit.

Eligible SGOs

Eligible SGOs must be §501(c)(3) tax-exempt entities that are not private foundations. They must maintain separate accounts for §25F contributions, distribute at least 90% of their annual income as scholarships and award aid to at least 10 students attending more than one school. Awards cannot be earmarked for specific students. SGOs must also verify the income eligibility of recipients each year and are prohibited from awarding scholarships to disqualified persons under §4946, such as donors and their family members.

Taxpayers may not claim a charitable deduction under §170 for any donation that receives a §25F credit. However, unused credit amounts may be carried forward for up to five years, with usage governed by a first-in, first-out (FIFO) rule.

The IRS is responsible for issuing regulations that oversee SGO compliance, enforce operational standards and guide state certification and reporting processes.

Takeaways

- §25F incentivizes private donations to help fund school choice options for low- and middle-income students.
- Participation is state-optional. Only SGOs listed by a covered state are eligible, giving states a gatekeeping and compliance role.
- The credit is designed to expand access to K-12 education opportunities beyond public schools.
- The program is structured to ensure transparency and equity, and prevent abuse through strict income limits, anti-self-dealing provisions and recordkeeping.

Scholarships for qualified elementary or secondary education expenses of eligible students – §70411(b)

Section 139K introduces a new federal gross income exclusion for K-12 SGO-granted scholarships received by a taxpayer or on behalf of their dependent if specific criteria are met. The exclusion applies to funds awarded by a qualified state scholarship-granting organization and used for eligible elementary or secondary education expenses, including tuition, fees, tutoring, transportation and services for students with special needs.

Importantly, the exclusion is available regardless of whether the scholarship is paid directly to the educational institution or reimbursed to the taxpayer.

Section 139K is coordinated with proposed §25F, which provides an individual credit for contributions to SGOs. To prevent taxpayers from receiving multiple benefits for the same contribution, the provision disallows a charitable deduction under §170 for any contribution that generates a credit under §25F.

Several key definitions in §139K are incorporated by reference from §25F(c):

- Qualified education expenses mirror those found in §530(b)(3)(A) and include tuition, books, supplies, tutoring, transportation and similar items.
- An eligible student must reside in a household with income at or below 300% of the area's median gross income (AMGI) and be eligible to attend a public K-12 school.
- An SGO must be a §501(c)(3) public charity (excluding private foundations), devote at least 90% of its income to scholarships, verify household income and be certified by a state designated as a covered state under §25F.
- Section 139K will be codified in Chapter 1, Subchapter B, Part III, of the Internal Revenue Code, which governs income exclusions. The provision applies to tax years ending after Dec. 31, 2026, and excludes scholarship amounts received after that date.

Takeaways

- Section 139K enhances educational access by removing tax liability on scholarship funds for K-12 expenses.
- It works with the §25F credit, encouraging private giving and state-facilitated scholarship programs.
- It applies only to approved SGOs in participating states, ensuring oversight and compliance.

Exclusion for employer payments of student loans – §70412(b)

Employer-provided educational assistance under §127 was made permanent. Prior to this change, §127 allowed employers to exclude up to $5,250 per year in educational assistance from an employee's taxable income. This amount was temporarily expanded to include student loan repayment through the end of 2025. These are payments by the employer, whether paid to the employee or to a lender, of principal or interest on any qualified higher education loan as defined in §221(d)(1) for the education of the employee (but not of a spouse or dependent) [§127(c)(1)(B)]. In addition, beginning in 2027, the $5,250 annual exclusion limit is adjusted for inflation. The adjustment will be based on the cost-of-living index under §1(f)(3), using 2025 as the base year. Any increases will be rounded to the nearest $50.

Takeaways

- This change makes the employer-provided student loan benefit a permanent, tax-free employee perk.
- Starting in 2027, the maximum annual exclusion will be inflation-adjusted.

SSN requirement for American opportunity and lifetime learning credits – §70606(a)(1)(A)

New documentation standards are required for taxpayers claiming the American opportunity tax credit (AOTC) and the lifetime learning credit (LLC) for tax years beginning after Dec. 31, 2025. Previously, a taxpayer identification number (TIN) was required; but now, to claim either the AOTC or LLC, the taxpayer must provide a valid SSN for themselves. This excludes students with ITINs who are not eligible for SSNs. If the student for whom the credit is claimed is not the taxpayer or the taxpayer's spouse, that student's SSN must also be reported. These SSNs must meet the definition under §24(h)(7), meaning they must be issued by the Social Security Administration by the due date of the return (including extensions). Note, again, that ITINs and other non-SSN identifiers do not satisfy this requirement.

In addition, for purposes of the AOTC, taxpayers must also report the employer identification number (EIN) of the educational institution to which qualifying tuition and related expenses were paid. If the taxpayer fails to include a required SSN or EIN, the omission will be treated as a mathematical or clerical error under §6213(g)(2)(J).

Takeaways

- If paying for someone else (e.g., grandchild or sibling), their SSN is also required.
- Verify and enter valid SSNs and EINs when preparing returns claiming education credits.
- Be aware that returns missing this data may be rejected or credits denied without appeal options unless corrected.

Premium tax credit

8.5% of household income provision ends Dec. 31, 2025 (Not a provision of the OBBBA)

The *American Rescue Plan Act* (ARPA) and the *Inflation Reduction Act* (IRA) temporarily removed the 400% of the federal poverty line (FPL) cutoff, making subsidies available even above that line. It allowed premium subsidies if the premiums paid by the taxpayer were greater than 8.5% of income, even if the taxpayer was above 400% FPL.

These enhanced premium tax credit (PTCs) rules expire at the end of 2025.

Beginning in tax year 2026, only individuals and families with income between 100% and 400% of the FPL are eligible for the credit.

If MAGI exceeds 400% of FPL, the taxpayer will lose the credit altogether, even if the taxpayer's plan premiums paid are over 8.5% of the taxpayer's income. For those under 400% FPL, the maximum household contribution remains at 8.5% of MAGI for benchmark silver plans.

Example: calculation before expiration of 8.5%

Total income: $150,000

Total premiums paid: $14,500

Family size: 2

Lives in Michigan

As they live in Michigan, the taxpayer will use Table 1.1 from Form 8962, *Premium Tax Credit*, instructions. With a family size of 2, per Table 1.1, this amount is $19,720. This amount is multiplied by 4, which equals $78,800. As this amount is less than the $150,000 of income, the taxpayers are above 400% of FPL.

The taxpayers paid $14,500 in premiums. 8.5% of income is $12,750. As the total premiums paid are greater than 8.5% of income, the taxpayer can still receive the premium subsidies even if their FPL is above 400%.

Example: calculation after 2025

- The income, premiums paid, family size, and where they live are the same as the above
- The FPL is above 400%
- The insurance premiums paid are above 8.5% of income

As the FPL is above 400%, premium subsidies are not allowed even if the premiums paid are above 8.5% of income.

Requiring verification of eligibility for the premium tax credit – §71303

Recent changes to §36B impose new verification requirements that directly affect when an individual may be treated as having a coverage month for purposes of the PTC. Under the updated rules, an individual is not considered to have a coverage month unless the Health Insurance Exchange confirms several key eligibility factors. These include verification of household income, family size, lawful presence, residency and eligibility for minimum essential coverage. The Secretary of Health and Human Services may also prescribe additional verification factors.

Importantly, if eligibility is verified after the initial enrollment, the law permits retroactive treatment of earlier months as valid coverage months. Once verification is complete, the individual can claim the PTC for those months. However, until these eligibility requirements are confirmed, no credit is available, even though individuals are not barred from enrolling in a qualified health plan. Enrollment is still permitted; it is only the advance payment or claim of the credit that is suspended pending verification.

The system is flexible enough for special enrollment scenarios. Specifically, the IRS may waive certain verification requirements in cases involving changes to family size, such as marriage or the birth of a child.

A separate provision in §36B(c)(6) disallows the credit for any month when the exchange fails to meet federal data reporting standards. Thus, even if an individual meets all personal eligibility criteria, the failure of the exchange to properly report data may disqualify a month from PTC eligibility.

Looking ahead, a new requirement will strengthen the pre-enrollment verification process in 2028. Beginning that year, exchanges must implement a mechanism for applicants to verify eligibility prior to enrollment, with the verification window opening no later than Aug. 1 of the preceding calendar year.

Effective date: Taxable years beginning after Dec. 31, 2027.

Implication: This imposes stricter up-front controls to prevent improper PTC payments by ensuring eligibility is proven before credits are granted. It mirrors income verification rules for other federal benefits.

Disallowing premium tax credit in case of certain coverage enrolled in during special enrollment period – §71304

Healthcare.gov and many state marketplaces currently provide a year-round special enrollment period (SEP) for taxpayers whose household income doesn't exceed 150% of the FPL. This low SEP is available even if the taxpayer hasn't experienced a life event or change of circumstances, such as marriage, divorce, birth, etc.

With the changes in the OBBBA, individuals who gain access to a special enrollment period (SEP) solely due to income projections, without experiencing a qualifying life event, are no longer eligible for the PTC. This applies to SEPs triggered by income-based criteria rather than a concrete life change.

For example, if a taxpayer enrolls in a health plan through an SEP merely because their income is projected to fall below 150% of the federal poverty line but has not experienced a life event such as job loss, divorce or relocation, they are disqualified from claiming the PTC.

This provision intends to curb potential abuse of SEPs to obtain subsidized health coverage without a legitimate change in circumstances. By narrowing eligibility, the rule reinforces that PTCs are intended to assist individuals facing specific, verifiable life changes, not those enrolling based solely on income level.

Effective date: Applicable to tax years after Dec. 31, 2025.

Implication: It reduces the risk of SEP abuse to obtain subsidized coverage without real eligibility. It also limits PTCs to those enrolling due to specific, documentable life changes.

Eliminating limitation on recapture of advance premium tax credit (APTC) – §71305

Beginning after Dec. 31, 2025, taxpayers will no longer benefit from repayment caps on excess APTCs. Under current law, individuals who receive more APTC than they are ultimately eligible for, often due to underestimating income, are subject to repayment limits based on their income level. These limits, designed to protect lower-income taxpayers, are codified under §36B(f)(2)(B).

The repeal of this provision eliminates the income-based caps. As a result, all taxpayers, regardless of income, must repay the full amount of any excess advance premium tax credit received. The OBBBA does not eliminate the APTC. However, for tax year 2025, the existing caps still apply based on income levels (e.g., capped repayment for individuals below 400% FPL and no cap above 400% FPL). Starting with the tax year 2026, those caps are fully repealed, meaning that taxpayers must repay the entire excess APTC received, regardless of income level.

Effective date: For tax years beginning after Dec. 31, 2025.

Implication: It strengthens taxpayers' incentive to estimate income accurately when applying for coverage. It shifts the financial burden of overpayment from the government to the individual.

Takeaways

- Stricter verification and Exchange compliance rules are intended to prevent improper PTC payments.
- Credits during SEPs are restricted to ensure only qualified life events trigger eligibility.
- All excess APTCs must be repaid in full, increasing accountability for income reporting.

Health saving accounts (HSAs)

HSAs allowed with bronze and catastrophic health plans – §71307(a)

Section 223(c)(2) was amended to expand the definition of a high-deductible health plan to include certain individual coverage plans offered through the *Affordable Care Act* (ACA) exchanges. Specifically, individuals enrolled in Bronze or Catastrophic plans will be eligible to contribute to HSAs, provided the other HSA eligibility requirements are met.

This addition functions as an exception to the general rule in §223(c)(2)(A), allowing specified Bronze and Catastrophic Exchange plans to qualify as high-deductible health plans (HDHPs) regardless of whether they meet the deductible and out-of-pocket thresholds normally required.

This change stems from the addition of subparagraph (H) to §223(c)(2), which explicitly includes two ACA plan types within the scope of HDHPs for HSA purposes:

- Bronze plans, as defined in ACA §1302(d)(1)(A), are structured to cover approximately 60% of the total average cost of healthcare. These plans typically feature high deductibles and lower monthly premiums.
- Catastrophic plans, defined under ACA §1302(e), are generally available to individuals under age 30 or those who qualify for a hardship exemption. These plans offer low premiums and high deductibles, covering essential health benefits only after reaching a significant out-of-pocket threshold.

Effective date: Applicable to months beginning after Dec. 31, 2025.

Treatment of direct primary care services – §71308

Under prior law, direct primary care service arrangements (DPCSAs) could potentially disqualify an individual from HSA eligibility, since they were often treated as other health coverage under §223(c)(1)(A)(ii). This created a barrier for individuals wanting to pair such arrangements with HSA-compatible HDHPs.

A qualifying arrangement must:

- Offer primary care services only, as defined under §213(d) (i.e., services for diagnosis, cure, mitigation, treatment or prevention)
- Be provided by primary care practitioners (defined per SSA §1833(x)(2)(A), excluding clause (ii): physicians, nurse practitioners, clinical nurse specialists or physician assistants
- Be compensated solely via a fixed periodic fee (no per-visit or fee-for-service billing)

Beginning with taxable years after Dec. 31, 2025, individuals participating in direct primary care (DPC) arrangements will see important changes to how these arrangements interact with tax-favored health accounts.

Notably, the fee caps for DPC arrangements will be indexed for inflation starting in calendar year 2025, though these caps formally apply to months beginning after Dec. 31, 2025.

A key change is clarifying HSA eligibility. Under §223(c)(1)(E), enrollment in a DPC arrangement will no longer be considered disqualifying coverage for HSA purposes. This update enables individuals to maintain HSA eligibility while enrolled in a qualified DPC plan, aligning the tax code with consumer-directed health care models.

To qualify under these provisions, the DPC arrangement must exclusively offer primary care services as defined in §213(d), and those services must be provided by a practitioner meeting the definition under §1833(x)(2)(A) of the *Social Security Act*. The arrangement must be structured as a fixed periodic fee, such as a monthly or annual payment. Services falling outside the scope of eligibility include those involving general anesthesia, most prescription drugs (except vaccinations) and laboratory services not typically performed in a primary care setting.

The monthly fee for a DPC arrangement is capped at $150 per individual or $300 if the arrangement covers more than one person. Beginning in 2027, these caps will be subject to inflation adjustments.

Significantly, DPC fees are now treated as qualified medical expenses under §223(d)(2)(C). This allows HSA funds to be used for DPC fees without adverse tax consequences. In addition, payments for DPC services can also be made through flexible spending arrangements (FSAs) or health reimbursement arrangements (HRAs), offering expanded planning opportunities for taxpayers and employers alike.

Takeaways

- Dual participation allowed: Taxpayers can now maintain HSA eligibility while enrolled in a qualified DPC arrangement – a notable change from prior rules that treated DPCs as disqualifying coverage.
- Plan structuring matters: The DPC must strictly provide defined primary care services within the fee and service limitations to maintain eligibility.
- Fee caps are indexed: After 2026, advising clients on cost thresholds will require annual reference to IRS adjustments.
- Expense reimbursement clarity: DPC fees can be reimbursed or paid from HSAs, FSAs or HRAs, offering planning opportunities for individuals and employers.

Ending unemployment payments to jobless millionaires – §73001

This provision bars the use of federal funds to pay unemployment compensation to individuals whose earnings during their base period equal or exceed $1 million. The base period is the timeframe used to determine an individual's eligibility and benefit amounts for unemployment purposes.

The prohibition applies broadly across all federal unemployment programs, not just traditional state-based insurance. It includes federal programs for civilian employees, ex-service members, extended benefits, temporary federal extensions and other federally designated unemployment initiatives. In addition to disallowing benefit payments, the restriction also prohibits using federal funds to cover administrative costs related to processing such claims.

To enforce this rule, all unemployment applicants must self-certify on their application that their wages during the base period were below $1 million. State agencies must also cross-check income information through available verification systems to the extent practicable.

If benefits are paid in error to individuals who exceed the income threshold, states must initiate recovery procedures to reclaim those funds. This prohibition's effective date begins with weeks of unemployment occurring on or after the act's enforcement; the restriction is not retroactive.

Effective date: Applies to weeks of unemployment beginning on or after the date of the enactment of the OBBBA (July 4, 2025).

Social Security Fairness Act

The *Social Security Fairness Act* (SSFA), signed into law on Jan. 5, 2025, eliminates the windfall elimination provision (WEP) and the government pension offset (GPO), which previously reduced Social Security benefits for individuals receiving pensions from non-Social-Security-covered employment.

The enactment of the SSFA marked a major shift in Social Security policy, as individuals who were previously penalized due to their non-covered pensions could now receive their full benefits without any reduction. This change positively affects over 3.2 million retirees, including teachers, firefighters, police officers and certain federal employees.

On Feb. 25, 2025, the Social Security Administration (SSA) paid retroactive benefits and increased monthly benefits to people whose benefits were affected by the WEP and GPO.

If a beneficiary or taxpayer was due retroactive benefits as a result of the act, they would receive a one-time retroactive payment deposited into the bank account the SSA had on file at the end of March 2025. This retroactive payment would cover the increase in their benefit amount back to January 2024, when WEP and GPO stopped being applied.

As Social Security benefits are paid one month behind, most affected beneficiaries began receiving their new monthly benefit in April 2025 (for their March 2025 benefit). Anyone whose monthly benefit was adjusted or received a retroactive payment was mailed notice from SSA explaining the benefit change or retroactive payment.

Note: A taxpayer may have received two mailed notices: the first when WEP or GPO was removed from their record and the second when their monthly benefit amount was adjusted for their new monthly payment amount. They may have received the retroactive payment before receiving the mailed notice.

SSA has been able to expedite the retroactive payments due to automation. However, for the many complex cases that could not be processed automatically, additional time was required to manually update the records and pay both retroactive benefits and the new benefit amount. Beneficiaries were urged to wait until April to inquire about the status of their retroactive payment since these payments would be processed incrementally throughout March.

What was the WEP?

The WEP was a rule within the Social Security system that reduced a person's Social Security retirement or disability benefit if they also received a pension from employment not covered by Social Security. This typically applies to jobs where FICA taxes were not paid, such as public sector roles including teachers, police officers and firefighters.

Enacted in 1983, WEP was implemented to address what the SSA considered a "windfall" in cases where individuals worked in both covered and non-covered employment. Under the standard benefit formula, these individuals could appear to be low lifetime earners and therefore be entitled to a disproportionately high replacement rate (explained below), despite having significant income from their non-covered pension. WEP corrected this by modifying the benefit formula.

When taxpayers apply for Social Security, SSA uses a formula to calculate how much they will receive each month. This formula is based on how much they earned during their working years. First, they figure out AIME, average indexed monthly earnings, which is used to determine their monthly retirement benefit. Once SSA knows taxpayers' AIME, it splits it into chunks (called bend points) and applies different percentages to each chunk to calculate the benefit. See the table below. The 90% rate on the first portion of AIME is meant to help taxpayers with lower average earnings. It gives them a larger share of their income back in retirement, like a bonus for lower-income workers. This is how the government builds the taxpayers' benefit amount, by adding up the three parts. For example, if a taxpayer's AIME was $1,100, they would get $1,100 x 90% = $990, which becomes the most significant part of their monthly Social Security check.

Under WEP, affected public sector workers receive a reduced percentage (less than the standard 90%) of the first portion of their AIME. For 2025, that percentage could have dropped to as low as 40%, depending on the number of years the individual had "substantial earnings" in Social Security-covered employment.

Portion of AIME	Percentage Used	What It Means
First $1,174	90%	Taxpayers get 90% of this amount
$1,175 to $7,078	32%	Taxpayers get 32% of this portion
Over $7,078	15%	Taxpayers get 15% of anything above this

What was the GPO?

The GPO was a federal provision that reduced Social Security spousal or survivor benefits for individuals who also receive a pension from government employment not covered by Social Security. Unlike the WEP, which affected a person's own benefit, the GPO applied to benefits derived from another person's work record, such as a current, former or deceased spouse. Enacted in 1977, the GPO was intended to create parity with the dual entitlement rule, which limited spousal benefits for Social Security recipients. Under the GPO, Social Security spousal or survivor benefits were reduced by two-thirds of the recipient's government pension from non-covered work. For example, if someone received a $1,500 monthly pension from a non-Social Security-covered government job and was eligible for a $1,200 spousal benefit, their Social Security benefit would be reduced by $1,000 (two-thirds of $1,500), resulting in a remaining benefit of only $200. In many cases, unlike WEP, the GPO could reduce the Social Security benefit to zero. This provision disproportionately affected public sector employees, particularly women who may have spent their careers in non-covered positions but would otherwise qualify for benefits through a spouse's earnings under Social Security.

How much can a person's monthly benefit increase?

The monthly benefits a taxpayer receives under the SSFA can vary. This depends on factors like the type of Social Security benefit they receive and the size of their pension. As a result, some people may see just a small increase in their benefits, while others might get an extra $1,000 or more each month.

The repeal of WEP and GPO could also create new tax considerations for some retirees. Many recipients received large retroactive lump-sum payments in 2025, which could increase their provisional income and lead to higher taxation of Social Security benefits or other income-based thresholds, such as Medicare income-related monthly adjustment amount (IRMAA) brackets. Provisional income is a special calculation the IRS uses to determine how much of a taxpayers' Social Security benefits are taxable. It is not a line item shown on the tax return, but it is crucial in assessing tax liability on these benefits.

Provisional income = AGI + tax-exempt interest + ½ (Social Security benefits)

As a result, you as the tax professional should consider helping clients apply the lump sum election (LSE) strategy, which allows them to spread the taxation of retroactive Social Security benefits across the years to which the benefits were originally attributable. This strategy may potentially reduce their total tax liability and is explained further below.

The following chart shows the tax impact of Social Security benefits before and after the SSFA.

Feature	Before SSFA	After SSFA
WEP applied?	Yes, it reduced individual's own Social Security benefit	No, benefit calculated using full standard formula
GPO applied?	Yes, it reduced or eliminated spousal/survivor benefits	No, spousal and survivor benefits paid in full
Retroactive benefits?	Not applicable	Yes, retroactive payments issued for benefits from 2024 onward
Taxable impact	Lower benefits generally meant lower Social Security taxation	Larger lump sums may increase taxable income without planning
Need for LSE?	No, minimal retroactive adjustments were made	Yes, it might help mitigate tax spikes from lump-sum payments
Planning implications	Complex benefit projections with reduced expectations	Increased income, need for proactive tax and retirement planning

What should people do now that the SSFA is law?

What taxpayers who were subject to the WEP or GPO need to do depends on their situation and the types of benefits for which they qualify.

- If the SSA has the taxpayer's mailing address and/or direct deposit details on record, they do not need to take any further action.
- Taxpayers should log in to their Social Security account to check if their mailing address and/or direct deposit information is correct and verify or update the information on record.
- If they cannot create an account, they should contact SSA to confirm or update existing records.
- If taxpayers are unsure whether they have applied for retirement, spousal or surviving spouse benefits, they might need to apply. The date they apply can affect when their benefits start.
- If they have never applied for retirement benefits because of WEP, or for spousal or surviving spouse benefits due to GPO, they will also need to apply. The most convenient way to apply is online at www.ssa.gov/apply. The survivor benefit application is not available online. Taxpayers need to call.

Note: For details and updates, check https://www.ssa.gov/benefits/retirement/social-security-fairness-act.html

Lump Sum Election (LSE)

History and legislative context

The LSE provision, found in §86(e), provides tax relief for retroactive Social Security benefits recipients. Prior to the LSE, taxpayers who received large and one-time lump sum payments often faced unexpectedly high tax bills. This was particularly difficult for individuals in lower income brackets who, under normal circumstances, would have owed little to no tax on their benefits.

The legislative intent behind §86(e) was rooted in fairness. Congress recognized that lump sum benefits were often attributable to prior years in which the taxpayer might have had significantly lower income. Taxing all of that income in the current year distorted the taxpayer's actual financial situation and created inequitable tax burdens. The LSE addresses this by allowing the taxpayer to allocate portions of the lump sum to the year in which the benefits were originally due, effectively simulating their tax liability if they received the benefits on time.

This approach aligns with the IRS's broader commitment to equitable treatment in taxation, particularly for retirees and others dependent on fixed incomes. It also reflects the evolving nature of Social Security payments, especially in light of legislation like the SSFA, which led to a spike in retroactive payments.

Note: This strategy does not require amending prior-year tax returns; instead, it adjusts the current-year tax liability to more accurately reflect the taxpayer's financial timeline.

Mechanics of the lump sum election

The LSE allows taxpayers to reduce their current-year taxable income by allocating a portion of their lump-sum Social Security payment to previous tax years. This can help avoid the higher tax brackets and the increased taxation of Social Security benefits that might otherwise occur.

To utilize the LSE, a taxpayer must first determine whether they are eligible. The lump-sum payment must include benefits that apply to one or more previous tax years. This is shown on Form SSA-1099, *Social Security Benefit Statement*, in the "Description of Amount in Box 3," which provides a breakdown by year. Next, the taxpayer should review IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, which includes Worksheets 1 through 4. These worksheets guide users through calculating how much of the lump sum is taxable under the LSE. Worksheet 1 helps determine provisional income for each applicable year. It is a special IRS formula that determines how much of the Social Security payment is taxable, including the prior years' portion.

Provisional income = AGI + tax-exempt interest + foreign earned income exclusion and adjustments + (½ Social Security benefit).

Worksheet 2 calculates the taxable portion of Social Security for those years. Worksheet 3 calculates how much of the lump sum amount would have been taxable if it had been received in the original year(s) it covers. Worksheet 4 compares the standard and LSE methods to identify potential tax savings. Once the worksheets are completed and the savings are confirmed, the taxpayer should report the results on Form 1040 or Form 1040-SR, checking the box on Line 6c. While the worksheets are not filed with the return, keeping them or attaching a summary statement is essential for IRS recordkeeping and audit purposes.

Note: Given the changes under the new law taking effect in 2025, which include significantly larger standard deductions and additional deductions for seniors, it may be more advantageous for some taxpayers to avoid electing a lump-sum payment of Social Security benefits under the *Social Security Act*. Electing a lump sum can result in retroactive income being taxed in a prior year when deductions were smaller, potentially pushing the taxpayer into a higher tax bracket or reducing eligibility for credits. By forgoing the lump-sum option and instead recognizing benefits only in the year received, taxpayers, especially seniors, can better leverage the enhanced deductions available in 2025 and beyond, potentially reducing overall tax liability.

LSE is not always beneficial

The LSE is a useful tax strategy; however, it does not guarantee a reduction in tax liability for every taxpayer. Its effectiveness relies on several factors, including the taxpayer's income levels during the years when the retroactive benefits apply.

If the taxpayer's income in those prior years was already high enough that 85% of their Social Security benefits would have been taxable anyway, the LSE usually offers little to no tax savings. Additionally, in cases where the lump sum amount is relatively small or the current year's income remains under the provisional income thresholds, the impact of the election may be insignificant. Before they choose the LSE, review the IRS Publication 915 worksheets or use tax software for a clear analysis. This will help ensure taxpayers' decisions are based on actual tax results, not assumptions. It allows both taxpayers and advisors to make the best choice.

Example: high-income retirees – LSE not beneficial

Martin and Claire, both retired physicians, received a retroactive lump sum of $12,000 from SSA in 2025. The payment was attributable to benefits from 2022 ($3,000), 2023 ($4,000) and 2024 ($5,000). However, their income in those years averaged $200,000 annually, and all of their Social Security was already 85% taxable.

Without the LSE $10,200 ($12,000 x 85%) of the lump sum payment would be taxable.

With the LSE, 85% is still taxable each year due to high income.

Conclusion: LSE offered no tax advantage. Because their income was consistently high, there was no reduction in taxable Social Security.

Example: self-employed taxpayer with fluctuating income – LSE beneficial

Tina, is currently receiving a $15,000 lump sum payment from SSA in 2025 for missed benefits from 2021 ($4,000), 2022 ($5,000) and 2023 ($6,000). Her annual income, excluding Social Security income, varied:

2021: $18,000

2022: $22,000

2023: $25,000

2025: $45,000

Without LSE:

Provisional income for 2025: $45,000 (AGI) + ½ ($15,000) = $52,500; no other income or tax-exempt interest assumed

Taxable portion of the lump-sum payment (85%): $15,000 x 0.85 = $12,750

With LSE (by using the worksheets from Publication 915):

First, use publication 915 worksheet 1 to calculate the taxable amount in the current year that Tina received the lump-sum social security benefit:

Provisional income for 2025: $45,000 (AGI) + ½ ($15,000) = $52,500Taxable portion of the lump-sum payment (85%): $15,000 x 0.85 = $12,750

Common mistakes that can be avoided

When applying for Social Security benefits through LSE, taxpayers can utilize the method to lower taxes if they follow the rules. However, many people make common mistakes that can lead to paying more taxes, delays in getting benefits, or having issues with the IRS. By knowing these mistakes and avoiding them, taxpayers can take full advantage of the LSE and make sure tax returns are accurate.

Reporting the entire lump sum without analysis

- Many taxpayers report the entire lump sum in the current year without considering the LSE. This can lead to paying more taxes than necessary.

Amending past returns are not necessary

- It's important to remember that the LSE only applies to the current tax year. Changing previous years' returns is incorrect and can cause delays in processing.

Failing to retain worksheets

- Even though taxpayers don't send in the worksheets, it's wise to keep them. The IRS might ask for these calculations if they are audited.

Incorrect use of provisional income

- Failing to understand how provisional income affects taxpayers' tax brackets can lead to mistakes when applying for the election. Make sure taxpayers are clear on how it works.

Situations when a taxpayer should take an LSE

Without the LSE, the taxpayer's entire lump sum counts in the year the income is received (2025). That could cause 85% of taxpayers' Social Security benefits to become taxable, push them into a higher tax bracket and increase their overall tax bill substantially. Suggest that they consider taking the LSE approach if all the following are true:

- Taxpayers' lump sum amount includes benefits for prior years
- Their SSA letter shows that part of their lump sum payment covers multiple years (2022-2024)
- They receive all of it in one tax year (likely 2025 or 2026)
- Taxpayers will see this clearly on their Form SSA-1099, which lists prior-year amounts
- Taxpayers had lower incomes in the earlier years
- In earlier years (2022-2024), their total income was low enough that none or only part of their Social Security benefits would have been taxable
- They were under the IRS "provisional income" thresholds: $25,000 (single) or $32,000 (married)

To see how to use LSE to calculate taxpayers' Social Security benefits, including worksheets, review 2024 Publication 915.

Example

Sarah, a retired teacher (non-covered pension), age 63, affected by WEP. SSFA passed in 2025, and SSA issues her $18,000 lump sum covering 2022 ($5,000), 2023 ($6,000) and 2024 ($7,000). She received the lump sum in 2025. Sarah's 2022-2024 yearly income was a pension of $18,000/year and interest of $2,000/year. Her 2025 total income increased from $20,000 to $30,000 from additional interest and does not include any taxable social security amount.

Without LSE (2025) pre-OBBBA:

- The $18,000 SS benefits are treated as 2025 income
- Provisional income = $39,000 [$30,000 + ½ ($18,000)]
- Up to 85% of SS is taxable (exceeds threshold $34,000 for single status)
- $8,750 taxable (tax on SS)

(Calculation from the Social Security Benefit Worksheet, Form 1040)

- Taxable income: $30,000 + $8,750 - $15,000 standard deduction = $23,750
- 12% tax bracket, approximately $2,621 in income tax

With LSE (spread out $18,000 into the prior three years):

Year	SS Received	Other Income	Provisional Income	Tax on SS	Taxable SS
2022	$5,000	$20,000 = $18,000 + $2,000)	$22,500 = $20,000 + 0.5 ($5,000)	$0 (under threshold $25,000)	$0
2023	$6,000	$20,000	$23,000 = $20,000 + 0.5 ($6,000)	$0	$0
2024	$7,000	$20,000	$23,500 = $20,000 + 0.5 ($7,000)	$0	$0

Total tax on SS: $0 ($0 + $0 + $0) because all provisional income is under the base amount of $25,000 for single status)

Compare non-taxable SS with LSE $0 to amount taxable without LSE $8,750.

Taxable income and income tax for:

2022: $20,000 - $12,950 = $7,050 ($703)

2023: $20,000 - $13,850 = $6,150 ($613)

2024: $20,000 - $14,600 = $5,400 ($543)

The income tax for the prior three years remains the same as Social Security benefit was not taxable in each year.

Note: Elect LSE if the retroactive lump sum spans multiple years and taxpayers' income in those years was lower. It lowers their income tax and can save them hundreds or even thousands in taxes.

Comparison with other tax mitigation tools

While the LSE is powerful, it should be considered alongside other tax strategies:

- Roth IRA conversions: Converting traditional IRA funds to Roth in low-income years can balance taxable income.
- Qualified charitable distributions (QCDs): For taxpayers over 70½, these reduce AGI and taxable SS by avoiding the addition of an RMD to income.
- Standard vs. itemized deductions: Timing medical expenses or charitable gifts to increase itemization in a high-income year.
- Tax bracket management: Coordinating timing of IRA withdrawals, capital gains, and SS income.

For example, a retiree expecting a large lump sum might hold off on capital gains realizations or Roth conversions in that year to stay within a lower bracket.

Medicare IRMAA exposure and planning considerations

Higher Social Security benefits due to the SSFA may push retirees into higher Medicare IRMAA brackets. For 2025, IRMAA surcharges apply if modified AGI exceeds $103,000 for single filers or $206,000 for married couples filing jointly. Even modest increases in AGI due to lump sum Social Security payments can cause retirees to face steep premium hikes for Medicare Parts B and D, potentially hundreds of dollars more per month.

LSE becomes vital in these cases. By spreading income across multiple years, retirees can remain under IRMAA thresholds or in lower tiers, thereby minimizing both tax and health care costs. This dual tax and medical planning benefit is a major reason LSE should be considered in any post-SSFA Social Security strategy.

Other implications of increased benefits

The repeal of WEP and GPO doesn't just increase retirees' annual income. It may also increase the size of their estate. This change should prompt a review of wills, trusts and beneficiary designations. Retirees may now accumulate more savings or have greater charitable capacity. Those aged 70½ or older may consider QCDs from IRAs to offset new income and reduce taxable estates.

Higher lifetime income may also affect strategies for Roth conversions, required minimum distributions or the timing of asset sales. Financial advisors and estate planners should coordinate to reassess clients' estate documents in light of increased Social Security cash flows.

Conclusion

The SSFA represents a major change for millions of public sector retirees. With the repeal of the WEP and the GPO, retirees can expect better monthly benefits. However, this new legislation brings some tax planning challenges that need attention. One helpful strategy is the LSE. This option allows retirees to receive retroactive Social Security payments spread out over the years they were due. This can help reduce tax liabilities, lower provisional income and decrease the risk of higher Medicare premiums.

Tax professionals and financial advisors need to be ready to guide clients through these changes. It's important they help clients use the LSE correctly and create solid plans for managing income, considering Roth conversions, and addressing issues like the IRMAA and estate planning.

In the end, the real benefit of the SSFA isn't just restoring benefits but also increasing their long-term value through smart tax planning. With careful analysis and prompt action, retirees can make the most of this legislation and protect their financial future.

Business Updates

This section highlights major developments affecting business taxpayers: The OBBBA, employee retention credit (ERC) updates, SECURE 2.0 impacts for 2025 and 2026 and planning for qualified opportunity zones (QOZs). These legislative changes carry important implications for tax planning and return preparation.

OBBBA Impacts - Business

The OBBBA introduces broad tax reforms, including the permanent extension of TCJA provisions, extension of 100% bonus depreciation, new limits for §179 deductions, and allowing research and development costs to be deducted. Some of these provisions are retroactive, while others impact tax year 2025.

Bonus depreciation

Full expensing for certain business property – §70301

Full expensing is a permanent feature of the tax code. Specifically, §168(k)(1)(A) has been amended to replace the previously phased-down applicable percentage with a flat 100%, thereby cementing the ability to fully expense qualified property permanently. In support of this change, references to the former phase-down rules §168(k)(6) and §168(k)(8) have been repealed. In addition, the provision for specified plants under §168(k)(5)(A)(i) has been revised to reflect this permanent 100% expensing rate.

The amendments also simplify and consolidate definitions under §168(k)(2), eliminating outdated or redundant references and subclauses, and reorganizing them for clarity.

Eligibility for expensing certain plants (i.e., any tree or vine that bears fruit or nuts and any other plant with a pre-productive period of more than two years) has been expanded. The previous limitation in §168(k)(5)(A), which allowed expensing only if the specified plant was planted or grafted before Jan. 1, 2027, has been removed. As a result, regardless of the date, any specified plant that is planted or grafted now qualifies for expensing.

In line with these updates, a conforming amendment has been made to §460(c)(6)(B). This change clarifies that only property with a recovery period of seven years or less qualifies under the applicable long-term contract rules.

Finally, a transitional election is available for taxpayers for the first tax year ending after Jan. 19, 2025. Under this election, taxpayers may opt for reduced bonus depreciation rates:

- 40% expensing for general qualified property
- 60% for a longer production period or certain aircraft property

- 40% for specified plants

Effective date:

- Applicable to property acquired after Jan. 19, 2025
- For specified plants, the new rules apply to those planted or grafted after Jan. 19, 2025
- The transitional election for reduced expensing also applies for taxable years ending after Jan. 19, 2025

Takeaway: Nothing in the legislation permits taxpayers to amend returns from 2023 or 2024 to revise the bonus depreciation previously allowed (80% and 60%, respectively). Additionally, 100% expensing (bonus) under the new provision does not apply to property placed in service or acquired before Jan. 20, 2025. Property acquired before that date remains subject to the TCJA phase-down rules, which generally provide for 40% bonus depreciation in 2025, unless a binding contract exception or other provision applies.

Special depreciation allowance for qualified production property – §70307

A new provision under §168(n) allows 100% bonus depreciation for certain qualified nonresidential real property used in qualified specified production-related activities. While traditional §168(k) bonus depreciation applies mainly to personal property, this elective rule expands full expensing to specific real estate investments that support manufacturing and refining.

This provision creates a specific and temporary opportunity for businesses constructing qualifying production facilities to accelerate cost recovery.

Key requirements

To qualify, the real property must:

- Be nonresidential real property
- Be used as an integral part of a qualified production activity
- Be placed in service in the U.S. or a U.S. possession
- Have original use beginning with the taxpayer (with exceptions for recent idle-use properties)
- Be constructed between Jan. 20, 2025, and Dec. 31, 2028
- Be placed in service by Dec. 31, 2030
- Be designated as qualified production property through an election on the tax return

Note: Beginning with the 2026 tax year, a new box will be added on Form 1099-K to report tips. This change enhances transparency around tip income, particularly for gig economy and service workers, by requiring third-party settlement organizations and payment platforms to report tip amounts collected and disbursed through their systems separately. This box is intended to improve tax compliance related to tips that are paid electronically.

Effective dates:

- The restoration of the original reporting threshold under §6050W(e) is retroactive, as though it were part of ARPA's original §9674.
- The changes to backup withholding rules under §3406(b)(8) will apply beginning with calendar years after Dec. 31, 2024.

Increase in reporting threshold Forms 1099-MISC and 1099-NEC – §70433

Beginning with payments made after Dec. 31, 2025, the threshold for information reporting under IRC §6041(a) will increase from $600 to $2,000. This change means businesses will only need to file information returns, such as Forms 1099-NEC, *Nonemployee Compensation*, or 1099-MISC, *Miscellaneous Information*, if total payments to a recipient in a calendar year exceed $2,000.

Starting in calendar year 2027, the $2,000 threshold will be adjusted annually for inflation. The adjustment will be based on the cost-of-living formula under §1(f)(3), using calendar year 2025 as the base. The amount will be rounded to the nearest $100 increment.

This revised threshold also applies to §6041A(a)(2), which governs remuneration reporting for services, such as payments to independent contractors. The statutory language is updated to tie the reporting threshold to the indexed amount under §6041(a).

In parallel, §3406(b)(6), which addresses backup withholding, is amended to reflect the new threshold. Payments will only be subject to backup withholding if the total payments exceed the inflation-adjusted threshold for the calendar year.

Finally, conforming changes include updating the heading of §6041(a) from "$600 OR MORE" to "EXCEEDING THRESHOLD" and replacing references to taxable year with calendar year to align with information return reporting periods.

Year	Reporting Threshold	Applies to Forms	Inflation Adjusted?
2025	$600	1099-MISC/NEC	No
2026	$2,000	1099-MISC/NEC	No
2027 +	$2,000 (indexed)	1099-MISC/NEC	Yes

Effective dates: For payments made after Dec. 31, 2025.

Practitioner tip: While the reporting thresholds have changed, tax professionals should advise clients to keep records of payments regardless of whether they receive an informational form reporting the income.

Example

XYZ Inc. LLC hires Frank Castillo, an independent contractor, to provide consulting services in 2026. XYZ Inc. pays Frank a total of $1,950 for services rendered in 2026. XYZ Inc. also hires Felipe Dorsey, another independent contractor, and pays him $2,750 for services in 2026. Both Frank and Felipe provide their correct taxpayer identification numbers (TINs) to XYZ Inc. on Form W-9, *Request for Taxpayer Identification Number and Certification*.

The total payments to Frank in 2026 are below the $2,000 threshold. XYZ Inc. is not required to file Form 1099-NEC for Frank for 2026, nor to give him a copy, because the payments do not meet or exceed the $2,000 threshold §6041(a).

The total payments to Felipe Dorsey in 2026 are above the $2,000 threshold. XYZ Inc. must file Form 1099-NEC for Felipe for 2026, reporting the $2,750 paid, and furnish him with a copy by the required deadline §6041(a).

Backup withholding applies only if a payee fails to provide a TIN, provides an incorrect TIN or is subject to backup withholding for other reasons. However, under the H.R. 1, backup withholding for payments under §6041(a) only applies if the aggregate payments to the payee equal or exceed the $2,000 threshold in 2026.

Example: back-up withholding

XYZ Inc. hired Johnny Bravo, an independent contractor, to provide consulting services in 2026. XYZ Inc. pays Johnny $1,950; Johnny fails to provide XYZ Inc. with a TIN, even though they sent Johnny a W-9. In this case, even though Johnny failed to provide a TIN, backup withholding would NOT apply because the total payments do not reach the $2,000 threshold.

Now, let's say instead of receiving $1,950, Johnny received $2,100 as payment in 2026. XYZ Inc. would be required to withhold backup withholding at the applicable rate (currently 24%) on the $2,100 paid because the payments meet the $2,000 threshold under §6044, §6044 and §3406.

SECURE 2.0 Updates

The SECURE 2.0 Act of 2022 (SECURE 2.0), enacted as part of the *Consolidated Appropriations Act, 2023* (CCA), builds on retirement reforms to expand coverage and increase retirement savings. Some of the changes are already in effect, and others are coming.

Several key provisions will take effect in 2025 and 2026, influencing retirement plan design, participant contributions and administrative practices.

Changes for 2025 include:

- Higher catch-up contributions for ages 60-63
- Automatic enrollment requirements
- Expanded coverage for part-time workers
- Retirement savings lost and found

Changes for 2026 include:

- Mandatory Roth catch-up for high earners
- Paper statement requirements
- Retirement funds for long-term care insurance

Provisions taking effect in 2025

Higher catch-up contribution limit for ages 60-63

Beginning in 2025, employees aged 60, 61, 62 or 63 (60-63) during the calendar year will be able to put away even more in catch-up contributions, if allowed by the plan.

- SIMPLE 401(k) and SIMPLE IRA plans: The cap becomes the greater of $5,000 or 150% of the 2025 age 50 catch-up limit, which is $5,250 (150% x $3,500) for 2025.
  - The total possible employee contribution is $21,750 ($16,500 + $ 5,250)
  - The limit is indexed for inflation starting in 2026
- All other qualified plans: The cap rises to the greater of $10,000 or 150 % of the 2024 age 50 catch-up limit, which is $11,250 (150% x $7,500) for 2025.
  - The total possible employee contribution is $34,750 ($23,500 + $ 11,250) for 2025
  - The limit is indexed for inflation starting in 2026

Note: The year the participant turns 64, the "age 50" limits will apply. If a workplace plan does not offer the age 50 catchups or the new catchups for those 60-63, the employee cannot make those extra contributions.

Example: 401(k) and maximum elective deferral contribution by age

A hypothetical employer has a 401(k) plan. The following example illustrates how the limitations work by participant age.

Item	Marcus (age 45)	Harper (age 50)	Joey (age 60)
Compensation (matchable pay)	$100,000	$100,000	$100,000
Total deferred (Roth + traditional)	$23,500 (2025 max under age 50)	$31,000 ($23,500 + $7,500 age 50 catch-up)	$34,750 ($23,500 + $11,250 age 60-63 catch-up)
Employer match (4% of compensation)	$4,000	$4,000	$4,000
Total 2025 additions	$27,500 ($23,500 + $4,000)	$35,000 ($31,000 + $4,000)	$38,750 ($34,750 + $4,000)

Effective date: Taxable years beginning after Dec. 31, 2024.

Expanded automatic enrollment in retirement plans

SECURE 2.0 adds an automatic enrollment provision to most newly established 401(k) and 403(b) plans (i.e., plans established on or after Dec. 29, 2022). Section 414A governs the provision, and in early 2025, the IRS issued proposed regulations that guide how this provision works (https://www.federalregister.gov/documents/2025/01/14/2025-00501/automatic-enrollment-requirements-under-section-414a). The proposed regulations provide preliminary guidance on how to implement the mandate and what plans are impacted. The proposed regulations are to apply to plan years that begin more than six months after the date the final regulations are issued. Before the final regulations apply, plan administrators must use a reasonable, good-faith interpretation of the law.

For plan years beginning after Dec. 31, 2024 (2025 plan year), most 401(k) and 403(b) plans allow for automatic enrollment of participants once they are eligible, unless the participant elects out. Before this change, employers were allowed to automatically enroll employees in 401(k) and 403(b) plans, and this has led to an increase in plan participation and retirement savings. However, once this provision takes effect, automatic enrollment is required. Plan participants will need to opt out of the plan, which is different because previously, plan participants needed to opt into a plan.

Under §414A, a newly established 401(k) or 403(b) plan will generally not be considered compliant unless it includes an eligible automatic contribution arrangement (EACA) that meets the specific requirements outlined in §414(w)(3).

However, automatic enrollment is not required for any of the following [§414A(c)]:

- SIMPLE 401(k) plans
- Plans established before Dec. 29, 2022 (grandfathered plans)
- Government or church plans
- Plans maintained by an employer that have been in existence for less than three years
- Plans maintained by an employer with fewer than 11 employees

Note: Proposed regulations would clarify that the automatic enrollment plans apply to all employees who are **eligible** to participate in the plan (e.g., long-term part-time employees). An employer may not exclude any category of employee if the plan is subject to §414A [Proposed Reg. §1.414A-1(c)(1)(ii)].

Requirements

To satisfy the automatic enrollment provision, the applicable employer plan must meet all the following requirements:

- The plan is an EACA under §414(w)(3), meaning it:
  - Uniformly applies the plan's default deferral percentage to all eligible employees after giving them the required notice, unless the employee opts out or elects to contribute a different amount
- The plan allows permissible withdrawals within 90 days of the first automatic contribution
- The plan provides automatic contributions of at least 3% but not more than 10% during the employee's first year of participation, unless the employee elects otherwise
  - Each subsequent year, the contribution percentage automatically increases (unless the employee elects otherwise) by 1% to at least 10% but not more than 15%
- The plan contributions are invested according to the rules for qualified default investment alternatives (QDIAs) under the Department of Labor, unless the employee elects a different investment
  - The following website provides more information: https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-qdia-in-participant-directed-account-plans.pdf.

Example: automatic enrollment

Julia, a new employee, joined The Best Company Ever in 2025. The company's 401(k) plan, in accordance with SECURE 2.0, automatically enrolls her at a 3% contribution rate.

In 2026, the plan automatically increases her contribution rate to 4%, and so on, until it reaches the plan's maximum of 12%.

Effective date: Plan years beginning after Dec. 31, 2024 (2025 plan year).

Expanded coverage for part-time workers

Section 403(b) and 401(k) plans that are subject to the *Employee Retirement Income Security Act* (ERISA), and include a salary reduction agreement, must allow long-term, part-time employees (LTPTE) to make elective deferral contributions to the plan.

For plan years beginning after 2024, part-time employees must now be allowed to participate in their employer's 401(k) or 403(b) plan if they meet either of the following criteria, whichever occurs first:

- They complete at least 1,000 hours of service during the plan's relevant 12-month period and have reached age 21, or
- They completed at least 500 hours of service per year for two consecutive 12-month periods and have attained age 21 by the end of the two-year period (the definition of LTPTE)
    - SECURE 2.0 shortened the eligibility requirement; previously, it was three consecutive 12-month periods

Once an LTPTE meets the age and service requirements, they must be eligible to participate in the 401(k) or 403(b) plan by the earlier of:

- The first day of the first plan year starting after the employee meets the requirements, or
- Six months after the employee satisfies the age and service requirements

Note: In some cases, allowing all part-time employees to participate in the retirement plan may be easier since tracking eligibility may be cumbersome. LTPT employees are not required to receive employer matching contributions; however, employers may choose to include them.

An employee is classified as an LTPTE if they complete at least 500 hours of service in each of two consecutive 12-month periods and reach age 21 by the end of the two-year period. If an employee becomes eligible to make elective deferrals through any other service requirements (e.g., completing 1,000 hours of service hours in a single plan year), they are not considered LTPTE. In this case, they transition to a regular participant and may become eligible for employer contributions.

Note: Notice 2024-73 includes a question-and-answer section on the application of the nondiscrimination rules for 403(b) plans with respect to LTPTEs, including application of the rules to permitted exclusions from participation for part-time employees and student employees. A proposed regulation related to the rules LTPTE in 401(k) plans was issued on Nov. 27, 2023 (https://www.irs.gov/irb/2023-51_IRB#REG-104194-23).

Example: LTPTE

Daisy was hired on Jan. 1, 2022, and turned 21 in 2021. She is a part-time employee and works 600 hours per year. Her employer's 401(k) plan is a calendar-year plan (Jan. 1 through Dec. 31) and has eligibility conditions of being age 21 plus either working 1,000 hours in a year or 500 hours per year for two consecutive years (LTPTE rule).

Because Daisy turned 21 in 2021, she has satisfied the age requirement. She worked 600 hours in both 2023 and 2024 (the two-year look-back period), satisfying the 500-hour service requirement. She has not yet worked 1,000 hours in a single year, so her eligibility to make elective deferrals is based only on her LTPTE status.

Daisy is an LTPTE and must be allowed to make elective deferrals into the 401(k) plan no later than July 1, 2025. Daisy is considered to satisfy the age and service requirement on Jan. 1, 2025, not Dec. 31, 2024, because that is when the rule becomes effective. Under the entry timing rules for LTPTEs, eligibility must begin no later than the earlier of:

- The first day of the first plan year beginning after the date she met the age and service requirements (Jan. 1, 2026)
- Six months after the date she met the age and service requirements (July 1, 2025)

Note: A plan can exclude temporary or seasonal workers in a formally defined employee class.

Effective date: Plan years beginning after Dec. 31, 2024.

Retirement savings lost and found

SECURE 2.0 directs the creation of a retirement savings lost-and-found database not later than two years after the date of SECURE 2.0's enactment. Based on this language, the U.S. Department of Labor (DOL) should have established the database by Dec. 29, 2024. The online searchable database will allow individuals to search for plans and the administrator's contact information for which they are a participant or beneficiary. Employers are required to share information with the DOL to keep the database current.

There is no information on the database's expected completion date. The latest information can be found at https://www.federalregister.gov/documents/2024/11/20/2024-27098/retirement-savings-lost-and-found.

Effective date: A database is to be created no later than two years after the act's enactment date.

Provisions taking effect in 2026

Roth-only catch-up for high-income earners

For tax years beginning after Dec. 31, 2025, catch-up contributions to 401(k) plans, 403(b) plans or 457(b) governmental plans by participants whose *Federal Insurance Contributions Act* (FICA) wages for the preceding calendar year exceed $145,000 (as indexed for inflation) will be subject to mandatory after-tax (Roth) treatment. Stated another way, employees making more than $145,000 in the prior calendar year, adjusted for inflation, will need to make catch-up contributions after tax to a designated Roth account (e.g., Roth 401(k)).

Effective date: Taxable years beginning after Dec. 31, 2025.

Requirement to provide paper statements in certain cases

Unless a participant elects otherwise, a defined contribution plan is required to provide a paper benefit statement at least once annually. Defined benefit plans must do so once every three years [ERISA §105(a)(2)(E)].

For defined contribution plans, each pension benefit statement must contain:

- **Investment values** – List the current value (as of the plan's most recent valuation date) of every investment allocated to the participant's or beneficiary's account, including any employer securities, regardless of how those securities were obtained (ERISA §105(a)(2)(B)(i)).
- **Lifetime income illustrations** – illustrations of how the account balance could translate into lifetime monthly income. These illustrations must appear on the statement at least once every 12 months (ERISA §105(a)(2)(D)).

Effective date: Plan years beginning after Dec. 31, 2025.

Long-term care contracts purchased with retirement plan distributions

A defined contribution plan may allow qualified long-term care (LTC) distributions [§401(a)(39)].

These are distributions that must:

- Be used to pay premiums for certified LTC insurance
- Not exceed the lesser of:
  - $2,600 annually (2025) (indexed for inflation)
  - The amount actually paid for qualified LTC insurance
  - 10% of the employee's vested accrued benefit in the plan

Certified LTC insurance includes any of the following three types of coverage:

- Qualified LTC insurance contract [§7702B(b)]
  - A standalone policy that covers qualified LTC services (e.g., nursing home care, home health care, etc.)
  - Must meet requirements under §7702B(b)
- Life insurance rider [§101(g)(3)]
  - A rider or provision added to a life insurance policy
  - Provides coverage if the insured becomes a chronically ill individual
  - Must meet the conditions under §101(g)(3), except the limits of periodic benefits
- Insurance/annuity rider [§7702B(e)]
  - Coverage of qualified LTC services under a rider to an insurance or annuity contract
  - Treated as a separate contract
  - Must satisfy consumer protection requirements [7702B)(g)]

The distributions are generally taxable as income at ordinary income tax rates. If the requirements are met, they are exempt from the 10% early withdrawal penalty [§72(t)(2)(N)].

Note: While qualified LTC distributions may include distributions used to pay LTC insurance premiums for the employee's spouse, the exemption from the 10% early withdrawal tax for distributions for the LTC insurance premiums doesn't apply unless the employee and the spouse file a joint return [§72(t)(N)(ii)].

Participants must submit an LTC premium statement with the plan, and the issuer of the LTC premium statement must file a return with the IRS no later than Feb. 1 of the succeeding calendar year [§6050Z].

Effective date: This exception applies to distributions made after Dec. 29, 2025.

Appendix

Appendix A: Meals Deduction Summary Chart

Activity	Employer Deductible Amount
Meals during business travel	50%
Business meals with current or potential clients*	50%
Entertainment costs for current or potential clients (e.g., concert or sporting event tickets, golf expenses)	Nondeductible
Meals provided during a business meeting with employees, stockholders, agents, or directors	50%
Meals at a business league, chamber of commerce, or other board of trade meeting	50%
De minimis food and beverages provided to employees in the workplace (e.g., bottled water, coffee, snacks)	50%
Meal and entertainment expenses included in the employee's taxable compensation	100%
Recreational and social activities for employees (e.g., company picnic or holiday party)	100%
Meals provided for the convenience of the employer**	50%
Meals provided in an employer-operated eating facility**	50%
Meal and entertainment expenses included in income reported to an independent contractor	100%
Food and beverages, services, and facilities made available for free to the general public	100%
Food and beverages sold to customers	100%
Meals provided in conjunction with entertainment that are separately billed (or separately stated in an invoice)	50%
Meals provided in conjunction with entertainment that are not separately billed (or separately stated in an invoice)	Nondeductible
Meals required to be provided under federal law to crew members on certain commercial vessels, or oil and gas platforms or drilling rigs (or related support camp)	100%
Meals provided on fishing vessels, fishing processing vessels, fish tender vessels and fishing processing plants located in the U.S. north of 50 degrees north latitude (e.g., parts of Alaska), and are not located in a metropolitan statistical area (MSA), as defined in §143(k)(2)(B)***	100%

*The employee (or taxpayer) must be present when the food or beverages are provided, and no amount is deductible if the meal expense is lavish or extravagant in relation to the activity.**Meals and lodging provided for the convenience of the employer, paid or incurred after Dec. 31, 2025, will not be deductible.***Applicable to expenses paid or incurred after Dec. 31, 2025.