

Key Tax Deduction Changes Under the One Big Beautiful Bill Act

1. Senior Bonus Deduction

- An additional \$6,000 deduction for individuals aged 65 and older.
- For married couples filing jointly, the deduction is \$12,000.
- Fully available for incomes up to \$75,000 (single) or \$150,000 (joint).
- Phases out completely at \$175,000 (single) or \$250,000 (joint).
- Applies to both standard and itemized filers.
- Effective for tax years 2025 through 2028. ([cbsnews.com](https://www.cbsnews.com), calt.iastate.edu, [washingtonpost.com](https://www.washingtonpost.com), en.wikipedia.org)

2. Qualified Business Income (QBI) Deduction Enhancement

- Increases the QBI deduction from 20% to 23%.
- Applies to income from pass-through entities like sole proprietorships, partnerships, and S corporations.
- Becomes permanent starting in 2026.
- Modifies phase-out thresholds for specified service trades or businesses. ([warrenaverett.com](https://www.warrenaverett.com))

3. State and Local Tax (SALT) Deduction Cap Increase

- Raises the SALT deduction cap from \$10,000 to \$40,000 for married couples.
- Applies to taxpayers with modified adjusted gross income (MAGI) under \$500,000.
- Cap phases down for incomes above this threshold.
- Includes annual inflation adjustments through 2029. (blog.taxact.com, [washingtonpost.com](https://www.washingtonpost.com))

4. Deduction for Qualified Tips

- Provides a federal income tax deduction equal to the amount of qualified tips received.
- Applies to cash tips reported on Form W-2, 1099-K, or 1099-NEC.
- Available for occupations that traditionally receive tips.

- Excludes highly compensated employees and specified service trades or businesses.
- Effective for tax years 2025 through 2028. (calt.iastate.edu)

5. Deduction for Qualified Overtime Compensation

- Introduces a deduction for qualified overtime pay required under the Fair Labor Standards Act.
- Overtime must be reported separately on Form W-2.
- Excludes highly compensated employees and tip income.
- Effective for tax years 2025 through 2028. (calt.iastate.edu)

6. Car Loan Interest Deduction

- Allows deduction of interest paid on loans for personal-use passenger vehicles.
- Interest must be on debt incurred after December 31, 2024, and secured by a first lien.
- Deduction capped at \$10,000 per year.
- Phases out for MAGI above \$100,000 (single) or \$200,000 (joint); eliminated at \$150,000 (single) or \$250,000 (joint).
- Effective for tax years 2025 through 2028. (calt.iastate.edu)

7. Bonus Depreciation and Section 179 Expensing

- Restores 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025, through December 31, 2029.
- Increases Section 179 expensing limit to \$2.5 million, with a phase-out threshold at \$4 million.
- Both thresholds indexed for inflation. (warrenaverett.com)

8. Research and Development (R&D) Expensing

- Allows immediate expensing of domestic R&D expenditures under new Section 174A.
- Applies to amounts paid or incurred in tax years beginning after December 31, 2024, and before January 1, 2030.
- Excludes certain expenditures, such as those for land acquisition or improvement. (warrenaverett.com)

9. Estate and Gift Tax Exemption Increase

- Permanently increases the estate and gift tax lifetime exemption to \$15 million per person, indexed for inflation.
- Also increases the generation-skipping transfer tax exemption to the same amount.
- Effective beginning in 2026. (calt.iastate.edu)

10. Repeal of Miscellaneous Itemized Deductions

- Permanently repeals miscellaneous itemized deductions subject to the 2% floor, including:
 - Unreimbursed employee expenses
 - Tax preparation fees
 - Investment expenses
- Effective for tax years beginning after December 31, 2025. (calt.iastate.edu, warrenaverett.com)

What's Still Allowed:

These are **not** subject to the 2% floor and **remain deductible** (if itemizing):

- **Medical expenses** (over 7.5% of AGI)
- **State & local taxes** (SALT cap adjusted to \$40K under OBBBA)
- **Mortgage interest**
- **Charitable contributions**
- **Casualty and theft losses** (in federally declared disaster areas)

Permanently Repealed: Miscellaneous Itemized Deductions Subject to the 2% Floor

Under the One Big Beautiful Bill Act (OBBBA), these deductions are **no longer allowed at all** starting in **2026** — they had already been *suspended* under the 2017 TCJA, but now it's permanent.