

WHAT'S INSIDE THE ONE BIG BEAUTIFUL BILL?



Passed by the Senate and signed into law by President Trump on July 4th, the “One Big Beautiful Bill Act of 2025” includes a tax package that addresses the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) set to expire at the end of 2025. It also includes new tax relief for seniors, expands 529 education plans, addresses state and local tax (SALT) deductions and more.

The legislation does not contain any changes directly related to IRA or retirement plan rules. For example, there are no changes to retirement account contribution limits or new Roth contribution rules. (This doesn't mean there won't be tax legislation later this year that could include retirement changes.) However, there are several provisions in the new law that may have an indirect impact on retirement savings decisions.

Reduced Federal Income Tax Rates Extended Permanently

The reduced federal individual income tax rates, originally enacted in the 2017 Tax Cuts and Job Act, are extended permanently. This will expand the opportunity to do Roth IRA conversions at low brackets for future years.

Estate and Gift Tax

The base federal estate and gift tax exclusions are reset at \$15 million per person, or \$30 million for a married couple with portability. The generation skipping transfer tax (GSTT) also increases to \$15 million but isn't portable. These rates are effective in 2026 with annual inflation increases for subsequent years.

20% Qualified Business Income Deduction (QBI)

The QBI deduction for self-employed and small business owners is permanent and income limitations have been expanded. Roth conversion planning around this deduction requires walking a fine line on how much to convert, since the conversion income can either increase the QBI deduction (by raising taxable income) or eliminate the deduction (by raising income so much that it exceeds the QBI income limits).

Standard Deduction Increase

For 2025, the standard deduction increases to \$15,750 (from \$15,000) for individuals, and \$31,500 (from \$30,000) for married filing jointly. There are annual inflation increases for subsequent years.

\$6,000 Extra Senior Deduction

There is a new \$6,000 addition to the standard deduction for seniors aged 65 and older for years 2025-2028. This is per person, so a married couple could deduct up to \$12,000 if each spouse is aged 65 or over. This is in addition to the regular standard deduction AND the extra deduction for those aged 65 or blind. This new deduction will also be available to seniors who itemize.

The deduction phases out beginning with modified adjusted gross incomes of \$75,000 for individuals and \$150,000 for married filing jointly (MFJ). It phases out completely at \$175,000 / \$250,000.

Observations:

Married couples who qualify can reap a total deduction in 2025 of \$46,700. This equals the standard deduction (\$31,500), plus the extra standard deduction for age 65 or blind (\$1,600 x 2 = \$3,200), plus the new extra senior deduction (\$6,000 x 2 = \$12,000).

Whether Social Security benefits are taxable depends partly on modified AGI. This deduction is not an above-the-line deduction. It lowers taxable income, not AGI. So, it will not reduce or eliminate the taxable amount of Social Security benefits. The deduction reduces taxes on all income, even if there is no Social Security income.

Roth conversions can push you over these phase-outs. So, this is another factor in the complicated Roth conversion decision-making process.

Taxpayers with income below the \$75,000 / \$150,000 limits will be in relatively low tax brackets, so the potential loss of a \$6,000 deduction at their highest rate of 22% would cost \$1,320 in taxes. In the long run, the Roth conversion might still be worth it.

This provision is just one of the many new tax breaks that come with income limits. Deductible contributions to retirement accounts or Health Savings Accounts (HSAs) as well as Qualified Charitable Distributions (QCDs) can help reduce income.

SALT (State and Local Tax) Deductions for Itemizers

The SALT deduction is increased to \$40,000, effective for 2025-2029, with a 1% increase each year. In addition, some pass through business owners can work around the \$40,000 limitation and get unlimited SALT deductions.

Marriage penalty:

The \$40,000 deduction is the same for married and single individuals. Two single taxpayers could each qualify for the \$40,000 deduction, depending on income levels.

Income limitations:

The \$40,000 deduction begins phasing out at \$500,000 (for both single and married), and phases out completely at \$600,000, reverting to a maximum \$10,000 deduction. A taxpayer with an income of over \$600,000 would lose \$30,000 of the SALT deduction.

Observations:

These higher SALT deduction levels could allow more taxpayers (especially in high tax states) to itemize their deductions for 2025-2029, since the \$40,000 limit is higher than the current standard deduction for many people. For those who qualify, timing and bunching of other itemized deductions (for years 2025-2029), like charitable contributions, could add to the tax savings, allowing more opportunity to offset taxable Roth conversions.

Contributions to retirement accounts or HSAs or doing QCDs could lower AGI for those nearing the \$500,000 SALT phase-out threshold. Only IRA owners (and beneficiaries) age 70 ½ or older qualify for QCDs.

Reduction of Itemized Deductions for Those in the 37% Tax Bracket - Effective in 2026

Those in the 37% tax bracket who may qualify to itemize (for example, by qualifying for the increased SALT deductions) will have their itemized deductions reduced by limiting the tax benefit to 35% (instead of the full 37%).

Charitable Deductions for Non-Itemizers - Effective in 2026

Taxpayers taking the standard deduction will now be able to make deductible charitable contributions, up to \$1,000 for individuals and \$2,000 MFJ. Itemized deductions for charitable contributions will be reduced by 0.5% of AGI.

The deduction can reduce the tax cost of Roth conversions.

Tax Deduction for Tips - Effective for 2025-2028

Maximum deduction is \$25,000. The same \$25,000 limit applies to both married and single taxpayers.

Income limitations: Phases out when income exceeds \$150,000 for individuals, \$300,000 for married filing jointly.

Tax Deduction for Overtime - Effective for 2025-2028

Maximum deduction is \$12,500 for individuals/ \$25,000 for married filing jointly.

Income limitations: Phases out when income exceeds \$150,000 for individuals, \$300,000 for married filing jointly.

Child Tax Credit - Effective 2025

Permanently increases to \$2,200 per child, effective in 2025, and beyond with annual inflation increases.

Income limits remain the same at \$200,000 (individuals), and \$400,000 (married filing jointly).

Trump Accounts

Effective July 4th, 2026, parents and others can contribute up to a total of \$5,000 per year on behalf of a child. Contributions by employers and nonprofits are also permitted.

Accounts for babies born between January 1, 2025 and December 31, 2028 will be seeded with a one-time government contribution of \$1,000.

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