2025 | ISSUE 1

HIGH NET WORTH REPORT

One Big Beautiful Bill Act: Major Provisions

The One Big Beautiful Bill Act (OBBBA) enacts major revisions to U.S. tax law and various domestic policies. Chief among its tax changes are the permanent extension of individual tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), new tax deductions for overtime pay and tipped income and higher tax deductions for seniors. This report highlights key provisions of the OBBBA and is intended for informational purposes only. Because of the complexities of the tax code, consult a certified tax professional for specific tax planning advice.

HIGHLIGHTS IN THIS ISSUE

- TCJA's individual tax cuts have been made permanent, preserving increased standard deductions.
- Tax benefit from charitable deductions capped at 35 percent for top-bracket taxpayers.
- Pass-through business owners continue receiving a 20 percent deduction on qualified income.
- Estate and gift tax exemptions made permanent at $15 million per individual and $30 million per married couple.
- Taxpayers can deduct up to $10,000 in interest paid on loans for certain new vehicles purchased for personal use.
- State and local tax (SALT) deduction cap raised to $40,000, reverting to $10,000 in 2030.

The OBBBA extends lower individual income tax rates created under the TCJA, which were set to expire after 2025, providing relief for many households.

About 85 percent of households nationwide will see a tax cut next year, compared to what they would have paid if the TCJA expired, according to the Tax Policy Center. By stopping the TCJA's expiration, the average household will save about $2,900 on its tax bill in 2026, representing 2.8 percent of their after-tax income. Higher-income households will fare even better because they will receive larger deductions, both in dollar terms and as a share of their income, than the average household. High net worth households in Arizona, defined as those with $200,000 or more in annual adjusted gross income, accounted for 6.7 percent of returns in 2022 with an average income of $513,900, according to the latest available Internal Revenue Service data.

New tax law preserves higher standard, estate and transfer tax exemptions and tightens charitable and vehicle tax breaks.

Without the OBBBA's passage, several key tax provisions from the TCJA would expire — including one that would have cut standard deductions in half. Instead, the standard deduction for single filers rises to $15,750 (+$750) and for married couples filing jointly to $31,500 (+$150). These deductions will continue to rise annually to keep up with inflation.

The OBBBA permanently extends the TCJA's higher estate, gift and generation-skipping transfer tax exemption that was set to expire. Starting next year, exemption levels for all three taxes will be set at $15 million for individuals and $30 million for married couples. This allows families to transfer much larger amounts to heirs without incurring federal taxes.

> "Those making $217,000 or more per year will get an average tax reduction of about $12,500 in taxes, or 3.4 percent of their after-tax income.

> "Beginning in 2026, even those in the top tax bracket will see their tax break on donations capped at 35 percent, effectively reducing the value of deductions.

The OBBBA places new limits on charitable deductions for high-income taxpayers. In 2026, the tax break for charitable giving will be limited to 35 percent for all taxpayers. Additionally, only contributions above 0.5 percent of adjusted gross income are deductible for itemizers. For example, someone earning $500,000 could only deduct giving above $2,500. The law also adds an above-the-line deduction for non-itemizers, allowing single filers to deduct up to $1,000 in cash gifts and married couples up to $2,000.

Some vehicle owners will also benefit under the law, which introduces an above-the-line deduction for interest on auto loans. Taxpayers can deduct up to $10,000 in interest paid on loans for certain new vehicles purchased for personal use. The deduction only applies to vehicles assembled in the U.S. and purchased from 2025 through 2028. The new law also ends the existing $7,500 federal tax credit for new electric vehicles.

New tax law tightens tax treatment of gambling by limiting loss offsets, while introducing temporary, income-limited exclusions and deductions for tips and overtime pay that reduce federal income tax but leave payroll taxes on those earnings unchanged.

The OBBBA reduces the share of gambling losses that can be used to offset winnings from 100 percent to 90 percent, effectively creating a tax on money that a gambler has lost. Lawmakers in Congress have been working to reverse the tax change, as it would negatively affect the leisure and hospitality industry in the United States.

The OBBBA also enacts new deductions and exemptions. The "no tax on tips" provision of the bill won't eliminate taxes. Instead, workers can exclude up to $25,000 of their tips from federal income tax through 2028, but they still must pay Social Security and Medicare payroll taxes on all tip income. Earnings above the $25,000 threshold will be subject to income tax. This change is retroactive to the start of 2025. This benefit begins to phase out for single filers with incomes above $150,000 and $300,000 for joint filers. In Arizona, about 2 percent of workers are tipped workers, compared to the nationwide average of 2.5 percent.

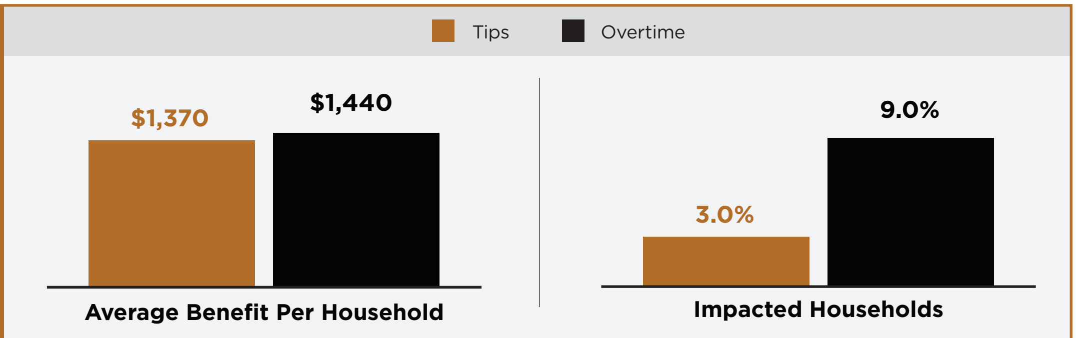
Similarly, the OBBBA creates an above-the-line deduction for overtime pay. The deduction applies only to the premium portion of overtime pay, not the base pay for those hours. The annual deduction is capped at $12,500 per individual and $25,000 for married joint filers. The overtime deductions share the same rules as the tips provision about annual income limits, Social Security and Medicare payroll taxes and when the benefit begins and ends.

Modified TCJA-era tax provisions under the OBBBA temporarily expand targeted deductions for seniors and state and local taxes while permanently preserving the lower cap on the home mortgage interest deduction.

In lieu of eliminating taxes on Social Security benefits, the OBBBA boosts the standard deduction for seniors. Individuals aged 65 or older can claim an extra $6,000 deduction on top of their regular standard deduction from 2025 through 2028.

NO TAX ON TIPS & OVERTIME

Average Tax Cut for Effected Households



Source: *Tax Policy Center.* ***Note:*** *A four-year sunset clause for no tax on tips and overtime is included in the OBBBA.*

That's in addition to an existing extra deduction for seniors ranging from $1,600 to $2,000. However, the new deduction phases out for individuals making above $75,000 and married joint filers making more than $150,000.

The OBBBA significantly eases the state and local tax (SALT) deduction cap enacted by the TCJA, which capped the maximum deductions at $10,000. The cap, which was set to expire next year, has been raised to $40,000, increasing by 1 percent every year through 2029. The new elevated cap phases out for households making over $500,000 a year, effectively keeping the existing cap for the highest-earning households. In 2022, 37.0 percent of Arizona's high net worth households took the SALT deduction for property taxes, while 3.2 percent claimed it for sales taxes.

OBBBA also makes permanent the TCJA's limitation on the home mortgage interest deduction. Taxpayers may continue to deduct interest on up to $750,000 of principal debt on a primary or secondary residence.

Pass-through business owners get a permanent deduction on qualified income plus higher phaseout thresholds and faster write-offs for equipment, vehicles and business-use aircraft.

More than 90 percent of U.S. companies are pass-through businesses organized as sole proprietorships, partnerships or S corporations. Instead of paying corporate income taxes, these businesses pass any profits or losses to their owners as personal income, which is subject to individual tax rates. As a result, new tax changes affecting pass-through income can meaningfully reduce the tax bills of many business owners.

Starting next year, pass-through business owners can also earn more taxable income before losing the benefit. Single filers can earn up to $75,000 before the deduction starts to phase out ($150,000 for joint filers).

The OBBBA also allows companies to immediately write off the entire cost of equipment, machinery, computers, certain vehicles and other eligible property in the year of purchase, rather than spreading the deduction over several years via normal depreciation. New and pre-owned aircraft — including helicopters, jets and other airplanes — are covered by the law change if they are predominantly used for business purposes. This accelerated depreciation applies to assets placed into service after January 19, 2025.

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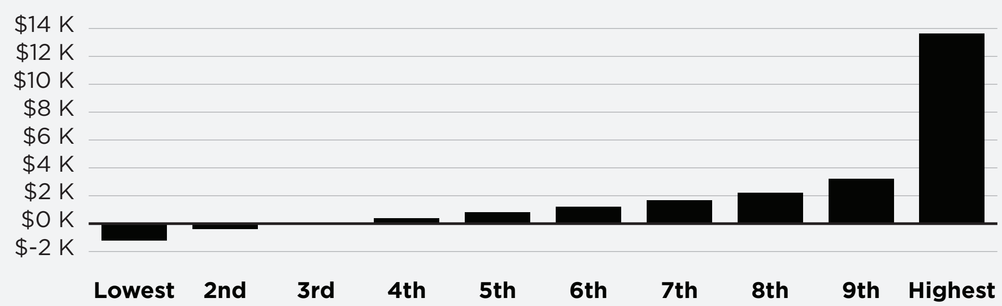
> The OBBBA makes permanent a 20 percent deduction on qualified income for filers with pass-through businesses. The law also introduces a new minimum deduction of $400 for entrepreneurs with at least $1,000 of qualified business income.

OBBBA DISTRIBUTIONAL EFFECT ON HOUSEHOLD RESOURCES

By Income Decile



Source: *Congressional Budget Office (CBO).* ***Note:*** *Data show average annual per-household changes in resources (after taxes, transfers, and government policies), as defined by the CBO. Net effects are for 2026–2034 and exclude macroeconomic impacts of OBBBA debt-service costs. Each decile is one-tenth of the income distribution.*