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*2025 National Conference on Special Needs Planning and
Special Needs Trusts*

**Tax Update
One Big Beautiful Bill Act
(OBBBA-OB3 Act)**

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1

“OB3 Act” or “OBBBA”

- Signed by President Trump on July 4, 2025. Public Law 119-21, formally titled “An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14” but commonly known as the “One Big Beautiful Bill Act” (“the OB3 Act” or “OBBBA”).
- The OB3 Act is 330 pages. 175 of the 330 pages are changes to the Internal Revenue Code.
- The OB3 Act made permanent most of the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that were scheduled to sunset at the end of 2025.

2

**Provisions Still Set to Expire at the End of
2025**

- The OB3 Act did not extend all the provisions from the 2017 Act that are scheduled to sunset at the end of 2025. Here is a partial list of provisions set to expire at the end of 2025:
 - The §51 work opportunity credit;
 - The §108(a)(1)(E) exclusion from gross income of discharge of indebtedness on a principal residence;
 - The 7-year recovery period for motorsports entertainment complexes under §168(e); and
 - Several of the empowerment zone tax incentives, including empowerment zone tax-exempt bonds under §1394 and the empowerment zone employment credit in §1396.

3

Federal Income Tax Brackets for 2025

Taxable Income Exceeding		Ordinary Income	Adjusted Net Cap Gain* & Qualified Dividends	Medicare Surtax on Earned Income**	Medicare Surtax on Net Investment Income
Single	Married Filing Jointly				
\$0	\$0	10%	0%	2.9%	0%
\$11,925	\$23,850	12%	15%	2.9%	0%
\$48,350	\$96,700				
\$48,475	\$96,950	22%			
\$103,350	\$206,700	24%			
\$197,300	AGI over \$250,000	32%	20%	3.8%	3.8%
AGI over \$200,000	\$394,600				
\$250,525	\$501,050	35%			
\$533,400	\$600,000				
\$626,350	\$751,600	37%			

4

Federal Income Tax Rates
Trusts and Estates for 2025

Taxable Income Exceeding	Ordinary Income	Adjusted Net Cap Gain* & Qualified Dividends	Medicare Surtax on Net Investment Income
\$0	10%	0%	0%
\$3,150	24%	15%	0%
\$3,250			
\$11,450	35%		
\$15,650	37%	20%	3.8%
\$15,900			

5

Personal Exemptions
Trusts-Estates

- The 2017 Act effectively repealed the deduction for personal and dependency exemptions for the years 2018 through 2025 by reducing the exemption amount in those years to zero.
- The 2017 Act expressly retained the regular personal exemption for “qualified disability trusts,” and the nominal personal exemptions currently in play for estates (\$600) and trusts (\$100 or \$300).

6

Standard Deduction

Filing Status	2017 Standard Deduction	2018 Standard Deduction	2025 Standard Deduction (Pre- OB3 Act)	2025 Standard Deduction (Post-OB3 Act)
Married Filing Jointly	\$12,700	\$24,000	\$30,000	\$31,500
Head of Household	\$9,350	\$18,000	\$22,500	\$23,625
Unmarried	\$6,350	\$12,000	\$15,000	\$15,750
Married Filing Separately	\$6,350	\$12,000	\$15,000	\$15,750

7

Additional Standard Deduction

- The OB3 Act makes no changes to the inflation-adjusted additional standard deduction amount available to blind taxpayers and those age 65 and over. For 2025, the additional standard deduction amount for “the aged or the blind” is \$1,600, or \$2,000 if the taxpayer is also unmarried and not a surviving spouse.

8

Senior Deduction

A “qualified individual” (one who has attained the age of 65 before the end of the taxable year) receives a personal exemption deduction of \$6,000.

A married couple can claim two exemptions on a joint return if both spouses have reached age 65 before the close of the taxable year.

The “senior deduction” is in effect from 2025 through 2028.

- The amount of the senior deduction is reduced once the taxpayer’s modified adjusted gross income exceeds \$75,000 for a single person, and \$150,000 for a married couple filing a joint return.
- The senior deduction is reduced to zero once the taxpayer’s modified adjusted gross income exceeds \$175,000 for a single person and \$250,000 for married couples filing jointly.

9

Child Tax Credit

Child Credit Feature	2001 - 2017	2018 - 2024*	2025 - beyond
Credit Amount	\$1,000 per child	\$2,000 per child; \$500 per other dependent	\$2,200 per child (as adjusted for inflation); \$500 per other dependent
Phaseout Begins when AGI exceeds... Unmarried & Head of Household Joint Filers	\$75,000 \$110,000	\$200,000 \$400,000	\$200,000 \$400,000
Phaseout Complete when AGI hits... Unmarried & Head of Household Joint Filers	\$95,000 \$130,000	\$240,000 \$440,000	\$240,000 \$440,000
Refundable Portion	15% of earned income in excess of \$3,000	15% of earned income >\$2,500, not to exceed \$1,400 per child (as adjusted for inflation)	15% of earned income >\$2,500, not to exceed \$1,400 per child (as adjusted for inflation)

10

Qualified Business Income Deduction

- The 2017 Act introduced §199A, which generally gives a qualifying taxpayer a deduction equal to 20 percent of the taxpayer's "qualified business income" ("QBI"). To qualify for the deduction, one must be a partner in a business entity taxed as a partnership, a shareholder of an S corporation, or a sole proprietor engaged in a trade or business. C corporations and its shareholders do not qualify for the deduction, nor do employees.

11

Qualified Business Income Deduction

- Two restrictions on the QBI deduction apply once a taxpayer's taxable income exceeds a certain threshold. In 2025, that threshold is \$197,300 (\$394,600 for married couples filing a joint return). The first restriction is that if the business is a "specified service business."
- (1) involves the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services;
- (2) has as its principal asset the reputation or skill of one or more of its employees or owners; or
- (3) involves the performance of services consisting of investing and investment management, trading, or dealing in securities, partnership interests, or commodities);
- The deduction is reduced to zero once the taxpayer's taxable income is more than \$50,000 over the threshold (or more than \$100,000 over the threshold in the case of a married couple filing jointly).

12

Alternative Minimum Tax

- Individuals, estates, and trusts are subject to the alternative minimum tax (AMT). The minimum tax imposed is the amount by which tentative minimum tax exceeds the regular income tax liability for the year. There is a “tentative minimum tax” when “alternative minimum taxable income” (AMTI) exceeds the exemption amount. Taxpayers with high AMTIs face a phaseout of the exemption amount.
- The OB3 Act extends the higher exemptions and phaseouts indefinitely. Although the 2026 amounts are yet to be determined, the following table indicates the effect of the extensions:

13

Alternative Minimum Tax

Taxpayer	2017			2018			2025		
	Joint Filers	Single	Estates and Trusts	Joint Filers	Single	Estates and Trusts	Joint Filers	Single	Estates and Trusts
AMT Exemption Amount	\$84,500	\$54,300	\$24,100	\$109,400	\$70,300	\$24,600	\$137,000	\$88,100	\$38,700
Exemption phaseout begins when AMTI exceeds	\$140,900	\$120,700	\$80,400	\$1,000,000	\$500,000	\$82,000	\$1,252,700	\$626,350	\$102,500

14

Federal Estate Tax Exclusion Amount

- The 2017 Act doubled the basic exclusion amount under §2010(c)(3) from \$5 million to \$10 million with adjustments for inflation after 2011. The 2017 Act provided that the basic exclusion amount would revert to \$5 million (adjusted for post-2011 inflation) after 2025. The OB3 Act prevents the reduction by resetting the basic exclusion amount to \$15 million starting in 2026, with adjustments for inflation after 2026.
- The OB3 Act makes no changes to the portability election.
- The application of §1014, which provides a fair-market-value-at-date-of-death basis for property acquired from a decedent.

15

Federal Estate Tax Exclusion Amount

For decedents dying in	The basic exclusion amount is	For decedents dying in	The basic exclusion amount is
2011	\$5,000,000	2018	\$11,180,000
2012	\$5,120,000	2019	\$11,400,000
2013	\$5,250,000	2020	\$11,598,000
2014	\$5,340,000	2021	\$11,700,000
2015	\$5,430,000	2022	\$12,060,000
2016	\$5,450,000	2023	\$12,920,000
2017	\$5,490,000	2024	\$13,610,000
		2025	\$13,990,000
		2026	\$15,000,000

16

Charitable Deduction

- OB3 Act restores the special rule from 2021 that allows individuals who do not itemize their deductions to claim a “partial” deduction for charitable contributions of cash to public charities in the computation of taxable income. A deduction of up to \$1,000 for a single person and \$2,000 for joint filers.
- OB3 Act makes permanent the increase in the deduction limit for cash contributions to charitable organizations. Under prior law, a taxpayer could not deduct cash contributions in excess of 50% of the taxpayer’s “contribution base” which is in most cases an amount equal to the taxpayer’s adjusted gross income.

17

Charitable Deduction

- For example, if a taxpayer donated \$100,000 cash to a qualified charitable organization in a year in which the taxpayer’s contribution base was \$150,000, the taxpayer could deduct only \$75,000 of the contribution in the year of donation. The remaining \$25,000 would carry over to the next year as though the cash contribution was made in that year.

18

Charitable Deduction

- OB3 Act adds new §170(b)(1)(I) which imposes a 0.5-percent floor on donations by individuals.
- An individual can only deduct otherwise allowable charitable contributions to the extent such contributions, in the aggregate, exceed 0.5 percent of the taxpayer's contribution base.
- For example, if an individual taxpayer with a 2026 contribution base of \$100,000 donates \$10,000 to charity, the taxpayer can only deduct \$9,500 in 2026 (0.5 percent of \$100,000 = \$500). Amounts disallowed under this rule carry over for up to five taxable years.

19

Miscellaneous Itemized Deductions

- Prior to 2018, §68 generally reduced the amount of otherwise allowable itemized deductions once a taxpayer's adjusted gross income exceeded a certain inflation-adjusted threshold. In 2018, that threshold was \$320,000 for married couples and \$266,700 for unmarried individuals. For taxpayers with very high adjusted gross incomes, up to 80% of itemized deductions could be lost under this rule. But the 2017 Act suspended the application of this phaseout for the years 2018 through 2025.
- Starting in 2026, the amount of itemized deduction otherwise allowable for the taxable year shall be reduced by 2/37 of the lesser of: (1) the amount of such itemized deductions, or (2) the amount by which the taxpayer's taxable income (increased by the amount of itemized deductions) exceeds the dollar amount at which the 37% bracket begins with respect to the taxpayer.

20

Miscellaneous Itemized Deductions

- For example, in 2026 an unmarried individual has an adjusted gross income of \$1,000,000 and otherwise allowable itemized deductions of \$100,000. Assume for 2026, the 37% bracket for unmarried individuals starts once taxable income exceeds \$650,000. Under new §68, the individual's itemized deductions would be reduced by \$5,405, computed as follows:
- Lesser of –
- (1) 2/37 of \$100,000 in itemized deductions: \$ 5,405, or
- (2) 2/37 of \$350,000 excess of \$1,000,000 taxable income over \$650,000 threshold for 37% tax bracket \$18,919
- \$5,405 or the single individual's allowable itemized deduction is \$94,595.

21

Miscellaneous Itemized Deductions

- If the individual's adjusted gross income was only \$700,000, \$68 would reduce the itemized deductions by only \$2,703:
- *Lesser of –*
- (1) *2/37 of \$100,000 in itemized deductions: \$5,405*
- *or (2) 2/37 of \$50,000 excess of \$700,000 taxable income over \$650,000 threshold for 37% tax bracket \$2,703*
- **\$2,703**

22

Miscellaneous Itemized Deductions Trust and Estates

- Prior to OB3 Act, section 68(e) had a specific exception for the application of the limitation of miscellaneous itemized deductions for estates and trusts. OB3 Act removed the section 68(e) exception for estates and trusts. Thus, the same limitation that applies to individual taxpayers will now apply to estate and trusts.
- With the compressed tax brackets for estates and trusts, the 2/37th limitation is estimated to at \$16,000 of taxable income (depending on inflation adjustments for 2026).

23

Miscellaneous Itemized Deductions Trust and Estates

- For example, if a Complex Trust's gross income was \$50,000 and had \$25,000 of allowable miscellaneous itemized deductions. Assume for 2026, the Trust 37% tax bracket begins at \$16,000. Section 68 would reduce the itemized deductions by:
- *Lesser of –*
- (1) *2/37 of \$25,000 in itemized deductions: \$1,351.*
- *or (2) 2/37 of \$34,000 excess of \$50,000 taxable income over \$16,000 threshold for 37% tax bracket \$1,839*
- **\$1,351**

24

ABLE Accounts

- The 2017 Act contained three temporary modifications to ABLE accounts, all of which were to expire at the end of 2025. The OB3 Act extends all three modifications permanently.
- *First- Contribution Limits.* §529A(b)(2)(B) provides that once an amount of cash equal to the federal gift tax annual exclusion amount has been contributed to an ABLE account, the account's designated beneficiary generally may contribute an additional amount up to such beneficiary's compensation for the year or, if less, the federal poverty line for a one-person household. This increase in the annual contribution limit is now permanent.

25

ABLE Accounts

- *Second- Saver's Credit.* The amount of any such additional contribution made by the designated beneficiary is eligible for the so-called "saver's credit" under §25B. This is now permanent.
- The OB3 Act provides for two additional changes to the saver's credit that take effect in 2027: (1) *only* the additional contributions made by designated beneficiaries to ABLE accounts will be eligible for the credit, as all other qualified retirement contributions will no longer be eligible; and (2) the maximum amount of the credit increases from \$2,000 to \$2,100.)

26

ABLE Accounts

- *Three- Rollovers Between §529 Plans and ABLE Accounts.* The OB3 Act permanently allows amounts from a qualified tuition plan to be rolled over to an ABLE account without penalty as long as the ABLE account is owned either by the qualified tuition plan's designated beneficiary or the beneficiary's spouse, descendant, sibling, ancestor, stepparent, niece, nephew, aunt, uncle, first cousin, or in-law.
- Any amounts rolled over from a qualified tuition plan count toward the overall limit on amounts that can be contributed annually to an ABLE account. As was the case from 2018 through 2025, any rolled-over amount in excess of the contribution limit will be treated as ordinary income to the distributee.

27

Limit on Deduction for Personal State and Local Taxes

- 2017 Act limited the total deduction a taxpayer could claim for state and local taxes unrelated to the taxpayer's trade or business or other profit-seeking activity to \$10,000.
- OB3 Act retained a cap on the deduction for personal state and local taxes, now restricting the amount of the deduction to the "applicable limitation amount." The applicable limitation amount and the threshold amount for married couples filing jointly is the same as for unmarried taxpayers and heads of households.

28

Limit on Deduction for Personal State and Local Taxes

- The applicable limitation amount, defined in new §164(b)(7), starts as a specific dollar amount:
- Taxable Year Beginning in Applicable Limitation Amount

• 2025	\$40,000
• 2026	\$40,400
• 2027	\$40,804
• 2028	\$41,212
• 2029	\$41,624
• 2030 or later	\$10,000

29

Limit on Deduction for Personal State and Local Taxes

- If a taxpayer's "modified adjusted gross income" (a taxpayer's adjusted gross income increased by the amount of any excluded foreign earned income) for 2025 through 2029 exceeds the "threshold amount," the applicable limitation amount is reduced by 30% of the excess. In no case can the applicable limitation amount dip below \$10,000.
- Taxable Year Beginning in Threshold Amount

• 2025	\$500,000
• 2026	\$505,000
• 2027	\$510,050
• 2028	\$515,151
• 2029	\$520,302

30

Limit on Deduction for Personal State and Local Taxes

• For example, in 2025, a single taxpayer with a modified adjusted gross income of \$510,000 can deduct up to \$37,000 in personal state and local taxes paid in 2025:

• Modified AGI	\$510,000	
• Less Threshold Amount	<u>(500,000)</u>	
• Excess		\$10,000
• X 30%	<u>x 0.30</u>	
• Reduction to Limitation Amount		\$3,000
• Applicable Limitation Amount for 2025		\$40,000
• Less Reduction to Limitation Amount (above)		<u>(\$3,000)</u>
• Maximum Personal SALT Deduction		\$37,000

31

Discharge of Student Loan Debt

- The 2017 Act excluded from gross income the cancellation of a student loan on account of the student's death or total disability where such cancellation occurred after 2017 and before 2026.
- The American Rescue Plan Act of 2021 made the exclusion applicable to all federal student loan forgiveness occurring from 2021 through 2025, regardless of the reason.
- The OB3 Act returns to the exclusion to its original scope (applicable only in cases of death or total disability) and makes it permanent.

32

Deduction for Qualified Tips

- Starting in 2025, individuals can deduct up to \$25,000 in "qualified tips" received during the year. This deduction is available through 2028. Like the temporary senior deduction and the qualified business income deduction, the deduction for qualified tips is allowed both to taxpayers who itemize and those who take the standard deduction, but the deduction is taken into account after the computation of adjusted gross income.
- *Qualified Tips.* Section 224(d)(1) generally defines "qualified tips" as "cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary." The OB3 Act requires Treasury to publish within 90 days of the date of enactment of the OB3 Act a list of occupations with customarily and regularly received tips on or before December 31, 2024.
- §224(d)(2) provides that tips received by someone engaged in (or employed by) a specified service business are not qualified tips. Section 224(d)(2) further requires that qualified tips must be "paid voluntarily without any consequence in the event of nonpayment" in an amount "determined by the payor" and must not be the subject of negotiation. Section 224(d)(3) clarifies that "cash tips" includes tips paid in cash, tips

33

Deduction for Qualified Tips

- *Phaseout of Deduction.* Under §224(b)(2), the amount of the qualified tips deduction allowable under §224(a) is reduced by \$100 for every \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 for a single filer and, \$300,000 for joint filers.
- For example, if an individual receives \$50,000 in qualified tips in 2025 has a modified adjusted gross income of \$200,000, the amount of the individual's §224(a) deduction for 2025 is \$20,000: the \$25,000 maximum deduction minus \$5,000 (\$50,000 excess modified adjusted gross income, divided by \$1,000, multiplied by \$100).
- The OB3 Act calls it "No Tax on Tips." A below-the-line deduction is not the same as an exclusion or even an above-the-line deduction. The deduction does not reduce an individual's adjusted gross income, only the individual's taxable income. Additionally, the deduction is limited to the first \$25,000 in tips received, and the deduction only covers cash tips (not tips in kind) and any tips received are not exempt from payroll or self-employment taxes.

34

Deduction for Qualified Overtime Compensation

- Starting in 2025, individuals can deduct up to \$12,500 in "qualified overtime compensation" received during the year. This deduction is available through 2028. Like the deduction for qualified tips, the deduction for qualified overtime compensation is allowed both to taxpayers who itemize and those who take the standard deduction, but the deduction is taken into account after the computation of adjusted gross income.
- *Qualified Overtime Compensation.* "Qualified overtime compensation" is any compensation that is in excess of the regular rate at which an individual is employed that is required to be paid under federal law.
- *Phaseout of Deduction.* Section 225(b)(2) contains a phaseout provision that copies the one applicable to qualified tips. Under this rule, the amount of the qualified overtime compensation deduction otherwise allowable under §225(a) is reduced by \$100 for every \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 or \$300,000, in the case of joint return filers.
- Same limitation as no tax on tips.

35

Trump Accounts

- Trump accounts function as an individual retirement accounts (IRAs) for children under the age of 18. Trump accounts can only be created for the exclusive benefit of an "eligible individual," who: (1) will not have reached age 18 by the close of the calendar year in which the account is created, and (2) has been issued a social security number.
- *Contributions.* Trump accounts can be funded starting July 4, 2026. Contributions, which are not deductible, can be made in any calendar year before the year in which the beneficiary reaches age 18.
- For 2026 and 2027, the total amount that can be contributed to a Trump account is \$5,000. Starting in 2028, the contribution limit is adjusted for inflation.

36

Trump Accounts

- *Distributions.* No distributions are allowed until the start of the calendar year in which the beneficiary reaches age 18. Once the beneficiary turns 18, a Trump account is treated like an IRA. A withdrawal is ordinary income to the beneficiary. Any withdrawals before the beneficiary reaches age 59.5 will incur a 10% penalty. Similar to IRAs there are exceptions to the 10% penalty for a first time home purchase, for qualified educational expenses, or for certain medical expenses.
- *ABLE Account Rollovers.* A Trump account can distribute funds to an ABLE account established for the benefit of the Trump account beneficiary without tax consequence, provided the rollover happens during the calendar year in which the beneficiary reaches age 17.

37

Trump Accounts

- *Rollovers.* The funds from a Trump account can be rolled over into a new Trump account for the same beneficiary, but because a child can only be the beneficiary of a single Trump account, all funds from the old account must roll over into the new account. Qualified rollovers are not treated as contributions and do not give rise to federal income tax consequences.
- *Account Beneficiary's Death.* If the beneficiary dies before reaching age 18, the account ceases to be a Trump account and taxable amounts in the account are included on the beneficiary's final federal income tax return.
- If someone other than the beneficiary's estate acquires the beneficiary's interest in the Trump account upon the beneficiary's death, the taxable amounts are included in that person's gross income for the taxable year which includes the beneficiary's date of death.

38

OB3 Act Provisions Not Covered

- Exclusion for Qualified Bicycle Commuting Reimbursements;
- Casualty Loss Deduction;
- Adoption Credit;
- Employer-Provided Child Care Credit;
- Child and Dependent Care Credit;
- Wagering Losses;
- Deduction for Interest Paid on Qualified Passenger Vehicle Loans;
- Section 529 Plan Withdrawals for Elementary and Secondary Schooling;
- Provisions Related to School Choice Programs;
- Exclusion for Employer Payment of Student Loans;
- Home Mortgage Interest Deduction;
- Deduction for Moving Expenses.

39

OB3 Act Provisions Not Covered

- Excise Tax on Certain Private Colleges and Universities;
- Disguised Payments for Services Provided by a Partner to a Partnership;
- Excess Business Losses of Individuals, Partnerships, and S-Corporations;
- Opportunity Zones;
- Section 179 Expensing-Expensing of Depreciable Property;
- Qualified Small Business Stock;
- Qualified Farmland Property;
- Research and Experimental Expenditures;
- Limit on Deduction for Business Interest;
- Business Meals on Fishing Boats and at Fish Processing Facilities.

40

Impact to SNTs and Beneficiaries

- Grantor Tax Rules –Impacted by Miscellaneous Itemized Deductions.
- Complex Trust Tax Rules – Impacted by Miscellaneous Itemized Deductions at trust level.
- Qualified Disability Trusts – Personal Exemption –no change.
- ABLE- no sunset for ABLE provisions.
- Trump Accounts- available resource after 18 –
- Modified Adjusted Gross Income (MAGI)
 - Overtime pay
 - Qualified Tips

41

Case Law

- *Estate of Rowland v. Commissioner*, T.C. Memo. 2025-76, July 15, 2025 – Incomplete portability election resulted in additional taxes to the surviving spouse.
- *Estate of Griffin v. Commissioner*, T.C. Memo. 2025-47, May 19, 2025. Estate failed to make QTIP election for a specific bequest of \$2M to an irrevocable trust for spouse.
- *Estate of Fields v. Commissioner*, T.C. Memo. 2024-90, September 26, 2024. assets transferred shortly before the decedent's death to a family limited partnership by the decedent's agent under a durable power of attorney are includible in the decedent's gross estate, denying valuation discounts claimed by the estate increasing the amount of federal estate tax due.
- *New Jersey v. IRS*, 2d. Cir., August 13, 2025 upheld the validity of SALT workaround regulations.

42
