

# TAX DEDUCTION PLANNING OPPORTUNITIES UNDER OBBBA

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## SESSION OVERVIEW

- **Changes to existing deductions**
  - Standard Deduction
  - Itemized Deductions (SALT, charitable, etc.)
  - Sec. 199A (QBI) Deduction
- **New deductions created by OBBBA**
  - Age 65+ deduction
  - Qualified tips / overtime
  - Qualified auto loan interest
  - Charitable deduction for non-itemizers

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# CHANGES TO EXISTING DEDUCTIONS

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## STANDARD DEDUCTION INCREASED

### Standard Deductions Under OBBBA

	2025 (TCJA)	2025 (OBBBA)
<b>Single</b>	\$15,000	\$15,750
<b>Head of Household</b>	\$22,500	\$23,625
<b>Married Filing Jointly</b>	\$30,000	\$31,500

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## SALT CAP INCREASED

- \$40,000 for S, HOH, MFJ (\$20,000 for MFS) starting in 2025
  - No increase for joint filers
  - 1%/year increase from 2026-2029, reverts to \$10,000 in 2030
  - “Phasedowns”:
    - To \$10,000 for S/HOH/MFJ filers with \$500k-\$600k of AGI
    - To \$5,000 for MFS filers with \$250k-\$300k of AGI

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## SALT CAP 2025-2030

**SALT Cap Schedule 2025-2030**

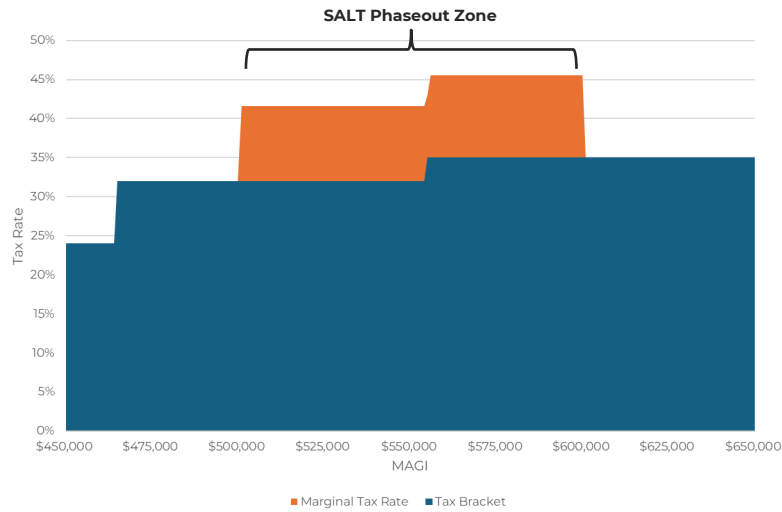
Year	SALT Deduction Limit	MAGI Range for Phasedown
2025	\$40,000	\$500,000 - \$600,000
2026	\$40,400	\$505,000 - \$606,333
2027	\$40,804	\$510,050 - \$612,730
2028	\$41,212	\$515,151 - \$619,191
2029	\$41,624	\$520,302 - \$625,716
2030 and later	\$10,000	N/A

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## SALT CAP PHASEOUTS

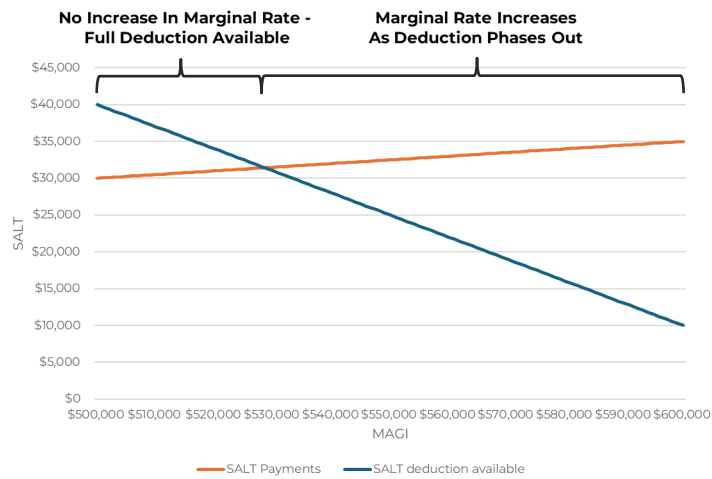
### Impact Of SALT Phaseout On Marginal Tax Rates



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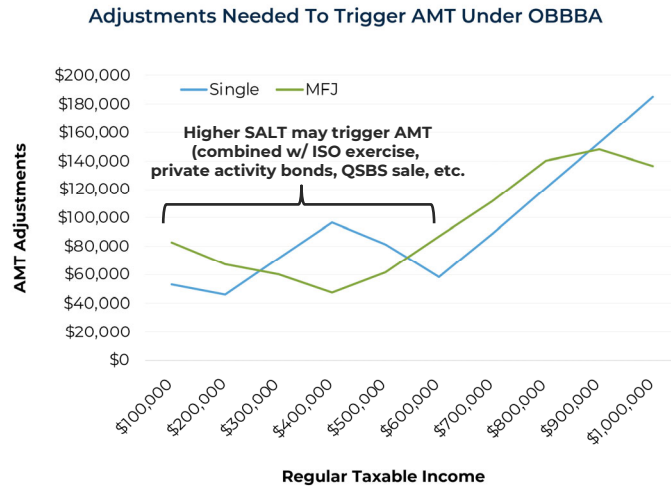
## DON'T PANIC AT \$500K

### Maximum SALT Deduction Vs Actual Deduction



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## RETURN OF THE AMT “STEALTH” SALT CAP?



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## 0.5% AGI FLOOR ON CHARITABLE DEDUCTIONS

- 0.5% of AGI subtracted from total contributions starting in 2026 – must exceed floor to be deductible
- Applied before AGI-based maximums (60%, 50%, 30%, 20%)
  - **Example 1:** \$100k AGI, \$50k of appreciated stock contributed to a public charity (30% AGI limit)
    - **0.5% AGI Floor:**  $\$50k - (\$100k \times 0.5\%) = \$49,500$
    - **30% AGI Limit:**  $\$100k \times 30\% = \$30k$  maximum deductible contribution

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## CARRYING FORWARD CONTRIBUTIONS

- Amount subtracted not carried forward *unless* contributions exceed maximum AGI limits
  - **Example 1:** \$100k AGI, \$20k of capital gain property contributed (subject to 30% AGI limit)
    - \$500 subtracted, \$19,500 deduction, \$0 carried forward
  - **Example 2:** \$100k AGI, \$40k of capital gain property contributed (subject to 30% AGI limit)
    - \$500 subtracted, \$30k deduction, \$10k carried forward

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## CHARITABLE DEDUCTION FOR NON-ITEMIZERS

- \$1,000 (S/HOH) / \$2,000 (MFJ) starting in 2026
- Below-the-line deduction (only available to non-itemizers)
- Not subject to 0.5% floor on itemized charitable contributions
- **Requirements:**
  - Contribution must be in cash
  - Cannot be used to establish or maintain a donor advised fund

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## CHARITABLE DONATION STRATEGIES

		Contributions	
		Low	High
Income	High	Non-Itemizer Deduction (up to limits)	Itemized Charitable Deduction
	Low	Non-Itemizer Deduction	No deductible charitable contributions?

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## CHARITABLE DONATION STRATEGIES

- Higher-income itemizers:
- Consider pulling contributions forward into 2025
  - DAF is a possibility, though fees could outweigh the tax benefits
- Middle-income “sometimes-itemizers”: Lump other itemized deductions into 2025 to exceed standard deduction, and use the non-itemizer charitable deduction in other years
- QCDs: Unaffected by the 0.5% AGI floor

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## OTHER ITEMIZED DEDUCTION CHANGES

- Mortgage insurance premiums included in deductible mortgage interest
- Wagering loss deduction limited to 90% of total losses (up to total gains) starting in 2026
- Casualty losses allowed for Federal, state, or local declared disasters
- Educator expenses allowed as an additional itemized deduction in 2026

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## ITEMIZED DEDUCTION LIMITATION

- Applies to taxpayers in the 37% tax bracket starting in 2026
  - Total itemized deductions reduced by  $\frac{2}{37}$  of the lesser of:
    - Total itemized deductions
    - Amount of taxable income (plus itemized deductions) exceeding the 37% bracket threshold (\$626,350 S / \$751,600 MFJ)
  - Caps tax benefit of itemized deductions at 35%

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# NEW DEDUCTIONS UNDER OBBBA

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## AGE 65+ ADDITIONAL DEDUCTION

- \$6,000 per individual / \$12,000 per married couple age 65+
- Below-the-line deduction (available to non-itemizers)
  - Does not reduce AGI – Social Security taxation, Medicare premiums not affected
- Available 2025-2028
- Phases out between \$75k-\$175k (S/HOH) / \$150k-\$250k (MFJ) of AGI
- On top of additional standard deduction for age 65+/blind

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## “NO TAX ON TIPS”

- Below-the-line deduction (available to non-itemizers) from 2025-2028
- \$25,000 maximum deduction (all filers)
  - Deduction is reduced by \$100 per \$1,000 of income above \$150,000 (S/HOH) / \$300,000 (MFJ) of AGI
- **Requirements:**
  - Occupation must be on IRS-issued list of “traditionally and customarily” receive tips as of December 31, 2024
  - Tips must be voluntary and not a condition of service provided
  - Tips must not be earned through SSTB

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## “NO TAX ON OVERTIME”

- Below-the-line deduction (available to non-itemizers) from 2025-2028
- Max deduction: \$12,500 (S/HOH) / \$25,000 (MFJ)
  - Deduction is reduced by \$100 per \$1,000 of income above \$150,000 (S/HOH) / \$300,000 (MFJ) of AGI
- Covers overtime earnings in excess of normal wage rate
  - If worker earns \$20/hr normally and \$30/hr for overtime, \$10/hr is eligible for deduction

**Tips and overtime income are still subject to payroll tax, included in AGI, and potentially subject to state tax!**

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## AUTO LOAN INTEREST DEDUCTION

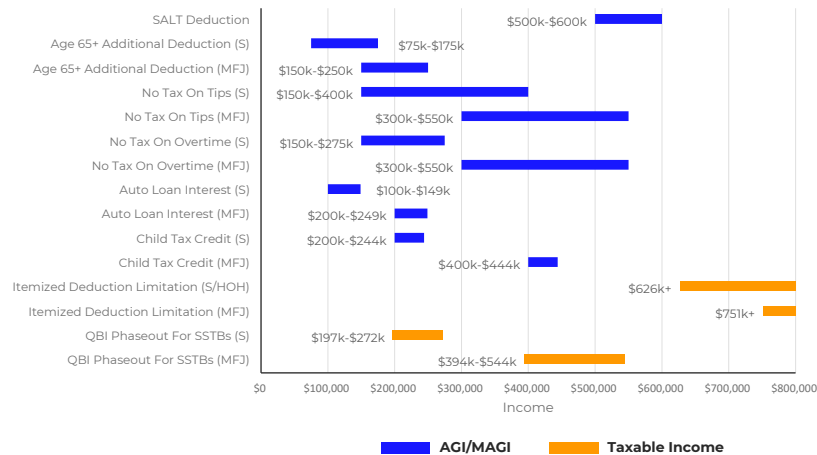
- Below-the-line deduction (available to non-itemizers) from 2025-2028
- Available 2025-2028
- Up to \$10,000 of “qualified passenger vehicle loan interest”
  - New loans taken out or refinanced after December 31, 2024
  - Cars, vans, SUVs, pickups, motorcycles
  - Vehicle must be assembled in USA
- Phased out for MAGI \$100k-\$149k (S,HOH) / \$200k-\$249k (MFJ)

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## NAVIGATING THE PHASEOUT MINEFIELD

Phaseout Ranges For Tax Provisions Under OBBBA



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## OTHER DEDUCTION PLANNING

- Take phaseouts into account when planning income timing decisions like Roth conversions or retirement contributions
- May still be worth recognizing income even it would cause some deductions to be phased out
- Ultimately, it's about paying the lowest possible tax rate – better to pay 2-3% higher today instead of 10% higher during retirement!

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## INTERLUDE: ABOVE- THE-LINE VS BELOW- THE LINE DEDUCTIONS

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## WHAT IS "THE LINE"?

*Whose Line is it Anyway?*

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## WHAT IS "THE LINE"?

### 2025 Draft 1040:

9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your <b>total income</b>	9
10	Adjustments to income from Schedule 1, line 26	10
11a	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	11a

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2025) Created 9/5/25

### Above-The-Line:

- IRA
- HSA
- Biz. Deductions
- Etc.

**"The Line"**  
= AGI

### TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040 (2025)		Page <b>2</b>
<b>Tax and Credits</b>	<b>11b</b> Amount from line 11a (adjusted gross income) <b>12a</b> Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent <b>b</b> <input type="checkbox"/> Spouse itemizes on a separate return <b>c</b> <input type="checkbox"/> You were a dual-status alien <b>d</b> You: <input type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind Spouse: <input type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind	<b>11b</b>
<b>Standard deduction for—</b> • Single or Married filing separately, \$15,750 • Married filing jointly or	<b>e</b> <b>Standard deduction or itemized deductions</b> (from Schedule A) <b>13a</b> Qualified business income deduction from Form 8995 or Form 8995-A <b>b</b> <b>Additional deductions</b> from Schedule 1-A, line 38 <b>14</b> Add lines 12e, 13a, and 13b <b>15</b> Subtract line 14 from line 11b. If zero or less, enter -0-. This is your <b>taxable income</b>	<b>12e</b> <b>13a</b> <b>13b</b> <b>14</b> <b>15</b>

### Below-The-Line:

- Standard Ded.
- Itemized Ded.
- QBI
- OBBBA Deds.

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## WHY IT MATTERS

- **New deductions do NOT affect AGI-based calculations:**
  - Taxation of Social Security benefits
  - Net investment income tax (NIIT)
  - 7.5% AGI floor on deductible medical expenses
  - 0.5% AGI floor on deductible charitable contributions
  - SALT deduction phaseout
  - Age 65+, tips, overtime, and auto loan deduction phaseouts
  - Child Tax Credit phaseout
  - Traditional IRA deduction/Roth IRA contribution limits
  - Etc.
  - Medicare premiums (IRMAA)

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## WHY IT MATTERS

- **New deductions CAN affect taxable income-based calculations:**
  - Tax calculation
  - QBI deduction (20% taxable income limitation and SSTB phaseout)
  - Itemized deduction limitation
- **Below-the-line deductions will reduce tax, but won't have the extra benefits of above-the-line deductions**

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# SEC. 199A DEDUCTION PLANNING

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## SEC. 199A DEDUCTION

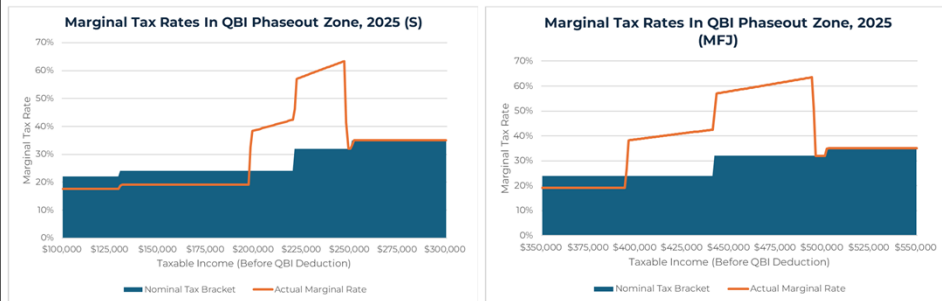
- Deduction made permanent (20% of QBI)
- Phaseout thresholds remain (\$197,300 (S/HOH) / \$394,600 (MFJ))
- Phaseout ranges increased for high-income business owners starting in 2026:

Business Type	Phaseout Ranges		Phased Down To
	Single/HOH	MFJ	
SSTB	\$75,000	\$150,000	\$0
Non-SSTB	\$75,000	\$150,000	Greater of 50% of W-2 wages or 25% of W-2 wages plus 2.5% of basis of depreciable property

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## SEC. 199A DEDUCTION

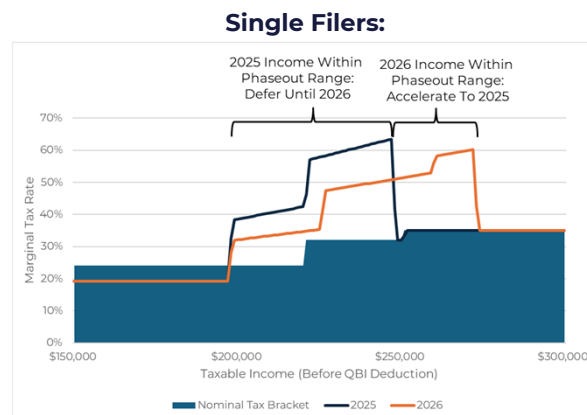
- Extremely high marginal tax rates in SSTB phaseout range:



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## SEC. 199A DEDUCTION

- Income shifting based on expected 2025 and 2026 income can save significant tax dollars!



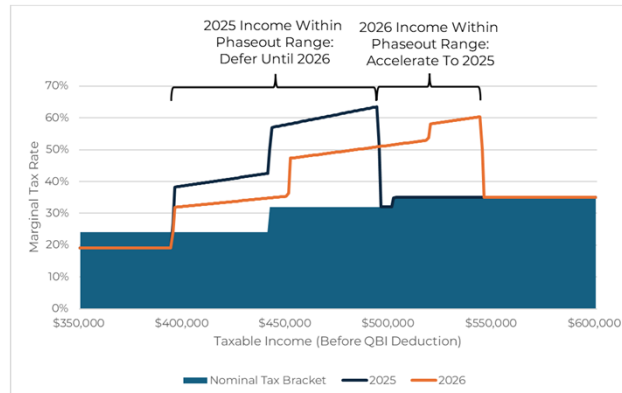
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## SEC. 199A DEDUCTION

- Income shifting based on expected 2025 and 2026 income can save significant tax dollars!

### Joint Filers:



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## SEC. 199A DEDUCTION

- Income deferral/shifting strategies:
  - Timing of work – completed and billed in 2025 vs 2026
  - Timing of expenses
  - Depreciation schedules: bonus/accelerated depreciation/Sec. 179 shift income backwards; straight line depreciation shifts forwards
  - Tax-deferred vs Roth retirement contributions

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## FINAL THOUGHTS



Many low-impact provisions – how much they add up depends on how many apply to a particular client



“Permanent” provisions are only permanent until the next piece of tax legislation

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# THANK YOU!

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