

Don't Let The Sun Go Down (on Certain Tax Provisions): Breaking Down 2025 Tax Updates

FPA of Michigan

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About Me...

- I am a “recovering” attorney, and most of what I now do is providing education and support for advisors like you
- If you really want to get into the technical nitty gritty of tax and estate planning, check out my educational newsletter – *State of Estates* – at <https://griffinbridgers.substack.com>
- If you want actionable estate planning guidance and content for clients that is *different* for the usual mantra of “get a will,” check out my *Inheritcy* newsletter at <https://inheritcy.substack.com>

Background

- H.R. 1, originally titled the “One Big Beautiful Bill Act” and signed into law on July 4, 2025 extended or made permanent many tax benefits
- This presentation is a *highlight reel* of some of the key changes from this Act, along with some other updates of note for 2025 thus far
- Note that we cannot cover *all* of the changes in the ~175 pages of the Bill text dealing with tax, but this is designed to give you actionable insights
- Many changes deal with income tax, while a handful also deal with estate/gift/GST tax

Estate Tax Basic Exclusion (2026)

Old Law

\$10,000,000 base in 2018

\$13,990,000 CPI-adjusted amount in 2025

**Reduction by ½ in
2026**

***Changes also extend to lifetime gift tax basic exclusion (unified with estate tax exclusion), and GST exemption (separate from gift/estate exclusion). Portability is unaffected**

New Law

\$15,000,000 base in 2026*

CPI adjustments to \$15M base starting in 2027*

**Changes are
permanent for
2026 and
beyond...***

Updates to Other Sunset Provisions (2025)

- The current TCJA tax brackets (found in IRC Section 1(j)) for individuals, and estates and trusts, have been made permanent
 - Note that inflation adjustments in 2026 and onward to the 10% and (start point of) 12% bracket run from 2016 while all others run from 2017 – this will slightly increase the two lower brackets compared to the others
- The increased standard deduction is made permanent, with the following amounts applying for 2025 and being adjusted for inflation in subsequent years:
 - \$23,625 for head of household (increase from \$22,500)
 - \$15,750 for single (increase from \$15,000)
 - \$31,500 for married filing jointly (increase from \$30,000)
- There is still an additional standard deduction of \$2,000 for those reaching age 65 during the year, and another \$2,000 for those who are blind (each reduced to \$1,600 per spouse for MFJ)

2025 Tax Brackets

Tax rate	Single filer	Married filing jointly (or surviving spouse)	Head of household	Married filing separately
10%	\$0 to \$11,925	\$0 to \$23,850	\$0 to \$17,000	\$0 to \$11,925
12%	\$11,926 to \$48,475	\$23,851 to \$96,950	\$17,001 to \$64,850	\$11,926 to \$48,475
22%	\$48,476 to \$103,350	\$96,951 to \$206,700	\$64,851 to \$103,350	\$48,476 to \$103,350
24%	\$103,351 to \$197,300	\$206,701 to \$394,600	\$103,351 to \$197,300	\$103,351 to \$197,300
32%	\$197,301 to \$250,525	\$394,601 to \$501,050	\$197,301 to \$250,500	\$197,301 to \$250,525
35%	\$250,526 to \$626,350	\$501,051 to \$751,600	\$250,501 to \$626,350	\$250,526 to \$375,800
37%	\$626,351 or more	\$751,601 or more	\$626,351 or more	\$375,801 or more

Personal Exemption and Senior Deduction (2025)

- The elimination of the personal exemption for *individuals* has been made permanent
 - Note that trusts and estates still receive one under IRC Section 642(b) - \$600 for estates, \$100 for complex trusts, \$300 for simple trusts
- There is a new deduction under IRC Section 151(d)(5)(C) of \$6,000 for 2025-2029 for each individual who is over age 65 (before year-end)
 - Note that if married filing jointly, the other spouse must have reached age 65 by year-end to get an additional \$6,000 deduction to start
 - This deduction is phased out by 6% of the amount by which MAGI exceeds \$75,000 (\$150,000 MFJ)
 - So, this amount is fully phased out when MAGI exceeds \$175,000 (or \$350,000 MFJ)
- The senior deduction is *in addition to* the additional standard deduction for those who are over age 65, or blind – but remember that this new deduction is available for *anyone*, whereas the additional standard deduction only benefits non-itemizers

Child Tax Credit (2025)

- The increased child tax credit has been made permanent, and for 2025 increases from \$2,000 to \$2,200 for *each qualifying child* in 2025
- This \$2,200 base is adjusted for inflation in 2026 and beyond
- The phaseout thresholds are increased to \$400,000 MFJ (\$200,000 for all other filing statuses)
 - Reduction is \$50 for every \$1,000 or fraction thereof over the MAGI threshold
- However, there *does not* appear to be an inflation adjustment for the phaseout thresholds

Comparison of Deductions

Non-Itemizers

- Deductions in arriving at AGI
- **Senior deduction 65+ (\$6,000)**
- Other below-the-line deductions (to be discussed)
- Enhanced standard deductions:
 - \$15,750 single
 - \$31,500 MFJ
 - \$23,625 HH
- **Additional standard deductions**
 - **\$2,000 65+ and single**
 - **\$1,600 65+ MFJ**
 - **\$2,000 blind and single**
 - **\$1,600 blind and MFJ**

Itemizers

- Deductions in arriving at AGI
- **Senior deduction 65+ (\$6,000)**
- Other below-the-line deductions (to be discussed)
- Itemized deductions (if more beneficial than standard deductions):
 - No more miscellaneous itemized deductions
 - Reduce by deduction-specific limitations
 - **Reduce by itemized deduction limitations, if taxable income + itemized deductions is over 37% rate start point**

Deductions, In General

- For itemizers, the prohibition on deducting *miscellaneous itemized deductions* (subject to the 2% of AGI floor) has been made permanent
 - This does not extend to educator expenses
- This means expenses for tax and investment advice continue to be non-deductible, unless you can find a suitable workaround (see for example *Lender Management LLC v. Commissioner*, T.C. Memo 2017-246)
 - Trusts may be able to deduct these as an expense of administration, but only if the expense is a type that would not be incurred if the assets in question were held by an individual and not a trust

Below-The-Line Deductions

- While we often stratify deductions between (1) those used in arriving at AGI versus (2) itemized deductions, there is an expansion under OBBBA of deductions that fit into neither category – in other words they do not affect AGI, but *are available even to non-itemizers* as below-the-line deductions
- These include:
 - The new senior deduction discussed above
 - The deduction for qualified business income under IRC Section 199A
 - An extension of the non-itemizer charitable deduction under IRC Section 170(p) (to be discussed)
 - A *new* deduction for qualified tip income under IRC Section 224 (to be discussed)
 - A *new* deduction for qualified overtime compensation under IRC Section 225 (to be discussed)
 - A *new* deduction for qualified passenger vehicle loan interest under IRC Section 163(h)(4) (to be discussed)

Itemized Deduction Limitation (2026)

- In replacement of the old Pease limitation, we now find a new limitation on itemized deductions
- This limitation reduces itemized deductions (after all other deduction-specific limitations and reductions) by $\frac{2}{37}$ ths of the lesser of:
 - The total itemized deduction (before this limitation); or
 - The excess of taxable income (before reduction for itemized deductions or the limitation thereof) as exceeds the start point for the 37% rate bracket
- Importantly, existing IRC Section 68(e) (which excluded estates and trusts from the prior Pease limitation) has been *omitted* – suggesting that this itemized deduction limitation also applies to estates and trusts
 - No guidance has been issued so far on “what” constitutes an itemized deduction with respect to a trust, other than a confirmation from a Senate Finance Committee summary of the OBBBA changes that this omission was intentional

Mortgage Interest Deduction (2025)

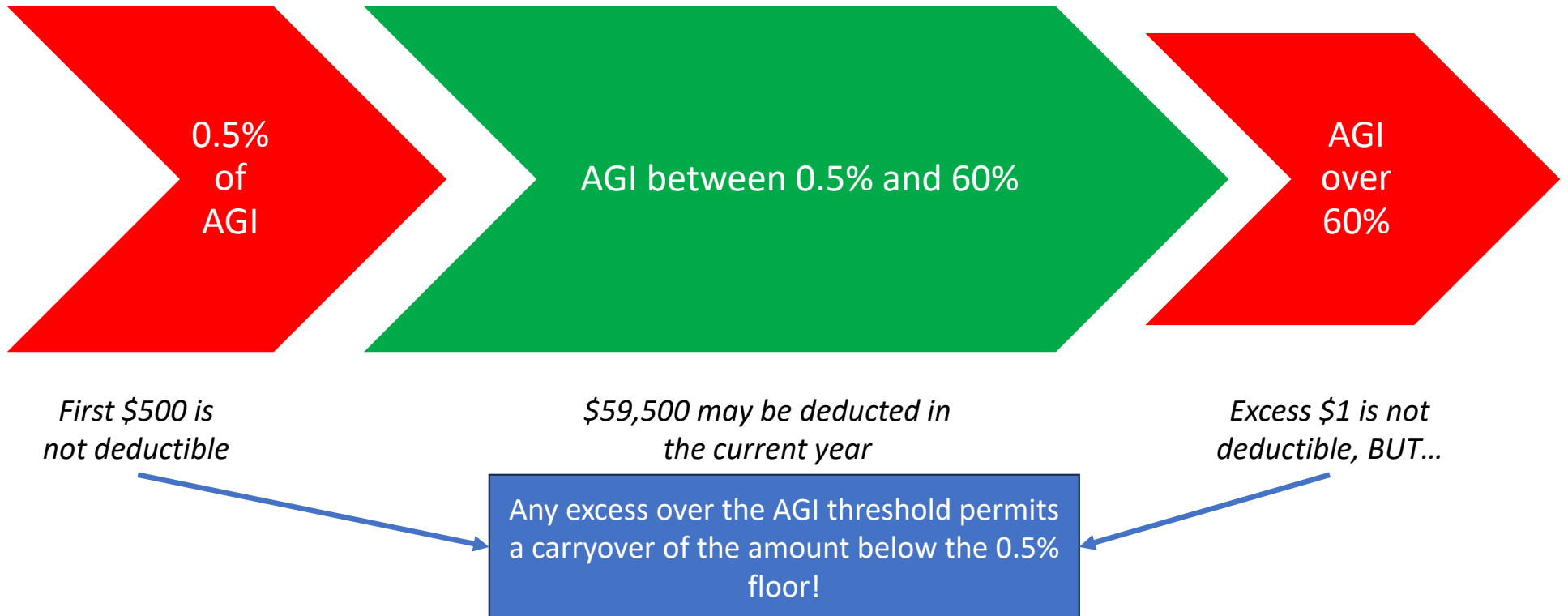
- The reduction of the acquisition indebtedness limit under TCJA to \$750,000 (\$375,000 married filing separately) for the mortgage interest deduction has been made permanent
 - Recall that this applies only to mortgages issued after December 15, 2017
- However, the prohibition on treating mortgage premiums as interest has been lifted
- Also, the prohibition on deduction of interest on home equity indebtedness has been made permanent

Charitable Deduction Changes (2026)

- The charitable deduction for non-itemizers has been increased from \$300 (\$600 MFJ) to \$1,000 (\$2,000 MFJ) with no application of the floor to be discussed below
- However, for itemizers, there is a new rule by which cumulative qualifying charitable contributions for the year are not deductible except to the extent they exceed 0.5% of the “contribution base”
 - The contribution base is generally AGI without reduction for net operating loss carrybacks, which for the most part now only apply to farming losses so in the vast majority of cases this will just be AGI
- The contributions below the 0.5% floor can be *carried forward*, but only if this disallowed portion was part of a contribution that also generated an *excess* over the contribution-specific limitations (60%, 50%, 30%, 20%, etc.)
- On that note, the good news is that the 60% of AGI limit for cash contributions to public charities *has been made permanent* (but is also subject to the 0.5% of AGI floor)

Charitable Deduction Changes (2026)

Example: Cash Contribution of \$60,001; AGI of \$100,000



State and Local Taxes (2025)

- The \$10,000 limitation on the deduction of state and local income and property taxes has been temporarily *increased* for 2025-2029
 - In 2030 this limitation reverts back to \$10,000
- The new limit is \$40,000 for 2025, and increases 101% for each of the 4 years thereafter (\$40,400 in 2026, etc.)
- However, the limit can be *reduced* – but not below \$10,000 – by 30% of the excess of MAGI over a threshold amount
 - The threshold amount is \$500,000 for 2025 (one-half for married filing separately), and is increased by 101% annually for each of the 4 years after
- In 2030, we revert to the old \$10,000 limitation (with no inflation adjustment)

Limitations, Together

\$100,000
(Taxable
income plus
itemized
deductions,
minus all
other
deductions)

Apply 37% rule here

\$59,500
charitable

+

\$20,000 SALT

Apply 2/37ths rule here

- We tentatively reduce our itemized deductions of \$79,500 by 2/37ths
- $2/37 \times \$79,500 = \$4,297$
- Allowed itemized deductions: **\$75,203**
- But, if we are below the 37% rate bracket before applying itemized deductions, there is **no actual reduction** because 2/37ths of zero is less than 2/37ths of our total itemized deductions

*Lesser of these two amounts
represents our **reduction** to
itemized deductions*

Qualified Business Income Deduction (2026)

- The deduction for up to 20% of qualified business income (QBI) under IRC Section 199A has been made permanent
- The following enhancements have been made for 2026 and beyond:
 - A new “minimum” QBI deduction of \$400, notwithstanding other phaseouts, that is adjusted for inflation (in increments of \$5) for 2027 and beyond
 - An increased phase-in threshold (not adjusted for inflation) of:
 - \$150,000 for MFJ (was \$100,000); and
 - \$75,000 for all other filing statuses and estates/non-grantor trusts (was \$50,000)
 - Note that the *threshold amounts* – currently \$197,300 or \$394,600 for MFJ – have not been increased but will still continue to be adjusted for inflation annually

Qualified Business Income Deduction (2026)

- Note the definition of “specified service trade or business” in IRC Section 199A(d)(2), which is derived **with some changes** from IRC Section 1202(e)(3)(A) for QSBS and carries over for qualified tips:

...any trade or business involving the performance of services in the fields of health, law, **engineering, architecture**, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees

Qualified Small Business Stock (7/5/2025)

- Even before OBBBA, there was a gain exclusion for qualified small business stock (QSBS)
- Of course you have to meet the core requirements to have QSBS to begin with (qualifying business, original issue C corp stock, enterprise funding limits of \$50,000,000, prohibited enterprises) but if these requirements were met, benefits accrued to individual shareholders
 - In addition to those from the previous slide, the Code excludes banking, insurance, investing, financing, leasing, operating a hotel/motel/restaurant, farming, and oil/mining
- Each shareholder could each receive a gain exclusion of \$10,000,000, or (if greater) 10x the basis of property contributed in exchange for the stock, so long as the stock was held *more than 5 years*

Qualified Small Business Stock (7/5/2025)

- For QSBS issued on or before July 4, 2025 (the date of enactment of OBBBA), these old rules still apply
- But for QSBS issued *after* the enactment of OBBBA – July 5, 2025 or after – there is an *expanded* gain exclusion of \$15,000,000 (or 10x basis if greater) along with a tiered gain exclusion of:
 - 50% for QSBS held at least 3 years but fewer than 4 years
 - 75% for QSBS held at least 4 years but fewer than 5 years
 - 100% for QSBS held 5 years or more
- Further, for qualified businesses created *at any time*, the funding limit has been increased to \$75,000,000
 - This amount is determined based on “aggregate adjusted bases,” but for most QSBS purposes the basis of contributed property (in exchange for QSBS) is not less than its FMV
 - This could allow for some larger corporations that did not previously qualify to perhaps qualify looking back, if you can accurately track the value of the corporation before and immediately after each QSBS issuance

Qualified Small Business Stock (7/5/2025)

- Starting in 2027 and thereafter, the \$15,000,000 gain exclusion limitation is adjusted for inflation
 - This \$15,000,000 as adjusted is a *lifetime* limitation for all gain attributable to QSBS
 - Note that the inflation adjustment applies to the base \$15,000,000 and not to whatever amount is left
 - But, once you have used the full lifetime amount, you don't get the benefit of subsequent inflation adjustments
- The \$75,000,000 funding limit is also adjusted for inflation annually starting in 2027

QSBS Gain

Non-excluded gain
once limitation(s)
are exhausted

Gain exclusion
\$15,000,000
lifetime limit on
recognized gains,
with inflation
adjustments until
exhausted (or if
greater 10x basis)

Basis of QSBS for
general income tax
purposes

50% or 25% of gain
may be recognized for
holding periods of 3-4
years, or 4-5 years,
respectively, or for
pre-2010 stock

*Excluded portion of gain uses lifetime exclusion;
10x basis only looks at initial contribution for
QSBS*

Difference between basis
and contributed FMV

Tax-free return of
basis

*Pre-contribution gain in exchange
for QSBS cannot be excluded*

Deduction for Qualified Tips (2025)

- For 2025, 2026, 2027, and 2028 *only*, individuals can deduct qualified tips from their income even if not itemizing
 - This is not, however, a deduction taken in arriving at AGI
- Note that this only applies to *cash* tips received “in an occupation which customarily and regularly received tips on or before December 31, 2024” in order to prevent businesses from pivoting to tip-based income
- The deduction is capped at \$25,000, which is reduced by \$100 for each \$1,000 (or fraction thereof) by which MAGI exceeds \$150,000 (\$300,000 MFJ)

Deduction for Qualified Tips (2025)

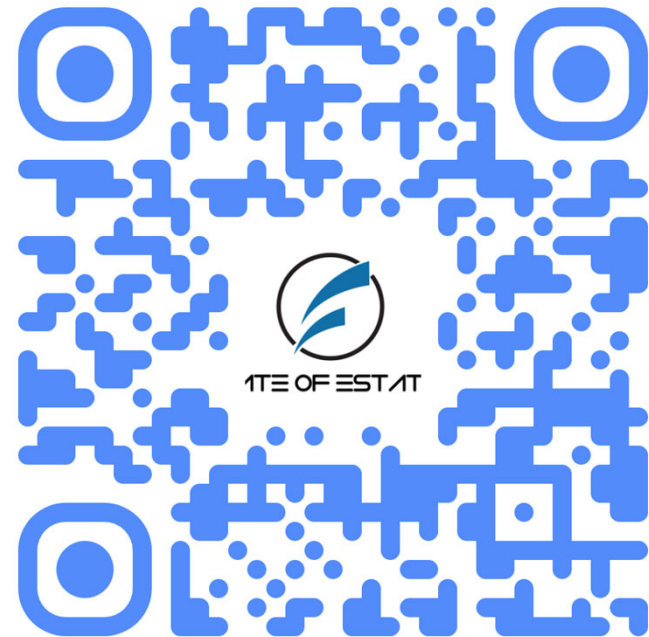
- While tips themselves do not create a trade or business, it is important to note that:
 - They are not included in qualified business income for 199A purposes; and
 - If incurred in a trade or business, they are only deductible to the extent of the net income (after all other deductions) of the trade or business in which they are incurred
- Treasury Regulations were proposed for public comment on September 22, 2025, addressing (among other things) the occupations that may claim tips
- Note that tips must be *voluntary* – mandatory gratuities and service charges do not count
- **Further, tips cannot be deducted if received by specified service trades or businesses as defined in IRC Section 199A(d)(2)**

Deduction for Qualified Overtime Compensation (2025)

- Likewise, for 2025, 2026, 2027, and 2028 only, individuals may deduction qualified overtime compensation
- The same \$25,000 limit and phase-out applies as for qualified tips
- The compensation that may be deducted is limited to the *excess* over the regular rate of compensation
- So, for example, if you are paid time and a half, you can only deduct the “half”
- This also does not include qualified tips – so if you pass the limits of deductibility of tips, you cannot claim the non-deductible portion as qualified overtime compensation (even though it might technically be paid in excess of your regular rate of compensation)

Tips on Overtime and Tips

- These deductions *do not reduce AGI* – they are below-the-line deductions, but not itemized
- They are also subject to self-employment taxes



*I cannot deduct your tips... but
if you want to sign up for my
newsletter I would be grateful*

Qualified Passenger Vehicle Loan Interest (2025)

- For 2025, 2026, 2027, and 2028 *only*, individuals can deduct qualified passenger vehicle loan interest
- The deduction is capped at \$10,000 for all such interest annually, which is reduced by \$200 for each \$1,000 (or fraction thereof) by which MAGI exceeds \$100,000 (\$200,000 MFJ)
- For personal use vehicles only, and does not include commercial vehicles (not used for personal purposes) or fleet vehicles – also extends only to acquisition financing with a first lien, and not lease financing
- “Original use” must commence with the taxpayer, implying that this is only for new vehicles and not used
- Debt must be incurred after 12/31/2024, but it can include refinancing (only up to the amount of refinanced indebtedness)

Qualified Passenger Vehicle Loan Interest (2025)

- This only applies to a vehicle for which final assembly took place in the United States
- While the list of vehicles is broad, the initial House proposed bill included RVs (whether self-propelled or towed) – this does not seem to have made it into the final bill
- Nonetheless, 2- or 4- wheeled vehicles qualify so long as they are manufactured *primarily* for use on public roads, and under 14,000 pounds
 - This perhaps means e-bikes and scooters do not count even if street legal – “motorcycles” are the only 2-wheeled vehicle expressly listed
- Lenders must provide annual return (1099) for interest of \$600 or more
- Again, this *does not reduce AGI* – it is a below-the-line deduction that is not itemized

529 Account Updates

- For 529 accounts, there are expanded qualified educational expenses for elementary and secondary school tuition
- In addition, postsecondary credentialing expenses have been added – these include:
 - Tuition, expenses, books, materials, testing, etc.
 - Continuing education
- This requires a “recognized” postsecondary credentialing program – the list is fairly broad and includes, for example, “any occupational or professional license” issued by a state or federal government agency and the pursuit thereof

Trump Accounts

- Under IRC Section 530A, Trump accounts may be established for a beneficiary under the age of 18 starting in 2025 and ***do not have to be funded from earned income***
- At first glance, it looks like these accounts can only be established by the Federal government with some level of seed funding – they cannot be established by a parent or guardian
 - They can be created non-governmentally by a rollover from an existing Trump account, but the existing Trump account to which rollovers are traced presumably had to be created by the Federal government
- Initial funding can come through a pilot program under IRC Section 6434, applicable only to individuals born between 1/1/2025 and 12/31/2028, whereby there is effectively a “direction” of \$1,000 of an individual’s tax liability from Treasury to the Trump account
 - This “direction” comes from an election, presumably on a tax return
 - The \$1,000 still counts as satisfaction of an individual’s tax liability
 - It is not clear whether this can be doubled for a joint return, for example

Trump Accounts - Contributions

- No contributions can be made for 12 months after enactment of OBBBA
- Once created, it appears that Trump accounts can be funded as follows:
 - From anyone, in an amount up to \$5,000 annually (adjusted for inflation after 2027), but while the law does not limit contributions to cash it does treat these as traditional IRAs (which generally can only be funded with cash)
 - In a qualified general contribution, which does not count against the \$5,000 limit – must come from governmental or charitable entities
 - A rollover (trustee-to-trustee only) from another Trump account, but only for entire balance of account being transferred
 - Employer contributions of up to \$2,500 annually, adjusted for inflation after 2027
 - The Treasury seed funding from the last slide
- Contributions before the year in which the beneficiary reaches age 18 are *not deductible*
- Excess contributions must be distributed to the beneficiary – excess not included in gross income, but income attributable to such excess is taxed to beneficiary
- Contributions generally must be invested in index funds (mutual funds or ETFs) with an expense ratio of 0.1% or less

Trump Accounts - Distributions

- No distributions permitted before January 1 of the year beneficiary reaches age 18
 - In year beneficiary reaches age 17, a rollover distribution can be made to an ABL account (trustee-to-trustee only; entire account balance only)
- From there, generally taxed like an IRA
 - Investment in contract presumably includes nondeductible contributions before age 18, but does not include qualified general contributions, Treasury seed funding, or employer contributions
- Qualified general contributions are not taxed to the beneficiary upon contribution; instead only upon distribution
- After age 18, for all intents and purposes this becomes an IRA but is still called a Trump account – after that point the investment restrictions are lifted

Catch-Up Contributions and Roth Rule (2027)

- Starting in 2027, certain catch-up contributions to an employer-sponsored plan (excluding SIMPLE IRAs) must be made after-tax, to a Roth account
 - This was not part of OBBBA; it is final rulemaking on a change from SECURE 2.0
- This limitation applies where the participant's Social Security wages (from the sponsoring employer themselves) exceed \$145,000, and this amount is adjusted for inflation for years after 2024
- This is contingent upon a plan accepting catch-up contributions to begin with, however
- For 2025 the catch-up limit is \$7,500 for participants who will reach age 50 by year-end; this amount increases by 150% for participants attaining ages 60-63 by year-end

Planning Moving Forward

- Individuals have a bit more certainty in some areas, but others are subject to a temporary shelf life
- Remember that the “permanent” changes were in some cases for bolt-ons that might be easier to remove in the future, like for the current tax brackets and personal exemption
- Irrevocable trust planning requires heightened scrutiny for the *tax status* of the trust – many benefits can be stacked, but perhaps not for grantor trusts
- There is an increased gift tax lifetime exclusion, and corresponding GST tax exemption – but use them wisely for appreciating assets, noting that assets gifted during life may lose basis step-up opportunities

Planning Moving Forward

- On that note, there may be enhanced opportunities to “borrow” these enhanced exemptions for basis planning in existing irrevocable trusts by giving an upstream beneficiary a formula general power of appointment
- Remember that QSBS planning is full of traps requiring diligent tracking and documentation
 - It is not clear whether transfers of QSBS from an individual to an incomplete gift nongrantor trust would qualify the trust for the gain exclusion
 - Ideally, stock is originally *issued* to trusts or is transferred by completed gift
- We didn’t cover enhanced expensing and depreciation, but there are some expanded benefits – especially for qualified production property through 2030

Planning Moving Forward

- Be conscious of how the itemized deduction limitations affect trusts – there are still some unanswered questions on “what” is an itemized deduction in a trust
- Note also that updated SECURE Act regulations create a bit more certainty for planning with IRAs payable to trusts
- These issues only apply to nongrantor trusts – for grantor trusts, beware the effect of aggregating trust income and deductions with a grantor’s income and deductions
 - This could create an outsized impact, for example, with charitable planning where the increase in gross income from the trust increases the 0.5% AGI floor of the grantor
- Finally, beware trust aggregation...

Trust Aggregation – IRC Section 643(f)

- IRC Section 643(f) allows two or more trusts to be treated as one trust for federal income tax purposes
 - Check to see if your state adopts this same rule
- The factors for determining this are:
 - Substantially the same grantor (with spouses being treated as one grantor)
 - Substantially the same *primary* beneficiary or beneficiaries
 - ***A principal purpose to avoid income tax***
- This third prong can possibly save you – for example, two trusts set up by separate grantors *for gift or estate tax purposes* might avoid being aggregated

Trust Aggregation – IRC Section 643(f)

- If husband and wife were to both set up a separate trust for each of their children, then the trusts for each child *could* get aggregated under the same “grantor” rule – unless, perhaps, these are completed gift trusts (showing that a principal purpose for establishing them was separate use of gift/GST exemptions of the respective spouses)
- Note that this anti-avoidance rule also applies to the contribution of cash or property to *existing* trusts as well
 - Query whether termination of grantor trust status itself is treated as a new “contribution” under this rule – as it is motivated by income tax purposes – but also perhaps we can use the Service’s arguments from Rev. Rul. 2023-2 against it for this purpose

Questions?

- Feel free to reach out to me directly at griffin@griffinbridgers.com
- I also provide additional learning resources on a variety of topics which you can find at:
 - <https://griffinbridgers.substack.com>
 - <https://www.youtube.com/@gbridgers>

