

Key Federal Tax Changes Enacted in the "Big Beautiful Bill"

We are writing to provide a timely summary of the most significant changes under the recently enacted federal legislation, often referred to as the **"One Big Beautiful Bill Act" (OBBBA)**. Signed in July 2025, this comprehensive law makes many of the 2017 Tax Cuts and Jobs Act (TCJA) provisions permanent and introduces several new deductions and rules that will impact your tax strategy starting in the current year.

As your CPA firm, we have highlighted the changes most relevant to individual and business taxpayers in our state.

I. Federal Changes Affecting Individuals (Starting 2025)

The most impactful change for California residents relates to the deduction for state and local taxes:

- **SALT Deduction Cap Increased (Temporary):** The annual cap on the federal deduction for **State and Local Taxes (SALT)** has been significantly raised from \$10,000 to **\$\$40,000**. This increased limit applies to taxpayers with a Modified Adjusted Gross Income (MAGI) below \$500,000 (with a lower threshold for Married Filing Separately).
 - **CA Impact:** This is a major temporary benefit for many high-tax-state residents, allowing a much larger federal deduction for your California income and property taxes. The cap is currently set to revert to \$10,000 after 2029.
- **Individual Tax Rates Made Permanent:** The current seven individual income tax brackets and rates (10% to 37%) that were scheduled to expire at the end of 2025 are now **permanent**.
- **Standard Deduction Made Permanent:** The significantly higher standard deduction amounts established by the TCJA are now permanent.
- **Child Tax Credit (CTC) Increased:** The maximum CTC is permanently increased from \$2,000 to **\$2,200 per child**.
- **New Temporary Deductions (2025-2028):** New, four-year deductions were introduced, including:

- **"No Tax on Tips" Deduction:** An above-the-line deduction for up to **\$25,000** in qualified tip income.
 - **"No Tax on Overtime" Deduction:** An above-the-line deduction for the premium portion (the "half") of overtime pay, capped at **\$12,500** (or \$25,000 for joint filers).
 - **Seniors Deduction:** An additional deduction of **\$6,000** for individuals age 65 and older.
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II. Federal Changes Affecting Businesses

The new law restores and makes permanent several critical business incentives:

- **QBI Deduction (Section 199A) Made Permanent:** The 20% deduction for **Qualified Business Income** from pass-through entities (such as S-Corps, Partnerships, and Sole Proprietorships) is now permanent.
 - **Permanent Full Expensing for R&D and Equipment:** The ability to immediately deduct (expense) certain domestic **Research and Development (R&D) costs** and capital investment in short-lived assets is now permanent, reversing the recent mandatory amortization rules.
 - **Business Interest Deduction Restored:** The less-restrictive EBITDA-based limitation on the deduction for **business interest expense** has been permanently reinstated.
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Next Steps and Professional Guidance

We are currently analyzing the specifics of this new federal law and how it will interact with **California state tax law**. California often *decouples* (does not conform) to certain federal changes, so the state-level impact on deductions and income remains a critical planning issue. We will issue a follow-up communication on the specific CA tax impact as soon as we have clear guidance on state conformity and any new state-level provisions.

In the meantime, we recommend clients:



1. **Review Your Withholding:** Ensure your federal income tax withholding is accurate to reflect the permanent rates and increased deductions.
2. **SALT Planning:** Discuss the increased temporary SALT cap with your advisor to maximize its benefit in your 2025 tax strategy.
3. **Business Budgeting:** Businesses should account for the permanent restoration of R&D and equipment expensing in their investment and budgeting plans.

Please reach out to our team if you have any questions or would like to discuss how these sweeping changes specifically affect your unique tax situation.

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