

December 15, 2025

Fourth Quarter 2025

The Landscape Has Shifted: Navigating the 'One Big Beautiful Bill Act'

Jon Strauss, CFP®

A few weekends ago, I was driving north on the 5 to meet some friends for dinner in Carlsbad. We were making decent time until we hit that familiar slowdown near the Del Mar Fairgrounds. Suddenly, my GPS lit up red and recalculated. The freeway was practically a parking lot due to the ongoing North Coast Corridor expansion work, and the app routed us off the highway and onto Coast Highway 101.

It wasn't necessarily a *bad* detour (driving past the ocean is certainly better than staring at brake lights) but it changed the entire nature of the drive. Instead of cruising on autopilot at 65 mph, I was suddenly navigating roundabouts, watching for cyclists, and hitting stoplights in Solana Beach. The destination was the same, but the route required significantly more attention and a completely different driving style.

Financial planning feels a lot like that drive right now.

In our world, just like on the 5, we know that road conditions are never static. We have been preparing for the scheduled "sunset" of the 2017 tax laws for years, but we also know that Congress rarely leaves a road untouched for long.

With the passage of the "One Big Beautiful Bill Act of 2025" (OBBBA), the route has indeed recalculated. The sunset we prepared for has been largely cancelled, but new paths and opportunities have popped up in its place.

This newsletter is designed to be your new map. We've gone through the legislation to pull out many specific elements that matter to high-net-worth families, business owners, and retirees. To ensure clarity, I have broken these down by filing status: **Single** and **Married Filing Jointly**.

Here is how the new landscape generally looks and what you should consider.

1. The "State Tax" Deduction is Back (Starting Now)

If you have been filing taxes for a long time, you know that the "State and Local Tax" (SALT) deduction was historically a major component of your tax strategy.

Then came the 2017 tax changes, which placed a strict \$10,000 cap on that deduction. For many of our clients (whether you pay high income taxes in California or New York, or high property taxes in Texas or Washington) this cap was a frustration. Some of you had to switch to the Standard Deduction. Others continued to itemize but were forced to leave thousands of dollars of tax payments ineligible for deduction on the table every year.

The Change: The pendulum is swinging back. Under the new bill, the limit on how much state tax you can deduct has been raised significantly effective immediately for the 2025 tax year (the return you file next spring).

- **For Single Filers:** The cap is now **\$40,000**.
- **For Married Filing Jointly:** The cap is *also* **\$40,000**. (Unlike the standard deduction, this limit does NOT double for married couples).

The Impact: We expect a massive shift back to itemizing this year. For the last seven years, the Standard Deduction was the default choice for many of you. That era is likely over. With \$40,000 of state taxes now back on the table, plus your mortgage interest and charitable gifts, the math has flipped. Most of you will likely switch back to itemizing to capture these savings.

The Catch: There is a limit for high earners. If your income (Single or Joint) is between \$500,000 and \$600,000, this extra benefit gradually fades away, dropping back down to the old \$10,000 limit.

2. A New Hurdle for Giving to Charity (Starting 2026)

While the tax bill gives with one hand regarding state taxes, it takes with the other when it comes to charitable giving.

The Change: Beginning in the **2026** tax year, if you itemize, you can only deduct charitable contributions that exceed 0.5% of your Adjusted Gross Income (AGI). Last year, there was no such restriction.

The Impact: Think of it like medical insurance. You must pay a certain amount out of pocket before the benefits kick in. You only get a deduction for dollars given *above* that amount.

- **Example (Single Filer, \$200k Income):** The first \$1,000 you donate in 2026 gives you zero tax benefit.
- **Example (Married Filing Jointly, \$400k Income):** The first \$2,000 you donate in 2026 gives you zero tax benefit.

The Strategy: To avoid losing money to this new rule next year, we recommend pulling forward your future donations into 2025 using a **Donor-Advised Fund (DAF)**.

- **How it works:** You put a lump sum (or, ideally, appreciated stock) into the account this year (2025).
- **The Benefit:** You get the full tax deduction for the entire amount *now* (avoiding the 2026 "deductible"). Note: Avoid "overfunding" beyond your 2025 AGI limits (60% for cash / 30% for stock). Any deductions carried forward into 2026 will likely be subject to the new 0.5% floor. To ensure your full deduction is protected, stay within this year's limits—if you're unsure where you stand, talk to your CPA or give us a call.
- **The Flexibility:** You then dole it out to your favorite charities over the next few years at your own pace. The remaining funds can be invested and continue to grow over time, tax free, for the benefit of your charities of choice.

3. A "Bonus Deduction" for Seniors (Starting Now)

The bill includes a specific benefit that effectively acts as a tax cut for retirees. Effective for the 2025 tax year through 2028, there is a new "bonus deduction".

- **For Single Filers (65+):** You get an extra \$6,000 deduction.
 - *Note:* This fades out if your income exceeds \$75,000.
- **For Married Filing Jointly (Both 65+):** You get an extra \$12,000 deduction (\$6,000 per spouse).
 - *Note:* This fades out if your combined income exceeds \$150,000.

Strategic Consideration: If you are close to that \$75,000 (Single) or \$150,000 (MFJ) income line, we need to be careful. Selling a stock with a large gain or taking a big withdrawal from your IRA could push your income too high and accidentally disqualify you from this tax break.

That said, we believe that you should not necessarily make investment decisions specifically for tax reasons. There may be times when the investment case for selling is compelling enough to override the tax benefit. But this is certainly something that we keep in mind as we get closer to year-end.

4. "Trump Accounts": The Pros and Cons

There has been a lot of noise in the news about the new "Trump Accounts" for children. They are being pitched as a way to make your kids rich tax-free, but as is often the case, the reality is a bit more complicated.

The Concept: It is essentially a retirement account for your kids. You can open one for any child under 18 and contribute up to \$5,000 per year (per child). The superpower is that the child does not need earned income for contributions to be made (as they would for a Traditional or Roth IRA).

- **Bonus:** If the child is born between 2025 and 2028, the government will deposit an initial \$1,000 into the account.

The Verdict: Many clients are asking if this replaces the 529 Plan. My answer is no. It is more of an alternative to the UTMA (custodial account).

- **Why the 529 Plan still wins for College:** A 529 is truly tax-free for education, and it comes with a higher contribution limit. Also, importantly, it is a powerful estate planning tool. If your child gets a scholarship or doesn't go to college, you can change the beneficiary to a sibling, a cousin, or even a grandchild decades from now. The 529 allows you to pass wealth down through generations tax-free. The Trump Account does not offer this flexibility.
- **Trump Account vs. UTMA:** A traditional UTMA is a simple way to gift money, but it has a major flaw: at age 18 or 21, the child gets full, unrestricted access to the money. They can spend it on a sports car, and you can't stop them.
 - **The "Speed Bump":** The Trump Account is a structural alternative. If a child takes the money out at 18 to buy a car, they are hit with taxes and a 10% penalty. This penalty acts as a guardrail, encouraging them to leave the money alone until they are **59.5 years old**, at which point the 10% penalty goes away (though the tax does not).

- **Does it replace the UTMA?** Not in all cases. For families focused on transferring large amounts of wealth out of their estate, the UTMA still has the edge because realized gains are taxed at Long-Term Capital Gains rates (often 0% or 15% federally), and the gifting limits are higher. In a Trump Account, every dollar of growth is eventually taxed as **Ordinary Income** (which can be as high as 37%).
- **The Bottom Line:** For many parents, the Trump Account is the winner because it provides "structural discipline" that keeps an 18-year-old from blowing a windfall. But remember, you are essentially paying a "control premium"—a higher tax rate in exchange for the security of knowing the money stays put until retirement.

5. Business Owners: The Accelerator and the Brake

For clients who own businesses, the OBBBA provides a significant accelerator for growth, but it taps the brakes on how you handle your corporate philanthropy.

- **The Accelerator (Bonus Depreciation):** The OBBBA has fully restored **100% Bonus Depreciation** and made it permanent. If you have been holding off on buying new machinery or upgrading your tech stack, you now have the green light. Buy the asset today and write off the entire purchase price against your 2025 income.
- **The Brake (Corporate Giving):** Effective immediately, corporate charitable gifting is subject to a **1% of AGI rule**. Your business cannot deduct the "first dollars" it gives. We may need to "bunch" your corporate giving (e.g., giving \$15,000 every three years instead of \$5,000 every year) to exceed the threshold and capture the tax benefit. Note: Many people don't know this, but corporations can open Donor Advised Funds and take advantage of the same strategy described above for individuals.

Final Thoughts: Next Steps

Legislation like this reminds us why we plan the way we do. We build flexibility into your financial life so that when the government changes the rules, we can pivot quickly.

I've only described a small portion of the changes in the OBBBA, but these are the ones that will likely impact your wallet immediately. **As always, if you have any questions about how any of these changes affect your personal situation, please give us a call.**

Best,

Jon Strauss, CFP®

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