PacificCPE

One Big Beautiful Bill - Tax Changes

Course #34201A

Taxes

2 Credit Hours

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ONE BIG BEAUTIFUL BILL - TAX CHANGES

This course highlights major tax changes introduced by the One Big Beautiful Bill Act (OBBBA), including effective dates and key provisions. It covers the new deduction rules for certain tip income earners and outlines updated phaseout thresholds for the Alternative Minimum Tax (AMT) exemption. The course provides a concise overview of how these changes impact individual taxpayers.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Tax Changes in the Big Beautiful Bill

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recall when most of the changes in the One Big Beautiful Bill Act (OBBBA) take effect.
- Identify the amount of tip income that is deductible for certain individuals.
- Recall the alternative minimum tax (AMT) exemption phaseout thresholds.

Program publication date **7/17/2025**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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TAX CHANGES IN THE BIG BEAUTIFUL BILL

Course Objectives

After completing this chapter, you should be able to:

- Recall when most of the changes in the One Big Beautiful Bill Act (OBBBA) take effect.
- Identify the amount of tip income that is deductible for certain individuals.
- Recall the alternative minimum tax (AMT) exemption phaseout thresholds.

I. SIGNIFICANT NEW TAX LAW CHANGES FOR 2025 TAX RETURNS

Most of the changes in the One Big Beautiful Bill Act (OBBBA) take effect on January 1, 2026, but some are retroactive and could impact 2025 tax returns. Many of the changes have certain requirements, such as adjusted gross income limits, and some are temporary. In addition, a substantial amount of the changes are an extension of the TCJA provisions that were set to expire on December 31, 2025. Changes that might affect most 2025 tax returns include the following.

ADDITIONAL SENIOR DEDUCTION

Temporarily adds a senior deduction of $6,000 for each qualifying individual for both itemizers and non-itemizers that phases out when modified adjusted gross income exceeds $75,000, available from 2025 through 2028.

INCREASED STATE AND LOCAL TAX (SALT) ITEMIZED DEDUCTION

Temporarily increases the cap on the itemized deduction for state and local taxes (SALT) to $40,000 for 2025, and increases the cap by one percent each year from that level through 2029, subject to a phaseout for taxpayers with incomes above $500,000, then reduces the cap to a flat $10,000 thereafter.

The bill does not limit various workarounds that taxpayers are using to avoid the SALT cap.

INCREASE IN THE STANDARD DEDUCTION

Makes the standard deduction increase permanent with an enhancement, starting in 2025 at $31,500 for joint filers, $23,625 for head of household, and $15,750 for all other filers, inflation adjusted thereafter.

NO TAX ON TIPS

Temporarily makes up to $25,000 of tip income deducible for individuals in traditionally and customarily tipped industries for tax years 2025 through 2028; deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

NO TAX ON OVERTIME

Temporarily makes up to $12,500 ($25,000 for joint filers) of the premium portion of overtime compensation deductible for itemizers and non-itemizers for tax years 2025 through 2028; the deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

CLEAN ENERGY INCENTIVES

The bill terminates a large number of clean energy tax incentives:

- Sec. 25E previously owned clean vehicle credit (terminates after September 30, 2025);
- Sec. 30D clean vehicle credit (terminates for vehicles acquired after September 30, 2025);
- Sec. 45W qualified commercial clean vehicle credit (terminates after September 30, 2025);
- Sec. 30C alternative fuel vehicle refueling credit (terminates after June 30, 2026);
- Sec. 25C energy-efficient home improvement credit (terminates after December 31, 2025);
- Sec. 25D residential clean energy credit (terminates for expenditures made after December 31, 2025);
- Sec. 179D energy-efficient commercial buildings deduction (terminates for property the construction of which begins after June 30, 2026);
- Sec. 45L new energy-efficient home credit (terminates after June 30, 2026);
- Sec. 45V clean hydrogen production credit (terminates after January 1, 2028); and
- Sec. 6426(k) sustainable aviation fuel credit (terminates after September 30, 2025).

The Sec. 168(e)(3)(B)(vi) provision allowing cost recovery for certain energy property and qualified clean energy facilities, property, and technology will be terminated after December 31, 2025 for energy property, and after the date of enactment for qualified clean energy facilities, property, and technology.

The bill places restrictions on claiming the Sec. 45U nuclear power production credit for foreign entities and for facilities that use imported nuclear fuel.

The Sec. 45Y clean electricity production credit is terminated for wind and solar facilities placed in service after December 31. 2027. No credit will be allowed to facilities that are owned of controlled by certain foreign entities. The Sec. 48E clean electricity investment credit is also terminated for wind and solar facilities placed in service after December 31, 2027. Restrictions are also placed around claims by facilities owned or controlled by certain foreign entities.

The Sec. 45Z clean fuel production credit is extended through 2029, and prohibitions are placed on the use of foreign feedstocks.

DEDUCTION FOR INTEREST PAYMENTS ON CERTAIN VEHICLES - NO TAX ON CAR LOAN INTEREST

PRESENT LAW

A deduction is allowed for interest paid or accrued on indebtedness. For a taxpayer other than a corporation, however, no deduction is allowed for personal interest. For this purpose, personal interest means any interest for which a deduction is allowable under chapter 1 of subtitle A of the Code other than several kinds of specified interest, including, for example, qualified residence interest (interest paid or accrued on indebtedness incurred in purchasing or improving the taxpayer's principal residence).

The New Law

For taxable years beginning in 2025, 2026, 2027, and 2028, the law excludes from the definition of personal interest qualified passenger vehicle loan interest. As a consequence, unless another rule disallows a deduction, for taxable years 2025 through 2028, a deduction is allowed for qualified passenger vehicle loan interest.

Qualified Passenger Vehicle Loan Interest

For purposes of this rule, qualified passenger vehicle loan interest means any interest that is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024 for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use (referred to below as "auto acquisition indebtedness"). Qualified passenger vehicle loan interest does not include:

1. A loan to finance fleet sales,
2. A personal cash loan secured by a vehicle previously purchased by the taxpayer,
3. A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes,
4. Any lease financing,
5. A loan to finance the purchase of a vehicle with a salvage title, or
6. A loan to finance the purchase of a vehicle intended to be used for scrap or parts.

The law limits the amount of interest that a taxpayer may take into account in a taxable year as qualified passenger vehicle loan interest to $10,000.

The law reduces the amount that is otherwise allowable as a deduction for qualified passenger vehicle loan interest (after taking into account the $10,000 limitation) by 20 percent of the amount by which a taxpayer's modified adjusted gross income ("modified AGI") exceeds $100,000 (or, in the case of married individuals filing a joint return, $200,000). Accordingly, for a taxpayer with an otherwise allowable