

One Big Beautiful Bill Act Overview

Get up to speed on the most significant tax law changes introduced by the One Big Beautiful Bill Act. This course walks through key provisions affecting both 2025 tax returns and planning for 2026 and beyond. Whether you work with individuals, businesses, or a mix of both, understanding these changes is essential for staying current and advising clients accurately. A practical starting point for any tax professional navigating the new legislative landscape.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course 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.

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Publication Date: July 2026

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TAX CHANGES IN THE BIG BEAUTIFUL BILL

Chapter Objective

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 (\$40,400 in 2026), 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 (\$505,000 in 2026), 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 (\$32,200 in 2026) for joint filers, \$23,625 (\$24,150 in 2026) for head of household, and \$15,750 (\$16,100 in 2026) for all other filers, inflation adjusted thereafter.

NO TAX ON TIPS

Temporarily makes up to \$25,000 of tip income deductible 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 or 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

PRIOR 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 deduction of \$10,000, the deduction is fully eliminated when modified AGI is at least \$150,000 (\$250,000 in the case of a joint return). For purposes of this income-based phaseout, modified AGI is adjusted gross income increased by the amount excluded from gross income under section 911, 931, or 933.

For purposes of the exclusion from personal interest for qualified passenger vehicle loan interest, an applicable passenger vehicle is a vehicle that is originally used by the taxpayer; a vehicle that is manufactured primarily for use on public streets, roads, and highways; that has at least two wheels; and that is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle. An all-terrain vehicle designed for use on land is also an applicable passenger vehicle. For this purpose an all-terrain vehicle is defined as any motorized vehicle that has three or four wheels, a seat designed to be straddled by the operator, and handlebars for steering control. An applicable passenger vehicle also includes any trailer, camper, or vehicle (designed for use on land) that is designed to provide temporary living quarters for recreational, camping, or seasonal use and that is a motor vehicle or is designed to be towed by, or affixed to, a motor vehicle. The purchase of a used vehicle does not qualify.

A vehicle is an applicable passenger vehicle only if the vehicle's final assembly occurs in the United States.

For purposes of the U.S. final assembly requirement, final assembly is the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer or importer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

Interest on indebtedness may be considered qualified passenger vehicle loan interest if the indebtedness is incurred to refinance acquisition indebtedness, but only to the extent that the amount of this refinancing indebtedness does not exceed the amount of the acquisition indebtedness and only if the refinancing indebtedness is secured by a first lien on the applicable passenger vehicle with respect to which the acquisition indebtedness was incurred.

Indebtedness that is owed to a person related to the taxpayer within the meaning of section 267(b) or 707(b)(1) is not qualified passenger vehicle loan interest.

The deduction for qualified passenger vehicle loan interest is allowed in determining a taxpayer's adjusted gross income, with the consequence that the deduction is allowable to a taxpayer who does not elect to itemize deductions.

The deduction for qualified passenger vehicle loan interest is allowed for purposes of the alternative minimum tax.

Temporarily makes auto loan interest deductible for itemizers and non-itemizers for new autos with final assembly in the United States for tax years 2025 through 2028; deduction limited to \$10,000, and phases out at a 20 percent rate when income exceeds \$100,000 for single filers and \$200,000 for joint filers.

Effective for indebtedness incurred after December 31, 2024.

INCREASED CHILD TAX CREDIT

Makes the expiring child tax credit permanent with an increased maximum of \$2,200 in 2025, inflation adjusted thereafter.

INCREASED DOLLAR LIMITATIONS FOR EXPENSING OF CERTAIN DEPRECIABLE BUSINESS ASSETS

PRIOR LAW

A taxpayer generally must capitalize the cost of property used in a trade or business or held for the production of income and recover such cost over time through annual deductions for depreciation or amortization. The period for depreciation or amortization generally begins when the asset is placed in service by the taxpayer. Tangible property generally is depreciated under the modified accelerated cost recovery system ("MACRS"), which determines depreciation for different types of property based on an assigned applicable depreciation method, recovery period, and convention.

Election to Expense Certain Depreciable Business Assets

Subject to certain limitations, a taxpayer may elect under section 179 to deduct (or "expense") the cost of qualifying property, rather than to recover such costs through depreciation deductions. The maximum amount a taxpayer may expense is \$1,000,000 of the cost of qualifying property placed in service for the taxable year. The \$1,000,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds \$2,500,000.

The \$1,000,000 and \$2,500,000 amounts are indexed for inflation for taxable years beginning after 2018. For taxable years beginning in 2025, the total amount that may be expensed is \$1,250,000, and the phaseout threshold amount is \$3,130,000. For example, assume that during 2025 a calendar year a taxpayer purchased and placed in service \$4,080,000 of section 179 property. The \$1,250,000

section 179(b)(1) dollar amount for 2025 is reduced by the excess section 179 property cost amount of \$950,000 (\$4,080,000 – \$3,130,000). The taxpayer's 2025 section 179 expense limitation is \$300,000 (\$1,250,000 – \$950,000).

In general, qualifying property is depreciable tangible personal property, off-the-shelf computer software, and qualified real property that is purchased for use in the active conduct of a trade or business. Qualifying property excludes property used: (1) Outside the United States, (2) By certain tax-exempt organizations, and (3) By governmental units and foreign persons or entities.

Qualified real property includes: (1) Qualified improvement property, and (2) Any of the following improvements to nonresidential real property that are placed in service by the taxpayer after the date such nonresidential real property was first placed in service: roofs; heating, ventilation, and air-conditioning ("HVAC") property; fire protection and alarm systems; and security systems.

Passenger automobiles subject to the section 280F limitation are eligible for section 179 expensing only to the extent of the dollar limitations in section 280F. For sport utility vehicles above the 6,000 pound weight rating and not more than the 14,000 pound weight rating, which are not subject to the limitation under section 280F, the maximum cost that may be expensed for any taxable year under section 179 is \$25,000 (the "sport utility vehicle limitation"). The \$25,000 amount is indexed for inflation for taxable years beginning after 2018. For taxable years beginning in 2025, the sport utility vehicle limitation is \$31,300.

The amount eligible to be expensed for a taxable year may not exceed the aggregate taxable income from the active conduct of any trade or business (determined without regard to section 179). Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding taxable years (subject to limitations). In the case of a partnership (or S corporation), the section 179 limitations are applied at the partnership (or corporate) and partner (or shareholder) levels.

Amounts expensed under section 179 are allowed for both regular tax and alternative minimum tax purposes. However, no general business credit under section 38 is allowed with respect to any amount for which a deduction is allowed under section 179. In addition, if a corporation makes an election under section 179, the full amount of the deduction does not reduce earnings and profits. Rather, the expenditures that are deducted reduce corporate earnings and profits ratably over a five-year period.

An expense election is made under rules prescribed by the Secretary. In general, any election made under section 179, and any specification contained therein, may be revoked by the taxpayer with respect to any property without the consent of the Commissioner. Such revocation, once made, is irrevocable.

The New Law

Expands the Section 179 expensing cap to an inflation-adjusted \$2.5 million (2025) (\$2,560,000 in 2026), with a phasedown starting when the cost of qualifying property exceeds an inflation-adjusted \$4 million in 2025 (\$4,090,000 in 2026); applies after Dec. 31, 2024.

ADDITIONAL ELEMENTARY, SECONDARY, AND HOME SCHOOL EXPENSES TREATED AS QUALIFIED HIGHER EDUCATION EXPENSES FOR PURPOSES OF 529 ACCOUNTS

PRIOR LAW

Section 529 Qualified Tuition Programs

To describe programs that are known colloquially as 529 plans, the Code uses the term “qualified tuition programs” and distinguishes between two types of programs. One type of program, sometimes referred to as a prepaid tuition program, allows a person to purchase on behalf of a designated beneficiary tuition credits or certificates that entitle the beneficiary to the waiver or payment of the beneficiary’s qualified higher education expenses. Prepaid tuition programs are established and maintained by State governments (or their agencies or instrumentalities) and eligible educational institutions. The other type of program, sometimes referred to as a college savings plan, allows a person to make contributions to an account that is established for the purpose of satisfying the qualified higher education expenses of the designated beneficiary of the account. A college savings plan may be established and maintained by State governments (or their agencies or instrumentalities), not by educational institutions.

A qualified tuition program generally is exempt from Federal income taxation (but is subject to unrelated business income tax). As a consequence, contributors to, and beneficiaries of, these programs (whether prepaid tuition programs or college savings plans) generally have no taxable income inclusions from earnings on assets held in the programs.

To be treated as a qualified tuition program that is generally exempt from Federal income taxation, a program must satisfy several requirements. The program must provide that purchases of tuition credits or certificates or contributions to a program must be made only in cash. The program must provide separate accounting for each designated beneficiary. The program must provide that a contributor to, or a designated beneficiary under, the program may direct the investment of any contributions to the program (or earnings on those investment) no more than twice a year. The program must not allow any interest in the program to be used as a security for a loan. The program must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary that exceed the amount necessary to pay the beneficiary’s qualified higher education expenses (referred to below as the “prohibition on excess contributions”).