

Understanding the new “One Big Beautiful Bill Act”

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (OBBBA). The OBBBA extends many of the tax cuts initially provided in the Tax Cuts and Jobs Act (TCJA), which became effective in 2018 but were set to expire on December 31, 2025. While the OBBBA includes increased spending on defense, border protection and immigration, in addition to provisions that extend to large and small business, most investors are focused on understanding the impact of the bill on their individual income taxes. Here is a summary of key components that may affect individual taxpayers:

Individual tax rates

TCJA expanded income brackets and lowered marginal tax rates, including a reduction in the maximum marginal rate from 39.6% to the current 37.0% (effective for income above \$751,600 married filing jointly (MFJ) for 2025). The OBBBA makes these new income brackets and lower rates permanent, including an inflation adjustment for the lower two income brackets. Investors may want to consider the potential benefit of managing the timing of income recognition (retirement account distributions, options exercise, investment interest, etc.) based on these lower rates.

Affordable Care Act taxes

The Medicare Hospital Tax of 0.9% and Net Investment Income Tax (NIIT) of 3.8%, initially implemented for families with income above \$250,000 in 2014, remain in place. While the Medicare tax affects earned income (wage, bonus, self-employment, etc.), the NIIT affects most forms of investment income including interest, dividends, net capital gains and other forms of passive income. There are some limited income sources that are exempt from these additional taxes including municipal bond interest and retirement account income (e.g., IRA distributions, pension income, social security benefits). The OBBBA does not affect these taxes.

Capital gain and dividend rates

The lower capital gain and qualified dividend rates implemented under TCJA (with a maximum rate of 20%) were extended under the OBBBA. Investors may want to focus on an asset location strategy between taxable and tax-protected accounts that maximizes the benefit of these lower rates.

Source: One Big Beautiful Bill Act; IRS; PIMCO

Standard deduction

Taxpayers have a choice when taking deductions: they can claim the standard deduction, or itemize under Schedule A, choosing the greater amount. Under TCJA, the standard deduction increased substantially from \$12,500 (MFJ) in 2017 to \$29,200 in 2024, leading to an increase in the number of filers claiming this amount from 65% to 90% (according to the Tax Policy Center). The OBBBA will increase that amount to \$31,500 (MFJ) (\$15,750 single) for 2025.

Itemized deductions and other adjustments

Taxpayers itemize their deductions only when the total amount exceeds the amount they can claim via the standard deduction. Allowable deductions include medical expenses (above 7.5% of AGI), state and local taxes, mortgage interest expense, and charitable contributions. Beginning in 2026, the deductions will be capped at a 35% tax benefit for high income taxpayers in the top 37% bracket.

One of the provisions with perhaps the greatest interest to taxpayers is the treatment of state and local taxes, otherwise known as SALT. These local taxes were historically treated as an unlimited itemized deduction, until TCJA capped this deduction at \$10,000 for both joint and single filers. The OBBBA increases this amount to \$40,000 for 2025 (subject to phase-out at income of \$500,000 for joint filers). The cap increases at 1% per year through 2029, but reverts to the \$10,000 cap in 2030. The increase in the SALT deduction will most likely lead to an increased number of taxpayers who will benefit from the ability to itemize deductions beyond the standard amount.

Mortgage interest remains an itemized deduction, and the \$750,000 cap on indebtedness has been made permanent. Additionally, while personal interest expense (credit card, personal loans, etc.) is not deductible, car loan interest is now available as a deduction, up to \$10,000/year for automobiles (new only) assembled in the United States.

The OBBBA provides a special deduction to each taxpayer age 65 or older of an additional \$6,000 for tax years 2025 to 2028. This deduction, intended to provide relief from the taxation of Social Security benefits, is reduced by 6% of MAGI over \$150,000 (MFJ) and is fully phased out at MAGI of \$250,000 (MFJ) (\$75,000 and \$175,000 for single filers). This new deduction is available regardless of whether the taxpayer itemizes under Schedule A or takes the standard deduction.

This deduction is available for automobiles purchased (not leased) in tax years 2025 to 2028 and is subject to a phase-out at income levels of \$200,000 (MFJ) and \$100,000 (single).

Charitable contributions remain available as an itemized deduction but now are subject to a threshold floor of 0.5% of AGI. The OBBBA includes an above-the-line deduction of \$2,000 MFJ (\$1,000 single) starting in 2026 for those claiming the standard deduction; however, these contributions must be made directly to a charitable organization (private foundations and donor advised funds are not eligible). Also, gifts of cash to public charities will continue to be subject to a cap of 60% of AGI instead of reverting to 50% as scheduled.

Another much publicized provision pertains to tips and overtime pay. The OBBBA provides a deduction of up to \$25,000 for income earned from these sources up to \$300,000 (MFJ) (\$12,500 and \$150,000 respectively for single filers). These deductions are available without itemizing, but do not exempt the income from FICA taxes and are set to expire in 2028.

Given the extension of some tax cuts and the implementation of new provisions, investors should meet with their advisors to determine if they will be claiming the standard deduction, or possibly itemizing their deductions, where they would benefit by bunching these allowable deductions, where possible, into a single tax year.

Alternative minimum tax (AMT)

The AMT was initially implemented in 1969 to ensure that all Americans paid their fair share of taxes by limiting some significant deductions (SALT, personal exemption, etc.) that were afforded under the traditional code. TCJA increased the AMT exemption amount from \$82,500 in 2017 to a projected \$137,000 in 2025, and more taxpayers were able to claim the full exemption amount as phase-out now begins at income levels above \$1,252,700 in 2025. The OBBBA extends these higher exemption amounts, but lowers the income threshold for phase-out to \$1,000,000 (\$500,000 single). Given the ability to take a greater SALT deduction (up to \$40,000 in 2025) under the traditional tax code, which is not available in the AMT calculation, investors should prepare for a greater probability of an AMT liability.

Business owners

For investors who own closely held businesses, the OBBBA extended or implemented several policies providing tax relief, including:

- Section 199A, Qualified Business Income (QBI). TCJA provided a 20% deduction for qualified business income for pass-through business structures (LPs, sole proprietorships, S-corporations), providing relief for these entities similar to the reduction in the corporate tax rate from 35% to 21%. The OBBBA made the deduction permanent and expanded the income phaseout levels.
- Bonus Depreciation. The OBBBA reinstates a 100% bonus depreciation (from 40%) for qualified property acquired after January 19, 2025, through December 31, 2030.
- Section 1202, Qualified Small Business Stock (QSBS). The OBBBA increases the exclusion of acquired stock from capital gain taxation to 50% if held for 3 years; 75% if held for 4 years; 100% if held for 5 years or longer. Also, the cap on company market capitalization has increased from \$50 million to \$75 million.

Maximizing financial planning opportunities

The OBBBA extends the tax cuts provided in the TCJA of 2017 and includes expansive new benefits as well. Investors and financial advisors will want to become familiar with the provisions that have the greatest potential reach and impact to be proactive in their specific planning efforts.

Additional provisions impacting individual taxpayers

The legislation introduces sweeping changes to the tax code including family-related, education funding changes and new investment savings vehicles for children.

- The federal estate tax exemption increase has been made permanent and will rise to \$15 million beginning in 2026 with annual inflation indexing instead of reverting to \$7 million upon TCJA expiration.
- The Child Tax Credit increased from \$2,000/eligible child to \$2,200 beginning in 2025, with annual inflation indexing. While the \$1,700 refundable portion of this credit remains, it will not be indexed for inflation like the base credit.
- Qualified expenses under 529 plans have been extended to non-tuition costs for most educational schools, and for expenses associated with professional credentials.
- The personal exemption, suspended under TCJA, is eliminated under the OBBBA. Miscellaneous itemized deductions, e.g., tax preparation costs, investment advisory fees and unreimbursed business expenses, were eliminated as well.
- Trump Accounts of \$1,000/child will be established for children born between 2025 and 2028, providing parents the opportunity to contribute an additional \$5,000/year (nondeductible) to be used for education, training, and home purchases in the tax-deferred accounts. Generally, distributions are not allowed, and the account converts to a traditional IRA at age 18.

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