

Fall 2025

# Financial Planning Newsletter



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# Inside the Issue

At Withum Wealth, we recognize that major tax law changes can bring both uncertainty and opportunity.

In our Fall Financial Planning Newsletter, we outline the most impactful updates from the One Big Beautiful Bill Act (OBBBA) - including temporary SALT relief, expanded senior deductions, new tax breaks for overtime and tip income, revised charitable giving rules, and the launch of Trump accounts.

Whether you're reviewing deductions, planning charitable gifts, or preparing for future expenses, these changes present meaningful opportunities to strengthen your financial strategy with clarity and confidence.



## ⚡ OBBBA Updates: SALT Deduction Temporary Increase



The One Big Beautiful Bill Act (“OBBBA”) was signed into law July 2025, introducing – among other things – changes to itemized deductions. One of these changes is a temporary increase to the State and Local Tax (“SALT”) deduction limit from \$10,000 to \$40,000 for Single, Head of Household, and Married Filing Separately filers, or \$20,000 for those Married Filing Separately. The new limit will increase by 1% per year, reverting back to \$10,000 in 2030.

The temporary increase could provide some relief for taxpayers with high real estate and/or state income tax, such as residents of New York or New Jersey, who were accustomed to deducting 100% of SALT expenses before 2018 (pre-TCJA). However, not all households will be eligible for the new higher deduction limit. There is an income phaseout range between \$500,000 and \$600,000 of Modified Adjusted Gross Income (MAGI) or \$250,000 - \$300,000 for MFS, so careful planning is a must.

### **AT-A-GLANCE: OBBBA IMPACTS TO SALT**

#### **Higher cap:**

- Raises the individual SALT deduction cap from \$10,000 to \$40,000 for 2025
- Increases to \$40,400 in 2026
- Continued 1% annual increase in 2027, 2028, and 2029

**Phaseouts for high earners:**

- Starts phasing out the deduction for MAGI over \$500,000 in 2025
- Phaseout threshold rises to \$505,000 in 2026, then increases 1% annually
- Deduction is reduced by 30% of the excess income above the threshold
- Phaseout range caps at \$600,000 for 2025, increasing annually
- Minimum deduction allowed: \$10,000

**Expiration: Cap reverts to \$10,000 in 2030**

**Effective date:** Applies to tax years beginning after December 31, 2024

**Married Filing Separately:**

- SALT deduction cap: \$20,000 for 2025, increasing 1% per year until 2029
- Phaseout threshold starts at \$250,000 for 2025
- Phaseout caps at \$300,000 for 2025; with \$5,000 minimum deduction

**SALT Deduction Limit 1% Increases 2025 and Beyond**

Year	SALT Deduction Limit*	MAGI Phaseout Range*
2025	\$40,000	\$500,000 – \$600,000
2026	\$40,400	\$505,000 – \$606,333
2027	\$40,804	\$510,050 – \$612,730
2028	\$41,212	\$515,151 – \$619,191
2029	\$41,624	\$520,302 – \$625,716
2030 and beyond	\$10,000	N/A

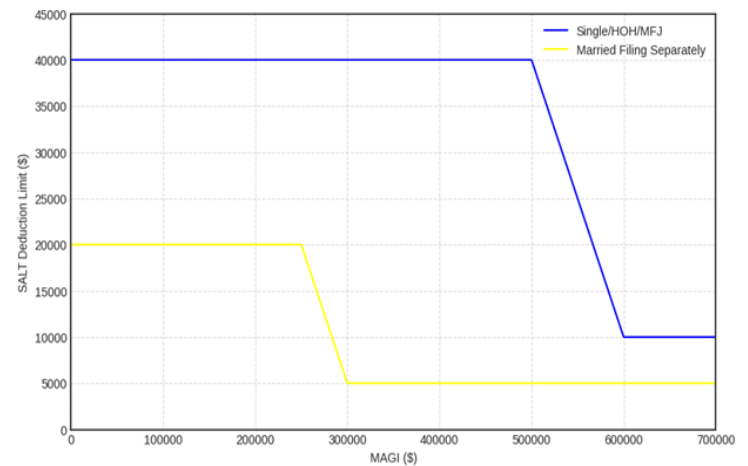
\*SALT deduction limits and MAGI phaseout ranges for Single, HOH, and MFJ (MFS: 50% of cap and MAGI phaseouts)

## BEWARE THE “SALT TORPEDO” PHASEOUT

The increased deduction begins to phase out for taxpayers with MAGI over \$500,000 (\$250,000 for married filing separately). The deduction drops back to \$10,000 once MAGI hits \$600,000 (\$300,000 for MFS). This phaseout creates a bracket where each extra dollar of income results in both higher taxes and a lost deduction, causing an artificially high marginal tax rate.

**Example:** MAGI increases from \$500,000 to \$550,000 in 2025 (\$50,000 over the threshold). The \$40,000 cap is now reduced by  $30\% \times \$50,000 = \$15,000$ . This leaves a maximum SALT deduction of \$25,000 (still more than double the previous \$10,000 cap). But this \$50,000 increase in income creates \$65,000 more taxable income. Due to the 30% reduction in SALT deduction, effective mar-

### 2025 MAGI Phaseout Ranges: Illustrated



ginal rate on income in this band is now 1.3 times higher than the ordinary income marginal bracket. Itemizing still helps in this example but if total itemized deductions were to fall below the standard deduction, the standard deduction would be the better option.

## KEY PLANNING CONSIDERATIONS

- **Strategically manage MAGI:** To avoid or lessen the impact of the “SALT torpedo,” consider strategies to lower your MAGI to keep income under key thresholds.
  - Increase pre-tax contributions to retirement plans like a 401(k) or Health Savings Account (HSA) if available
  - Time the recognition of income by delaying bonuses, exercising of equity compensation, or deferring compensation
  - Avoid or minimize actions that increase MAGI, such as Roth IRA conversions or unnecessary sales of appreciated assets
  - Consider strategies like Qualified Charitable Distributions (QCDs) which can be a helpful tool to manage income in RMD years

- **Evaluate Alternative Minimum Tax (AMT) exposure:** The SALT deduction is not deductible under the AMT. With the OBBBA, the AMT exemption amounts are now permanent, but the income thresholds for the phaseout of these exemptions have been tightened. Higher earners with large SALT deductions should project their tax liability under both the regular tax and the AMT to ensure they still benefit.
- **Strategically time SALT payments:** Because the higher cap is temporary, those with sufficient itemized deductions and MAGI below the phaseout thresholds might consider prepaying assessed 2026 property taxes in 2025. This could potentially help maximize their SALT deduction during a year it is higher. Only assessed future taxes are deductible, prepayments based solely on estimates do not qualify.
  - **Example:** MAGI is below phaseout threshold, but SALT is \$20,000 for 2025, assessed property taxes for 2026 are \$20,000, can prepay 2026 amount for a total of \$40,000 in SALT deduction for tax year 2025 maximizing impact this year.
- **Itemize or take the Standard Deduction?:** The increased SALT cap will make itemizing deductions advantageous for more taxpayers. Compare your total itemized deductions (including the higher SALT amount) against the standard deduction to determine the most beneficial option. Some states do not allow itemized deductions if the standard deduction is taken on your federal return, so consider your full tax outlook when deciding which deduction to take.
- **Keep an eye on the 2030 sunset:** The increased SALT cap is temporary and is scheduled to revert to \$10,000 in 2030. Taxpayers should plan for this eventual change and be mindful of the fluctuating limits when considering long-term financial decisions.

## FOR BUSINESS OWNERS

Explore pass-through entity tax (PTET) elections. Many states offer this workaround, allowing partnerships and S-corporations to pay state income tax at the entity level. This moves the state tax deduction from the individual's limited return to the business, where it is fully deductible against federal income. This strategy remains valuable even with the higher temporary SALT cap, as it provides a workaround that is not subject to income-based



phaseouts. For these business owners, it is important to stay up to date on state-level PTET rules and revisit this analysis each year.

### **NOTE FOR WEALTH & ESTATE PLANNING**

It may be worthwhile to explore non-grantor trusts. For high-net-worth families – especially those with large income-producing assets, like real estate – non-grantor trusts can be used to create separate taxpayers, each with its own \$40,000 SALT cap, potentially “stacking” deductions. This requires careful planning and must be weighed against other wealth transfer strategies, especially given the temporary nature of the increased cap. The increased complexity and costs associated with implementing and maintaining a strategy like this must also be weighed against the potential tax savings.

### **FINAL THOUGHTS**

Tax law is an ever-changing landscape. As for the future of SALT planning, we don't know what changes may lie ahead but we do know that from tax year 2025 through 2029 there is now some additional planning that can be done and potential temporary relief for those in higher tax states. The temporary SALT cap increase is one of many provisions in OBBBA reshaping planning conversations, it is also important to consider how each decision may impact another and keep the big picture in sight. Consult with your tax professional to assess your individual situation and consider helpful strategies.

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## **The OBBBA Senior Deduction: What You Need to Know**

**Beginning in 2025, the One Big Beautiful Bill Act introduces a significant new tax benefit for senior taxpayers: an additional \$6,000 deduction for individuals age 65 or older, or \$12,000 for married couples if both spouses qualify. This temporary provision runs through 2028 and is available whether you take the standard deduction or itemize.**

With the new senior deduction, there has been some misinformation stemming from early sources during the bill's creation. Now that bill has been enacted we can highlight the facts and answer some of these questions. For example, does this senior deduction eliminate taxes on Social Security, and how does this affect other deductions that I was already claiming?



Below, we'll outline the main points and note important income phase-outs.

## PHASEOUT RULES

While the new deduction is available to all taxpayers who are 65 or older, the deduction is phased out for those with high incomes. The phaseout is based on your Modified Adjusted Gross Income (MAGI). The OBBBA is defining MAGI for this deduction narrowly--it equals your Adjusted Gross Income (AGI) plus:

- Any foreign earned income excluded under IRC §911
- Any excluded income from U.S. territories under IRC §§931 or 933

For most taxpayers, this means MAGI is essentially the same as AGI.

Crucially, tax-exempt municipal bond interest is not included in this MAGI definition. As a result, holding municipal bonds will not reduce or eliminate your eligibility for the OBBBA senior deduction.

### The deduction is phased out

- Single (or Head of Household) filers: The \$6,000 deduction begins to phase out once MAGI exceeds \$75,000 and is fully phased out at \$175,000.
- Married filing jointly: The phaseout begins at a MAGI of \$150,000 and is fully phased out above \$250,000.
- The deduction is reduced by 6 cents for every dollar of MAGI above the threshold (or 12% for a married couple if both qualify)

For example, a married couple, both age 65, with \$200,000 of MAGI would calculate their deduction as follows:

- $\$200,000 - \$150,000 = \$50,000$  over the threshold
- $12\% \times \$50,000 = \$6,000$  reduction
- Final senior deduction:  $(2 \times \$6,000) - \$6,000 = \$6,000$

### INTERACTION WITH OTHER DEDUCTIONS

The new \$6,000 senior deduction is in addition to:

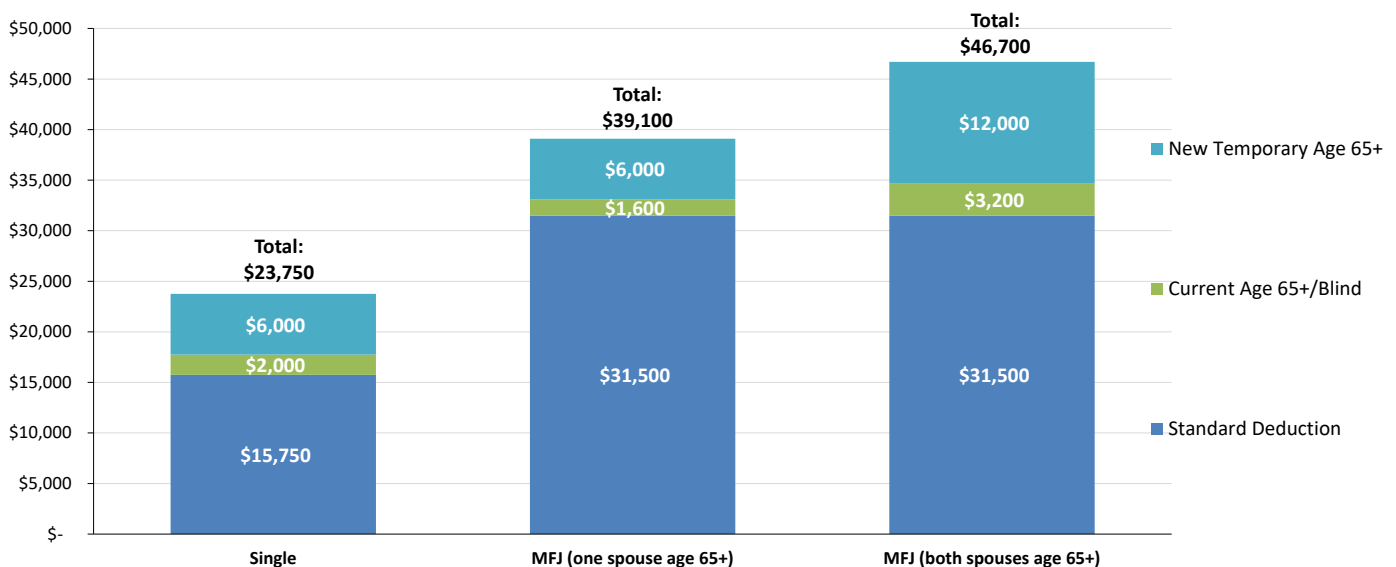
- The taxpayer’s itemized or standard deduction
- The existing extra deduction for age 65+ or blindness for those who take the standard deduction (\$2,000 for single filers; \$1,600 for each eligible spouse when filing jointly)

In 2025, this means:

- A single filer age 65+ can deduct up to \$23,750
- A married couple with one spouse age 65+ can deduct up to \$39,100
- A married couple with both spouses age 65+ can deduct up to \$46,700

This deduction applies whether you itemize or not. However, it is always a below-the-line deduction—it reduces taxable income, but not AGI.

### Deductions for Seniors Age 65+ Under OBBA





## DOES THIS REDUCE OR ELIMINATE TAXES ON SOCIAL SECURITY BENEFITS?

A common misconception is that the new deduction makes Social Security tax-free.

- The OBBBA deduction reduces taxable income overall but does not specifically exempt Social Security benefits. The deduction is agnostic to the taxable income it is offsetting.
- You do not need to be claiming Social Security to receive this deduction.
- The taxability of Social Security benefits still depends on provisional income rules.
- If your provisional income is high, up to 85% of your Social Security benefits may remain taxable.

This has important tax-planning implications. For example, someone who believes their Social Security is fully shielded may accelerate income (e.g., through Roth conversions), only to find that more of their benefits become taxable, pushing their effective marginal tax rate higher than expected and reducing or eliminating the OBBBA senior deduction.

## WHERE WE CAN HELP

Working with your accountant, we can help identify and plan optimal timing for income recognition. This may include evaluating Roth conversions, Social Security timing, portfolio rebalancing and other strategies designed to keep your MAGI below key phase-out thresholds. Keep in mind that planning is a long-term strategy. Sometimes it makes sense to pay more in taxes today if that will improve your future financial situation. If you haven't reviewed your income and tax strategy recently, now is a great time to connect with your advisor. Reach out to discuss how proactive financial planning can help you take advantage of current opportunities and keep your long-term goals on track.

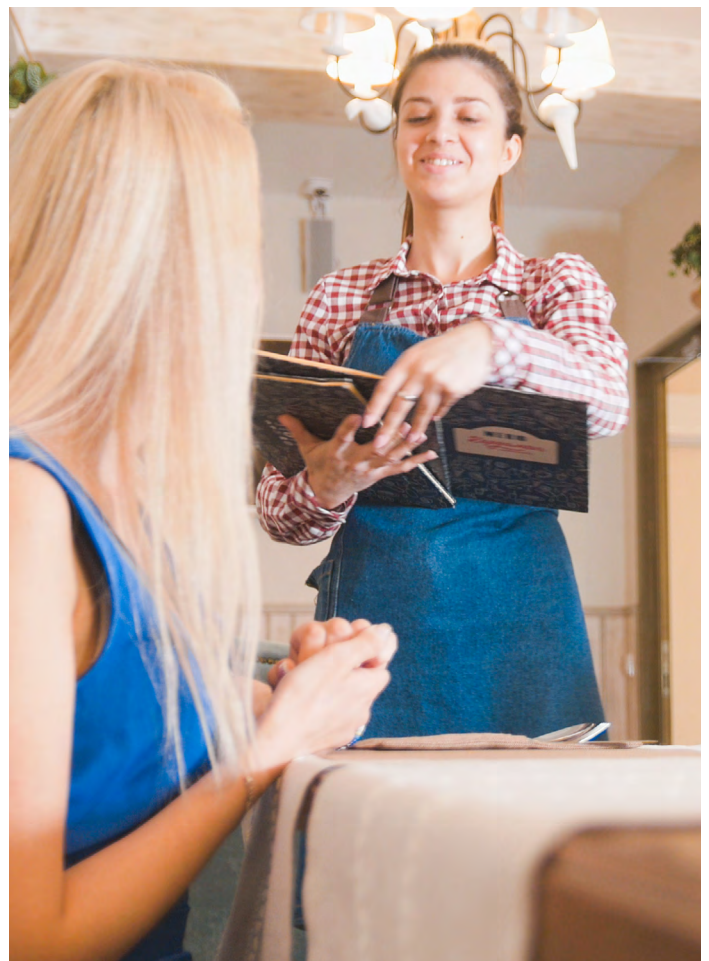
## ✚ Overtime & Tip Income: New Tax Deductions

The recently enacted One Big Beautiful Bill Act introduced several tax changes designed to put more money back in the pockets of working Americans. Among the most impactful for everyday earners are the new deductions for overtime pay and tip income — two provisions that could meaningfully increase take-home pay for those working in the service industry as well as hourly employees.

### WHAT'S CHANGING?

Under prior law, overtime and tip income were treated as ordinary wages — fully taxable, with no special deductions. The OBBBA changes that by allowing taxpayers to deduct a portion of eligible overtime and tip income from their adjusted gross income (AGI), effectively lowering their taxable income. A few things are important to note:

- These are above-the-line deductions (i.e. you do not have to itemize to claim them).
- They apply to tax years 2025 through 2028 (unless extended).
- They reduce federal income tax liability, but do not affect payroll taxes (Social Security/Medicare).
- State and local income taxes may still apply (depending on if your state conforms).
- Employers and payers have reporting obligations. “Qualified tip” and “Qualified overtime” amounts may need to be reported on Form W-2 or Form 1099.



## How do the Deductions Work?

Feature	Qualified Tips Deduction	Qualified Overtime Deduction
<b>Effective Tax Years</b>	2025–2028	2025–2028
<b>Federal Tax Impact</b>	Creates a new federal income tax deduction. Social Security and Medicare tax still apply.	Creates a new federal income tax deduction. Social Security and Medicare tax still apply.
<b>Maximum Annual Deduction</b>	\$25,000 per individual.	\$12,500 per individual or \$25,000 for joint filers.
<b>Income Phase-out</b>	The deduction is reduced by \$100 for every \$1,000 of Modified Adjusted Gross Income (MAGI) over \$150,000 for single filers or \$300,000 for joint filers.	The deduction is reduced by \$100 for every \$1,000 of Modified Adjusted Gross Income (MAGI) over \$150,000 for single filers or \$300,000 for joint filers.
<b>Qualifying Income</b>	<p>Must be voluntary, customer-determined tips in an occupation that customarily receives them as of December 31, 2024.</p> <p>Includes cash, credit card, and lawfully shared tips.</p>	<p>Only the "premium" portion (the "half" in time-and-a-half) of overtime pay qualifies.</p> <p>Must be paid as required under the federal Fair Labor Standards Act (FLSA).</p> <p>Overtime mandated by state law or other agreements does not qualify unless it also meets FLSA standards.</p>
<b>Reporting Requirements</b>	<p>Employers must separately report qualified tips and the recipient's occupation on Form W-2 or 1099.</p> <p>For 2025 only, employers can use a reasonable approximation method to report tips.</p>	<p>Employers must separately report qualified overtime compensation on Form W-2 or 1099.</p> <p>For 2025 only, employers can use a reasonable approximation method to report overtime.</p>
<b>Who Can Claim</b>	<p>Available to employees and self-employed individuals, even if claiming the standard deduction.</p> <p>Occupation must be one that "customarily and regularly receives tips" as defined by the IRS. Ineligible if in a Specified Service Trade or Business (SSTB) under Section 199A, such as law or health care.</p> <p>Must file jointly if married.</p>	<p>Available to employees, even if claiming the standard deduction.</p> <p>Must file jointly if married.</p>

## FINAL THOUGHTS

If you are an employee that receives tips or overtime pay, consult your CPA to determine eligibility of these new income tax deductions. If deemed eligible, ensure that your employer separately reports your qualified tips and/or qualified overtime on your year-end tax form (W-2 or 1099). As always, feel free to consult with one of our advisors to determine financial planning opportunities as a result of these new deductions.

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# ✚ Trump Accounts: A New Way to Jump-Start Your Child's Future

The One Big Beautiful Bill Act created a brand-new type of account that could have a significant impact on how families save for their children. Called *Trump accounts*, these savings vehicles are designed to give kids a financial head start and promote a culture of investing from an early age. As part of the pilot program, the U.S. Treasury will make an initial contribution of \$1,000 to accounts for eligible children.

The concept isn't entirely new—economists have floated “baby bond” ideas for years—but the specific details here are unique. Families who qualify should definitely take advantage of the free money. Details need to be ironed out and the accounts can't be funded until next July, but let's walk through what we know about Trump accounts so far and how they might fit into your family's broader financial plan.

## ELIGIBLE INDIVIDUAL

An individual who has not attained the age of 18 before the end of the year and for whom a social security number has been issued.

## PILOT PROGRAM

Children born from **January 1, 2025 through December 31, 2028** and who have a Social Security number automatically qualify for a **\$1,000 federal seed contribution**. Parents do need to open an account with a qualified financial institution to claim the money—it doesn't just appear automatically. If parents don't open an account, the IRS will create one when they file taxes, but it's better to take the initiative.

Families with children born outside of this four-year window can still open Trump accounts, but they won't receive the \$1,000 deposit.

## CONTRIBUTION RULES

- **Annual limit:** Up to \$5,000 per child per year. This amount will be increased annually by a cost-of-living adjustment.
- **Who can contribute:** Parents, grandparents, relatives, and family friends can all contribute. Employers can contribute up to \$2,500 a year for an employee's child, and those contributions count toward the \$5,000 cap.
- **Other contributions:** The federal government's \$1,000 deposit and some charitable or government program contributions do **not** count against the \$5,000 limit.
- **Deadlines:** Contributions must be made by **December 31** each year (until the year the child turns 18, when the regular IRA filing deadline applies).

## HOW TRUMP ACCOUNTS ARE INVESTED

Compared to 529s, IRAs, or UTMA accounts, investment options are rather limited. Trump accounts must be invested in low-cost index mutual funds or ETFs that track an index invested primarily in US companies, like the S&P 500. (Though an exact list of eligible securities has yet to be published, annual fees are capped at 0.1%.)

While this restricts flexibility, it also keeps things simple and inexpensive. For most families, having a straightforward, long-term investment in a broad stock market index is exactly the point.

## WITHDRAWALS AND TAXES

- **Before age 18:** Withdrawals are almost never allowed. Exceptions exist for the death of the child, rollovers to another Trump Account, or rollovers to an ABLE account if the child has disabilities.
- **At age 18:** The account automatically converts into a **traditional IRA**. From that point on, the same rules apply as with any other IRA. Contributions after age 18 require earned income, and early withdrawals before age 59½ may be subject to tax and penalty unless they meet an exception (higher education, first-time home purchase up to \$10,000, etc.).
- **Tax treatment:**
  - Contributions from parents, grandparents, or friends form *basis* in the account, which can be withdrawn tax-free.

- Employer and government contributions, as well as any investment earnings, are taxable when withdrawn.

## HOW DO TRUMP ACCOUNTS COMPARE?

Here's a quick look at how Trump accounts stack up against other familiar savings vehicles:

Feature	Trump Account	529 Plan	Roth IRA	UTMA / UGMA
Eligibility	Children born 2025–2028; must have SSN (pilot program).	Anyone; no income limits for beneficiary.	Must have earned income.	Minor child; account opened by custodian.
Funding Rules	\$1,000 federal seed deposit; up to \$5,000/year total contributions (family + employer). Family, friends, and employers may contribute.	No federal cap (subject to gift-tax limits); anyone can contribute.	\$7,000 annual limit (2025, under 50); only account owner can contribute.	No federal cap (subject to gift-tax limits); anyone can contribute.
Investment Options	Limited to low-cost diversified index funds/ETFs (≤0.10% fees).	Broad range, varies by state plan.	Broad, self-directed.	Broad, custodian-directed.
Access & Maturity	Withdrawals generally prohibited before 18 (except death/disability/rollover). At 18, automatically converts to a traditional IRA.	Withdrawals allowed; earnings taxable + penalty if not for qualified education.	Withdrawals before 59½ taxed + 10% penalty unless exception.	Withdrawals allowed anytime; taxed to child.
Tax Treatment	Contributions from family are after-tax (basis, tax-free when withdrawn). Federal seed, employer contributions, and earnings taxable upon withdrawal (pro-rata).	After-tax contributions; growth and withdrawals tax-free if used for qualified education.	After-tax contributions; growth and qualified withdrawals tax-free.	After-tax contributions; earnings taxed annually to child.
Penalty Exceptions	Education, first-time home, death, disability.	Education (qualified).	Education, first home, death, disability.	None.

## PLANNING IMPLICATIONS FOR FAMILIES

- **Take the free money.** If your child is eligible, open an account and claim the \$1,000 federal deposit.
- **Check employer benefits.** Some companies are beginning to add Trump Account contributions as part of their benefits package. That's essentially free savings for your family.
- **Determine the purpose of the account.** Given withdrawal limits, Trump accounts appear to be best suited for education or retirement purposes.

- **Trump account vs 529:** Both account types are funded with after-tax dollars and receive tax deferral on growth. However, only 529 accounts are tax-free upon withdrawal if used for qualified education expenses.
- **Trump account vs IRA:** Trump accounts allow an earlier start on retirement savings than an IRA and do not require earned income. The contribution is not tax deductible, meaning account growth is taxed at ordinary income tax rates upon withdrawal. Establishing a Trump account may limit the benefit of future backdoor Roth contributions.

## FINAL THOUGHTS

Trump accounts are brand-new, and as with most new programs, there are still details that may evolve. But one thing is clear: if your family qualifies, don't leave free money on the table. Taking advantage of the government's \$1,000 contribution, and layering in employer or family contributions where possible, can give your child a significant head start.

As with any savings vehicle, the real value comes from how it fits into your broader financial plan. We're here to help you evaluate Trump Accounts alongside other tools and determine whether, and how, they should be part of your family's strategy.

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## ✚ OBBBA Impact on Charitable Giving

**The One Big Beautiful Bill Act ushered in significant changes to tax law and made permanent many provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). For individuals who give to charity, or plan to, OBBBA provides opportunities in the near term and important new provisions to incorporate regarding future donations.**

Notably, OBBBA introduces several meaningful changes to how charitable contributions are treated for federal income tax purposes. The following is a summary of key rules under the new tax law:

### **CASH CONTRIBUTIONS TO PUBLIC CHARITIES: DEDUCTION UP TO 60% OF AGI**

The OBBBA makes permanent the increased deduction amount for charitable contributions made in cash to public charities. That limit is 60%. This was set to expire at the end of 2025 according to TCJA. The following is a table illustrating the deduction limits for charitable gifts as a percentage of adjusted gross income (AGI):

	Public Charity	Non-Public Charity
Cash	60%	30%
Capital gain property: using cost basis	50%	20%
Capital gain property: using FMV	30%	20%

## 0.5% FLOOR ON DEDUCTIONS

Under the TCJA, taxpayers who itemized could deduct charitable contributions starting with the first dollar donated. Starting in 2026, OBBBA requires an individual's cumulative charitable contributions to exceed 0.5% of AGI to be eligible for deduction. For example, an individual with \$500,000 of AGI, the first \$2,500 of charitable giving will be non-deductible. If total giving amounts to \$10,000, only \$7,500 will be deductible. Taxpayers are familiar with this type of deduction hurdle as it has been in place for medical expenses for quite some time.

OBBBA provides a new carry forward provision for charitable contributions subject to the 0.5% floor which are non-deductible in the year donated. The carry forward applies only to years in which the charitable deduction limit is exceeded. The IRS put forth a set of ordering rules to specify the types of charitable contributions that are reduced by the 0.5% floor. It is common for taxpayers to give different types of assets to charity each year. Starting in 2026 it will be important to pay attention to the details to ensure that the appropriate amount of non-deductible (or unused) donations is carried forward to the following tax year.

### **Example (This is based on our current understanding of the new law. This may change with future guidance from the Department of Treasury.):**

Eileen is a single taxpayer and her AGI in 2026 is \$250,000. She donates \$80,000 of low basis stock to a public charity. She also donates \$25,000 of cash to a public charity. Her charitable contributions are subject to the 0.5% floor resulting in the first \$1,250 in donations that are not deductible. According to the ordering rules, Eileen's gift of low basis stock is first reduced by the non-deductible amount of \$1,250. Therefore, the net amount of appreciated stock gifted, or \$78,750, is subject to the 30% of AGI cap. For Eileen, 30% of AGI is \$75,000, an amount less than her donation. Consequently, Eileen will be limited to a \$75,000 deduction on the stock gift in 2026. The remaining balance of \$3,750 (\$78,750-\$75,000) can be carried forward to the following year. In addition, Eileen can also carry forward the \$1,250 reduction amount caused by the 0.5% floor rule for a total carry forward of \$5,000. Her cash donation is fully de-

ductible because the amount is well below the 60% of AGI cap. For reference, the ordering rules are as follows:

1. Capital gain property gifted to non-public charities.
2. Capital gain property gifted to public charities using fair market value.
3. Cash gifted to non-public charities.
4. Qualified conservation contributions
5. Capital gain property gifted to public charities using cost basis.
6. Cash contributions gifted to public charities.

### **CAP ON TAX BENEFIT OF CHARITABLE CONTRIBUTIONS/ITEMIZED DEDUCTIONS**

Tax deductions provide a benefit in the form of reducing the amount of income subject to tax. They are applied at a taxpayer's highest marginal tax rate which is how they derive their value. In other words, a taxpayer in the 24% tax bracket saves 24 cents in taxes for every dollar of tax deduction. Likewise, an individual in the highest 37% tax bracket enjoys a tax savings of 37 cents for every dollar of tax deduction. Beginning next year, OBBBA imposes a cap on the value of itemized deductions for those in the highest marginal bracket. Effectively, this limits the potential tax deduction for high income individuals to 35%.

Specifically, the new law limits allowable itemized deductions by  $2/37$  of the lesser of:

- Taxpayer's total itemized deductions; or
- The amount by which taxable income plus itemized deductions exceeds the 37% tax bracket threshold.



**Example (This is based on our current understanding of the new law. This may change with future guidance from the Department of Treasury):**

Lauren and John have ordinary taxable income of \$825,000 and are married filing jointly. Total itemized deductions add up to \$75,000. In 2026, the 37% marginal tax bracket begins at \$768,700. The new rule would limit their deduction by 2/37 of the lesser of:

- \$75,000 (their total itemized deductions); or
- $(\$825,000 + \$75,000) - \$768,700 = \$131,300$

The lesser value, \$75,000, is reduced by 2/37 to \$70,945.95. The tax benefit of the deduction is  $\$70,945.95 * 0.37 = \$26,250$ . This is equivalent to 35% of \$75,000.

### **CHARITABLE DEDUCTION FOR NON-ITEMIZERS**

Beginning in 2026, taxpayers who make charitable contributions, but do not itemize their deductions, are eligible to deduct up to \$1,000 for single filers and \$2,000 for married filing jointly. To qualify, contributions must be made in cash and cannot be made to donor-advised funds or 509(a)(3) supporting organizations. This is a deduction that is not technically 'below the line' such as itemized deductions recorded on Schedule A of an individual's tax return. It's also not exactly an above-the-line deduction such as IRA and 401(k) contributions which reduce adjusted gross income. Consequently, this new special tax deduction will not impact formulas used to calculate things like the taxable amount of Social Security or Medicare Part B premiums when accounting for income related monthly adjustment amounts (IRMAA). It is available in addition to the standard deduction and is not subject to the 0.5% floor on deductions rule.

Depending on the unique circumstances of each taxpayer, it could be more advantageous to claim the standard deduction plus this charitable deduction for non-itemizers than itemizing. If, for example, an individual calculates that his/her itemized deductions are greater than the standard deduction by \$600 it would be more beneficial to claim the standard deduction plus \$1,000. The standard deduction in 2025 is \$15,750 for single filers and \$31,500 for married filing jointly. In 2026, those amounts increase to \$16,100 and \$32,200 respectively.

### **FEDERAL TAX CREDIT FOR DONATIONS TO SGOs**

The tax bill created a federal tax credit for donations to scholarship granting organizations (SGOs) up to \$1,700 for individuals and \$3,400 for those married filing jointly. Under the program, qualifying scholarships would be granted to K-12 schools within the state that participates in the program. This tax credit is scheduled to begin in 2027.

OBBBA	2025	2026
Charitable gifts: AGI reduction	No floor for itemizers	0.5% floor for itemizers
Charitable gifts: limit on tax deduction	No cap	Capped at 35%
Charitable deduction for non-itemizers	No deduction	Up to \$1k (single), \$2k (MFJ)
Cash contributions AGI limit	60%	60%

### IMPLICATIONS FOR DONORS

As with most tax planning strategies, the appropriate course of action will depend on each taxpayer’s unique set of circumstances. However, timing is important. The new rules regarding the 0.5% floor and the 35% deduction cap do not apply until 2026. Individuals that are charitably inclined should consider donating property in 2025 to receive the most advantageous tax benefits.

For those that donate to charity each year, consider accelerating or bunching contributions into 2025. A donor-advised fund can be a great solution for such gifting. Targeting appreciated securities such as stocks, mutual funds and exchange-traded funds (ETFs) provides an effective method to leverage charitable giving while reducing realized capital gains.

Taxpayers who will continue to use the standard deduction, consider gifting cash directly to public charities beginning in 2026. This giving strategy offers a clear tax break, albeit limited in scope.



For retirement accounts, OBBBA retains the qualified charitable distribution (QCD) technique for gifts made from IRAs. This applies to account owners aged 70.5 and older. Qualified distributions made directly to public charities reduce taxable income. Normal distributions from IRAs are included in taxable income and taxed at ordinary income rates. This is a viable option for IRA account owners subject to required minimum distributions (RMDs) and should be factored into an overall charitable giving strategy. The limit on QCDs in 2025 is \$108,000 per person and this will increase to \$115,000 per person in 2026.

Finally, detailed tracking of charitable contributions is paramount to the accuracy of a taxpayer's gifting strategy. It is important to document the market value of any donations, the type of property gifted and the tax category of the receiving institution. It is recommended that individuals contact their tax advisor for further guidance.

We hope you've found this newsletter helpful in understanding the many new planning opportunities created by OBBBA. Whether you are managing charitable goals, preparing for retirement, evaluating new deductions, or saving for your child's future, the recent changes provide an ideal moment to revisit your financial plan and ensure it aligns with your long-term objectives. As always, our team is here to help you navigate these updates and make informed decisions with confidence.

For more information, be sure to check out our monthly podcast, **'Amplified Wealth: According to Plan'** where we hold insightful conversations on timely financial planning topics with various members of our Financial Planning Committee.

**Need More Information? Please do not hesitate to contact a member of the Withum Wealth Management Team with any questions or concerns:**

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