

Impact of the One Big Beautiful Bill Act (OBBBA)

July 4, 2025

As of 07.15.25

This material reflects our understanding of HR 1, signed into law by the President on July 4, 2025. Many provisions will require action by the Treasury Department, the Internal Revenue Service, or both so that they can be fully implemented. **It is not intended to cover all provisions of the Act or its potential impacts.**

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Current (2025) Law	Final Bill Signed July 4, 2025	Possible Impact of Change
Individual Income Tax Provisions		
<p>7 income tax brackets – 10%, 12%, 22%, 24%, 32%, 35%, 37%; top bracket begins at \$751,600 for joint returns, \$626,350 for singles and heads of households.</p> <p>Married filing separately top rate begins at \$375,800. These rates were scheduled to sunset December 31, 2025, to pre-Tax Cuts and Jobs Act (TCJA) rules: 7 income tax brackets – 10%, 15%, 25%, 28%, 33%, 35%, 39.6%.</p>	<p>Current rate brackets are made permanent with annual inflation adjustments. The Inflation adjustment base year for the lower brackets were moved back one year to provide an additional 2026 inflation adjustment to these tax brackets.</p>	<p>Retains current rate structure that would have increased rates for all taxpayers upon sunset of TCJA.</p> <p>The 2026 inflation adjustment for the lowest tax brackets will be increased, providing all taxpayers with a small decrease in their overall tax liability.</p>
<p>Standard deduction of \$15,000 for single taxpayers and \$30,000 for joint returns.</p>	<p>Increases deduction to \$15,750 for single returns and \$31,500 for joint returns, and \$23,625 for head of household.</p> <p>Effective beginning 2025.</p>	<p>When coupled with new charitable deduction for non-itemizers, will likely further reduce the number of Americans who itemize deductions.</p>
<p>Deduction for taxpayers age 65 or over or blind receive - additional standard deduction amount of \$2,000, or \$1,600 each if married.</p>	<p>Retains existing additional standard deduction, and adds new separate deduction of \$6,000 for taxpayers age 65 or older. This deduction is not just for non-itemizers. Deduction is reduced by 6% of AGI above \$75,000 for individuals, \$150,000 for a joint return.</p> <p>Effective 2025-2028.</p>	<p>Deduction is fully phased out for an individual taxpayer with income of \$175,000, or for married filing jointly taxpayers over 65 with income over \$350,000.</p>
<p>Tips are fully taxable.</p>	<p>No taxes on tips up to \$25,000 per taxpayer. This special deduction is reduced by \$100 for each \$1,000 (or portion thereof) that MAGI¹ exceeds \$150,000 (\$300,000 joint).</p> <p>Effective 2025-2028.</p>	<p>This benefit applies to occupations which customarily and regularly receive tips, such as food or beverage service workers and those in the beauty service business. Treasury is directed to issue list of qualifying occupations within 90 days.</p>

¹Modified adjusted gross income (MAGI) is adjusted gross income (AGI) increased by certain foreign income and income earned within Guam, American Samoa, and the Mariano Islands.

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<p>Overtime pay is fully taxable.</p>	<p>Employees are provided a deduction up to \$12,500 (\$25,000 on a joint return) for qualified overtime pay. Deduction is reduced by \$100 for each \$1,000 (or portion thereof) that MAGI¹ exceeds \$150,000 (\$300,000 joint). Effective 2025-2028.</p>	<p>The IRS is instructed to prepare new withholding rate tables to reduce employee withholding on overtime pay that is excludable (subject to phase-out rules).</p>
<p>Auto loan interest is personal interest that is not tax deductible regardless of whether taxpayer itemizes deductions.</p>	<p>Up to \$10,000 of interest on the purchase and first lien of an automobile for personal use. Deduction is reduced by \$200 for each \$1,000 (or portion thereof) that MAGI¹ exceeds \$100,000 (\$200,000). Deduction does not require taxpayer to itemize deductions. Effective 2025- 2028.</p>	<p>Includes cars, vans, light-weight trucks, motorcycles, etc. Does not include RVs and boats. Vehicle must have final assembly in United States. This benefit includes refinanced auto loans, so long as refinanced amount does not exceed debt remaining on prior loan. Benefit does not apply to leased vehicles.</p>
<p>Charitable contribution deductions for non-itemizers is currently limited to \$300 for an individual taxpayer, or \$600 for a joint return.</p>	<p>Non-itemizers will now be permitted to deduct up to \$1,000 of charitable contributions, \$2,000 on a joint return. Effective beginning 2026.</p>	<p>With the combination of an increased standard deduction, and this increased deduction for non-itemizers, many taxpayers will be able to reduce their taxable income.</p>
<p>State and local tax itemized deductions limited to \$10,000.</p>	<p>Allowable state and local tax deduction increased to \$40,000 in 2025; \$40,400 in 2026; and increased by 1% of prior limitation in 2027, 2028, and 2029. Deduction reverts back to \$10,000 in 2030. Phase-out limit: Deduction is reduced (but not below \$10,000) by 30% of MAGI¹ above \$500,000 in 2025; \$505,000 in 2026; and increasing by 1% each year through 2029.</p>	<p>The reduced state and local tax deduction under TCJA may have resulted in more taxpayers claiming the standard deduction. The ability to deduct increased state and local taxes will make it beneficial for some taxpayers to begin to itemize deductions again.</p>

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<p>Charitable contribution deductions are limited to a portion of the taxpayer's AGI depending upon the type of gift made (cash, appreciated securities, other) and the type of charity (public or private). Any amount in excess of current year's limits can be carried over for 5 additional tax years.</p>	<p>For itemizers, the new law creates a charitable deduction floor of .5% of AGI before any charitable deduction can be claimed. The disallowed contribution can be carried forward for 5 years. The 60% of AGI limitation for cash contributions was made permanent. Effective beginning 2026.</p>	<p>The new rule will make charitable contributions less attractive. For example, a taxpayer with AGI of \$250,000 will only be able to claim a deduction for charitable gifts in excess of \$1,250. Note that there is no reduction to the eligible \$1,000/\$2,000 charitable deduction for non-itemizers.</p>
<p>Mortgage interest deduction allowed for acquisition debt up to \$750,000; no deduction for interest on home equity debt unless used to buy, build, or substantially improve the home. Applies through December 31, 2025, to debt incurred on or after December 15, 2017. No deduction for interest on home equity loans used for other purposes through December 31, 2025.</p>	<p>New law retains existing limitations; treats certain mortgage insurance premiums as acquisition indebtedness, qualifying as residence mortgage interest. Effective beginning 2026.</p>	<p>Allowing mortgage insurance premiums as acquisition indebtedness will benefit new homeowners with lower downpayments.</p>
<p>TCJA suspended miscellaneous itemized deductions subject to the 2% AGI floor through December 31, 2025.</p>	<p>New law permanently terminates the ability to deduct most miscellaneous expenses, other than educator expenses. Note that moving expenses are included within miscellaneous itemized deductions. Members of the Intelligence Community added to existing exception for members of the Armed Forces, who are still permitted to deduct moving expenses.</p>	<p>Tax return preparation fees, financial planning, investment planning, employee business expenses, and various other miscellaneous itemized deductions are now permanently disallowed.</p>
<p>TCJA temporarily suspended the overall Pease limitation on itemized deductions for high-income taxpayers.</p>	<p>New law creates a new limitation on itemized deductions for high-income wage earners. The reduction is 2/37 of the lesser of 1) total itemized deductions, or 2) taxable income subject to the 37% tax bracket. Note that the reduction is not applicable to the Qualified Business Income Deduction. Effective beginning 2026.</p>	<p>The new limitation on itemized deductions, along with the charitable contribution floor, and the state and local tax deduction limitation will reduce the overall deductions for some high-income earners.</p>

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Wagering losses are fully deductible to offset gains from wagering activities.	Wagering losses of 90% can be offset against wagering gains. Effective beginning 2026.	Wagering losses are not deductible in and of themselves; they can only be used to offset wagering income. Losses would have to exceed income by 10% to be able to fully offset all wagering income.
Child credit of \$2,000 with \$1,400 refundable, phased out, beginning at \$200,000 of income single, and \$400,000 joint. Additional \$500 nonrefundable credit for qualifying dependents other than qualifying children under the age of 17.	Child credit permanently increased to \$2,200. Effective for 2025.	Reduces tax for qualifying families with children or other dependents.
Personal and dependency exemption of \$4,050 per person (indexed) has been suspended since effective date of TCJA.	No change. Exemption remains suspended.	Loss of personal exemption offset for non-itemizers with increased standard deduction.
Alternative Minimum Tax (AMT) imposed to limit the benefit of certain tax deductions.	Increased TCJA indexed exemption amounts. Reduced phase-out ranges to 2018 amounts of \$500,000 single; \$1,000,000 joint, indexed for future years. Increased phase-out percentage from 25% to 50%. Effective beginning 2026.	Reduced phase-out ranges, coupled with increased SALT deduction amounts will likely result in an increase in the number of taxpayers who will be subject to the AMT.
Casualty loss must be attributable to disaster declared by the President; losses are taken as an itemized deduction subject to overall 10% AGI limit and \$100 per casualty floor.	Allowable losses expanded to include state-declared disasters. Effective beginning 2026.	Expansion will increase the number of disasters eligible for a casualty loss deduction.
529 accounts allow up to \$10,000 of disbursements per child to be used for K-12 tuition.	Expands non-tuition qualified expenses for K-12 to include costs for books, online educational materials, and tutoring fees. Also adds to the definition of qualified expenses, post-secondary credentialing expenses. Effective for distributions made after July 4, 2025. Increases amount of eligible K-12 tuition and related expenses to \$20,000 annually. Effective beginning 2026.	Increases the flexibility of utilizing 529 accounts.

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New Item: Trump Accounts	<p>Trump Accounts are a type of traditional IRA available for American children under the age of 18. The federal government will provide a one-time deposit of \$1,000 for each child born in 2025 through 2028. Parents or other family members may make non-deductible contributions up to \$5,000 annually. Eligible investments include mutual funds or ETFs with expenses of .1% or less that track the return of an index comprised of U.S. equity investments. No distributions are permitted before age 18.</p>	<p>The initial \$1,000 seed money for eligible individuals will be attractive and popular.</p> <p>The taxable portion of withdrawals (determined on a pro-rata basis) are taxed as ordinary income. The account holder's non-taxable investment in these IRAs does not include contributions made by the government or employer contributions (see next section). There are still some unknowns on how these accounts will operate, which should be answered with future guidance from Treasury.</p> <p>For college savings objectives, family gifts into a 529 account will be more attractive as withdrawals for educational expenses are tax-free, and up to \$35,000 of unused funds can be rolled into a Roth IRA.</p>
New item: Employer Contribution to Trump Accounts	<p>An employer may create a formal Trump account contribution program. Annual contributions of up to \$2,500 can be made by the employer to Trump accounts for the employee under age 18 or for any dependent of an employee under age 18.</p> <p>These contributions are not included in the employee's gross income.</p>	<p>Business owners may find this option beneficial for their own family or to support the children of their employees. The employer receives a tax deduction. The employee is not taxed on the employer contribution.</p>
Qualified Business Income (QBI) Deduction for sole proprietors and flow-through business owners to deduct up to 20% of their qualified business income. The complex rules included phase outs for specified service businesses and further limitations based upon the payroll of the entity or its qualified property for high earner taxpayers. This deduction was scheduled to end on December 31, 2025.	<p>The new law makes the 20% deduction permanent and extends the amount of income subject to the phase-out rules. The income threshold for single taxpayers is extended by \$25,000, and for joint filers by \$50,000.</p> <p>There is a new minimum deduction of \$400 for taxpayers with at least \$1,000 of qualified business income from one or more actively conducted trades or businesses in which they materially participate.</p>	<p>The new provisions will slightly increase the number of taxpayers who are able to benefit from the QBI deduction.</p>

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Student loan debt that is discharged on account of death or disability is excludable from taxable income only through December 31, 2025.	The new law makes the exclusion permanent and removes the requirement that a surviving spouse provide a Social Security Number on the taxpayer's final return.	
Estate, Gift, and Generation-Skipping Transfer Tax (GSTT) Provisions; Trust & Estate Income Tax Rates		
TCJA temporarily doubled the inflation adjustable applicable estate and gift tax exemption through December 31, 2025. The current exemption is \$13,990,000.	The new law increases the exemption to \$15,000,000 per person effective for 2026, with inflation adjustments beginning in 2027.	Reduces the number of estates subject to estate tax; larger exemption provides more opportunity for lifetime planning.
Generation-skipping transfer tax imposed on generation-skipping transfers at 40% rate, with exemption equal to estate and gift tax exemption.	The new law increases the exemption to \$15,000,000 per person effective for 2026, with inflation adjustments beginning in 2027.	Allows more to pass to grandchildren and younger generations.
Business Tax Provisions		
Flat 21% tax rate for C corporations , including personal service corporations.	No change. This provision was made permanent by TCJA.	C corporations remain attractive for business owners. Split dollar arrangements will remain advantageous for many C corporation owners.
Qualified Business Income Deduction for sole proprietors and flow-through business owners to deduct up to 20% of their qualified business income. The complex rules included phase outs for specified service businesses and further limitations based upon the payroll of the entity or its qualified property for high earner taxpayers. This deduction was scheduled to end on December 31, 2025.	The new law makes the 20% deduction permanent and extends the amount of income subject to the phase-out rules. The income threshold for single taxpayers is extended by \$25,000, and for joint filers by \$50,000. There is a new minimum deduction of \$400 for taxpayers with at least \$1,000 of qualified business income from one or more actively conducted trades or businesses in which they materially participate. Effective beginning 2026.	The new provisions will slightly increase the number of taxpayers who are able to benefit from the QBI deduction.
C corporation charitable contributions are deductible, limited to 10% of taxable income.	A new charitable deduction floor of 1% of taxable income applies before any charitable deduction can be claimed. Effective beginning 2026.	This new limitation may reduce corporate charitable contributions, though payments that provide promotional use of the company's name may still be deductible as advertising.

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<p>Business interest deduction is limited to total of business's interest income plus 30% of its adjusted taxable income. For entities taxed as partnerships or S corporations, the limit is applied at the entity level.</p> <p>Any unused deduction can be carried forward indefinitely, except that partnerships are subject to certain restrictions. Does not apply to businesses with less than \$25,000,000 of average gross receipts for the 3 years ending with the prior taxable year.</p>	<p>Permanent change to the calculation of the 30% limit to a "more business friendly" EBITDA-like calculation (earnings before, interest, taxes, depreciation, and amortization).</p> <p>Effective beginning 2026.</p>	<p>Changes permit a larger business interest deduction.</p>
<p>Property acquired generally must be capitalized and depreciated over a specified period of time. TCJA increased the Bonus Depreciation deduction for qualified property to 100% but phased out the full deduction over time. The deduction limit for property acquired in 2025 is 40%, with percentage decreasing in subsequent years.</p>	<p>Reinstates 100% bonus depreciation on a permanent basis for qualified property acquired after January 19, 2025.</p>	<p>Increases ability to fully write off business equipment purchases.</p>
<p>Section 179 expensing of business equipment limited to \$1,220,000, with a phaseout when the cost of qualifying property exceeds \$3,050,000.</p>	<p>The allowable expense limit is increased to \$2,500,000, with the phaseout beginning at \$4,000,000 (adjusted for inflation).</p> <p>Applicable to property placed in service beginning in 2025.</p>	<p>Increases ability to fully write off business equipment purchases.</p>
<p>Businesses are required to capitalize Research and Development expenses and deduct over 5 years.</p>	<p>Permanently allows immediate expensing of domestic research and development costs as incurred.</p> <p>Applies to amounts paid or incurred beginning in 2025.</p>	<p>Increases ability of businesses to deduct research and development expenses.</p>

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<p>Qualified Small Business Stock (QSBS) gain exclusion applies to C corporation stock held for at least 5 years. Current exclusion limit is the greater of \$10,000,000, or 10-times taxpayer's basis. QSBS limited to \$50,000,000 of gross assets at time of stock issuance.</p>	<p>Permits partial exclusion for shorter holding periods. Excludes from gross income 50% of gain from sale of qualifying small business stock acquired after July 4, 2025, and held for at least 3 years; 75% if held for 4 years; and 100% if held for 5 years.</p> <p>Increases exclusion to \$15,000,000 (inflation indexed) or 10-times taxpayer's basis, and QSBS definition to businesses with initial value of gross assets up to \$75,000,000 (inflation indexed).</p>	<p>New provisions expand opportunity for excluding gains from small business sales.</p> <p>Note that exclusion only applies to sales of C corporation (QSBS) stock. Exclusion does not apply to gains from sale of C corporation assets.</p>
<p>Sales of Farmland: currently normal sale of property rules apply.</p>	<p>Sale of farmland to buyer who legally commits to keeping land in agricultural production for at least 10 years permits seller to pay tax liability on the sale in four equal annual installments. Applies to sales or exchanges after July 4, 2025.</p>	<p>New provision will be beneficial for farmers selling land; especially for transfers intra-family sales as part of succession planning.</p>
<p>Qualified Opportunity Zone (QOZ) investments: Introduced as part of TCJA, capital gains reinvested in a QOZ real estate investment would receive a partial step-up in cost basis if retained for at least 5 years.</p> <p>Appreciation within investment will not be taxed if held for 10 years. All remaining original deferred gains become taxable on December 31, 2026.</p>	<p>Qualified Opportunity Zone rules are now permanent, with 5-year deferral period on new investments.</p> <p>10% basis step-up after holding investment for 5 years.</p> <p>Special 30% basis step-up for Qualified Rural Opportunity Funds held for 5 years with stricter eligibility requirements.</p> <p>New QOZ designations every 10 years, starting July 1, 2026 (effective January 1, 2027).</p>	<p>New rule enhances QOZ investment opportunities.</p>

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<p>Excess Compensation Excise Tax for Employees of Tax-Exempt Entities: Applies a 21% tax on compensation in excess of \$1,000,000 paid to the five highest paid "covered employees". Once an employee is classified as a covered employee, they remain subject to the rule.</p>	<p>Every employee or former employee of the not-for-profit organization is subject to the excise tax. Effective beginning 2026.</p>	<p>The new rule removes any limit on the number of employees of larger organizations who are covered employees. The excise tax is payable by the organization, not by the covered employee.</p>
<p>The Employer-Provided Childcare Credit offers employers who provide childcare services to their employees a tax credit up to \$150,000 per year to offset 25% of qualified facility expenditures and 10% of qualified resource and referral expenditures.</p>	<p>25% limit on qualified facility expenditures is raised to 40% (50% for eligible small business). The dollar limitation is raised to \$500,000 (\$600,000 for eligible small business). Effective beginning 2026.</p>	<p>Increases tax credit opportunity for employers who provide childcare services. Expenditures above the credit limit are deductible business expenses.</p>

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