

One Big Beautiful Hot Mess



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It's not uncommon for public companies to release bad news after the stock market closes on a Friday afternoon. The thinking goes that many will forget, or management will have the weekend to work on their spin, by the time Monday rolls around.

With that in mind, we were a tad surprised that this year's major tax and spending legislation – The One Big Beautiful Bill Act (OBBBA) – was signed into law on July 4th. Maybe the curious timing had a lot to do with the muted reaction to such a significant piece of legislation. No doubt that many Americans were in full blown summer mode. And the media has had plenty else to talk about all year.

We've waited to write about the OBBBA because we wanted to fully digest the changes and give other experts time to analyze its implications. We also wanted to share our thoughts at a time of year when the odds are higher that we'd garner your attention. So now that it's a better time to discuss, what is it about the OBBBA that is worth knowing? Well, the OBBBA was **a big bill covering a lot of ground** and we can't possibly cover all its details in this brief note. We're only going to address tax and financial planning related topics, the most important of which we think are the following:

1. "Permanent" and non-permanent changes
2. Federal Income Tax Rates
3. State and Local Tax Deductibility (a.k.a. – SALT)
4. Estate Taxes
5. Charity
6. Campaign Promises - Benefits for specific groups.



Let's start with the first point. It's worth noting that one of the most important features of the OBBBA is that it made many tax policies **"permanent"**. Without the OBBBA, several significant

tax policies would have expired on December 31st and reverted back to previous schedules and policies. The OBBBA locked up and made "permanent" at least two important tax features – Federal Income Tax Brackets and the Estate Tax. Going forward, these policies will not expire or automatically revert. They are now "permanent".

We have obviously put "permanent" in quotation marks for a reason - **Tax policies can never be truly permanent.** They can be changed by future Congress and Presidents. But for as long as we can remember over the last few decades, it seems that most tax law changes faced a future expiration when passed. Now, many key features don't. That's a very good thing, in that it makes it much harder to change, and much easier for us all to plan.

Americans should be thrilled to learn that Federal Income Tax rates are now "permanent". Here's the Federal Income Tax table for 2025:

Tax Rate	Single	Married Filing Jointly
10%	\$0 – \$11,925	\$0 – \$23,850
12%	\$11,926 – \$48,475	\$23,851 – \$96,950
22%	\$48,476 – \$103,350	\$96,951 – \$206,700
24%	\$103,351 – \$197,300	\$206,701 – \$394,600
32%	\$197,301 – \$250,525	\$394,601 – \$501,050
35%	\$250,526 – \$626,350	\$501,051 – \$751,600
37%	Over \$626,350	Over \$751,600

What jumps out at you? Perhaps that the tax rate does not get over the modest level of 22% until income exceeds \$103,350 (single) and \$206,700 (joint). Or that the rate is no higher than 32% until you reach \$250,000 (single) or \$501,050 (joint), and the top rate of 37% is not reached until \$626,350 (single) and \$751,600 (joint).

Assuming the (now fairly large standard deduction), here's how these tables translate to the total effective Federal Income Tax rates at various income levels:

Income	Single	Joint
\$50,000	7.74%	4.37%
\$100,000	13.45%	9.47%
\$150,000	16.71%	12.80%
\$250,000	20.81%	17.32%
\$500,000	27.81%	24.39%
\$750,000	30.49%	27.22%
\$1,000,000	32.24%	29.81%

Everyone is allowed their own opinion, but from our perspective, these rates are **pretty reasonable**. Some would even call them “low”. We should remember, however, that these are not the only income-based taxes that Americans are subject to. There’s Social Security Tax of 6.2% on the first \$176,100 of income. And Medicare Tax of 1.45% with no income limits. Then there’s State and Local Taxes for many. Consider that an individual with taxable income of \$150,000 per year (after standard or itemized deductions) paying 5% in state and local income tax would likely have a total income tax over 29% - much higher than the 16.71% in this table.

Speaking of **State and Local Income Taxes**, also known as “SALT”, the OBBBA increased the cap on the deductibility of SALT from \$10,000 to \$40,000. This was clearly a nod to voters in high income tax states like New York, New Jersey, California, and others. But this increase came with catches:

- Catch #1 is that the SALT cap of \$40,000 will be reduced for those (single or joint) with income over \$500,000, and the extra SALT deductibility from OBBBA will be fully wiped out for those with income over \$633,333.
- Catch #2 is that the increase in the SALT limit from \$10k to \$40k will expire in 2029, making this feature not “permanent”.



The financial planning implication of these SALT phase outs is that to the extent possible, taxpayers in high income tax states who are near these thresholds need to **be**

aware of the phase outs and try to manage their income. Those with income just below the thresholds who realize income that pushes them into the phase out range will pay higher effective rates as they’ll be reducing the deductibility of their SALT. In fact, when you consider the cost of reducing and ultimately losing the SALT deduction, the marginal Federal Tax rate rises to 45.5% within the phase out income range. Ouch.

Of course, SALT only matters if you are itemizing deductions, and thanks to the OBBBA, fewer taxpayers will do that now as the “**Standard Deduction**” has been **increased to \$15,750 for individuals and \$31,500 for couples**. We think this is a great feature of the new tax code that does not get enough press – it’s estimated that fewer than 10% of taxpayers will now itemize deductions. While this makes SALT less applicable to many, it makes tax filing so much easier and simpler.

The OBBBA did not make any formal changes to the rules around **ROTH IRA conversions**, but it might affect the strategy for some. For the last several years, converting assets from traditional IRAs to a ROTH IRA was partially justified to manage the risk that tax rates would rise in the future. With the OBBBA, that risk is reduced since the tax brackets are now “permanent”, but not eliminated since they are not permanent. ROTH conversions are done with very long-term thinking in mind, so even though the current low rates are “permanent”, there’s still the risk, even the likelihood, that income tax rates will rise again during your, or your beneficiaries, withdrawal period.

Even if tax rates stay the same “forever”, we continue to think that converting assets from traditional IRA accounts to ROTH IRA accounts may make sense for many investors – specifically, those with fairly large IRA balances that might grow to be “too big” over time, and in years when an investor is in a moderate or low marginal income tax bracket. Our rules of thumb have been that investors should employ ROTH conversions to try to avoid traditional IRA balances growing over \$4 million by age 70, provided the tax you pay on the ROTH conversion is 25% or less at the time of conversion. We’ve done the math on this strategy, and it can save investors (and/or their heirs) lots of money in taxes over the long run. This is, of course, a highly personalized calculation that needs to be done while viewing someone’s full financial and income picture.

While the large exemption meant that the Estate Tax did not apply to many Americans, **it will now apply to even fewer**, as the gift and estate tax exemption will increase from \$13.99 million to \$15 million per individual. That means a married couple, if their estate plan is structured properly, can now avoid Federal Estate taxes on an estate of as much as \$30 million. Arguably more important than this increase, the change is “permanent”, and it will be indexed to inflation in future years. This is all great news - For a long time, the Estate Tax exemption was either (in our opinion) ridiculously low or when it was at a more reasonable and higher level (like recently), it was not

permanent and its scheduled sunset or reversion to lesser amounts made planning very challenging.

Of course, much like the income taxes and considerations beyond the Federal level, we should all be aware of the Estate Taxes and rules in each State that might affect our Estates. Here are just some of the States with a meaningful Estate or Inheritance Tax – New Jersey, Massachusetts, New York, Rhode Island, Vermont.

Looking at some of the “smaller” features of the OBBBA, many are an **attempt to deliver on promises made** during last year’s Presidential campaign. For better or worse, the OBBBA does not fully deliver on many of these issues but does offer some relief for certain taxpayers.



The “**No Tax on Social Security**” promise could not be delivered. While previous law already included an additional \$1,600 deduction for those

aged 65 or more, in an attempt to meet the campaign pledge, the OBBBA added a new **additional \$6,000 per person income tax deduction for non-itemizing taxpayers older than 65** or who turn 65 in 2026, bringing the total bonus deduction for seniors to \$7,600 per person. Alas, this feature also has a catch as it starts to phase out at relatively modest levels of income - \$75,000 for individuals and \$150,000 for couples. The additional \$6,000 deduction is eliminated by the time income reaches \$175,000 (single) and \$250,000 (joint). The implication here is that seniors need to be aware of their income levels around these thresholds and if they can, avoid stepping (too far) across the line and losing this additional deduction (although tax rates are pretty low at these levels so some might say it’s not a big deal.)

The net result is that after using the high standard deduction available to all as well as the additional senior deductions, most senior Americans will pay little to no taxes on Social Security. Consider that married couples, over the age of 65, who make under \$150,000, will enjoy a **deduction as high as \$46,700!** Here’s how it gets that large:

Standard Deduction	\$31,500
Over 65 (Standard Bonus)	\$3,200 (\$1,600 each)
Over 65 (OBBBA Bonus)	\$12,000 (\$6,000 each)
Total Deduction	\$46,700

The OBBBA offers **some relief on tips and overtime** but falls short of the “No Tax” promise made on the trail in 2024. Eligible workers can deduct up to \$25,000 per year

in tip income and up to \$12,500 in qualified overtime pay (\$25,000 for joint filers). There are wrinkles here as well – each of these features phase out at relatively lower income levels, and they both expire (or sunset) at the end of 2028.

Charitable giving rules were also affected by the OBBBA. And the new rules are pretty tricky. For those who do not itemize deductions, the OBBBA now allows them to deduct up to \$2,000 per year for joint filers’ (\$1,000 for individuals) **cash donations** (Sorry, that bag of old clothing that you drop off at the Salvation Army isn’t eligible.). To us, this is both good policy and simple.

On the other hand, the deductibility for those who itemize got both worse and more complicated. Beginning in 2026, there is now a **0.5% of income “hurdle” before a taxpayer can deduct their contributions**. Think of this like a health insurance deductible, or a deductible on your deduction. For example, someone with taxable income of \$500,000 per year will not be able to deduct the first \$2,500 per year of charitable contributions ($\$500,000 \times 0.5\%$). The more you make, the higher the hurdle and the math can be significant for high earners. There are at least two important implications of this new policy:

1. Since this hurdle/deductible takes effect in 2026, high income taxpayers should **consider accelerating charitable gifts into 2025**, before the new hurdle takes effect.
2. Going forward, itemizing taxpayers who seek to maximize the tax benefits of their giving, likely should skip several years and “bunch” their charitable contributions every few years. In other words – **make larger donations less frequently**. Fidelity estimates that a married couple in the 32% tax bracket that donates \$10k cash each year, would realize \$4,160 more in tax savings by donating \$30k every three years instead of \$10k each year. (Of course, if the primary goal of your giving is philanthropic and the tax breaks are unimportant, then this is a non-issue.)

In one other nod to complexity, the OBBBA also limited the tax “savings” on charitable contributions to 35%, so those in the highest tax bracket of 37% will see their benefit clipped slightly.

All in, we think **there’s a lot to like** about the OBBBA. Low tax rates across the income spectrum are now “permanent”. Most seniors will get some additional breaks. Higher standard deductions greatly simplify tax preparation and filing as far fewer people need to itemize. The Estate Tax Exemption is now relatively large, will grow with inflation in the future, and will be difficult to reduce.

However, the OBBBA is a **bit of a “hot mess”** as the kids would say. With the new 0.5% hurdle on Charitable deductions for itemizers, the phase out of the new bonus Senior Deduction (beginning at \$75k single and \$150k joint), and the phase out of the SALT deduction (beginning at \$500k), there are more tripwires and traps that taxpayers can perhaps unknowingly stumble into.



We think most Americans will reap the benefits of the OBBBA without much thought. But in light of the various moving parts, and the size of the bill, we encourage readers to **consider the key points made in this note, speak to your accountant, and coordinate with your financial advisor** - especially if you are in a position to consider ROTH IRA conversions, a business owner, near the SALT phase out income levels, or a high-income household with charitable intentions. And maybe even relax a little knowing that the OBBBA, while a little messy, is generally taxpayer friendly, simplifying for many, and provides some degree of permanence. At least for now.

Please also keep in mind that this review is not comprehensive and exhaustive. For many of the items mentioned, there are details in the OBBBA that we can't cover in a note like this. There are also many features that we have not mentioned at all, including new savings accounts and some tax policies for businesses related to R&D expensing and accelerated depreciation.

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