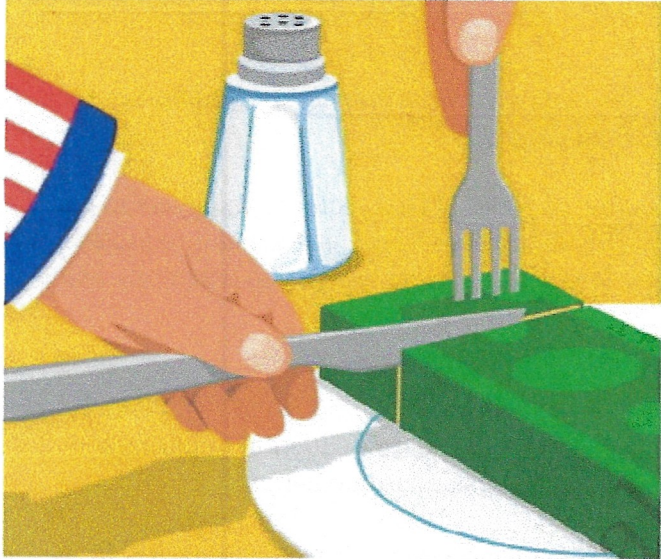


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Lawmakers employed some old tricks—and some new ones—to hold down costs.



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The New Tax Breaks Are Smaller Than You Think

TAX REPORT |

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Several provisions in the 'big, beautiful bill' come with limits that dim their luster

Congress giveth and Congress taketh away—sometimes in one law. The “big, beautiful bill” signed by President Trump this month is a good example.

Several key provisions in the taxand- spending package make permanent items such as the 2017 tax rates. Others are new laws that have been touted by supporters as terrific breaks for tip recipients, seniors, filers deducting state taxes and more.

And while millions of Americans will get tax breaks, some of the new provisions come with limits that dim their luster.

Take the vaunted expansion of the deduction for state and local taxes, or SALT. It is rising from \$10,000 to \$40,000 this year. Yet it begins to phase down to \$10,000 once a filer's income tops \$500,000. That will shut out many people eagerly anticipating the SALT break. To boot, it comes with a stiff marriage penalty. *

The same holds true for the new \$6,000 deduction for taxpayers age 65 and older. It sounds terrific, but it phases out beginning at \$75,000 of income for single filers and \$150,000 for married couples filing jointly. There is a marriage penalty with this one, too.

Why do lawmakers give with one hand and take away with the other? The main reason, says Eric Bronnenkant, head of tax planning at Edelman Financial Engines, is that budget and political constraints make it hard to enact any tax law. These constraints shape the final result.

“With every bill, it seems there are more and more of these limits,” he adds.

In nipping and tucking to hold down costs, lawmakers have tools old and new. One common tactic is to limit the time a provision is in effect. That is the case with the SALT deduction.

Another common maneuver: phaseouts that reduce a break for filers above certain income thresholds. Sometimes they include a marriage penalty that provides a bigger benefit to single filers than couples.

In addition, phaseouts are often based on “modified” adjusted gross income, or MAGI. This requires taxpayers to add back the value of certain breaks to their adjusted gross income, or AGI. This then raises filers’ income and reduces their ability to take the break they want. One good thing about this year’s new law: Limits in the legislation don’t rely heavily on MAGI maneuvers.

The megabill also contains several deductions—the ones for se-

niors, car-loan interest, tips and overtime—that are allowed even if a filer takes the standard deduction rather than itemizing on Schedule A. This broadens access to them because most filers take the standard deduction.

But bad news is lurking as well. Unlike contributions to 401(k)s and health savings accounts or business losses, these deductions don’t reduce AGI. So they won’t help filers trying to minimize levies based on that measure, such as the 3.8% surtax on net investment income or Irmaa Medicare premium surcharges.

The expanded SALT deduction. The megabill expands the \$10,000 itemized deduction for state and local property, income or sales taxes to \$40,000, starting this year. It lapses at the end of 2029. However, the deduction phases down once MAGI reaches \$500,000. At \$600,000, the deduction becomes \$10,000 once again. The new law also carries over the marriage penalty from the old law. This means the \$40,000 deduction is per return, not per person. So two unmarried partners who are single filers get up to \$80,000 of total SALT deductions. Married joint filers get just \$40,000. Taxpayers who choose “married filing separately” status get half the current SALT deduction, or \$20,000.

Could planning help avoid the phaseout? Perhaps, says Bronnenkant. Seniors who do their charitable giving through Qualified Charitable Distributions from individual retirement accounts could lower their MAGI to net more SALT deductions. Younger filers could make pretax contributions to traditional 401(k)s and IRAs, HSAs and work-based health or dependent-care flexiblespending accounts.

The new senior deduction. The tax break is \$6,000 per person age 65 or older. It takes effect for 2025 but lapses at the end of 2028. It’s on top of the regular standard deduction *and* the additional standard deduction for seniors already in the law.

However, the new deduction begins to phase out at \$75,000 for single filers and \$150,000 of MAGI for joint filers. As for the marriage penalty, the deduction is fully gone by \$175,000 of MAGI for single filers and \$250,000 for joint filers. Without the penalty, the deduction would last until \$350,000 for joint filers.

The Qualified Business Income deduction. Changes to this popular provision actually bring good news for users. It’s a deduction of up to 20% of business income for owners of “pass-through” entities like partnerships that report results on the owners’ returns. Under the megabill, this deduction is now permanent.

The new limit, which takes effect in 2026, expands the upper end of the phaseout range of this break. Next year, that could rise to about \$275,000 for single filers and \$550,000 for joint filers, says Bronnenkant.

The tips, overtime and car-loan interest deductions. These come with significant limits in addition to taking effect in 2025 and expiring in 2028.

Limit your bets to a maximum of, say, 5% of your total assets. That way, you'll make a lot if you bet right but can't wreck your financial future if you turn out to be wrong.

Finally, don't fall for the delusion that an ETF owning some but not all of the market is diversified. It's deversified.

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