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One Big Beautiful Bill Act: The U.S. Tax Law's Midnight Sun

There is a naturally occurring phenomenon within the Arctic and Antarctic Circles where the Sun stays above the horizon 24 hours a day. No sunrise, no sunset, just constant daylight. This phenomenon, called the midnight sun, is caused by the seasonal tilt of the Earth towards the Sun in the polar regions during the summer months. Like those chasing the midnight sun, many Americans over the last few years have been anxiously anticipating the sunset of the Tax Cuts and Jobs Act (TCJA) of 2017 tax provisions. The July 4, 2025 passage of the One Big Beautiful Bill Act (OBBBA) into law has tilted the tax axis, and we will not see a sunset on many of the expiring tax cuts of the TCJA, bringing us into a tax midnight sun.

The OBBBA is the largest U.S. tax overhaul since the 2017 TCJA affecting everything from individual income tax rates to business deductions. We have also gained a number of significant new *temporary* provisions. Below is a summary of just a few of the provisions in the OBBBA that may affect our clients:



Estate and Gift Taxation

The TCJA increased the estate and gift tax lifetime exemption amount from \$5,490,000 to \$10,000,000 per individual indexed for inflation and was a key provision formerly expected to reset as of January 1, 2026. Instead, the OBBBA permanently increases the exemption amount to \$15,000,000 per individual and \$30,000,000 for married individuals for gifts made and decedents passing in 2026 and beyond. The exemption amount is indexed for inflation for years after 2026. The 40% tax rate on wealth transfers over the estate and gift tax lifetime exemption amounts remains the same. *Note:* the estate and gift tax lifetime exemption for the 2025 tax year is \$13,990,000 for a single individual and \$27,980,000 for married individuals.

Individual Tax Provisions

Individual Tax Rates: The TCJA lowered income tax rates to 10%, 12%, 22%, 24%, 32%, 35% and 37%. The OBBBA makes these lower federal income tax brackets permanent and adds an additional year of inflation adjustment to the 10% and 12% brackets.

Standard Deduction: The TCJA nearly doubled the basic standard deduction. The OBBBA makes the larger deduction permanent and for tax years 2025 through 2028, slightly increases it. The standard deduction for the 2025 tax year is \$15,750 for single filers, \$23,625 for heads of household, and \$31,500 for married individuals filing jointly. Additionally, the OBBBA adjusts the standard deduction for inflation.

Itemized Deductions:

- **Pease Limitation:** The TCJA temporarily repealed the Pease limitation on itemized deductions for tax years 2018 through 2025. The OBBBA permanently repeals the Pease limitation and replaces it with a new limitation on the tax benefit of itemized deductions. This new limitation is applicable to individuals, estates, and trusts. For taxpayers with taxable income that, before reduction for itemized deductions, exceeds the dollar amount at which the 37% tax rate bracket begins, the tax-reducing value of each dollar of otherwise allowable itemized deductions is capped at 35 cents.
- **State and Local Tax Deduction:** The TCJA capped the state and local tax (SALT) deduction at \$10,000. The OBBBA increased the SALT deduction cap beginning in 2025 to \$40,000 for both single and joint filers, phased down to \$10,000 for filers with modified adjusted gross income between \$500,000 and \$600,000. The \$40,000 limitation and phaseout thresholds increase by one percent each year until 2029. After 2029, the SALT cap reverts back to \$10,000 for single and joint filers.
- **Deduction for Qualified Residence Mortgage Interest:** The TCJA limited home mortgage interest deductions. The OBBBA permanently lowers the deduction for qualified residence interest to apply to interest on the first \$750,000 in acquisition indebtedness. It further makes permanent the exclusion of interest on home equity indebtedness from the definition of qualified residence interest and reinstates the provision allowing certain mortgage insurance premiums paid or accrued on acquisition indebtedness to count as qualified residence interest. So, HELOC interest is not deductible, but Private Mortgage Insurance is.

Personal Exemptions: The TCJA set the deduction for personal exemption to zero. The OBBBA permanently reduces the deduction for personal exemptions to zero and temporarily adds a deduction for seniors (age 65 or greater) of \$6,000 for each qualified individual. This senior deduction phases out when the taxpayer's modified adjusted gross income exceeds \$75,000 for single filers and \$150,000 for married individuals filing jointly.

Final Thoughts

The midnight sun, although it lasts months, is not permanent. As we know, "permanent" when it comes to legislation is only as solid as the next administration's agenda and law changes by a future Congress. The U.S. tax laws may very well tilt again, and these provisions will no doubt be topics for future tax policy debates. Until then, let's enjoy the light provided by the prolonged Sun and take advantage of the planning we can today.

Contact us at info@naplesglobaladvisors.com or by phone at 239-776-7900 to assist you in analyzing your individual circumstances in light of the OBBBA legislation.



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