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What's inside the new tax act?

How the sweeping new legislation could affect your taxes.

Fidelity Viewpoints

Key takeaways

The new tax law will modify and make permanent individual income and estate tax provisions of the 2017 Tax Cuts and Jobs Act, such as the higher standard deduction and lower tax brackets, and higher gift and estate tax exemptions.

The state and local tax (SALT) deduction cap increases to $40,000 for certain taxpayers, but returns to $10,000 in 2030.

Also included are a deduction on certain qualified tip income, a temporary additional deduction for many older tax filers, and a new deduction on auto loan interest for cars made in the US.

On July 4th, President Trump signed into law legislation that makes permanent most of the tax cuts embedded in the 2017 Tax Cuts and Jobs Act (TCJA), along with some significant additional tax changes.

Passing this legislation will avoid an increase in taxes that would otherwise occur December 31, 2025. In addition to avoiding that increase, the law will further lower taxes for some taxpayers and will provide an additional tax boost for seniors, parents of younger children, and those with high state and local taxes. However, some provisions are only temporary, and they could come up for debate again before too long.

"There is a lot to digest in the new law," says Naveen Malwal, an institutional portfolio manager for Fidelity. "But some of these elements do provide a bit more tax relief to certain consumers and businesses. So the legislation may help modestly bolster economic growth."

Moving the legislation through Congress had proven to be a challenge, as there were disagreements about what to include in the bill and how to fund it, given the significant price tag of extending all of the TCJA.[1] Among the provisions to pay for the tax changes were cuts to Medicaid spending, termination of clean energy credits that were part of the 2022 Inflation Reduction Act, and permanently removing personal exemptions.

The original TCJA made substantial changes to the tax code, including expanding tax brackets and lowering the top tax rate, increasing the standard deduction, and capping the mortgage interest and state and local tax (SALT) deductions, as well as increasing the federal gift and estate tax exemption.

Feedback

What's inside the new tax law?

Permanent changes

The following provisions were all part of the original TCJA and will become a permanent part of the tax code.

- **The 7 tax brackets** as defined by the original 2017 TCJA with a top rate of 37% for higher earners and a bottom rate of 10% for lower earners will remain the same. Not all of the tax brackets would be adjusted for inflation going forward.
- **The mortgage interest deduction** would remain at its current limit of $750,000 in mortgage debt ($375,000 for single filers). It had been reduced from a threshold of $1 million of mortgage debt in 2017. Certain mortgage premiums may also qualify for a deduction.
- **The SALT deduction**, capped at $10,000 for single and joint filers in 2017, increases to $40,000 and then will revert to $10,000 in 2030. The higher SALT cap would begin to phase out for incomes above $500,000 ($250,000 in the case of a married individual filing separately). For tax years 2026 through 2029, the SALT deduction and income phase-out levels also will be increased 1% a year. After 2029, the $10,000 SALT deduction would be applicable to single and joint filers regardless of income and would become permanent. **Note:** Married couples filing separately are subject to a lower deduction limit. The new cap for such filers is $20,000, reverting to $5,000 in 2030.
- **The standard deduction,** which doubled in 2017, would be made permanent and increase to $15,750 for single filers and $31,500 for joint filers. These amounts would be indexed for inflation after 2025.
- **The lifetime gift and estate tax exclusions,** which have more than doubled since 2017, would increase to $15 million for single filers from $13.99 million and to $30 million from $27.98 million for those who are married filing jointly. Going forward, the exclusions would be indexed for inflation.
- **The Child Tax Credit (CTC)**, which the TCJA doubled in 2017 from $1,000, would be made permanent and would also increase to $2,200 per child starting in tax year 2025.

Find out more about this credit in *Viewpoints*: What is the Child Tax Credit?

- **Charitable deductions** for non-itemizers are permanently reinstated with a new deduction for cash contributions of $1,000 for single filers and $2,000 for joint filers. The law also creates a floor of 0.5% of the taxpayer's contribution base—generally adjusted gross income (AGI)—on the charitable deductions of individuals who itemize. (That means a formerly fully deductible charitable contribution now must be reduced by 0.5% of an individual's contribution base for the tax year.) In addition, for those in the highest 37% tax bracket, the deduction will be capped at 35% of the dollars donated, compared to the current 37% rate. These provisions will all go into effect in the 2026 tax year.
- **The repeal of the personal exemption deduction.** Prior to TCJA, individuals who itemized could deduct up to $4,050 for themselves, a spouse, and each dependent. (While the personal deduction was repealed until December 31, 2025, the standard deduction and the CTC both doubled.)

Temporary provisions good for 4 years

In addition to the permanent provisions, the legislation includes numerous temporary deductions and credits good only for tax years 2025 through 2028, including:

- **No taxes on tips or overtime.** The new law caps deductions on tipped income of up to $25,000 and overtime income of $12,500 ($25,000 for joint filers). The deduction would begin to phase out for single filers with income over $150,000 and $300,000 for joint filers.
- **An added senior tax deduction.** People who are age 65 and older will get an additional $6,000 deduction that begins to phase out at incomes of $75,000 for single filers and $150,000 for joint filers. Note: The enhanced deduction would be in addition to the $2,000 single filers and $3,200 married filers are currently able to deduct if they are 65 or older.
- **Deductible car loan interest.** The new law allows for a deduction of up to $10,000 of loan interest for purchased vehicles whose final assembly took place in the US. The deduction would apply to single taxpayers with modified adjusted gross income of $100,000 or less ($200,000 or less for people who are married filing jointly).

What else is new?

- **A savings account for children.** The legislation includes a savings account called the Trump account fundable up to $5,000 a year, treated similarly to a nondeductible traditional IRA contribution for parents or other individuals. Contributions can be made by parents, relatives, or any other "taxable entity," according to the legislation, until age 18, at which point the account would effectively convert to a traditional IRA. Parents of newborns born between January 1, 2025, and December 31, 2028, would also qualify for $1,000 in federal seed money to start the account. Although not income-restricted, Trump accounts are similar to Connecticut Baby Bonds, which invest $3,200 into accounts for newborns of lower-income parents.
- **Expanded uses for health savings accounts (HSAs) and 529s.** The legislation widens the types of health plans and participants eligible to use an HSA, allows payments of $150 a month ($300 for a family) for direct primary care arrangements, and makes permanent an extension for telehealth arrangements. The legislation also expands uses of 529 funds to include things such as testing fees, tutoring outside the home, and educational therapies for students with disabilities, among other things. It would also allow for tax-free withdrawals for recognized postsecondary credential programs.

Learn more about spending from a 529 account.

What isn't in the new law?

No taxes on Social Security. The legislation does not include President Trump's proposal to eliminate taxes on Social Security benefits, which are taxable up to 85% for individuals with income of more than $34,000 or a couple with combined income of $44,000 or more. However, the additional $6,000 deduction for people who are 65 and older may help offset taxes on Social Security benefits for some individuals with income at these thresholds for the next 4 years.

Find out more about Social Security taxes in *Viewpoints*: Is Social Security still taxable?

Keep informed and get help

Remember tax legislation is complicated. Also, everyone's financial situation is different: Consider speaking with a financial or tax professional about your individual needs throughout the year.

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1. "The Cost and Distribution of Extending Expiring Provisions of the Tax Cuts and Jobs Act of 2017," Office of Tax Analysis, January 10, 2025.

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