THE FINANCE COUPLE™
TWO PERSPECTIVES WITH ONE FOCUS... YOU

A Big Beautiful Something

July 2025

"The principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale."
– Thomas Jefferson

I was going to use a different quote this month, but the one floating in my mind ("Of the people, by the people, for the people" by Abraham Lincoln) didn't seem appropriate when reviewing a massive piece of legislation. Plus, how can we say these politicians (any and all, red and blue alike) are doing something "for the people"? Sure, there are some parts of this bill that we don't disagree with, but every single poll we saw, from CNN to Fox to any other media outlet, showed a majority of Americans unhappy with this legislation. Maybe it's because the average person is concerned with simple math and future generations; math tells us if you tax too little and spend too much there will be a problem for future generations to deal with. As for politicians, they only seem concerned with performative politicking and getting elected.

In any event, let's review the new legislation and provisions we think might be pertinent to individual investors. First, several tax breaks from the 2017 Tax Cuts and Jobs Act were made permanent, such as individual income tax rates. So, for instance, a married couple filing jointly with $236,000 of income in 2025, less the $31,500 standard deduction (which was also made permanent), would still just be in the 22% marginal tax bracket, with an effective rate of about 17%. As for capital gains rates, they remain at 0%, 15%, 20%, and 23.8% depending on your overall tax situation. Congress also expanded, and made permanent, the estate and gift tax exemption to $15 million per person (and indexed for inflation).

The bill also introduced a $6,000 tax deduction for people 65 or older. This deduction has an income phase-out starting at $150,000 Modified Adjusted Gross Income (MAGI) for married filing joint couples and $75,000 for singles (with the deduction being completely phased out at $250,000 and $175,000, respectively). The deduction is available for 2025 through 2028, though Congress could elect to extend it beyond then. While this deduction has been described by some as reducing or eliminating tax owed on Social Security benefits, the deduction is not tied directly to receiving Social Security. Further, this deduction sits on top of your other deductions such as standard or itemized deductions, not to mention the additional $2,000 deduction for people 65 and above, or $3200 for married couples filing jointly (although this last deduction can only be claimed if you take the standard deduction).

The bill also introduced new deductions for auto loan interest, overtime pay, tips, and Social Security payments. Consumers who purchase a new car, assembled in the U.S., between 2025 and 2028, can deduct up to $10,000 per year in interest paid on qualifying auto loans (and no need to itemize to claim the deduction). For eligible workers who are reliant on tips, they can deduct up to $25,000 in reported tip income starting in 2025 (phased out for incomes exceeding $150,000 and set to expire in 2028). Certain workers can also deduct up to $12,500 in overtime pay (this deduction sunsets in 2028 as well).

Another update expands the break for qualified small-business stock under tax code Section 1202. That provision enjoyed bipartisan support, and backing from the venture-capital and high-tech industries and is used to entice investors in startups with growth potential. The break can let investors potentially eliminate all capital gains taxes when they sell stock that meets specified criteria. Qualified Opportunity Zones (QOZ), which have bipartisan roots as well, have also been renewed, helping investors reduce and defer capital gains taxes when they roll into special QOZ funds. Investors also receive a 10% tax reduction if they hold the QOZ investment for five years, triple that for rural investments, and the QOZ fund investment itself can be free of capital-gains taxes after a ten-year hold.

Although the new law brings some clarity to tax policy and the debt ceiling (which was raised by $5 trillion), it also has some controversial issues. One such issue is the limit on federal deductions for state and local taxes (SALT), which was raised temporarily to $40,000 (decreasing for incomes over $500,000, $250,000 for single filers). The bill also included a 1% annual increase to the deduction amount until 2029, after which it reverts back to $10,000. The issue is that the SALT deduction not only adds to the total cost of the bill, but many believe it also primarily benefits wealthy residents, who itemize deductions, from high-tax states such as New York and California; this is arguably a case of the federal government (all residents of all states) subsidizing wealthy citizens of high-tax states.

To help offset the massive cost of the bill, it included $1.2 trillion in cuts to Medicaid, and new work requirements were introduced to qualify for assistance. In short, "able-bodied" individuals without children aged 19 to 64 are required to work at least 80 hours a month to be eligible for assistance (participation in community service, education, or work programs also qualifies).

Overall, the bipartisan Congressional Budget Office (CBO) estimates the new tax law will add around $3.3 trillion to the deficit over the next decade. And, using the CBO's numbers, since our deficit is expected to be approximately $1.9 trillion by the end of year, and debt held by the public reaching $30.1 trillion (almost 100% of GDP), then the interest payments alone may be crushing. But hey, life is not simple, so say the politicians, and simple math is irrelevant when running a country - at least until futurity and posterity bump into reality, and then we'll see who is actually "of the people" and "for the people"!

As always, please remember we cannot offer tax or legal advice, and consult with your tax advisor before taking any action that can affect your taxes. And, as always, thank you for your friendship and trust!

R. Timothy Curran, JD, CFP®

tcurran@lpl.com   Direct 704.499-9703