



# The NEW Tax Act: Deductions

The One Big Beautiful Bill Act (OBBBA) was signed into law by President Trump on July 4, 2025. It extended many provisions of the Tax Cuts and Jobs Act of 2017 that were set to sunset at the end of 2025 as well as added new provisions. The Act includes:

- new and old deductions
- different income limits for different deductions/filers
- different effective dates, and
- different ending dates.

As a result, managing your clients' income is more important than ever.

## Effective beginning for 2025 tax year

**1. New senior deduction of \$6,000 for taxpayers age 65 or older.** This deduction is phased out to the extent that adjusted gross income\* (AGI) exceeds \$75,000 for single filers and \$150,000 for married couples filing jointly (MFJ). This deduction is not available for tax years beginning after 2028.

MAGI <sup>1</sup>		Phase-out	Senior deduction
Single filer	MFJ		
\$75,000 or less	\$150,000 or less	\$0	\$6,000
100,000	\$175,000	\$1,500	\$4,500
125,000	\$200,000	\$3,000	\$3,000
150,000	\$225,000	\$4,500	\$1,500
175,000	\$250,000	\$6,000	\$0

\*If both spouses are 65 or older, multiply senior deduction amount by two.

Please note this deduction and the other new deductions do not fall into the usual above- and below-the-line deduction buckets. Above-the-line deductions reduce AGI; these do not. Below-the-line deductions require taxpayers to itemize; these do not. These deductions are available to non-itemizers but do not reduce AGI.

**2. Increased state and local tax (SALT) deduction.** The cap is increased from \$10,000 to \$40,000<sup>2</sup> for taxpayers with MAGI of \$500,000 or less. It phases out between \$500,000 and \$600,000 in 2025 but will not be reduced below \$10,000. The cap and the phase-out amounts will increase by 1% each year in effect. Beginning in 2030, the cap decreases to \$10,000 with no phase-out.

Tax year	SALT cap	MAGI for 2025	Phase-out	SALT Deduction Single/MFJ
2025	40,000	\$500,000 or less	\$0	\$40,000*
2026	40,400	\$525,000	\$7,500	\$32,500
2027	40,804	\$550,000	\$15,000	\$25,000
2028	41,212	\$575,000	\$22,500	\$17,500
2029	41,624	\$600,000	\$30,000	\$10,000
2030	10,000			

\*Assumes taxpayer(s) incurred at least \$40,000 of state and local taxes. Otherwise, multiply any MAGI in excess of the threshold by 30% and subtract result from the amount of state and local taxes incurred.

**3. New deductions for qualified tips, qualified overtime compensation, and qualified passenger vehicle loan interest.**  
These deductions are not available for tax years beginning after 2028.

	"Qualified" means	Maximum deduction	Phases out between	Amount of reduction if greater
Qualified tips	Cash or charged tips received in an occupation which "customarily and regularly" received tips before 2025	\$25,000	S - \$150,000 - \$400,000 MFJ - \$300,000 - \$550,000	\$100 for every \$1,000 in excess of threshold
Qualified overtime compensation	Overtime as defined by the Fair Labor Standards Act	\$12,500	S - \$150,000 - \$275,000 MFJ - \$300,000 - \$425,000	\$100 for every \$1,000 in excess of threshold
Qualified passenger vehicle interest	Incurred after 2024 for purchase (secured by a first lien) of a new passenger vehicle for personal use; final assembly must occur in the U.S.	\$10,000	S - \$100,000 - \$150,000 MFJ - \$200,000 - \$250,000	\$200 for every \$1,000 in excess of threshold

Takeaway

The different phase-out amounts for different deductions and different filers will require close attention to clients' AGI. Planned Roth conversions will need to be re-evaluated. A dollar of AGI above the \$500,000 SALT deduction phase-out can have a draconian impact on the tax rate of that additional dollar.

The tax deferral offered by non-qualified (NQ) deferred annuities can help clients manage their income tax brackets and pay less taxes over their lifetime.

Undistributed gains within a NQ deferred annuity are generally not taxed until distributions are taken.

In addition, these undistributed gains are not counted when determining:

- provisional income for the taxation of Social Security benefits,
- the amount of any IRMAA surcharges for Medicare Parts B and D,
- net investment income for purposes of the 3.8% net investment income tax, and
- many other thresholds used in the tax code.

Also, there are no required distributions under IRC Sec. 72(s) during lifetime.

<sup>1</sup> The phase-outs are based on modified adjusted gross income (MAGI) with respect to these five deductions; however, MAGI is described as AGI minus the exclusion for foreign earned income and income from Puerto Rico and U.S. possessions. For the majority of clients, MAGI will equal AGI for purposes of these deductions.

<sup>2</sup> It is only \$20,000 for married taxpayers filing separately, it phases out from \$250,000 to \$300,000, and it will not be reduced below \$5,000.

For more information on these strategies, please contact the Delaware Life National Sales Consulting team at:

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