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Understanding New Tax Rules and Your Financial Plan

OBBBA and Your Financial Plan



By Chris Boyd

Tax planning is often most effective when it aligns with timing—when income changes, when deductions are available, and when key provisions expire or phase out. The One Big Beautiful Bill Act (OBBBA) extends and introduces tax rules that may create planning windows for certain households, particularly retirees, homeowners who itemize deductions, and families saving for education. This article summarizes selected changes and outlines planning considerations commonly reviewed under OBBBA.

The sections below are organized by common planning contexts (retirement-income planning, itemized deductions, education funding, and wealth transfer). Readers may focus on the sections most relevant to their circumstances.

Key Takeaways

1. Tax-Rate Management and Roth Conversion Considerations

- OBBBA continues generally lower federal income-tax brackets, which may increase the importance of multi-year planning, particularly around retirement.
- A higher state and local tax (SALT) cap may make itemizing deductions more relevant for some households, especially in higher-tax jurisdictions.
- A temporary additional deduction for individuals age 65+ may affect taxable income and, in some cases, the taxation of Social Security benefits. The provision is currently scheduled to expire after 2028.
- 529 plans remain a central education-funding tool due to tax-advantaged growth and tax-free qualified withdrawals. OBBBA also expands certain 529 uses and permits limited 529-to-Roth IRA rollovers under specific conditions.

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- Trump Accounts, a new child-focused savings vehicle, may provide a government seed contribution for certain births in 2025–2028 and allow additional contributions. Their objectives and distribution rules differ from 529 plans, so they may be best viewed as complementary for many education-focused households.

1. Tax-Rate Management and Roth Conversion Considerations

For many taxpayers, an important feature of OBBBA is the continuation of generally lower federal income-tax brackets. When marginal tax rates are expected to change over time, tax-rate management may become a meaningful component of retirement-income planning.

A common planning scenario occurs when employment income has ended but Social Security benefits have not yet begun and required minimum distributions (RMDs) have not yet started. During these years, taxable income may be lower, potentially creating capacity for certain tax-planning strategies.

Illustrative example: An individual retires at age 62 and plans to delay Social Security until age 70. If the household has significant pre-tax retirement assets, future RMDs may increase taxable income later in retirement. A staged approach to Roth conversions during lower-income years may help manage future tax brackets and reduce RMD-related income concentrations.

- Evaluate the impact of Roth conversions using multi-year projections rather than a single-year tax estimate.
- Consider potential interactions with Medicare premium thresholds and the timing of Social Security benefits.
- In some cases, partial conversions designed to fill a target marginal bracket may be evaluated instead of large, single-year conversions.
- If charitable giving is part of the plan, review timing and deduction strategy alongside income-recognition decisions.

2. Itemized Deductions, SALT, and Charitable Planning Considerations

OBBBA includes changes that may affect whether itemizing deductions is beneficial for some taxpayers, particularly homeowners and those with higher state and local tax liabilities.

Taxpayers who have routinely claimed the standard deduction in recent years may wish to reassess. For example, OBBBA increases the cap on the state and

local tax (SALT) deduction to $40,000 (subject to applicable rules). The optimal approach may vary over time as income, deductions, and thresholds change.

Illustrative example: A household with meaningful property taxes and consistent annual charitable contributions may find that a higher SALT cap increases the likelihood that itemizing deductions is advantageous. In some circumstances, consolidating multiple years of charitable giving into a single tax year may increase total itemized deductions (depending on income and other limits).

- Compare the standard deduction with itemized deductions using current-year numbers and, where appropriate, multi-year projections.
- For charitable donors, evaluate whether bundling (consolidating) contributions into a single tax year changes the tax benefit under applicable limits.
- Consider how deduction planning may interact with unusual income years (for example, a business liquidity event or significant capital gains).

3. Additional Deduction for Individuals Age 65+ and Retirement-Income Coordination

OBBBA provides a temporary additional deduction for individuals age 65 and older. Because retirement income often draws from multiple sources, year-to-year changes in taxable income can affect related calculations, including the taxation of Social Security benefits (subject to thresholds and phaseouts).

Illustrative example: A retiree receiving Social Security and taking modest IRA distributions may find that an additional deduction helps limit taxable income in certain years. Depending on the retiree's overall income level, this may reduce the portion of Social Security benefits that is subject to federal income tax.

- Review Social Security claiming approaches in coordination with anticipated deductions, withdrawals, and other income sources.
- Evaluate how IRA withdrawals and Roth conversions may affect taxable income and the taxation of Social Security benefits.
- Note the timing: this provision is currently scheduled to expire after 2028 (subject to future legislative changes).

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4. Additional Deduction for Individuals Age 65+ and Retirement-Income Coordination

For families funding education, OBBBA expands certain permitted uses of 529 plans (subject to specific definitions and limits). Depending on the provision, eligible categories may include K–12 tuition, qualifying credentialing programs, and student loan repayment. Because education funding decisions often span many years, clarity on permitted uses and withdrawal rules can be especially important.

OBBBA also permits, under certain conditions, the rollover of unused 529 plan assets to a Roth IRA for the beneficiary, up to an aggregate limit (commonly referenced as $35,000). This feature may be relevant for families concerned about overfunding; however, eligibility requirements (including timing and annual contribution limits) should be reviewed carefully.

Illustrative example: A family funds a 529 plan and later finds that scholarships reduce the student's education costs. If eligible, a portion of unused 529 assets may be rolled to the beneficiary's Roth IRA over time, potentially supporting long-term savings objectives in addition to education funding.

Trump Accounts: Structure, Funding, and Use (High-Level Overview)

OBBBA also introduces "Trump Accounts," a new, child-focused savings account framework. Publicly available summaries indicate a pilot program under which certain children born between **January 1, 2025** and **December 31, 2028** may receive a **$1,000** federal contribution, generally contingent on U.S. citizenship and a valid Social Security number. Additional contributions may be permitted from family members and, in some cases, employers (subject to statutory limits and administrative rules).

At a high level, Trump Accounts are designed as long-term savings vehicles rather than education-only accounts. The accounts are expected to have tax-advantaged features (for example, tax-deferred growth) and restrictions on when and how funds may be used. As administrative guidance is issued and refined, details such as contribution limits, eligible investments, distribution timing, and potential tax consequences of withdrawals may become clearer.

Why 529 Plans Often Remain the Preferred Education-Funding Vehicle

For households primarily saving for education, 529 plans often remain the first-line vehicle because qualified education withdrawals are generally **tax-free** at

the federal level, and many states offer additional benefits (such as state income-tax deductions or credits) for residents who contribute to an in-state plan. 529 plans also provide clear rules around qualified education expenses, account control (the owner typically retains control even as the beneficiary changes), and planning flexibility—particularly given OBBBA's expanded 529 uses and the ability (under defined conditions) to roll a limited amount of unused 529 assets to a Roth IRA for the beneficiary.

By contrast, Trump Accounts appear structured as general-purpose, long-term savings accounts with different objectives and constraints. While the federal seed contribution may be meaningful, these accounts are not necessarily optimized for education expenses in the same way as 529 plans. In practice, many families may view a Trump Account as a supplemental savings resource, while continuing to rely on a 529 plan as the primary education-focused strategy.

- Reassess 529 funding targets and ownership structure in light of expanded permissible uses and family objectives.
- Confirm eligibility requirements for a 529-to-Roth rollover (for example, account seasoning rules and annual Roth contribution limits) before incorporating it into planning assumptions.
- For households potentially eligible for Trump Accounts (including the 2025–2028 birth-year pilot contribution), consider how these accounts may complement, rather than replace, education-focused 529 planning.

5. Estate and Gift Planning: Higher Exemptions and Ongoing Governance

Higher federal estate and gift tax exemptions may reduce estate tax exposure for many families. Nevertheless, estate planning often remains important for non-tax reasons, including beneficiary coordination, fiduciary selection, asset-titling consistency, and the administration of complex assets. Because exemption levels and annual exclusion amounts can change over time, current thresholds should be verified when making planning decisions.

Illustrative example: A family may be below the exemption amount yet still have outdated documents, inconsistent beneficiary designations, or no governance plan for shared assets (for example, a vacation property). In such cases, the primary planning benefits may be clarity and coordination rather than tax reduction.

- Confirm that wills, trusts (if applicable), powers of attorney, and beneficiary designations are current and consistent.

- If gifts are part of the plan, consider how annual exclusion gifts (for example, **$19,000** per donor, per recipient) may fit within broader objectives and documentation practices.

- For higher-net-worth households, specialized strategies (for example, trust or charitable planning) may be evaluated with qualified legal and tax professionals.

Conclusion and Practical Next Steps

- **Determine applicability:** Identify which provisions are most relevant to your situation (for example, retirement-income planning, itemized deductions, education funding, or wealth transfer).

- **Use multi-year analysis where appropriate:** Many strategies are best assessed over multiple years due to changing income sources, thresholds, and phaseouts.

- **Coordinate related decisions:** Withdrawals, conversions, charitable giving, Medicare premiums, and Social Security taxation can interact, so an integrated review may improve outcomes.

Summary: OBBBA includes provisions that may affect retirement-income tax management, itemized deductions (including SALT), education funding strategies, and wealth-transfer considerations. Because outcomes often depend on timing and the interaction of multiple rules, coordinated planning and careful review of current guidance are often warranted.

Important: This article is provided for general educational purposes and does not constitute legal, tax, or investment advice. Many provisions include definitions, limitations, phaseouts, and effective dates that may vary by taxpayer. Readers should consult qualified professionals regarding their specific circumstances before taking action.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA

Prior to investing in a 529 Plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such

state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

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