

# One Big Beautiful Bill Act Makes the Individual Income Tax More Complex

---

**Alex Muresianu** Senior Policy Analyst

**Sam Cluggish** Research Assistant

**Rebecca Walker** Research Assistant

Sept. 2025

## Key Findings

- The One Big Beautiful Bill Act (OBBBA) became law on July 4, 2025.
- The law makes numerous changes to US tax law, some that improve the tax code and some that make it worse.
- By (mostly) extending the expiring Tax Cuts and Jobs Act (TCJA) individual income tax reforms, the OBBBA preserves most of the tax compliance cost savings from that law.
- However, the OBBBA loses ground on individual income tax simplification compared to post-TCJA tax policy.
- Outside of the TCJA framework, the OBBBA also adds more provisions to the individual income tax than it subtracts.
- The new senior deduction, no tax on tips, no tax on overtime, and the car loan interest deduction, among others, far outweigh the cuts to consumer-side green energy credits in terms of simplification.
- Ultimately, while the OBBBA brings some stability by making many of the TCJA's reforms permanent, it generally fails to reform the code's accumulating complexity.

# Introduction

The One Big Beautiful Bill Act (OBBBA) was passed into law on July 4, 2025. The law makes many structural improvements to the tax code, most prominently by making the expiring individual provisions of the Tax Cuts and Jobs Act (TCJA) permanent.

However, except for repealing some energy credits from the Inflation Reduction Act (IRA) and making permanent expensing for certain types of business investment, the law does not expand upon the TCJA's successes. It specifically fails to reform the tax code's accumulating complexity, and indeed worsens it in many respects, including through the addition of several new tax breaks.

## Measuring Tax Complexity

Simplicity is one of the four main principles of sound tax policy.<sup>1</sup> As defined by the Tax Foundation, simplicity “means taxes should be easy for taxpayers to pay and easy for governments to administer and collect.”<sup>2</sup> Having a simple tax code results in increased productivity because taxpayers do not have to spend excessive amounts of time on compliance. This increased productivity raises tax revenues. A simple tax code also makes it easier and less resource-intensive for the government to enforce compliance, resulting in lower evasion rates and higher revenue collections.

A standard way to gauge the complexity of the tax code is to look at the cost of compliance. The IRS provides estimates of the time required to comply with each tax form as well as the associated out-of-pocket costs, e.g., for filing services. The IRS estimates it takes 13 hours on average to comply with the main individual form, the Form 1040—8 hours for individuals without business income, and 24 hours for individuals with business income.<sup>3</sup> That is one to three days of full-time work per person that must be dedicated to a single tax form.

Based on the latest IRS estimates for all tax forms, the Tax Foundation finds that in 2025, compliance with the federal tax code is going to cost Americans 7.1 billion hours of their time.<sup>4</sup> This burden is equivalent to 3.4 million full-time workers doing nothing but tax return paperwork for a full year. In addition, the IRS estimates out-of-pocket costs of \$148 billion, resulting in total monetized compliance costs of \$536 billion in 2025. Of this, about \$147 billion and 2.1 billion hours will be spent on the Form 1040, with much of the remaining burden falling on businesses.<sup>5</sup>

1 TaxEDU, “Principles of Sound Tax Policy,” Tax Foundation, <https://taxfoundation.org/taxedu/principles/#simplicity>.

2 TaxEDU, “It Pays to Keep It Simple,” Tax Foundation, <https://taxfoundation.org/taxedu/videos/it-pays-to-keep-it-simple/>.

3 Internal Revenue Service, “1040 (and 1040-SR) Instructions,” 2024, <https://www.irs.gov/instructions/i1040gi>.

4 Sam Cluggish and Alex Muresianu, “Tax Complexity Now Costs the US Economy over \$536 Billion Annually,” Tax Foundation, Aug. 27, 2025, <https://taxfoundation.org/data/all/federal/irs-compliance-complexity-tax-costs/>.

5 These numbers were calculated by taking the hourly burden information provided by the White House Office of Information and Regulatory Affairs (OIRA) and multiplying them by either the mean hourly wage and benefits for all occupations in the case of individual income taxes or 13-2011 Accountants and Auditors in the case of all other taxes. The mean hourly wages and the average benefits for private sector workers were each taken from the Bureau of Labor Statistics (BLS). The out-of-pocket costs provided by OIRA were also accounted for in the calculations.

As another measure of the tax code's increasing complexity, a recent study finds that the length of the Internal Revenue Code has grown to about 4.3 million words as of 2021, an increase of about 40 percent over the last three decades. The study also compares tax codes across six countries, finding that the US has by far the longest and most complex tax code.<sup>6</sup>

The United States tax code is complex, not simple. Unfortunately, the OBBBA further complicates tax filing.

## Core Individual Tax Reforms

The original impetus for the OBBBA was extending the expiring individual income tax cuts and reforms passed in the TCJA. The TCJA simplified the tax code through two channels: reducing the use of itemized deductions and reducing the number of taxpayers subject to the alternative minimum tax (AMT).<sup>7</sup> However, it also added Section 199A, also known as the pass-through deduction, an ill-considered tax break from a structural perspective that also comes with significant costs.

For the most part, the OBBBA retains the TCJA's structural changes to the individual income tax. However, whether those extensions qualify as "improvements" to the tax code depends on the baseline one uses.

In the OBBBA debate, some policymakers argued the expiring TCJA tax cuts should be treated under a "current policy baseline"—that is, as if the expiring tax cuts would be extended permanently. Compared with this baseline, permanence would carry no additional fiscal costs. A current law baseline, on the other hand, assumes the tax cuts would expire as scheduled, so permanence would entail additional costs.<sup>8</sup>

These baselines cut both ways. A current policy baseline might mean extending expiring tax cuts does not "cost" anything in a fiscal sense, but it also means the law should not get any credit for the tax simplifications that have already been in effect for almost eight years.

---

<sup>6</sup> Youssef Benzarti and Luisa Wallossek, "Rising Income Tax Complexity," NBER Working Paper 31944, December 2023, <https://www.nber.org/papers/w31944>.

<sup>7</sup> Alex Muresianu, "How Did the Tax Cuts and Jobs Act Simplify the Tax Code," Tax Foundation, Aug. 7, 2024, <https://taxfoundation.org/blog/tcja-complexity-compliance/>.

<sup>8</sup> Daniel Bunn and Garrett Watson, "All About that Base(line)," Tax Foundation, Dec. 5, 2024, <https://taxfoundation.org/blog/extending-tax-cuts-budgetary-impact/>.

**Table 1. How OBBBA Changes Core Individual Income Tax Provisions**

Provision	Previous Law	OBBBA	Revenue Effect, Billions, 2026	Revenue Effect, Billions, 2025-2034
Alternative Minimum Tax	Higher exemption, exemption phaseout threshold scheduled to expire after 2025	Make TCJA AMT changes permanent but also return exemption and phaseout thresholds to 2018 levels, increase AMT exemption phaseout rate from 25 percent to 50 percent	-\$102.1	-\$1,088.2
Standard Deduction	Increased standard deduction scheduled to expire after 2025	Increased standard deduction from TCJA made permanent and further increased	-\$132.0	-\$1,440.9
Personal Exemption	Personal exemption suspended and scheduled to return after 2025	Eliminated permanently	\$188.0	\$1,960.3
Child Tax Credit	Currently \$2,000, scheduled to return to \$1,000	Permanently increased to \$2,200 and adjusted for inflation going forward	-\$92.2	-\$965.0
State and Local Tax Deduction	SALT deduction limited to \$10,000, scheduled to return to an unlimited deduction after 2025	Limit raised to \$40,000 from 2025-2029, limit phases down to \$10,000 starting at \$500,000 and ending at \$600,000 of income, limit value and phaseout threshold increased by 1 percent per year through 2029, limit goes back to \$10,000 after 2029	\$57.3	\$816.5
Mortgage Interest Deduction	Limited to \$750,000 of principal, scheduled to return to \$1 million after 2025	Permanently limited at \$750,000	\$2.9	\$39.6
Miscellaneous Itemized Deductions	Miscellaneous itemized deductions eliminated until after 2025	Miscellaneous itemized deductions eliminated permanently except for the deduction for unreimbursed educator expenses	\$19.6	\$185.6
Pease Limitation	Eliminated until after 2025	Eliminated permanently	-\$10.8	-\$91.3
New Itemized Limit	N/A	Limits the maximum benefit of itemized deductions to 35 cents per dollar of deduction	\$1.3	\$11.2
Moving Expenses Deduction (JCT)	Not available except for armed forces members, scheduled to return to all taxpayers after 2025	Permanently limited to members of armed forces	\$0.7	\$13.6
<b>Total Revenue Effect, Billions</b>			<b>-\$67.3</b>	<b>-\$558.6</b>

Note: Scores are all from Tax Foundation, with the exception of the moving expenses deduction, which comes from the Joint Committee on Taxation.

Source: H.R.1, One Big Beautiful Bill Act; Tax Foundation General Equilibrium Model, July 2025; Joint Committee on Taxation, "Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in 'Title VII: Finance' of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget," Jul. 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>.

## Itemizers

Several TCJA reforms reduced itemization, both by expanding the standard deduction and limiting itemized deductions.

On the whole, the law dramatically reduced the number of itemizers—from 46.9 million in 2017 (31 percent of total filers) to 17.5 million in 2018 (11.5 percent of total filers). In combination with other simplifications, reducing the number of itemizers meant the TCJA brought significant compliance cost savings—potentially over \$5 billion in 2018 alone.<sup>9</sup> And itemization has continued to fall. In 2022 (the most recent year with full IRS data available), the itemization rate was below 10 percent.

The OBBBA mostly retains the TCJA's itemization reforms. It eliminates the personal exemption permanently and makes the standard deduction expansion permanent with a small extra boost. On itemized deductions, the OBBBA keeps the TCJA's mortgage interest limitation and permanently eliminates the miscellaneous itemized deductions, with the exception of the deduction for unreimbursed educator expenses. However, the OBBBA gives ground on the state and local tax (SALT) deduction: increasing the deduction to \$40,000 in 2025, and increasing it by 1 percentage point each year until 2029, after which it will return to \$10,000 permanently.

The OBBBA limits itemized deductions in new ways too. The law adds a minimum threshold of 0.5 percent of gross income to the itemized charitable deduction and limits the value of itemized deductions to 35 percent, even for taxpayers in the 37 percent bracket. The OBBBA also introduces a floor for the itemized charitable deduction, only allowing itemizing taxpayers to deduct charitable contributions in excess of 0.5 percent of their adjusted gross income.<sup>10</sup>

If we use a current law baseline, then the OBBBA's effect on itemizers is the difference between the number of itemizers projected in 2026 had all of the TCJA's provisions expired, and the number projected under the OBBBA. Alternatively, under a current policy baseline, the OBBBA's effect is the difference between itemizers under the OBBBA, and itemizers under a scenario where the TCJA was made permanent with no other changes.

Under a current law baseline, we projected 32 percent of filers with positive income would itemize in 2026, meaning there would be 54.5 million itemizers. Meanwhile, under the OBBBA, we projected 14.2 percent of filers would itemize, or 23.9 million itemizers. Under the current law baseline, this translates to the OBBBA reducing itemizers by 30.6 million.

However, under a current policy baseline where the TCJA's reforms are made permanent without alteration, we'd expect around 10 percent of filers to itemize, as we've seen in recent years under the TCJA regime. We estimated that 10.1 percent of taxpayers would itemize under the Senate Finance Committee's version of the legislation that maintained the \$10,000 SALT cap. That translates to 16.95 million itemizers. With 16.95 million itemizers as a baseline, that means the 23.9 million itemizers under the OBBBA translates to 6.9 million additional itemizers.

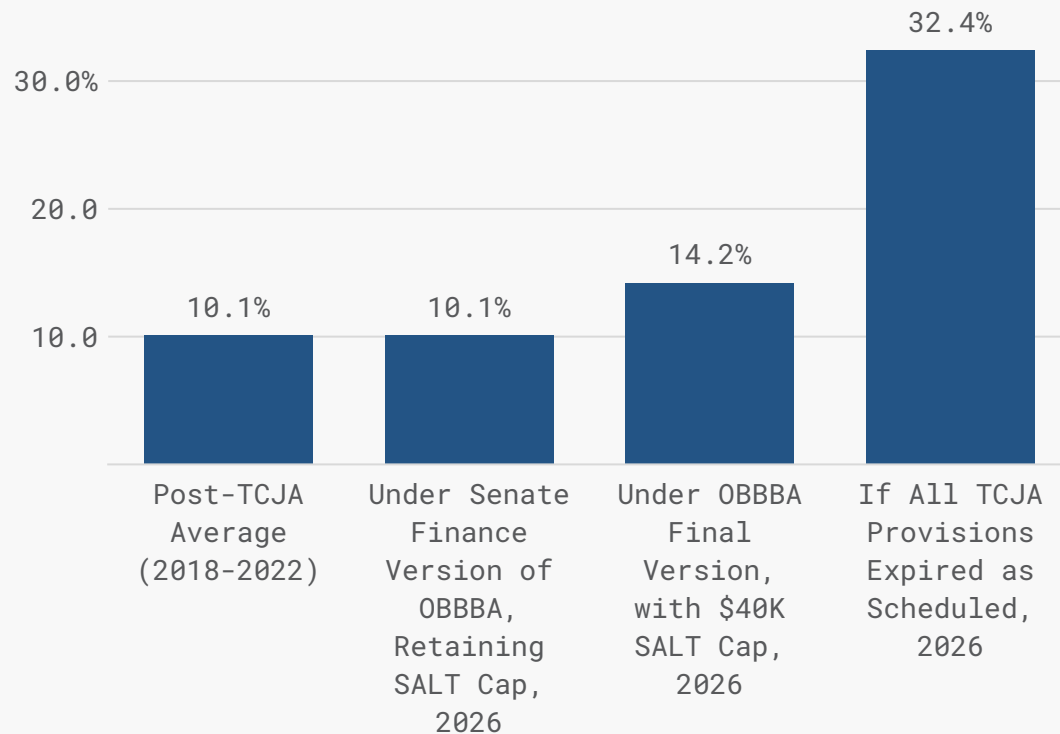
<sup>9</sup> Erica York and Alex Muresianu, "The Tax Cuts and Jobs Act Simplified the Tax Filing Process for Millions of Households," Tax Foundation, Aug. 7, 2018, <https://taxfoundation.org/research/all/federal/the-tax-cuts-and-jobs-act-simplified-the-tax-filing-process-for-millions-of-americans/>.

<sup>10</sup> The revenue effect of this provision is accounted for in a later section of the paper.

Figure 1.

## OBBBA Retains Most, Not All, of TCJA Structural Simplification

*Percent of Individual Income Tax Returns Using Itemized Deductions*



Source: Tax Foundation Taxes and Growth Model, July 2025; Internal Revenue Service, Statistics of Income.



Those differences in itemization can translate into significant costs.

While the IRS does not publish detailed schedule-level compliance cost estimates, we can extrapolate from basic information available. In 2004, the IRS estimated the average taxpayer took around 13.6 hours to file their taxes, and that the average Schedule A itemized deduction form took around 5.6 hours to complete.<sup>11</sup> In 2024, the IRS estimated the average taxpayer took 13 hours to file their taxes.<sup>12</sup> While the IRS did not publish a corresponding estimate for Schedule A in 2024, we can estimate filing itemized deductions takes an average of 5.3 hours, assuming filing time has declined proportionately.

<sup>11</sup> Internal Revenue Service, "2004 1040 Instructions," <https://www.irs.gov/pub/irs-prior/i1040-2004.pdf>.

<sup>12</sup> Internal Revenue Service, "1040 (and 1040-SR) Instructions, Tax Year 2024," <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>.

To translate hourly compliance costs to a dollar value, we typically use the average hourly wage of all occupations (\$32.66) plus the average hourly non-wage compensation for private sector employees (\$13.49), translating to an hourly opportunity cost of \$46.15.<sup>13</sup>

Using these estimates, we can convert those differences in itemizers to hard monetary estimates. If we use the current law baseline, by extending most of the expiring TCJA reforms, the OBBBA will reduce compliance costs by \$7.5 billion in 2026 by reducing the number of itemizers.

However, using a current policy baseline, the OBBBA will increase compliance costs by \$1.7 billion in 2026, largely due to increasing the SALT deduction cap. In other words, the OBBBA increases compliance costs compared to simple TCJA permanence.

It's worth noting that the change in itemizers is not the sole measure of tax compliance costs, and these changes are not comprehensive estimates of how the OBBBA changes compliance costs in aggregate.

## Child Tax Credit

The TCJA increased the maximum CTC from \$1,000 to \$2,000, but that increase was scheduled to expire at the end of 2025. While the CTC expansion did not in itself simplify the tax code, it was a key part of repealing the personal exemption and increasing the standard deduction.

The OBBBA increases the CTC to \$2,200 per child in 2025 and indexes the maximum amount for inflation going forward. This change does not add complexity to the CTC. However, it does not simplify the CTC either. The CTC has several structural issues, as does the earned income tax credit (EITC), and a more ambitious tax reform could have addressed those issues more comprehensively.<sup>14</sup>

## Alternative Minimum Tax

The AMT is an alternative income tax designed to prevent high-income households from deducting down to zero income tax liability. Alternative minimum taxable income (AMTI) generally eliminates or reduces the value of tax preferences taken under the ordinary individual income tax. Once AMTI has been established, an exemption can be taken from AMTI. Under pre-OBBBA law, the exemption phases out by \$0.25 per dollar of AMTI above a certain threshold. Finally, the first \$239,100 of AMTI (\$119,550 for married separate filers) is taxed at 26 percent, and the rest is taxed at 28 percent.

Before 2017, the AMT exemption was \$54,300 for single filers and \$84,500 for married filers, and the phaseout threshold started at \$120,700 for single filers and \$160,900 for married filers. The TCJA raised the exemption to an inflation-adjusted \$70,300 and \$109,400, respectively, and the phaseout threshold to an inflation-adjusted \$500,000 and \$1,000,000, respectively. This had a significant effect on the number of filers for the AMT.

<sup>13</sup> Bureau of Labor Statistics, "Table 4. Private Industry Workers by Occupational and Industry Group," March 2025, <https://www.bls.gov/news.release/ecec.t04.htm>; Bureau of Labor Statistics, "Occupational Employment and Wage Statistics," May 2024, <https://data.bls.gov/oesprofile/>.

<sup>14</sup> Garrett Watson and Alex Durante, "Difficult Trade-Offs Make Policy Consensus on Child Tax Credit Elusive," Tax Foundation, Nov. 10, 2022, <https://taxfoundation.org/blog/child-tax-credit-reform/>.

In 2017, before the TCJA changes, there were 5.1 million tax returns paying the AMT, which was a 9.5 percent increase from the year prior. However, in 2018, that number dropped to only 244,000 payers—a 95.2 percent drop from 2017. That number continues to stay low, with AMT payers fluctuating between 150,000 and 250,000 between 2018 and 2022 (the most recent year of data available).<sup>15</sup> However, the more relevant number for compliance costs is the change in the number of filers who have to calculate their AMT liability, regardless of how many end up actually owing anything under the AMT. In 2017, there were 10.78 million individual AMT forms filed. Since then, the average number of AMT forms filed is 5.98 million.<sup>16</sup> Meanwhile, the Taxpayer Advocate Service has previously estimated that calculating AMT liability roughly doubles the burden of filing an income tax return.<sup>17</sup>

If we assume that relationship still holds, we can estimate compliance savings. The change from 10.78 million to 5.98 million means 4.8 million fewer taxpayers who need to calculate their AMT liability. The average Form 1040 filer takes 13 hours as of 2025, which implies the reduction in AMT calculators would save 62.43 million hours. Using median wages and benefits of \$46.15 as the opportunity cost, we can estimate the annual savings from the TCJA's reduction in AMT calculators as around \$2.9 billion.

The OBBBA extends the TCJA exemption and phaseout threshold levels permanently, maintaining the inflation adjustments. However, the OBBBA reverts the phaseout thresholds back to \$500,000 (\$1 million for joint filers), adjusted for inflation starting in 2026. It also raises the phaseout rate to \$0.50 for each dollar of AMTI above the phaseout threshold.

Ultimately, the OBBBA's reforms to the AMT mirror its reforms to itemized deductions. If we treat current law (under which the AMT would have reverted to the pre-TCJA structure) as the baseline, the OBBBA is a substantial move toward simplification. However, if we treat full TCJA permanence as the baseline, the OBBBA will mean slightly more AMT filers, more AMT calculators, and accordingly more complexity.

## Pass-Through Business Deduction

The TCJA introduced Section 199A, also known as the pass-through deduction. The deduction allows individuals to deduct the lower of 20 percent of their income earned in a pass-through business or 20 percent of their taxable ordinary income.

For higher-income households, the pass-through deduction also includes limits on income earned in specified service and trade businesses (SSTBs) and requirements related to actual business activity.<sup>18</sup> These rules exist for a good reason: to limit the reclassification of what is, in practice, employee compensation as capital income eligible for the deduction. At the same time, they create significant complexity. Additionally, the structure of the phaseout creates large tax cliffs for SSTB owners.

The OBBBA makes Section 199A permanent with some small tweaks. The law slows the phaseout from occurring over \$50,000 for single filers and \$100,000 for married filing jointly to over \$75,000 for single fil-

15 Statistics of Income, "Table A: All Individual Income Tax Returns: Selected Income and Tax Items in Current and Constant 1990 Dollars, Tax Years 1990-2022," Internal Revenue Service.

16 Statistics of Income, "Individual Income Tax Returns Line Item Estimates," Internal Revenue Service, <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-returns-line-item-estimates-publications-4801-and-5385>.

17 Taxpayer Advocate Service, "Repeal the Alternative Minimum Tax," August 2013, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2013-ARC-VOL-1\\_S2-LR-1.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2013-ARC-VOL-1_S2-LR-1.pdf).

18 Scott Greenberg, "Reforming the Pass-Through Deduction," Tax Foundation, Jun. 21, 2018, <https://taxfoundation.org/research/all/federal/reforming-pass-through-deduction-199a/>.

ers and \$150,000 for married filing jointly. The OBBBA also introduces a new minimum deduction of \$400 for any taxpayer earning above \$1,000 in qualified business income.

In 2024, we estimated the pass-through deduction produced compliance costs of almost \$20 billion a year.<sup>19</sup> The pass-through deduction is another issue where judging the OBBBA on a current law versus a current policy baseline makes a big difference. Under a current policy baseline, the OBBBA marginally improves the pass-through deduction. But under a current law baseline, the OBBBA makes a complex provision permanent that would have otherwise expired.

## New Special Tax Breaks

The OBBBA does not stick to tinkering with the structural changes the TCJA brought. Instead, the law introduces many new, narrow tax deductions for specific types of income or consumption. These provisions pick favorites, as they treat certain types of income in certain industries more generously than others, while also adding to the law's price tag.

### Overtime Deduction

The overtime deduction is equal to the qualified overtime compensation received with a deduction cap of \$12,500 (\$25,000 for married filing jointly) and a phaseout provision when AGI exceeds \$150,000 (\$300,000 for married filing jointly). This deduction is only applicable to the “and-a-half” bit of the “time-and-a-half” compensation for overtime work, and is only available in 2025 through 2028.

Economically, this provision creates a tax bias for overtime income and industries subject to the time-and-a-half rule. It introduces an entirely new distinction in the tax code. The time-and-a-half rule comes from the Fair Labor Standards Act (FLSA), and resides in labor law, not tax law. Incorporating this labor law concept into the tax code in a way that limits abuse will require substantial administration and compliance work.<sup>20</sup>

### Tax Deduction for Tips

The new deduction for tips allows workers in historically tipped industries to deduct up to \$25,000 in qualified tips in tax years 2025 through 2028. There is a phaseout of \$100 per \$1,000 of AGI starting at \$150,000 (\$300,000 for married joint filers).

It also includes a transition rule to give taxpayers time to adjust to this new provision. This adds complication to the tax code by unnecessarily distinguishing tip income, which only about 3 percent of the US workforce makes, from other income.<sup>21</sup> Like the deduction for overtime, it will require somewhat complicated guardrails to prevent abuse, resulting in additional administrative and compliance work.

19 Scott Hodge and Claire Rock, “Tax Complexity Now Costs the US Economy Over \$546 Billion Annually,” Tax Foundation, Aug. 6, 2024, <https://taxfoundation.org/data/all/federal/irs-tax-compliance-costs/>.

20 Garrett Watson and Erica York, “Trump’s ‘No Tax on Overtime Pay’ Proposal Would Distort Work Decisions,” Tax Foundation, Sep.13, 2024, <https://taxfoundation.org/blog/trump-overtime-tax-exemption/>.

21 Alicia Parlapiano and Andrew Duhren, “An Illustrated Guide to Who Really Benefits From ‘No Tax On Tips,’” *The New York Times*, Jun. 4, 2025, <https://www.nytimes.com/interactive/2025/06/04/upshot/no-tax-on-tips.html>.

## Table 2. New OBBBA Tax Breaks Cost Almost \$400 Billion, Concentrated in the First Four Years of Budget Window

Conventional Revenue Estimates of New OBBBA Tax Breaks

Provision	Description	Revenue Effect, Billions, 2026	Revenue Effect, Billions, 2025-2034
Senior Deduction	The OBBBA provides a new \$6,000 deduction for taxpayers age 65 and older per qualifying taxpayer, which phases out at a 6 percent rate when one's income exceeds \$75,000 for single filers and \$150,000 for joint filers. The deduction is fully phased out at \$175,000 for single filers and \$250,000 for joint filers. The deduction is provided for all sources of income, including Social Security benefits, and will be available to both itemizers and non-itemizers.	-\$33.1	-\$134.8
Deduction for Tipped Income	The OBBBA creates a new temporary deduction for tips when calculating taxable income worth up to \$25,000 in tips, available to itemizers and non-itemizers. The deduction is in effect from 2025 through 2028 and phases out at a 10 percent rate when adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). Tips qualifying for the income tax deduction will still be subject to tax reporting and payroll taxes.	-\$7.7	-\$30.8
Deduction for Overtime Income	Up to \$12,500 in overtime compensation is deductible when calculating taxable income under the OBBBA temporarily from 2025 through 2028, phasing out in value at a 10 percent rate when adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). Only employees who are not exempt from Fair Labor Standards Act (FLSA) overtime rules are eligible, and only the 0.5 "premium" portion of a time and a half is eligible for the deduction and will be available to both itemizers and non-itemizers.	-\$35.0	-\$145.9
Car Loan Interest Deduction	Interest paid on a financed new automobile will be deductible for amounts up to \$10,000 from 2025 through 2028, phasing out at a 20 percent rate when income exceeds \$100,000 for single filers and \$200,000 for joint filers. The automobile must have been finally assembled in the United States to qualify for the deduction. The auto loan interest deduction will be available to itemizers and non-itemizers alike. It is likely that dealerships will need to help taxpayers confirm that an automobile qualifies for the deduction based on the location of final assembly.	-\$7.1	-\$28.8
Trump Accounts	The OBBBA created new savings accounts for children, allowing parents and others to contribute up to a combined \$5,000 yearly (adjusted for inflation starting in 2027) for the child to use after turning 18 years old. The accounts include a \$1,000 deposit made by the federal government for certain children born in 2025 through 2028, and employers are also allowed to contribute up to \$2,500 tax-free to employee accounts. The account grows tax-deferred until account owners make withdrawals, which can only start at age 18, and the account at that point essentially follows the rules in place for individual retirement accounts (IRAs). As such, withdrawals, net of after-tax contributions, made before age 59 ½ are subject to regular income tax and a 10 percent penalty, with many exceptions, including for college tuition (unlimited) and for a first-time home purchase (up to \$10,000).	-\$6.4	-\$15.2
Tax Credit for Contributions to Scholarship-Granting Organizations	The OBBBA creates a tax credit for charitable contributions to tax-exempt organizations that provide scholarships to elementary and secondary school students. The credit is up to a maximum of \$1,700. Students who benefit from the scholarship funds must be eligible to enroll in public school and be a member of a household with an income not greater than 300 percent of the area's median gross income.	\$0.0	-\$25.9
<b>Total Revenue Effect, Billions</b>		<b>-\$89.3</b>	<b>-\$381.4</b>

Note: Scores are from Tax Foundation, except for the Trump Accounts and the tax credit for scholarship-granting organizations. Source: H.R.1, One Big Beautiful Bill Act; Tax Foundation General Equilibrium Model, July 2025; Joint Committee on Taxation, "Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in 'Title VII: Finance' of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget," Jul. 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>.

## Car Loan Interest Deduction

The car loan interest deduction, available from 2025 through 2028, provides a \$10,000 deduction for auto loan interest with a phaseout starting for taxpayers with AGI of over \$100,000 (\$200,000 for married filing jointly). Cars must meet several criteria to be eligible. Final assembly must take place in the United States, they must be treated as a vehicle under the Clean Air Act, and they must have a gross vehicle weight rating under 14,000 pounds. Taxpayers must also provide a vehicle identification number.

These various conditions will most likely require the IRS to publish and maintain a list of car models eligible for this new tax benefit, much like they did for the electric vehicle tax credits passed in the Inflation Reduction Act of 2022, which also came with conditions related to content origin.<sup>22</sup> Car dealers and individual buyers will need to incorporate and verify this and other information, including income of the buyer, to comply with the rules, and the IRS will need to independently verify it, leading to substantial administrative and compliance costs.

## Senior Deduction

Instead of exempting Social Security from income tax, the OBBBA adds a \$6,000 deduction for taxpayers over 65.<sup>23</sup> This provision starts to phase out when the taxpayer's AGI exceeds \$75,000 (\$150,000 for married filing jointly), requires a Social Security number to receive the deduction, and only allows the deduction for taxable years 2025 through 2028, at a cost of \$137 billion.<sup>24</sup>

This policy has fewer compliance challenges than the deductions for tips and overtime. It provides more benefits to lower-middle-income seniors compared to what no tax on Social Security would have done.<sup>25</sup> Still, it is an expensive tax break giving preferential treatment to taxpayers based on age, adding yet another wrinkle to the tax code.

## Trump Accounts

Trump Accounts aim to encourage saving for a child's future by allowing parents and others to contribute up to a combined \$5,000 yearly for the child to use after reaching age 18.<sup>26</sup> Children born in 2025 through 2028 (as US citizens with Social Security numbers) will be automatically enrolled and receive a one-time deposit of \$1,000 from the federal government into their account.<sup>27</sup>

The account grows tax-deferred until account owners make withdrawals, which can only start at age 18. At this point, it essentially follows the rules in place for individual retirement accounts (IRAs). As such, withdrawals, net of after-tax contributions, made before age 59 ½ are subject to regular income tax and a 10 percent penalty, with many exceptions, including for college tuition (unlimited) and for a first-time home purchase (up to \$10,000).<sup>28</sup>

22 Internal Revenue Service, "Credits for New Clean Vehicles Purchased in 2023 or After," IRS, updated Aug. 3, 2025, <https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after>.

23 Alex Durante, "How Does the Additional Senior Deduction Compare to No Tax on Social Security?," Tax Foundation, Jul, 4, 2025, <https://taxfoundation.org/blog/no-tax-on-social-security-senior-tax-deduction/>.

24 Tax Foundation Taxes and Growth Model, July 2025.

25 Alex Durante, "How Does the Additional Senior Deduction Compare to No Tax on Social Security?"

26 "Sen. Cruz Introduces the Invest America Act," Office of Senator Ted Cruz, May 12, 2025, <https://www.cruz.senate.gov/newsroom/press-releases/sen-cruz-introduces-the-invest-america-act>.

27 H.R.1, One Big Beautiful Bill Act.

28 Ashlea Ebeling, "Trump Accounts' for Kids Come With \$1,000 – and Tax Complications," *The Wall Street Journal*, Jul. 15, 2025, <https://www.wsj.com/personal-finance/trump-accounts-for-kids-come-with-1-000and-tax-complications-4b75b803>; see also "Retirement Topics – Exceptions to tax on early distributions," Internal Revenue Service, <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-exceptions-to-tax-on-early-distributions>.

While automatic enrollment will broaden the reach of Trump Accounts, it will be an administrative challenge to implement and maintain such a system. The limited tax benefits and complicated rules are unlikely to encourage substantial additional saving for most enrollees, which is why almost all of the estimated fiscal cost of the provision is from the government's initial one-time deposit.

Trump Accounts are another layer to an already overcomplicated savings account system in the United States. The tax code already provides for at least 11 tax-advantaged savings vehicles,<sup>29</sup> each with different rules, limitations, and regulations. Trump Accounts will further complicate savings for taxpayers, Treasury, and the IRS.

Adding another boutique savings account to the pile is a step toward complexity, not opportunity.

## Tax Credit for Scholarship-Granting Organizations

The OBBBA creates a tax credit for charitable contributions to tax-exempt organizations that provide scholarships to elementary and secondary school students. The credit is up to a maximum of \$1,700. Students who benefit from the scholarship funds must be eligible to enroll in public school and be a member of a household with an income not greater than 300 percent of the area's median gross income.

The goal of this provision is to enable state-level school choice programs, but another tax credit adds unnecessary clutter to the code, along with new administrative and compliance challenges.

## Expansion of Existing or Historical Tax Breaks

The OBBBA does not just create new special tax breaks; it also boosts some existing tax breaks, particularly those related to health care, child care, and education.

### Health Saving Accounts

Health savings accounts (HSAs) are individually owned savings accounts that can be used for qualified medical expenses and can only be contributed to when the beneficiary has a high-deductible insurance plan.<sup>30</sup> HSAs are fully tax exempt—the money is tax free on entry and exit.<sup>31</sup> The OBBBA makes three changes to how HSAs can be used and who can use them.

First, the law changes how deductible telehealth services determine a plan's classification as a "high-deductible plan." Previously, plans without a deductible for telehealth services would not qualify as high-deductible and therefore could not be paired with HSAs. Now, such plans do qualify. Similarly, Bronze and Catastrophic Plans, options sold through the Affordable Care Act (ACA) Exchange, qualify as "high-deductible plans," and can be paired with HSAs.

29 William McBride, Huaqun Li, Garrett Watson, and Alex Durante, "Simplifying Saving and Improving Financial Security through Universal Savings Accounts," Tax Foundation, May 29, 2024, <https://taxfoundation.org/research/all/federal/universal-savings-accounts-financial-security/>.

30 Garrett Watson and Claire Rock, "American Retirement and Tax-Preferred Savings Accounts, Tax Year 2018," Tax Foundation, Aug. 14, 2024, <https://taxfoundation.org/data/all/federal/401k-ira-retirement-savings-accounts/>.

31 Alan Cole, "The Four Different Ways the Tax Code Treats Saving and Investment," Tax Foundation, May 24, 2016, <https://taxfoundation.org/blog/four-different-ways-tax-code-treats-saving-and-investment/>.

**Table 3. How OBBBA Expands Handful of Existing Tax Breaks**

	Previous Law	OBBBA	Revenue Effect, Billions, 2026	Revenue Effect, Billions, 2025-2034
Health Savings Accounts	Taxpayers with qualified high-deductible health plans may contribute to HSAs. Both contributions and withdrawals are tax-exempt, provided withdrawals are used for eligible health expenses.	Expands which health insurance plans qualify for being paired with HSAs and makes direct primary care arrangements eligible expenses.	-\$0.3	-\$10.5
Children and Dependent Provisions	Dependent care assistance program (DCAP): allows for up to \$5,000 in eligible expenses to be excluded. Child and dependent care tax credit (CDCTC) maxes out at a 35 percent credit. The adoption tax credit maxes out at \$16,810, and is nonrefundable.	DCAP increases to \$7,500. The maximum CDCTC credit increases to a 50 percent rate, expands phase-down thresholds. The adoption tax credit becomes partially refundable.	-\$2.8	-\$25.3
Student Loans and Education	Tax exclusion for employer-sponsored student debt has been in effect since 2020, but is scheduled to expire after 2025. 529s are tax-advantaged accounts for education expenses.	Tax exclusion for employer-paid student debt is made permanent, and some K-12 and vocational training expenses are made eligible for 529s.	-\$0.7	-\$12.6
Charitable Deduction Swap	Itemized charitable deduction with no floor; above-the-line charitable deduction of \$300 expired in 2022.	Establishes 0.5 percent of income floor for itemized deduction; brings above-the-line charitable deduction back permanently at \$1,000 (\$2000 for joint filers).	\$0.8	-\$21.1
<b>Total Revenue Effect, Billions</b>			<b>-\$3.0</b>	<b>-\$69.6</b>

Note: Scores for the CDCTC and the charitable deduction swap come from Tax Foundation; other scores come from the Joint Committee on Taxation.

Source: H.R.1, One Big Beautiful Bill Act; Tax Foundation General Equilibrium Model, July 2025; Joint Committee on Taxation, "Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in 'Title VII: Finance' of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget," Jul. 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>.

Lastly, the OBBBA allows individuals to retain eligibility for HSAs if they have enrolled in a direct primary care service arrangement, provided those arrangements do not cost more than \$150 per month per individual. Expenses for those direct primary care service arrangements also become eligible HSA expenses.

These new provisions simplify HSAs by making more plans and expenses eligible, and the expansion of direct primary care via HSAs may simplify the delivery of and billing for health-care services. However, this is a trade-off as it leaves a complicated morass of tax-preferred saving options in the tax code, which should ideally be consolidated and streamlined.

## Above-the-Line Charitable Deduction

As mentioned earlier, the OBBBA created a floor for the itemized deduction for charitable contributions. However, the OBBBA reintroduces the above-the-line deduction for charitable contributions. The CARES Act of 2020 introduced a \$300 above-the-line deduction for charitable contributions for 2020, and the Consolidated Appropriations Act of 2020 extended the policy into 2021 while increasing the maximum deduction to \$600 for joint filers.<sup>32</sup> This policy expired after 2021.

The OBBBA permanently reintroduces the above-the-line charitable deduction at higher levels, allowing up to \$1,000 for single filers and \$2,000 for married filing jointly. While a small above-the-line deduction might have been a worthwhile trade in a broader reform that fully eliminated itemized deductions, it adds unnecessary complexity in the broader context of the OBBBA. Based on the experience with the COVID pandemic-era above-the-line charitable deduction, this provision may not substantially increase charitable contributions but instead provide windfall gains for people who would have donated anyway.<sup>33</sup>

## Education

The OBBBA extends the tax exclusion for employer-sponsored student loan payments. First introduced in 2020, this provision creates a new form of untaxed non-wage compensation. Employer payments for student loans are a form of compensation and should not be tax-preferred relative to wages and salaries.<sup>34</sup>

The OBBBA also expands eligible expenses for 529 accounts. The act adds both elementary, secondary, and homeschool expenses and postsecondary credentialing expenses as qualified education expenses. While broadening the definition of educational expenses eligible for 529s may make them easier to use, as with HSAs, policymakers should look for ways to consolidate the multitude of tax-preferred savings accounts rather than expanding expense eligibility for each one in relatively minor ways.

## Child and Dependent Care

The OBBBA expands several policies aimed at children and dependents in addition to the child tax credit. Two of those programs, the dependent care assistance program (DCAP) and the child and dependent care tax credit (CDCTC), were structurally complicated before the OBBBA and remain so afterward.

DCAP allows taxpayers to set aside pre-tax wages to pay for dependent care (including child care and elder care). The OBBBA raised the maximum amount eligible for this pre-tax benefit from \$5,000 to \$7,500 for joint filers. Equivalent to a deduction, DCAP is another employer-sponsored fringe benefit that receives special tax treatment via a designated account that must be tracked by the employee and employer.

32 Rick Meyer, "Hidden Gems in the Consolidated Appropriations Act of 2021," *The CPA Journal*, February 2021, <https://www.cpajournal.com/2021/02/05/hidden-gems-in-the-consolidated-appropriations-act-of-2021/>.

33 Penn-Wharton Budget Model, "New Charitable Deduction in the CARES Act: Budgetary and Distributional Analysis," Mar. 27, 2020, <https://budgetmodel.wharton.upenn.edu/issues/2020/3/27/charitable-deduction-the-cares-act>.

34 Arnav Gurudatt, Garrett Watson, and Will McBride, "Inconsistent Tax Treatment of Student Loan Debt Forgiveness Creates Confusion," Tax Foundation, Aug. 10, 2023, <https://taxfoundation.org/blog/student-loan-debt-forgiveness/>.

The law also changes the CDCTC. The credit covers up to \$3,000 of care expenses for a single dependent and \$6,000 for two or more dependents. The credit value is calculated as a percentage of those qualified expenses that varies according to the taxpayer's AGI. Before the OBBBA, the credit rate started at 35 percent of care expenses (meaning a maximum credit of \$1,050 for one dependent) and phased down incrementally starting at \$15,000 in AGI to 20 percent for taxpayers earning over \$43,000.<sup>35</sup>

The OBBBA expands the credit but keeps a similar structure. Starting in 2026, the maximum credit will be 50 percent of eligible childcare expenses, which will phase down incrementally to 35 percent between \$15,000 and \$43,000 in AGI. Then the credit phases down from 35 percent to 20 percent between \$43,000 and \$75,000 in AGI. While the credit is larger, it still has a complex structure. If the policy goal is to provide additional support to parents, it would be preferable to simply expand transfer payments or the CTC instead of using another complicated policy lever.

The law also tweaks the adoption credit. Taxpayers may claim a maximum credit of \$16,810 (adjusted for inflation annually) for qualifying adoption expenses. The credit phases out for adjusted gross incomes over \$252,150 and completely phases out for incomes over \$292,150. The law makes the credit partially refundable, up to \$5,000 (indexed for inflation) beginning in 2024, but it can no longer be carried forward.

## Extra Base-Broadening: Repealing Inflation Reduction Act Green Energy Credits

The main source of additional base-broadening in the OBBBA is eliminating or restricting green energy credits. Most of those credits are primarily for businesses.<sup>36</sup> However, on the individual side, the OBBBA does repeal credits for electric vehicles, home energy property, and energy efficiency improvements. Combined, these repeals account for almost \$260 billion in revenue over the next decade.

### Electric Vehicle Credits

The OBBBA repeals four tax credits for electric vehicles. The electric vehicle credit (30D) provided a \$7,500 tax credit for consumers purchasing electric vehicles, provided the vehicles meet domestic battery and sourcing requirements.<sup>37</sup> The qualified commercial electric vehicle tax credit (45W) was originally intended for commercial vehicle operators, and it provides a \$7,500 tax credit for EVs without the battery and sourcing requirements.

However, the law features what some call the leasing loophole: car dealerships can claim the 45W tax credit for cars they purchase and pass the benefits of the credit on to leaseholders, even if those cars do not meet the requirements associated with the 30D credit.<sup>38</sup> There are two other relevant smaller credits: a tax credit for used EV purchases (25E) and a tax credit for refueling property (30C). The OBBBA repeals all these credits after September 30, 2025, except for the tax credit for refueling property, which expires as of June 30, 2026.

<sup>35</sup> IRS, "Form 2441: Child and Dependent Care Expenses, 2024," <https://www.irs.gov/pub/irs-pdf/f2441.pdf>.

<sup>36</sup> Alex Muresianu, "How the One Big Beautiful Bill Changes Green Energy Tax Credits," Tax Foundation, Jul. 31, 2025, <https://taxfoundation.org/blog/big-beautiful-bill-green-energy-tax-credit-changes/>.

<sup>37</sup> IRS, "Credits for New Clean Vehicles Purchased in 2023 or After," Internal Revenue Service, updated Jul. 8, 2025, <https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after>.

<sup>38</sup> Nicholas Buffie, "The Tax Credit Exception for Leased Electric Vehicles," Congressional Research Service, Mar. 1, 2024, <https://www.congress.gov/crs-product/IF12603>.

## Table 4. How OBBBA Pulls Back Individual IRA Tax Credits

Conventional Revenue Estimates of OBBBA's Changes to IRA Tax Credits

	Previous Law	OBBBA	Revenue Effect, Billions, 2026	Revenue Effect, Billions, 2025-2034
EV Credits	Electric vehicle tax credit: provides tax credit of up to \$7,500 for a new electric vehicle, provided the vehicle meets critical mineral and battery component sourcing requirements. Vehicles that meet only one requirement are eligible for a \$3,750 credit. Commercial clean vehicle tax credit: provides maximum credit of \$7,500 for commercial vehicles under 14,000 pounds of gross vehicle weight rating, \$40,000 for vehicles over 14,000 pounds. Vehicles do not need to meet critical mineral and battery component sourcing requirements, and individuals may benefit from credit indirectly through leasing vehicles. Used clean vehicle credit: for purchases of \$25,000 or less, credit equals 30 percent of sale price up to a maximum of \$4,000. Refueling property credit: provides tax credit of 30 percent of the cost of alternative vehicle refueling technology, up to \$1,000 for individual taxpayers. Also available for businesses.	EV credit, commercial EV credit, and previously owned EV credit repealed after September 30, 2025. Refueling property credit repealed after June 30, 2026.	\$21.1	\$196.0
Residential Energy Property Credit	Provides credit of 30 percent of the costs of new, qualified clean energy property, including solar panels and water heaters, geothermal heat pumps, wind turbines, fuel cells, and battery storage technology. Scheduled to begin phasing out in 2033.	Repealed after December 31, 2025	\$5.1	\$43.3
Energy Efficiency Improvements Credit	Provides credit of 30 percent for certain qualified expenses, including energy efficiency improvements, home energy audits, and certain energy-efficient residential energy property. Credit has annual limit for different types of eligible property.	Repealed after December 31, 2025	\$2.4	\$20.1
<b>Total Revenue Effect, Billions</b>			<b>\$28.7</b>	<b>\$259.4</b>

Source: Tax Foundation General Equilibrium Model, July 2025.

These repeals are straightforward and justifiable. Even though they are quite generous, EV credits typically do not move the needle for EV purchases. Evidence suggests most EV credit recipients would have purchased an EV without the subsidy.<sup>39</sup> EVs are typically driven less than internal combustion engine vehicles per year—meaning an increase in EV ownership might not translate to a proportional reduction in transportation emissions.<sup>40</sup> Accordingly, the EV credits are expensive relative to the reduction in CO2 emissions they provide.

39 Hunt Allcott, Reigner Kane, Maximilian S. Maydanchik, Joseph S. Shapiro, and Felix Tintelnot, "The Effects of 'Buy American': Electric Vehicles and the Inflation Reduction Act," National Bureau of Economic Research Working Paper No. 33032 (Revised December 2024), [https://www.nber.org/system/files/working\\_papers/w33032/w33032.pdf](https://www.nber.org/system/files/working_papers/w33032/w33032.pdf).

40 Lujin Zhao, Elizabeth Ottinger, Arthur Hong Chun Yip, and John Paul Helveston, "Quantifying Electric Vehicle Mileage in the United States," *Joule* 7:11 (November 2023), [https://www.cell.com/joule/fulltext/S2542-4351\(23\)00404-X](https://www.cell.com/joule/fulltext/S2542-4351(23)00404-X).

Eliminating the credits will also eliminate the compliance costs associated with them as well. In 2023, the electric vehicle credit appeared on just under half a million returns, while the previously owned electric vehicle credit appeared on less than 30,000.<sup>41</sup> Based on the growth of EV leasing, the number of commercial EV credits associated with individuals was also significant.<sup>42</sup> While an estimate of the hours required to comply with these credits is not available, the voluminous regulations issued to explain the credits indicates compliance is not simple.<sup>43</sup>

## Residential Property

The OBBBA also repeals several credits aimed at the residential sector. The two most significant credits, the energy efficient home improvement credit (25C) and residential clean energy credit (25D), will now expire after December 31, 2025. The energy efficient home improvement credit provides benefits for the purchase of new energy-efficient structural components, such as certain types of doors, windows, water heaters, or central air conditioning systems.<sup>44</sup> Meanwhile, the residential clean energy credit targets energy production, predominantly rooftop solar panels, but includes some other technologies.

Some evidence shows the energy-efficient property credit can stimulate new purchases. However, the residential clean energy credit historically encourages rooftop solar, which is much more expensive per kilowatt hour of electricity than utility-scale solar generation.<sup>45</sup> In 2023, the residential clean energy credit appeared on 1.2 million returns, while the energy-efficient home improvement credit appeared on 2.3 million. Eliminating the credits will somewhat reduce compliance costs—although, as with the EV credits, a precise estimate of hours required to comply is unavailable.<sup>46</sup>

## Quantifying the Effects of OBBBA on Tax Complexity

Tax compliance costs are a good way to measure tax complexity. But at this point, we do not have enough information to quantify the compliance cost changes of the new provisions. It is possible to estimate shifts in itemization rates, AMT filing, and the pass-through deduction based on historical data. However, we can only speculate on the compliance costs associated with new provisions like the deductions for tips and overtime pay.

Yale Budget Lab recently estimated how the new tax provisions would change the filing time burden of the individual income tax.<sup>47</sup> However, there are two main challenges to this approach. We simply do not know how long the new provisions will add to filing time. More fundamentally, the time burden of an individual filing their taxes does not capture the full cost of compliance. Some provisions require significant compliance work from payroll departments.

41 IRS, "SOI Tax Stats – Clean Energy Tax Credit Statistics," <https://www.irs.gov/statistics/soi-tax-stats-clean-energy-tax-credit-statistics>.

42 Cox Automotive, "Electric Vehicle Sales Mark Another Record in Q3, Thanks to Higher Incentives, More Choices," Oct. 11, 2024, <https://www.coxautoinc.com/market-insights/q3-2024-ev-sales/>.

43 William McBride, Alex Muresianu, Erica York, and Michael Hartt, "Inflation Reduction Act One Year After Enactment," Tax Foundation, Aug. 16, 2023, <https://tax-foundation.org/research/all/federal/inflation-reduction-act-taxes/>.

44 IRS, "Energy Efficient Home Improvement Credit," updated May 29, 2025, <https://www.irs.gov/credits-deductions/energy-efficient-home-improvement-credit>.

45 David Feldman, "Solar Installed System Cost Analysis," National Renewable Energy Laboratory, Apr. 3, 2025, <https://www.nrel.gov/solar/market-research-analysis/solar-installed-system-cost>.

46 IRS, "SOI Tax Stats – Clean Energy Tax Credit Statistics."

47 Yale Budget Lab, "How Does OBBBA Affect the Time It Takes to File a Tax Return," Jul. 25, 2025, <https://budgetlab.yale.edu/research/how-does-obbba-affect-time-it-takes-file-tax-return>.

One could point to the OBBBA's word count exceeding 100,000 as evidence for its complexity. Alternatively, one could add together the revenue effects of all base-broadening provisions and all base-narrowing provisions to see if the tax on net broadened or narrowed tax bases. But this approach has several problems.

For one, it flattens the distinction between having a few major tax breaks and many small ones. Increasing the maximum child tax credit does not increase tax code complexity the same way introducing 10 new separate programs for children does. In the case of some provisions, simplification might narrow the tax base. The alternative minimum tax is arguably a base-broadening provision in the tax code, but it broadens the base by effectively creating a second tax system rather than simplifying the main one we have.

Setting aside the TCJA-related structural changes, we can see how the major base-broadening and base-narrowing provisions compare. In 2026, the new tax breaks are projected to cost almost \$89 billion, with the expansions to a handful of existing tax breaks projected to add another \$3 billion. Meanwhile, the individual-side rollbacks of the IRA credits raise just under \$29 billion.

Looking at the decade-long impact of these provisions makes the base-broadening appear slightly more proportional. The individual IRA credit cuts offset over half of the new and expanded narrow tax breaks over the course of a decade. However, the cost of the new tax breaks over a decade only includes the four years they are in full effect. If those temporary policies were extended permanently, their cumulative costs would likely approach \$1 trillion, further dwarfing the repeals of the EV and residential energy credits.

**Table 5. How OBBBA's Additions Narrow the Tax Base**

	Revenue Effect, Billions, 2026	Revenue Effect, Billions, 2025-2034
New Tax Breaks	-\$89.3	-\$381.4
Existing Tax Breaks Expanded	-\$3.0	-\$69.6
IRA Base-Broadening	\$28.7	\$259.4
<b>Totals</b>	<b>-\$63.6</b>	<b>-\$191.6</b>

Source: Tax Foundation General Equilibrium Model, July 2025; Joint Committee on Taxation, "Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in 'Title VII: Finance' of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget," Jul. 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>.

## What This Paper Does Not Cover

This paper focuses on how changes to the individual income tax impact personal returns. The OBBBA also includes significant changes to business taxes. Most importantly, it made 100 percent bonus depreciation for short-lived assets and full expensing for domestic research and development permanent. Both of those policies fix tax penalties for broad categories of capital investment.

The business side of the law included some base-broadening (repealing or restricting several other IRA credits) but also introduced or expanded other narrow provisions (the low-income housing tax credit, the new markets tax credit, and the clean fuel production credit, among others). It also expanded the Opportunity Zone program and made it permanent, and raised the qualified small business stock capital gains

exclusion.

The other aspect of the OBBBA that this paper does not cover, but could be considered as the individual income tax, is the premium tax credits associated with the Affordable Care Act marketplaces. The OBBBA makes several changes to the premium tax credits, most notably restricting access to the credits for non-citizens, introducing a more thorough eligibility verification process, disallowing the tax credit for coverage enrolled in during special enrollment periods, and eliminating limits to recapture of excess advanced premium tax credits.

Premium tax credits, even more than other tax credits, are effectively a form of government spending. The vast majority of expenditures associated with the premium tax credits are counted as outlays.<sup>48</sup> However, it is at the very least worth noting the substantial cumulative fiscal impact of these changes: \$4.8 billion in 2026 and \$184.6 billion from 2025-2034 in deficit reduction.

## Conclusion

The main impetus for the OBBBA was the looming expiration of the tax cuts and reforms passed in the TCJA at the end of 2025. The OBBBA makes most of those changes permanent, which is commendable. However, it does not build on the TCJA's accomplishments in terms of simplification. Instead, with the major exception of reforms to the Inflation Reduction Act's green energy credits, the OBBBA mainly complicates the individual tax code, introducing or expanding narrow tax breaks for different types of income or expenses.

The post-OBBBA tax code leaves plenty of room for improvement. For one, many OBBBA provisions ought to be rolled back in the future. And provisions that the OBBBA left untouched, such as the exclusion for employer-sponsored health insurance, should also be on the table for future reform.

While the OBBBA itself may not be a tax reform that improves the tax code through simplification, it does ironically set the table for one. Many of the new provisions are scheduled to expire at the end of 2028. That moment will provide the opportunity to eschew some of the mistakes of the OBBBA while building on the TCJA changes it made permanent.

---

<sup>48</sup> Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2024-2028," Dec. 11, 2024, <https://www.jct.gov/getattachment/765709fb-9a4b-430a-8f9e-4d342ec97f7e/x-48-24.pdf>.