# **Wealth Management**

Ameritas Investment Partners, Inc.

## **Market Commentary**

Quarter Ended Sept. 30, 2025

# The One Big Beautiful Bill Act

The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4 and encompasses hundreds of provisions, including permanent tax cuts, increased defense spending, Medicaid reforms, energy policy shifts, an increase in the debt ceiling and enhanced immigration enforcement.

Given the scope and complexity of the new law, our review will not be exhaustive, but instead, will highlight the critical and most impactful provisions in the tax code that may affect you.

#### Some of the major tax code provisions

 To begin with, the bill permanently extends the lower tax rates established by the 2017 Tax Cuts and Jobs Act (TCJA). Without this legislation, those rates would have reverted to the higher pre-TCJA levels, and most Americans would have seen higher tax bills as a result.

The pass-through business deduction, also known as the Qualified Business Income (QBI) deduction, was set to expire, and the federal estate tax exemption would have reverted to its pre-TCJA level of \$5.6 million per individual, adjusted for inflation from 2017. Most projections estimated that this would result in an exemption of approximately \$6 million to \$7 million per person or \$12 million to \$14 million per married couple.

The permanency is significant, as it spares taxpayers the recurring uncertainty of whether Congress will extend the rates and provisions at the end of a temporary and what feels like an arbitrary period.

However, as you are probably well aware, "permanent" in this context simply means the provisions no longer have a built-in expiration date. As always, Congress retains the authority to revise or tinker with the tax code at any time.

One last note. As outlined further below, you will see that some of the new tax breaks have an expiration date.

- 2. Starting in 2025, the **standard deduction rises** to \$31,500 for joint filers, \$23,625 for head of households and \$15,750 for single filers. As it was under the TCJA, it is adjusted for inflation each year.
- 3. Starting in 2026, those who take the standard deduction can deduct **cash donations to a qualified charity** up to \$1,000 for individuals or \$2,000 for joint filers. The deduction isn't indexed for inflation. Gifts to donor-advised funds or private non-operating foundations are excluded.

Additionally, the tax benefit of itemized charitable deductions is capped at 35%. For example, a taxpayer in the 37% bracket that donates \$1,000 will receive a \$350 deduction, not a \$370 deduction.

Finally, for those who itemize, the bill introduces a new charitable giving threshold: only contributions exceeding 0.5% of adjusted gross income (AGI) will be deductible. Donations below this floor will no longer qualify. If, for example, a couple that itemizes has an AGI of \$100,000, only donations above \$500 are deductible.

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- 4. Effective in 2026, the **estate tax exemption will rise** to \$15 million per individual. The new threshold will not expire and is indexed to inflation.
- 5. The **current \$2,000 child tax credit is increased** to \$2,200 for tax year 2025. It will now be indexed to inflation in future years. The income level at which the credit begins to phase out remains the same: \$400,000 for couples filing jointly and \$200,000 for single filers.
- 6. The **OBBBA** repeals or scales back several green energy tax credits introduced under the Inflation Reduction Act that primarily target individuals, such as credits for electric vehicles and residential energy efficiency improvements. The \$7,500 tax credit for the purchase of an electric vehicle is eliminated for autos purchased after Sept. 30.
  - The Residential Clean Energy Credit, popularly known as the home solar tax credit for installation of solar panels, energy-efficient windows, etc., will be eliminated for outlays made after Dec. 31.
- 7. The recently signed bill makes big changes to 529 plans. Withdrawals now cover a range of additional K-12 qualified expenses, including curriculum materials, fees for nationally standardized tests, dual-enrollment fees for college courses taken in high school, tutoring or educational classes outside the home and specialized strategies designed to support students with disabilities.

Additionally, the annual K-12 limit per-child distribution cap for K-12 expenses doubles from \$10,000 to \$20,000 (starting 2026).

529 funds can be used for credentialing, licensing, and continuing education programs. These include skilled trades (such as HVAC, welding, etc.) and professional licensing (such as the bar exam or CPA). Credentialing programs must meet certain criteria to be considered qualified, typically recognized under the Workforce Innovation and Opportunity Act or similar federal or state programs.

### Updates, new and temporary additions to the tax code

- 1. SALT deduction: A big change that came with the Tax Cuts and Jobs Act (TCJA) was a deduction limit of \$10,000 for state and local taxes, also known as SALT. The OBBBA raises the deduction cap for state and local taxes from \$10,000 to \$40,000 for taxpayers earning less than \$500,000 in 2025, with the cap increasing by 1% annually through 2029. The new cap will be phased out at \$500,000. Please note this is a temporary feature. Beginning in 2030, the cap will revert back to \$10,000.
- 2. **No tax on tips:** Tip income will be exempt from federal income tax between 2025 and 2028. Phaseouts begin when adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). The IRS has published a preliminary list of 68 occupations that "customarily and regularly" receive tips.
- 3. **Overtime pay exemption:** Overtime wages earned from 2025 through 2028 will not be taxed. The exemption is capped at \$12,500 per individual (or \$25,000 per couple) and begins to phase out for individuals earning over \$150,000 (or \$300,000 for couples).
- 4. **Trump Accounts:** Children born between 2025 and 2028, provided both parents are U.S. citizens and have a social security number, will be automatically enrolled in a federal savings account, called "Trump Accounts," with a one-time \$1,000 deposit. These accounts allow for annual contributions of up to \$5,000 (indexed for inflation). The account grows tax-deferred until withdrawals begin—allowed starting at age 18—at which point it essentially follows the rules for an IRA.
- 5. **Enhanced deduction for seniors:** Seniors aged 65 and older will receive an additional \$6,000 deduction during the 2025–2028 period. There is a \$12,000 deduction for married taxpayers if both spouses are 65 or older and filing jointly. This benefit applies to standard and itemized filers but begins to phase out for individuals with modified AGIs of more than \$75,000 and \$150,000 for joint filers.
- 6. **No tax on car loan interest:** Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the car is purchased for personal use and meets other eligibility

criteria. (Lease payments do not qualify). The vehicle must have "undergone final assembly in the U.S.," per the IRS.

These are many of the most significant changes to the tax code. If you have any questions, we encourage you to consult with your tax advisor to understand how these updates may affect your situation.

### The Fed delivers a rate cut: What it means for you

Last month, the Federal Reserve cut its benchmark rate—the fed funds rate—by a quarter-percentage point to 4.00–4.25%. It is the first rate cut since last December.

Fed officials left the door open to one or two more rate cuts before the year is over.

The reduction in the fed funds rates surprised no one. Central bankers had telegraphed the move. So, why did the Fed cut last month?

While inflation remains somewhat elevated and is showing no signs of returning to its 2% annual target, the Fed is shifting its focus toward the soft labor market.

What is the Federal Reserve hoping to accomplish?

Well, let's briefly touch on macroeconomic theory to help connect the dots between lower interest rates and faster economic growth.

In theory, a rate cut by the Federal Reserve lowers the cost of borrowing. If it's cheaper to borrow and monthly payments are lower, consumers and businesses are more likely to borrow and spend.

Notably, almost 70% of all economic activity is fueled by consumer spending, according to data from the U.S. Bureau of Economic Analysis. Encourage spending, and you will support economic activity, offsetting any headwinds incurred by lower interest rates on money markets and CDs, according to economic theory. As the economy picks up, companies ramp up hiring to meet growing demand, leading to rising employment.

#### Lower rates and your investments

All else equal, falling interest rates that are accompanied by an expanding economy have historically been favorable for stocks.

Without delving into a complex explanation about discounted cash flows, a drop in interest rates makes it less advantageous to hold cash, and that cash may find its way into stocks.

If, however, the economy falters, a drop in corporate profits has historically outweighed any tailwind from rate cuts.

## Data dive

Since 1984, the Fed has cut rates 28 different times when the S&P 500 was within 3% of an all-time high, according to LPL Research.<sup>1</sup>

During the 21 times when a recession was avoided (rate cuts occurring at least six months prior to a recession), the S&P 500 advanced, on average, by 18% after one year.

When a recession coincided with or closely followed a rate cut (seven instances), the S&P 500 posted an average 12-month decline of 2.7%, a stark contrast to the gains experienced when downturns were avoided.

Of course, this is simply a guide. Past performance is no guarantee of future results. But the historical data suggests the outlook is positive if a recession is avoided.

#### **Investor's Corner**

As we've emphasized before, focus on what you can control. Interest rates, the economy, and market swings are beyond our reach. Your investment strategy is not. A well-crafted investment plan isn't rigid. It's a flexible blueprint that can be adjusted as life changes. It's designed to guide you from where you are today to your financial destination.

As your goals and life circumstances evolve, your plan should adapt accordingly

#### Key Index Returns as of 9/30/25

	MTD %	YTD %
Dow Jones Industrial Average	2.00	10.47
Nasdaq Composite	5.68	17.93
S&P 500 Index	3.65	14.83
Russell 2000 Index	3.07	10.07
MSCI World ex-USA*	2.13	25.34
MSCI Emerging Markets*	7.15	27.53
Bloomberg U.S. Agg Total Return	1.09	6.13

\*in U.S. dollars

Source: Morningstar

Indices are unmanaged, do not incur fees or expenses and cannot be invested into directly. The above returns include the impact of both price appreciation (depreciation) and dividends. Equity markets fluctuate in value and smaller companies and foreign investments often are more volatile than larger domestic companies. Past performance is not indicative of future results.

#### **Shutdown**

One last remark: The U.S. government shut down on Oct. 1 due to Congress' failure to pass the necessary funding bills for the new fiscal year does not affect Social Security payments.

A government shutdown generates plenty of political theater, but its economic bite tends to be limited, and with it the impact on the stock market. Historically, markets have largely shrugged off shutdowns, as they rarely cause significant disruptions to the broader economy.

We trust you have found this review informative and helpful. If you have any questions or concerns, or would simply like to have a conversation, don't hesitate to reach out to your financial professional.



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The information provided should not be construed as tax or legal advice. Consult your tax advisor or attorney regarding your specific situation.

Footnotes: Total Return includes interest, capital gains, dividends and distributions realized over a given period.

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<sup>&</sup>lt;sup>1</sup> Source: LPL Financial, Sept. 24, 2025, *The Federal Reserve Cut Rates, Now What?* [https://www.lpl.com/research/blog/the-federal-reserve-cut-rates-now-what.html]