The One Big Beautiful Trap

Navigating the Hidden Dangers in the New Tax Law

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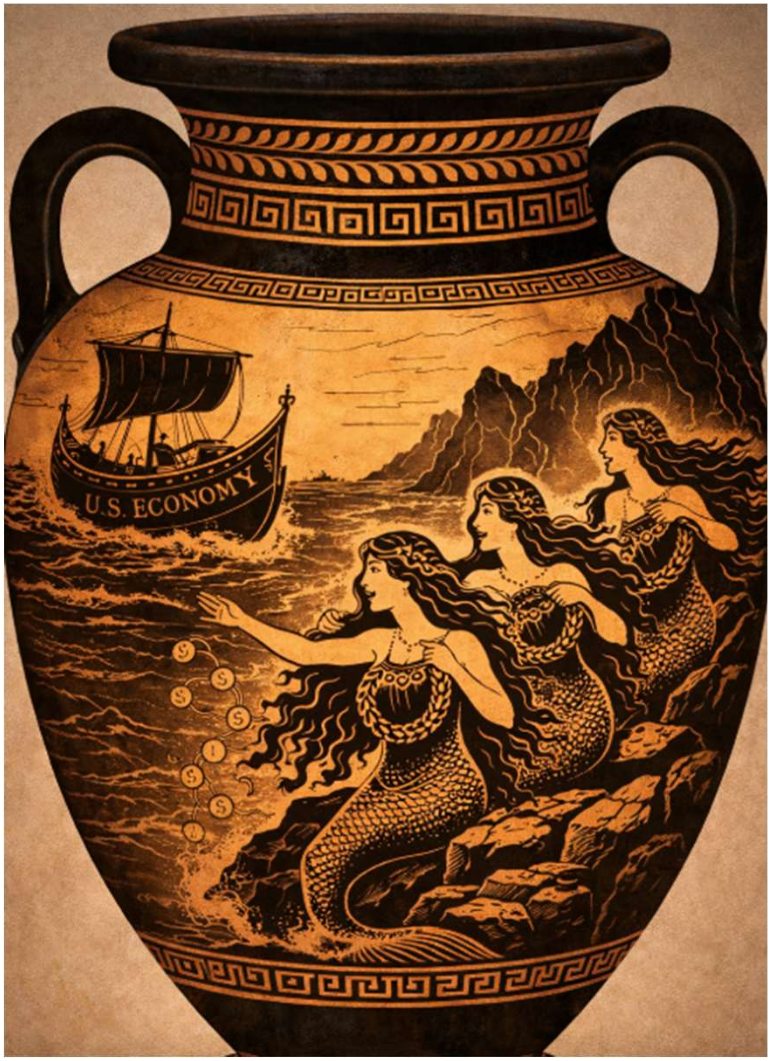
What is the “One Big Beautiful Bill?”

- A major fiscal package designed to make the 2017 tax cuts permanent while adding new, temporary incentives for individuals and corporations.
- The Congressional Budget Office (established in 1974 and essential for providing objective nonpartisan and timely analyses to Congress) estimates that the legislation, which includes major unfunded tax cuts, will add $3.4 trillion ($4.1 trillion if you include interest) to the budget deficit over the next decade.
- According to the International Monetary Fund, the U.S. budget deficit is now on track to exceed 6% of GDP for the foreseeable future, driving the public debt to 143% of GDP by 2030 – about the level seen in Greece and Italy when their sovereign-debt crises erupted in 2010-11



What if the OBBB is a Siren’s Song?

The Shiny Objects

1. New Senior Bonus Tax Deduction ($6,000 / $12,000)

- Taxpayers **age 65 or older** can claim an extra **$6,000 deduction per individual** (up to **$12,000** for a married couple where both spouses are 65+) on federal income taxes for tax years **2025–2028**.

2. Higher Base Standard Deduction

- The bill **keeps enhanced standard deductions permanent** (e.g., $16,100 for singles + $2,050 at age 65, $32,200 for married couples + $1,650 (each spouse) at age 65

3. Expanded Total Deduction Potential for Seniors

- A *single senior* with full deductions could reduce taxable income by up to **$24,150** in 2025 ($16,100 standard + $2,050 age-65+ + $6,000 senior bonus).
- A *married couple* where both spouses are 65+ could reach up to **~$47,500** in total deductions.

4. Potential to Reduce Tax on Social Security

- While OBBB **doesn't repeal** the taxation of Social Security benefits, the enhanced deductions often **offset taxable income to zero** for many retirees, meaning **most Social Security income isn't taxed**.

5. SALT Deduction Increase (Indirect Benefit)

- The bill temporarily raises the **State and Local Tax (SALT) deduction cap** (e.g., to ~$40,000 for joint filers), allowing more state taxes to be deducted federally.

Can the OBBB derail your retirement plan?

Income Engineering

Budgeting Illusions

Behavioral Biases

Income Engineering Trap

Lower taxes today creates bigger problems tomorrow.

(1) Income Engineering Traps

- **The Sunset Trap** – The bill adds so much to the deficit, many of the provisions are legally required to be temporary.
- **Interest Rate Anchor –** To fund the deficit, the Treasury must issue massive amounts of new bonds. When the government borrows this much, it can keep interest rates higher for longer.
- **Purchasing Power Erosion –** Large scale deficit spending acts as a stimulus. If the economy is already running hot, adding $3.3 Trillion in new money through tax cuts can fuel inflation.

Examples of Income Engineering

Impact Area	Details
Delaying distributions to avoid taxes	Smaller withdrawals early could have been taxed at lower rates. Larger forced withdrawals later may push you into a higher tax bracket, increase Medicare premiums.
Skipping ROTH conversions during low-income years	Low-income years are often the cheapest time to convert. Waiting trades certainty for hope. Once RMDs start, conversion opportunities shrink.
Deferring capital gains too long	Capital gains that could have been realized at 0% or 15% rates end up realized at higher marginal rates, May trigger surtaxes or benefit phaseouts.
Compressing income into future RMD years	Income stacks instead of spreads. Less control once RMDs are mandatory. Higher effective tax rates, not just higher marginal rates.
Triggering higher taxes later	Higher tax brackets and Medicare IRMAA surcharges.

Solutions

01

Plan income across decades, not calendar years

02

Harvest income up to the top of current low bracket

03

Stress test plans for future tax changes

Budget Illusion Trap

Policy-driven optimism creates lifestyle commitments that portfolios must later support.

(2) Budget Traps

- **New "Senior Bonus Deduction**": Up to $6,000 (single) / $12,000 (married) extra standard deduction for age 65+ in 2025–2028, phases out above certain AGI levels
- **Expanded SALT deduction cap**: From $10K to $40K (phasing down above $500K MAGI) through 2029 – a benefit mostly for high-tax states
- **Above-the-line charitable deduction**: In 2026 retirees can deduct $1K–$2K without itemizing – lowers AGI, impacting Medicare IRMAA thresholds

Examples of Budget Traps

Impact Area	**Details**
Underestimating Health Care Costs	Retirees often fail to account for Medicare premiums (Parts B & D), Medigap, dental/vision out-of-pocket, and long-term care.
Lifestyle Creep	Travel, dining, home upgrades – the fun stuff – gets front-loaded, especially early in retirement. Without guardrails, “go-go” years burn through too much too fast.
Ignoring Inflation	Fixed expenses like property tax, insurance premiums, and utilities rise over time. If the plan assumes 2% inflation but real costs increase at 4–6%, retirees fall behind every year.
Not Planning for Irregular Expenses	Roof replacements, car replacements, family emergencies – these are often excluded from the budget, causing retirees to dip into principal or take on new debt.
Legacy Goals Get Derailed	Gifts to heirs, charitable giving, or estate planning get sacrificed when a poor budget forces a retiree into "survival mode

Solutions

01

Dynamic spending models

02

Plan for inflation

03

Budget with buckets

Behavioral Biases Trap

Complex policy environments reward disciplined planning – but most people respond emotionally

(3) Behavioral Bias Traps

- **Loss aversion**: Rising rates and market volatility may prompt retirees to pull money too early or sell in downturns – especially if portfolio values are pressured by higher bond yields
- **Optimism Bias**: Some might overreact to tax windfalls (e.g., deductions), assume permanent relief, and make bold spending decisions.
- **Recency bias and Anchoring**: Seeing one good year post-tax signing, retirees may anchor on short-term gains and inflate future spending plans, ignoring sunset dates or rate risks.

Examples of Behavioral Biases

Bias	Impact
Loss Aversion	Retirees panic-sell during market dips, locking in losses. Example: Selling in March 2020 crash and missing 2020–2021 rebound.
Overconfidence	“I beat the market before, I can do it again.” Leads to concentrated bets (crypto, hot tech, annuities with complex riders) and inadequate diversification.
Recency Bias	Retirees may expect recent trends to continue – like assuming low interest rates forever – resulting in ignoring fixed income allocation or underpreparing for inflation.
Anchoring	Holding onto a stock or investment because “it used to be worth more” (e.g., not selling a legacy position in GE or IBM even though it no longer fits their goals).
Sunk Cost Fallacy	Continuing to support adult children financially, even when it jeopardizes retirement stability. “I’ve already helped this much, what’s a little more?”
Present Bias	Choosing short-term gratification (RV, vacation home, big gifts) over long-term sustainability. Leads to bad budgeting and over-borrowing.

Solutions

01

Engage a fiduciary planner

02

Behavioral guardrails

03

Practice "decision free zones"

Don’t let the “OBBB” hypnotize you

The Trap is Passive: It relies on you doing nothing while temporary benefits expire and inflation erodes your purchasing power.

The Solution is Active: It requires looking past the "headline" benefits to see the underlying math.

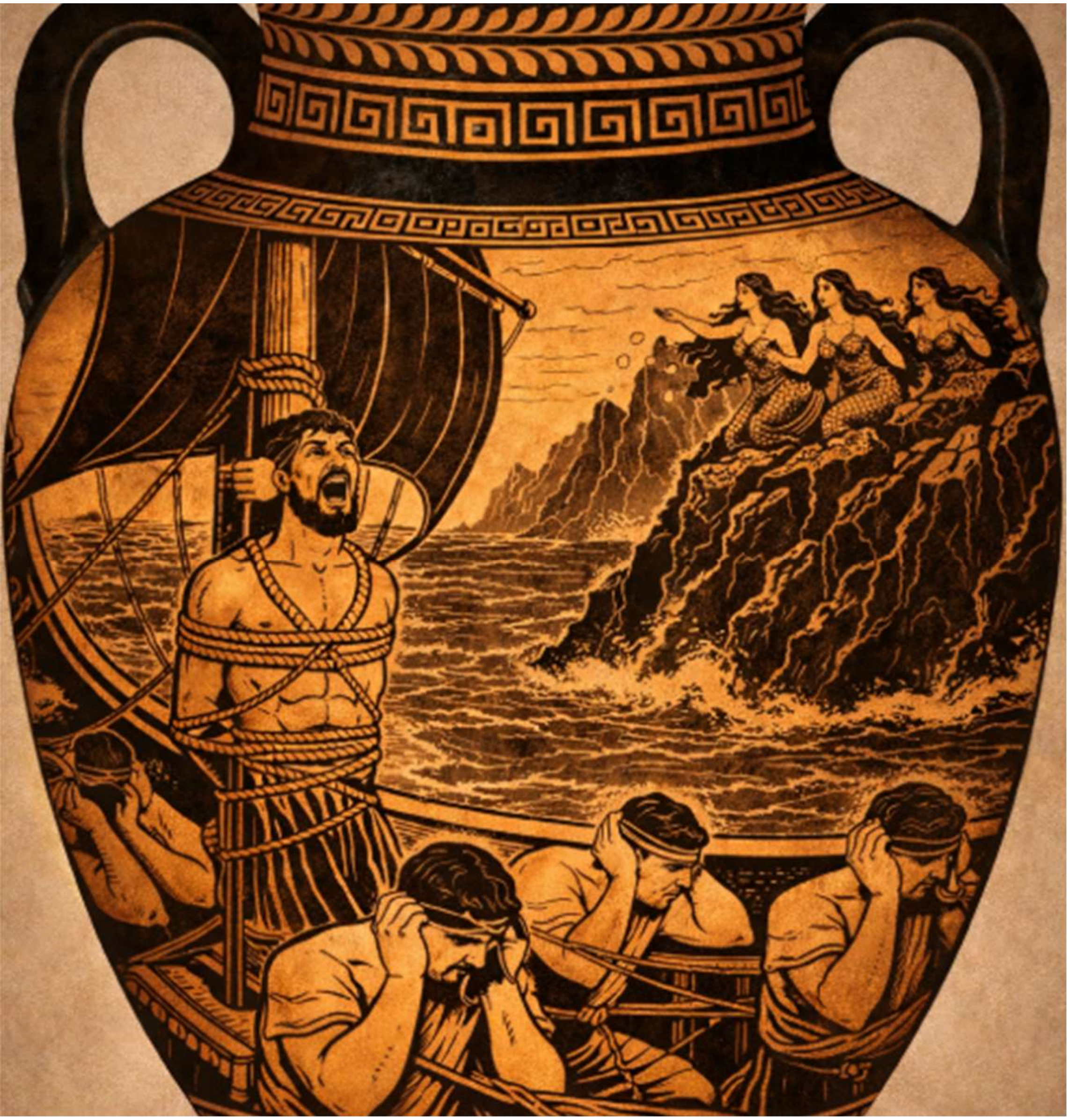
Next Steps

🗓️ Review Adjusted Gross Income

🧾 Identify &Track Applicable Deductions

💊 Adjust withholdings or estimated tax payments

📞 Coordinate with your financial/tax advisor



Plug your ears and bind yourself (if need be) to avoid destruction

Thank you!

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