

WILLIAM H. PARR & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
320 BOSTON POST ROAD, SUITE 102
DARIEN, CONNECTICUT 06820
203-655-8261

WILLIAM H. PARR, CPA (1916-2006)
JANE H. RHEE, CPA
GREGORY F. CARNEY, CPA
PATRICIA CONKLIN THOMPSON, CPA
RACHEL M. LEO, CPA

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To Our Clients and Friends:

THE ONE BIG BEAUTIFUL BILL ACT

INTRODUCTION

We hope you are having a great summer, and this letter finds you well. As you have probably heard, new tax legislation was passed in July, and we want to make you aware of the tax law changes we believe will have the greatest impact.

On July 4, President Trump signed into law the **One Big Beautiful Bill Act (OBBBA)** that promises to have the most significant impact on taxpayers since the **Tax Cuts And Jobs Act Of 2017 (TCJA)**. The **OBBBA** makes many of the TCJA provisions that were set to expire at the **end of 2025 permanent as well as introducing new tax legislation**. The **OBBBA**: Makes permanent the **lower tax rates and brackets, higher standard deductions and increased estate and gift tax exclusion**; Makes permanent and **increases the larger Child Tax Credit**; **Increases the state and local tax (SALT) deduction cap**; Introduces an **additional deduction for seniors**; **Eliminates many of the clean energy credits** from the Inflation Reduction Act (IRA); Makes the **qualified business income (QBI) deduction permanent**; Reinstates **100% bonus depreciation**; Allows for **deduction of domestic research and experimental expenses in the year paid or incurred**; Increases **Form 1099 reporting thresholds**, and more!

Note! This letter highlights selected tax changes in the OBBBA we believe will have the greatest impact on our **individual and business clients**.

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SELECTED PROVISIONS FROM THE OBBBA PRIMARILY IMPACTING INDIVIDUALS

To help bring you up to speed with the new provisions of the OBBBA, we've included selected tax law changes we believe will have the greatest impact on individual taxpayers.

Tax Provisions Of OBBBA Effective Beginning In 2025

- **Enhanced Child Tax Credit Beginning In 2025.** For 2018 through 2025, the TCJA increased the child tax credit for each qualifying child to \$2,000. Also, the TCJA allowed up to \$1,700 (as indexed for 2025) of the child credit to be refundable.

The OBBBA makes the child tax credit permanent and, beginning in 2025, increases the credit to **\$2,200 per qualifying child**. The credit will be **adjusted for inflation after 2025**. The maximum refundable credit amount for 2025 of **\$1,700** remains at \$1,700 and will continue to be indexed in future years.

- **Standard Deduction Increase.** In 2018, when the standard deduction was **basically doubled by the TCJA**, the belief was it **would simplify record keeping for a lot of taxpayers** who would no longer **itemize their deductions**. These taxpayers would **receive a larger deduction** by taking the **increased standard deduction** and would no longer need to collect all their receipts, etc. to itemize. This assumption was correct. **Fewer individuals itemize** deductions since the enactment of TCJA. The increased standard deduction amounts were scheduled to be reduced after 2025.

The OBBBA makes higher **standard deduction amounts permanent**. In addition, the OBBBA **increases the standard deduction for 2025** and indexes these amounts for inflation after 2024. The Standard Deduction amounts for 2025 are increased as follows: **Joint Return – from \$30,000 to \$31,500; Single and Married Filing Separately – from \$15,000 to \$15,750; and Head-of-Household – from \$22,500 to \$23,625**. Also, there is an additional standard deduction for taxpayers who are disabled or blind of **\$1,600 for joint filers (\$2,000 if single) for 2025**.

- **Increased Limitation On State And Local Tax Deductions (SALT).** For 2018 through 2025, TCJA limited the aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) **to \$10,000 (\$5,000 for married individuals filing separately)**. However, deductions continue to be allowed for **state, local, and foreign property taxes, and sales taxes** paid or incurred in operating the **taxpayer's trade or business** (e.g., taxpayer's Schedule C, Schedule E, or Schedule F operations) or in connection with the taxpayer's production of income. This limitation is generally known as the state and local tax (SALT) deduction limitation.

Beginning with the 2025 tax year, the OBBBA **increases the SALT limitation from \$10,000 to \$40,000 for 2025 and \$40,400 for 2026!** The limitation is half of these amounts for married individuals filing separate returns. **For 2027 through 2029 these SALT deduction limitations will increase by 1% of the previous year's amount. The deduction limitation is reduced by 30% of the excess of the taxpayer's modified adjusted gross income (MAGI) over \$500,000 (\$250,000 for married individuals filing separate returns) for 2025; \$505,000 (\$252,500) for 2026.** These MAGI thresholds will also be **increased by 1% of the previous year's amount for 2027 through 2029. Note!** The deduction for any year will not be reduced below **\$10,000 (\$5,000)** and the **SALT deduction limitation will revert to \$10,000 (\$5,000) after 2029.**

Note! The SALT limitation will be \$10,000 if taxpayer's MAGI is more than:

For 2025 - \$600,000 (\$300,000 if married filing separately).

For 2026 - \$606,333 (\$303,167 if married filing separately).

- **Up To \$5,000 Of Adoption Credit Refundable Beginning In 2025.** For 2025, the Federal Adoption Credit, which was created to help with the expenses of adopting a child, **is \$17,280.**

Beginning in 2025, the OBBBA **allows up to \$5,000 of the credit to be refundable** and stipulates the refundable credit will be **adjusted for inflation after 2025**. The **refundable portion** of the credit **may NOT** be carried forward.

- **Expansion Of 529 Plan Benefits.**

Qualified Higher Education Expenses Paid From 529 Accounts Expanded To Include Certain Postsecondary Credentialing Expenses After July 4, 2025. The OBBBA expands the types of expenses that may be distributed tax free from a 529 plan. Effective for **distributions from 529 plans after July 4, 2025, qualified postsecondary credentialing expenses** are added to the definition of qualified higher education expenses (QHEEs). **Qualified postsecondary credentialing expenses include: tuition, fees, books, supplies and equipment needed for the enrollment or attendance of a designated beneficiary in a recognized postsecondary credential program or any other expense incurred in connection with such enrollment or attendance** if such expense would be considered a QHEE in connection with enrollment or attendance at an **eligible education institution; fees for testing**, if the testing is required **to obtain or maintain** a recognized postsecondary credential; and **fees for continuing education** if it is required **to maintain** a recognized postsecondary credential.

Expenses That May Be Paid From A 529 Plan For Elementary Or Secondary School Education Expanded After July 4, 2025. Beginning in 2018, the TCJA allowed 529 plans to pay up to \$10,000 per year of **qualified tuition** in connection with the enrollment or attendance of the designated beneficiary at a **public, private, or religious elementary or secondary school**.

Effective for distributions from a 529 plan **after July 4, 2025, the OBBBA** expands the definition of **education expenses that may be paid tax free** from a 529 plan for elementary or secondary school education to **include: tuition; curriculum and curricular materials; books or instructional materials; online education materials; tuition for tutoring or educational classes outside of the home, but only if the tutor is not related to the student and is a licensed teacher, has taught at an eligible educational institution, or is a subject matter expert; fees for nationally standardized achievement tests, an advanced placement examination, or any examinations related to college or university admission; fees for dual enrollment in an institute of higher education; and educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies.**

Annual \$10,000 Limit On 529 Plan Payments For Elementary Or Secondary Education Increased To \$20,000 After 2025. For tax years **beginning after 2025, the OBBBA** increases the **annual \$10,000 limit** on 529 plan amounts that may be expended **tax free for enrollment or attendance at an elementary or secondary school to \$20,000.**

- **Gain Exclusion Rules For Qualified Small Business Stock Enhanced After July 4, 2025.** The qualified small business stock (QSBS) gain exclusion rules are modified. For QSBS **acquired after July 4, 2025, the gain exclusion is 50% for stock held for three years, 75% for stock held for four years, and 100% for stock held for five or more years.** For stock acquired **after February 17, 2009, and on or before July 4, 2025, there was no gain exclusion** if the stock were held for **less than 5 years.** Also, the **cumulative limit on excludable gain from a single issuer is increased from \$10 million to \$15 million (adjusted for inflation after 2026)** for stock **acquired after July 4, 2025.** Previously, stock was **not QSBS qualifying for gain exclusion** if the **aggregate gross assets of the corporation after the issuance of the stock exceeded \$50 million.** For stock **issued after July 4, 2025, the aggregate gross asset limitation is increased to \$75 million (adjusted for inflation after 2026).** These changes significantly expand the benefits of qualified small business stock.
- **Repeal Of New Clean Vehicle Credit After September 30, 2025.** The New Clean Vehicle Credit, which was **introduced as part of the 2022 Inflation Reduction Act (IRA),** allowed taxpayers a **credit of up to \$7,500** if they purchased a **new electric vehicle** that qualified as a “new clean vehicle” **before January 1, 2033.**

The OBBBA **terminates** the credit, and **no credit is allowed** for any vehicle **acquired after September 30, 2025.**

- **Repeal Of Previously Owned Clean Vehicle Credit After September 30, 2025.** The §25E Previously Owned Clean Vehicle Credit, which was **introduced as part of the 2022 Inflation Reduction Act**

(IRA), allowed taxpayers a **credit of up to \$4,000** if they purchased a **used electric vehicle** that qualified as a “previously owned clean vehicle” **before January 1, 2033**.

The **OBBBA terminates** the credit, and **no credit is allowed** for any vehicle **acquired after September 30, 2025**.

The Following New Deductions Are Available From 2025 Through 2028 For Individuals Using The Standard Deduction As Well As Those Who Itemize

- **Additional Deduction For Seniors For 2025-2028.** For seniors who are **at least age 65 by the end of the year**, the **OBBBA provides** a new deduction. The amount of the **deduction is \$6,000 for seniors with income of \$75,000 or less (\$150,000 or less for joint filers)**. This **temporary senior deduction** will be reduced (**but not below zero**) by **6% of modified adjusted gross income in excess** of the applicable threshold amount. The deduction is **not allowed** for taxpayers with **MAGI of \$175,000 or more (\$250,000 or more for those filing a joint return)**. **Note!** Those individuals who qualify for the senior deduction **must include their social security number on their tax return** for the year the deduction is taken. If **married individuals** are each age **65 or older**, **each may qualify** for the deduction. In addition, married individuals **must file a joint return** to claim the deduction.
- **Car Loan Interest Deduction.** For tax years 2025 through 2028, an interest deduction is allowed on loans used to purchase **new, qualified passenger vehicles for personal use**. The debt **must be incurred after 2024** for the purchase of and must be secured by a first lien on a **qualified passenger vehicle**. A “qualified passenger vehicle” generally includes a car, minivan, van, SUV, pickup truck, or motorcycle that is **new**, the **final assembly** of which occurs **in the United States** and serves as **collateral for the loan**. The deduction is **limited to \$10,000 for any taxable year**. The car loan interest deduction (after applying the \$10,000 limitation) is **reduced (but not below zero) by \$200 for each \$1,000** (or portion thereof) by which the **taxpayer’s modified adjusted gross income (MAGI) for the tax year exceeds \$100,000 (\$200,000 for married individuals filing a joint return)**. The deduction is **completely phased out** when **MAGI is \$249,001 or greater for joint filers or \$149,001 or more for others**. **Note!** **Used or imported passenger vehicles** and vehicles that do not otherwise qualify (for example campers, all-terrain vehicles, and trailers) **cannot benefit** from the deduction.
- **Qualified Overtime Pay Deduction.** For tax years 2025 through 2028, an individual can claim an **annual deduction of up to \$12,500 (\$25,000 if filing jointly) for qualified overtime pay** received. “Qualified overtime pay” is overtime **paid under the Fair Labor Standards Act of 1938 (FLSA)** to individuals **in excess** of their regular rate under the FLSA. In order to take the deduction, taxpayer’s **qualified overtime pay must be included on Form W-2, or Form 1099-NEC** if not an employee. Taxpayers must **include their social security number on their income tax return** to deduct the qualified overtime pay. The deduction is **reduced by \$100 for every \$1,000 of modified adjusted gross income over \$300,000** for those filing joint returns and **\$150,000 for others**. The allowable overtime pay deduction **phases out completely** when the taxpayer’s MAGI for the year **reaches \$550,000 for joint filers (\$275,000 for others)**.
- **Qualified Tips Deduction.** For tax years 2025 through 2028, taxpayers may take a deduction for **up to \$25,000 of qualified tips** received during the year in **occupations listed by the IRS as customarily and regularly** receiving tips before 2025. The tips must be reported on a **Form W-2, Form 1099, or other specified statement** furnished to the individual or reported directly by the individual on **Form 4137**. “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing. Taxpayers must **include their social security number on their income tax return** to take the deduction. The **\$25,000 deduction is reduced by \$100 for each \$1,000** the taxpayer’s modified adjusted gross income (MAGI) exceeds **\$150,000 (\$300,000 for taxpayers filing a joint return)**. The deduction for tips **phases out completely** when the taxpayer’s **MAGI reaches \$400,000 (\$550,000 for those filing a joint return)**. **Married taxpayers must file a joint return to claim the deduction**. **Note!** The IRS is required to publish a list of occupations that “customarily and regularly” received tips before 2025.

**Provisions Of The Tax Cuts And Jobs Act (TCJA) Permanently Extended By The OBBBA
Beginning With The 2026 Tax Year**

- **Individual, Estate, And Trust Income Tax Rates And Brackets.** Compensation, interest income, most retirement income, and net short-term capital gains are referred to as ordinary income. This income is taxed at progressive tax rates that apply to different ranges of income depending on your filing status (single; married filing jointly; surviving spouse; married filing separately; and head-of-household). **For 2018 through 2025**, the TCJA created the following income tax rates: **10%, 12%, 22%, 24%, 32%, 35%, and 37% for individuals and 10%, 24%, 35%, and 37% for the income of estates and trusts.** These rates are **significantly lower** than the income tax rates **prior to 2018** which provided a maximum income tax rate of **39.6%**.

The OBBBA makes these **tax rates permanent** for tax years **beginning after 2025**. Therefore, the higher income tax rates that applied **before 2018 will not return in 2026** and the tax brackets will **continue to be adjusted for inflation**.

- **Repeal Of Personal Exemption Deduction.** For tax years **2018 through 2025**, the TCJA repealed the personal exemption deduction for taxpayers and their dependents.

The OBBBA makes the **repeal of the personal exemption deduction** for taxpayers and their dependents **permanent**. Therefore, the personal exemption deduction will **not be reinstated after 2025**. **Note!** The dependent rules are still applicable when **determining who qualifies as a dependent** when claiming, for example, **the child tax credit**.

- **Repeal Of Certain Itemized Deductions.** TCJA suspended **Miscellaneous Itemized Deductions subject to the 2%** of adjusted gross income limitation from **2018 through 2025**. For example, nondeductible miscellaneous itemized deductions include deductions for unreimbursed employee business expenses, tax return preparation fees, and certain investment expenses.

The OBBBA makes this **suspension of the deduction for miscellaneous itemized deductions permanent**. This means the **deduction** for miscellaneous itemized deductions and the corresponding **2% of AGI limitation will not be reinstated beginning in 2026**. However, **beginning with the 2026 tax year**, the OBBBA allows an itemized deduction for **certain qualified educator expenses**. The OBBBA provides that **qualified educator expenses in excess** of the above-the-line deduction limitation (e.g., **\$300 for 2025**) are **deductible as an itemized deduction after 2025** if the educator itemizes deductions. Eligible educators are **kindergarten through grade 12, teachers, instructors, counselors, coaches, principals, or aides** who work in a school for at **least 900 hours** during a school year. **Eligible educator expenses include books, supplies, computer equipment, and supplementary materials** used by eligible educators.

- **Home Mortgage Interest Deduction.** Under TCJA the amount of home acquisition indebtedness for which interest was deductible was reduced **from \$1,000,000 to \$750,000 (\$375,000 if married filing separately)** for **acquisition indebtedness incurred after December 15, 2017, and before 2026**. The **\$1,000,000 cap** remains for acquisition indebtedness **incurred on or before December 15, 2017**.

There Is A Special Rule When Refinancing Acquisition Indebtedness. Subject to limited exceptions, the **refinancing of acquisition indebtedness** is deemed to have been incurred on the **date of the original indebtedness**. So, for example, if a taxpayer incurred acquisition indebtedness on or before December 15, 2017, the refinancing of that indebtedness after December 15, 2017, will still be entitled to the \$1,000,000 cap (to the extent of the outstanding balance of the original acquisition indebtedness on the date of the refinancing).

The OBBBA makes the **\$750,000 cap** for acquisition indebtedness incurred after **December 15, 2017, permanent**. Therefore, the \$750,000 qualified residence indebtedness limitation **will not revert to \$1,000,000 in 2026**.

- **Repeal Of Interest Deduction For Home Equity Indebtedness.** The TCJA **suspended the interest deduction** for home equity indebtedness. For tax years beginning **after 2017 and before 2026**, taxpayers **may not deduct interest** with respect to home equity indebtedness (i.e., up to \$100,000 of funds borrowed that **do not qualify for acquisition indebtedness** but are **secured by your principal**

or second residence). Unlike the interest deduction for acquisition indebtedness, the TCJA **does not grandfather** an interest deduction for home equity indebtedness that was outstanding before 2018.

The OBBBA makes the suspension of the interest **deduction for home equity indebtedness permanent**. Therefore, the interest deduction for interest on **up to \$100,000 of debt secured by your residence** that is **not used to buy, build or substantially improve the residence**, continues to be **nondeductible after 2025**.

- **The OBBBA Allows A Deduction For Mortgage Insurance Premiums Beginning After 2025.** Premiums paid or accrued for **qualified mortgage insurance** in connection with acquisition indebtedness for a qualified residence **were deductible as qualified residence interest** (home mortgage interest) if paid or accrued **before 2022**. The deduction is **reduced by 10% for each \$1,000** or portion thereof by which the taxpayer's adjusted gross income **exceeds \$100,000 (\$500 and \$50,000 respectively** for a married individual filing a separate return).

The OBBBA **reinstates** the deduction for **qualified mortgage insurance premiums** for tax years beginning **after 2025**.

- **Changes To The Charitable Contribution Deduction.** The OBBBA makes several changes to the rules for deducting charitable contributions.

The 60% Of AGI Limitation For Cash Contributions Is Made Permanent. The TCJA increased the AGI limitation on charitable contributions made in cash to public charities **from 50% of AGI to 60% of AGI from 2018 through 2025**.

The OBBBA **makes** the 60% of AGI limitation under TCJA for cash contributions to public charities **permanent**. Therefore, the AGI limitation **will not revert to 50% of AGI after 2025**.

Charitable Contribution Deduction For Nonitemizers After 2025. For tax years beginning after 2025, the OBBBA allows a taxpayer that uses **the standard deduction** to deduct **up to \$1,000 (\$2,000 for those filing a joint return)** of **cash contributions** made during the tax year. The deduction is **NOT an above-the-line** deduction and is deducted when **calculating taxable income**. In other words, the deduction is similar to an additional standard deduction.

A **qualified charitable contribution** is a charitable contribution made in **cash** that would otherwise be **allowed as an itemized deduction** that is contributed to **churches, nonprofit educational institutions, nonprofit medical institutions, public charities**, or any other organization described in Code Section 170(b)(1)(A). The contribution **cannot be made to a supporting organization** under Code Section 509(a)(3) or a new or existing **donor advised fund**.

New 0.5% Floor After 2025 For Charitable Contribution Deductions For Individuals Who Itemize. For tax years **beginning after 2025**, the OBBBA provides that an individual taxpayer's charitable contribution deductions are **reduced by 0.5%** of the taxpayer's **contribution base** (generally a taxpayer's AGI).

- **Casualty Loss Deductions.** From 2018 through 2025, the TCJA **generally suspended** the deduction for **personal casualty losses and theft losses**. However, personal casualty losses attributable to **Federally declared disasters** continued to be deductible.

The OBBBA makes this provision for taking a **personal casualty loss permanent** and adds **certain state-declared disasters as qualifying disasters** in addition to Federally declared disasters. The OBBBA as modified by the **Filing Relief For Disasters Act** provides that **the IRS (after consultation with the administrator of FEMA) may**, upon the written request of the Governor of a State (or the Mayor, in the case of the District of Columbia), **apply the rules for Federally declared disasters to a qualified State declared disaster**. Previously, the IRS had to wait until there was a Federal disaster declaration to **grant relief**.

Special Rules For Disasters Declared Between January 1, 2020, And September 2, 2025. The OBBBA provides special rules for Federally declared disasters where the disaster was declared **between January 1, 2020, and September 2, 2025**, and the incident period begins after **December**

27, 2019, and before September 2, 2025. For these disasters, the subtraction applicable to each disaster is **\$500 (rather than \$100)** and the **10% AGI limitation does not apply.**

- **Deductions Relating To Gambling Activities.** The TCJA continued the rule **limiting gambling losses** (i.e., wagering losses) **to gambling winnings.** In addition, it added a provision **limiting deductions** related to gambling other than gambling losses (e.g., travel expenses of a professional gambler and costs of wagers) to gambling **winnings for 2018 through 2025.**

The OBBBA makes these restrictions **permanent beginning with the 2026 tax year** and goes one step further to **limit the deduction for wagering losses to 90%** of those losses. For example, a taxpayer with \$90,000 of gambling winnings and \$90,000 of gambling losses would have potentially **deductible losses of \$81,000 (\$90,000 X .90).** The \$81,000 loss is also **limited to gambling winnings.** In this case, there is sufficient gambling winnings (\$90,000) to deduct the \$81,000 losses.

- **Other Dependent Credit.** The TCJA introduced a non-refundable credit of **\$500 for each qualifying dependent** who doesn't qualify for the **\$2,200 Child Tax Credit.** This credit was scheduled to expire after 2025.

The OBBBA makes this **\$500 credit** for each qualifying dependent **permanent with no adjustment** for inflation **beginning with the 2026 tax year!**

- **Unified Exclusion Amount And GST Exemption Amount.** Under the TCJA, effective for individuals dying and generation-skipping transfers **after 2017 and before 2026,** the **Basic Unified Exclusion Amount** for gift & estate tax purposes and the generation-skipping exemption amount was **increased to \$10,000,000** (as indexed for inflation). The indexed amount for **2025 is \$13,990,000.**

The OBBBA **increases** the unified exclusion, and exemption amounts **to \$15,000,000** for estates of individuals dying and gifts and generation-skipping transfers made **after 2025.** The **\$15,000,000 will be indexed for inflation** for those dying and for gifts and generation-skipping transfers made **after 2026 with a base year of 2025.**

- **Relief From Alternative Minimum Tax (AMT) For Individuals.** For 2018 through 2025 the TCJA provided relief from the AMT by increasing the AMT exemption amounts and increasing the amount of alternative minimum taxable income threshold where the AMT exemption amount begins to phase out. **The AMT exemption amounts for 2025 are \$137,000** for joint filers and surviving spouses, **\$88,100** for single and head of household filers, **\$68,500** for married individuals filing separate returns, and **\$30,700** for estates and trusts. For 2025, the AMT exemption amounts **are reduced (phased out) by 25% of each dollar** of a taxpayer's AMTI **in excess** of the threshold amounts. **For 2025,** the AMT exemptions begin to phase out when **AGI exceeds** the following **threshold amounts: \$1,252,700** for married individuals filing a joint return and for a qualifying surviving spouse, **\$626,350** for single or head of household filers, **\$626,350** for married individuals filing separate returns, and **\$102,500** for estates and trusts.

The OBBBA generally makes the changes made by the TCJA permanent. However, the threshold amount in excess of which the AMT exemption amount begins to phase out for joint filers and surviving spouses is **reduced from \$1,252,700 (in 2025) to \$1,000,000 beginning in 2026.** The \$1,000,000 revised phase out threshold amount will be **indexed for inflation** in future years. The AMT phaseout thresholds for other taxpayers **are not changed** and will continue to be **indexed for inflation.**

In addition, **the OBBBA increases the 25% phase out rate to 50% beginning in 2026.** Therefore, **beginning in 2026,** the exemption amounts will be **reduced (phased out) by 50% of each dollar of a taxpayer's alternative minimum taxable income (AMTI)** in excess of the threshold amounts. These changes could have a significant impact on higher income taxpayers beginning with the 2026 tax year.

- **Deduction For Qualified Moving Expenses.** For 2018 through 2025, the TCJA **repealed** the deduction for qualified moving expenses except for members of the **Armed Forces who move pursuant to military orders.** Likewise, an employer was **no longer allowed to reimburse** an employee's moving expenses on a tax-free basis except for those qualifying members of the Armed Forces.

The OBBBA makes this TCJA change permanent. Therefore, the provision **will not expire after 2025**. In addition, **for tax years beginning after 2025**, the special rules applicable to an active-duty member of the Armed Forces **also apply to an employee or new appointee of the intelligence community** (as defined in the National Security Act of 1947 (50 USC 3003)) if the move is pursuant to a **change in assignment** requiring relocation.

Other Items First Effective After 2025

- **Repeal Of Energy Efficient Home Improvement Credit After 2025.** The OBBBA repeals the Energy Efficient Home Improvement Credit under §25C **for improvements placed in service after 2025**. Therefore, 2025 is the last year for **insulation and energy efficient windows, doors, heat pumps, central air conditioners, water heaters, furnaces, or boilers** to qualify for this credit.
- **Repeal Of Residential Clean Energy Credit After 2025.** The OBBBA repeals the residential Clean Energy Credit under §25D **for expenditures made after 2025**. Therefore, expenditures for **solar property, fuel cell property, small wind energy property, geothermal heat pump property, and battery storage technology** will not qualify for this **30% credit** if expenditures for such property are made after 2025.
- **Repeal Of Alternative Fuel Vehicle Refueling Property Credit.** The OBBBA repeals the alternative fuel vehicle refueling property credit for property placed in service **after June 30, 2026**. **Note!** The credit applies to the **installation of electric vehicle charging equipment** (including chargers installed at an individual's principal residence).
- **New Trump Accounts After 2025.** Effective for tax years **beginning after 2025**, the OBBBA **introduces** a new tax-favored savings account for children called a Trump account. Accounts can be **established by the Secretary of the Treasury** or by others on behalf of eligible children. A Trump Account is an **individual retirement account (IRA) under section 408(a)** subject to specific requirements. Up to **\$5,000 may be contributed annually**. A Trump account may only be established for **individuals under age 18**. The OBBBA says the federal government will put **\$1,000 into an account** for each eligible child **born after 2024 and before 2029 who is a U.S. citizen**. The income tax on earnings will be **deferred until distributions are made**. Distributions generally **may not be made** from the account prior to the year the account holder **reaches age 18**. **Note! Contributions** made to a Trump account **are not deductible!** Lastly, no contributions may be made to a Trump account **prior to July 4, 2026**. **Additional guidance is needed** from the IRS to determine exactly how these new accounts will work.
- **Child And Dependent Care Credit Calculation Modified After 2025.** For 2025 a taxpayer with **one or more qualifying individuals**, such as a child or other dependent, is eligible to claim a credit for **employment-related expenses** for child and dependent care. The credit is calculated by **multiplying the qualifying expenses, a maximum of \$3,000 if the taxpayer has one qualifying individual, and up to \$6,000 if the taxpayer has two or more qualifying individuals**, by the appropriate **credit rate**. The credit rate varies based on the taxpayer's adjusted gross income, with a **maximum credit rate of 35%**. The 35% rate is reduced as AGI increases. **The rate is 20% for taxpayers with AGI above \$43,000**. Therefore, the **maximum credit in 2025 for taxpayers with AGI greater than \$43,000 is \$600 (.2 X \$3,000) for taxpayers with one qualifying child and \$1,200 (.2 X \$6,000) for taxpayers with two or more qualifying children**.

For tax years after 2025, the OBBBA modifies the credit percentage and the phase out provisions. After 2025, the credit percentage is 50%; 1) reduced (but not below 35%) by 1 percentage point for each \$2,000 or fraction thereof by which the taxpayer's adjusted gross income for the taxable year exceeds \$15,000, and 2) further reduced (but not below 20%) by 1 percentage point for each \$2,000 (\$4,000 in the case of a joint return) or fraction thereof by which the taxpayer's adjusted gross income for the taxable year exceeds \$75,000 (\$150,000 in the case of a joint return). Therefore **after 2025**, the credit percentage is **50%** for a taxpayer with an AGI up to \$15,000. The credit percentage is **35%** where AGI is from **\$43,001 to \$75,001 (\$150,001 if married filing jointly)**. The credit percentage is reduced to **20%** for taxpayers with **AGI greater than \$103,000 (greater than \$206,000 if married filing jointly)**. **Note!** The credit continues to be calculated by multiplying the amount of qualifying expenses,

a maximum of \$3,000 if the taxpayer has one qualifying individual, and up to \$6,000 if the taxpayer has two or more qualifying individuals, by the appropriate credit percentage.

- **Itemized Deductions Reduced After 2025.** For tax years beginning after 2025, a taxpayer's itemized deductions are **reduced by 2/3 times** the lesser of: **1) the taxpayer's itemized deductions, or 2) the taxpayer's taxable income** for the tax year (increased by the itemized deductions) that **exceeds the dollar amount** at which the taxpayer's **37% rate bracket begins**. For 2025, the 37% bracket begins at taxable income **over \$626,350** for a single individual and when taxable income **exceeds \$751,600** for married individuals filing joint returns. These threshold amounts will be **indexed for 2026**.
- **Removal Of Caps For Repayment Of Excess Advance Premium Tax Credit.** The premium tax credit (PTC) is a refundable credit that helps eligible individuals and families cover the premiums for their health insurance **purchased through the Health Insurance Marketplace**. Qualifying individuals can elect to receive advanced payments of their estimated PTC as a reduction in their insurance premium payments to the Health Insurance Marketplace. An individual qualifying for a PTC is **required to file a federal income tax return and attach Form 8962** to claim the PTC and to reconcile any advance PTC with the amount of PTC for the year as calculated on Form 8962. If an individual receives advance credit payments in excess of the PTC reflected on Form 8962, the individual is required to pay the excess as additional tax with the individual's Federal income tax return. However, there has historically been a cap on the amount of the required payment for individuals with **household incomes of less than 400% of the Federal Poverty Line (FPL)**. For 2025 those limits are: **if less than 200% of the FPL - \$750; at least 200% but less than 300% of the FPL - \$1,950; at least 300% but less than 400% of the FPL - \$3,250; 400% or more of the FPL - the entire excess must be paid with the individual's Federal income tax return**. The caps are half the amounts listed above for single individuals.

After 2025, the OBBBA repeals these caps on the amount of excess advance PTCs that must be repaid. Therefore, **beginning with 2026 returns**, individuals with advance PTCs in excess of the amount of PTC **shown on Form 8962**, will be required to **pay the full amount** of the excess with their individual income tax returns.

- **Deferral Of Gain From Sale Or Exchange Of Qualified Farmland Property.** For sales or exchanges in **tax years beginning after July 4, 2025**, to a "qualified farmer," a taxpayer may elect to **pay taxes on gains** from the sale or exchange of "qualified farmland property" **over 4 years**. "**Qualified farmland property**" is: **1) real property located in the U.S. that has either been used by the taxpayer as a farm for farming purposes, or that has been leased by the taxpayer to a qualified farmer for farming purposes during substantially all of the 10-year period ending on the date of the qualified sale or exchange, and 2) is subject to a covenant or other legally enforceable restriction that prohibits the use of the property other than as a farm for farming purposes for 10 years after the date of the sale or exchange. A "qualified farmer" is an individual actively engaged in farming within the meaning of section 1001(b) and (c) of the Food Security Act of 1986.** For individuals, events such as death or failure to make the tax payments on time accelerate the otherwise deferred payments. For C corporations, trusts or estates, the cessation of business, sale of assets, liquidation, or failure to make the tax payments on time will generally accelerate the tax payments. **Note!** This provision may apply to owners of S corporations or partnerships and to Corporations, trusts, and estates as well as to individuals.
- **Extension And Modification Of Exclusion From Gross Income Of Student Loans Discharged On Account Of Death Or Disability.** Effective for loan discharges **after 2025**, the OBBBA makes permanent the **exclusion from gross income** for student loans discharged due to **death or total and permanent disability**. The exclusion applies to loans made by the United States (or an instrumentality or agency of the United States); a state, territory, or possession of the United States (or political subdivision); certain tax-exempt public benefit corporations; or an educational organization that originally received the funds from which the loan was made from the United States, a state, or a tax-exempt public benefit corporation or under a program designed to encourage students to serve in occupations or areas with unmet needs; and to private education loans (as defined in Section 140(a) of the Consumer Credit Protection Act). **Note!** The exclusion from income of discharged qualified student loans in section 108(f)(5) **after 2020 and before 2026** was expanded to include the discharge of **student loan or private education loan indebtedness**. The **temporary expanded exclusion** covered discharged debt **regardless** of whether the discharge occurred due to a **student's death or**

disability and was available to a **broader category of loans**. This provision was **not extended beyond 2025 by the OBBBA**.

Provisions Generally Effective After 2026

- **Renewal And Enhancement Of Opportunity Zone Provisions.** The OBBBA extends the qualified opportunity zone deferral program **indefinitely**. The OBBBA provides that for new qualified opportunity fund (QOF) investments **after 2026**, a taxpayer may defer recognition of any qualifying capital gain for **5 years by investing the “amount” of the gain** into a **“Qualified Opportunity Fund” (QOF)**. Only **90% of the gain** is recognized at the end of the **5-year period (70% for investments in qualified rural opportunity funds)**. In addition, **any appreciation** in the investment in the QOF will be **tax free** if the investment is held at **least 10 years** before the investment in the QOF is liquidated. In addition, the OBBBA provides **stricter eligibility criteria** for qualified opportunity zone designations.

SELECTED TAX PROVISIONS FROM THE OBBBA PRIMARILY IMPACTING BUSINESSES

To help bring you up to speed with the new provisions of the OBBBA, we've included selected tax law changes we believe will have the greatest impact on business taxpayers.

Provisions Of OBBBA Effective Beginning In 2025 Or Prior

- **Original Form 1099-K Reporting Exception Retroactively Reinstated.** For calendar years 2010 through 2021, Payment Settlement Entities were required to **file Form 1099-K** annually with the IRS for payees and furnish information to the payees, reporting the gross amount of reportable payment transactions. However, **prior to 2022**, third-party settlement organizations (TPSOs) such as PayPal, Venmo, Cash App, eBay, and Etsy were not required to file Form 1099-K where: **1) the TPSO had 200 or fewer otherwise reportable transactions** during the calendar year and **2) the gross amount of such transactions during the calendar year was \$20,000 or less**. However, the **American Rescue Plan Act** lowered the exception from filing Form 1099-K by TPSOs to gross payments of **\$600 or less, with no minimum number of transactions**. The new **\$600 reporting threshold** was to apply beginning with **2022 transactions**. However, the IRS decided that calendar years **2022 through 2025 would be transition years** and provided filing thresholds of more than \$600 (e.g., **\$5,000 for 2024 and \$2,500 for 2025**). The **2025 calendar year was scheduled** to be the **final transition year** before the **new \$600 reporting threshold** would be enforced.

The OBBBA reinstates the **original filing threshold** for third-party payment settlement organizations effective for calendar years **after 2021**. Therefore, beginning with **calendar year 2022**, third-party payment settlement organizations are required to file Form 1099-K where the payee has **more than 200** otherwise reportable transactions during the calendar year and the **gross amount of such transactions** during the calendar year was **more than \$20,000**. In essence, the OBBBA retroactively restores the **200/\$20,000 exception**.

- **Domestic Research And Experimental Expenditures Deductible Beginning In 2025.** Beginning with the **2022 tax year**, the TCJA eliminated the provision allowing taxpayers to **immediately deduct** research and experimental expenditures. Therefore, taxpayers were required to **capitalize and amortize** research and experimental expenditures **over a 5-year period**. **Foreign research and experimental expenses performed outside the United States** were required to be **capitalized and amortized over 15-years**.

Good News! The OBBBA reinstates and makes permanent the deduction for domestic research and experimental expenses for **amounts paid or incurred in tax years beginning after 2024. Alert!** Taxpayers **may elect to capitalize and amortize domestic** research and experimental expenses **over a period of at least 60 months**. Businesses that properly capitalized and amortized research and experimental expenses after **December 31, 2021, and before January 1, 2025, may elect to deduct** the remaining expenditures over either a **1-year period or ratably over a 2-year period. Note!** **Foreign research and experimental expenses** performed outside the United States will **continue to be capitalized and amortized over 15-years**.

Alert! Under the OBBBA, a **small business taxpayer** (average annual gross receipts of **\$31 million or less**) may elect to apply the reinstated deduction retroactively **beginning with the 2022 tax year**. The election must be made by **July 4, 2026**, and will require the small business taxpayer to **file amended returns** to deduct the research and experimental expenses. The IRS will most likely provide details for making the election to amend prior year returns.

- **Changes To Employee Retention Credit (ERC).** The **Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020** created a **refundable employee retention credit (ERC)** to help employers retain employees during the coronavirus (COVID-19) pandemic. Employers who qualified could claim a refundable employee retention credit (ERC) against **their portion of Social Security tax** for each calendar quarter, for a portion of qualified wages **paid after March 12, 2020, and before July 1, 2021**. In addition, qualifying employers could claim a **modified ERC** against **their portion of Medicare tax** for qualified wages **paid after June 30, 2021, and before October 1, 2021 (before January 1, 2022, for a recovery startup business)**. In addition, eligible employers were required to **reduce their wage expense** by the amount of the ERC. Before the OBBBA, employers **generally had until April 15, 2024, to file 2020 ERC claims and until April 15, 2025, to file 2021 ERC claims**. In addition, the IRS had a **3-year statute of limitations** to assess tax on **2020 claims** and on **claims for the 1st and 2nd quarters of 2021**. The IRS had **5 years** to assess tax on ERC claims **filed for the 3rd and 4th quarters of 2021**.

The OBBBA modifies the **Employee Retention Credit** so that **no ERC is allowed and no refund** regarding an ERC can be made **after July 4, 2025**, for the **last two quarters of 2021** unless claims were filed **by Jan. 31, 2024**. In addition, the OBBBA **extends the time** for the IRS to **assess tax related to an ERC claim** for the period from **July 1, 2021, through December 31, 2021, to 6 years** from the date the original or amended return was filed. If an **ERC is disallowed**, the period for claiming a **credit or refund** of any amount attributable to a deduction for **improperly claimed ERC wages does not expire** before the time period for such **assessment expires**.

- **Bonus Depreciation Deduction Increased To 100% After January 19, 2025.** The TCJA increased the 168(k) **Bonus Depreciation deduction to 100%** for qualifying **new and used property** acquired and placed-in-service **after September 27, 2017, and before January 1, 2023**. In 2023, the 100% bonus depreciation deduction decreased to 80%, then 60% in 2024, was scheduled to drop to 40% in 2025, and would have been completely phased out after the 2026 tax year. **Note!** The reduction in the 168(k)-deduction percentage occurs **one year later** for noncommercial aircraft and longer production period property.

The OBBBA **permanently extends** the Bonus Depreciation deduction and **increases the depreciation deduction to 100%**. **Note!** The permanent 100% bonus depreciation deduction is effective for **property acquired after January 19, 2025**. **Alert!** Property subject to a **binding written contract entered into before January 20, 2025, is not** considered “**acquired**” after January 19, 2025, and **is not eligible** for the 100% rate. Bonus depreciation property **acquired before January 20, 2025**, will be subject to the **prior bonus depreciation rates** (i.e., 60% for 2024 and 40% for 2025). In addition, for qualified property placed in service in a taxpayer’s **first tax year ending after January 19, 2025**, a taxpayer **may elect to use the bonus depreciation rates in effect on January 19, 2025**. Thus, in a taxpayer’s first tax year ending after January 19, 2025, a taxpayer **may elect a 40% bonus depreciation rate** for qualified property and specified plants and a **60% bonus rate** for non-commercial aircraft and longer production period property placed in service during that tax year.

- **Bonus Depreciation For Qualified Construction Property.** The OBBBA introduces a **new bonus depreciation** election for **qualified construction property**. Under this election, taxpayers may elect to use the **100% bonus depreciation allowance for qualified production property**. To qualify, the property must have been constructed **after January 19, 2025, and before January 1, 2029**. In addition, the property must be **placed-in-service before January 1, 2031**. The election is made for the tax year the bonus depreciation is taken by **identifying the property as qualified production property** on the taxpayer’s tax return. **Alert!** The IRS will provide the **necessary details** for making this election.

The OBBBA defines “**Qualified Production Property**” as **new, MACRS, nonresidential real property that is integral** to a production activity which is **placed in service** in the United States, or its territories. As mentioned previously, the property must have been constructed **after January 19, 2025, and before January 1, 2029, and placed-in-service before January 1, 2031**. Qualified production

property only **includes real property** that is related to **manufacturing, production, or refining of a qualified product**. For example, any non-residential real property used for **offices, administrative services, sales, research, software development, engineering activities, lodging, or parking** is not qualified production property. **Qualified production activities** include **manufacturing, production, or refining**, which results in a substantial transformation of a “qualified product.” “**Production**” is limited to **agricultural and chemical** production. **Qualified products** include **all tangible personal property**, except **food or beverages** prepared in the same building as the retail establishment where the **products are sold**. The property must generally be **new property**. However, taxpayers may also **elect the special depreciation allowance for used** production property acquired by the taxpayer after January 19, 2025, and before January 1, 2029. However, property used in the manufacturing, production, or refining of a qualified product **from January 1, 2021, to May 12, 2025, does not qualify** for the used property exception and property previously owned by the taxpayer does not qualify. **Note!** Qualified production property is subject to the **recapture rules under §1245, NOT §1250**.

- **Expansion Of The 179 Deduction For Property Placed In Service After 2024.** Effective for property placed-in-service in tax years beginning after 2017, the TCJA **increased the 179 Deduction limitation to \$1,000,000** and increased the **phase-out threshold to \$2,500,000**. The 179 limitation for **SUVs, trucks, vans, etc. was \$25,000**. These caps have been **indexed for inflation since 2019**. **Note!** The deduction limitation was scheduled to be **\$1,250,000** and the phase-out threshold was scheduled to be **\$3,130,000 for 2025**. The cap for SUVs is **\$31,300 for 2025**.

The OBBBA **increases the 179 Deduction limitation to \$2,500,000** and increases the **phase-out threshold to \$4,000,000** for tax years beginning **after 2024**. These increases will be **indexed for inflation** for tax years beginning **after 2025**. **Alert!** The cap for SUVs was **not changed** by the OBBBA but will continue to **be indexed** for inflation. The cap for SUVs remains at **\$31,300 for 2025**.

- **FICA Tip Credit Expanded.** Employers who work in the **food and beverage industry** with tipped employees may be eligible for the **Federal Insurance Contributions Act (FICA) Tip Credit**. The credit is equal to the amount an employer pays (currently 7.65%) for its **portion of Social Security and Medicare (FICA)** taxes on employee tips during the month attributable to tips in excess of those treated as wages for purposes of satisfying the federal minimum wage. The credit is a general business tax credit and is **non-refundable**. However, the unused portion of the credit may be **carried back 1-year** and **carried forward** a maximum of **20-years**. Prior to 2025, the tip credit was available only for FICA tax paid on tips received from customers in connection with the **providing, delivering, or serving of food or beverages for consumption**.

The OBBBA **expands** the FICA tip credit to include employers in the **beauty service businesses of barbering, hair care, nail care, esthetics, or body and spa treatments** if tipping the employees providing these services is **customary**. The eligibility of these beauty service businesses for the FICA tip credit is **effective for tax years beginning after 2024**.

- **Commercial Clean Vehicle Credit.** The **Inflation Reduction Act (IRA)** introduced several credits to help promote clean energy. Businesses may claim a **Commercial Clean Vehicle Credit** as part of the general business credit for a qualified commercial clean vehicle **purchased and placed in service prior to 2033**. To qualify, a vehicle must be a depreciable vehicle **powered by a rechargeable electric motor** that receives electricity from a battery with a capacity of at **least 7 kilowatt hours (15 kilowatt hours for vehicles with a gross vehicle weight rating (GVWR) of 14,000 lbs. or more)**. A qualified vehicle must be an **on-road vehicle** (used on public streets, roads, and highways) **or mobile machinery** and must be manufactured by a **qualified manufacturer**. **Note!** The maximum credit amount for **each qualified vehicle is \$7,500 (\$40,000 for a vehicle with a GVWR of 14,000 or more)**.

The OBBBA **repeals** the commercial clean vehicle credit after September 30, 2025. Therefore, **otherwise qualifying vehicles will not qualify** for the credit if “**acquired**” **after September 30, 2025**.

- **Business Interest Expense Deduction Limitation Under §163(j) Enhanced After 2024.** The interest expense deduction for business, other than “small businesses,” is generally limited to the sum of **1) interest income, 2) 30% of adjusted taxable income (ATI), and 3) the floor-plan financing interest** to acquire motor vehicles for sale or lease to retail customers for the tax year. ATI is the taxpayer’s **taxable income excluding** income, gain, deduction, or loss not allocable to a trade or business, business

interest income or expense, net operating loss deductions, QBI deductions, and for tax years beginning **before 2022**, depreciation, amortization, or depletion. For tax years beginning **after 2021**, ATI was no longer calculated by adding back depreciation, amortization, or depletion. Therefore, for many companies the limit on deductible interest expense was reduced after 2021. **Note!** A small business for purposes of the exemption from the §163(j) interest deduction limitation is generally a taxpayer that meets the **gross receipts test** for using the cash method of accounting (**\$31 million or less for 2025**).

The OBBBA reinstates the addback of **depreciation, amortization, or depletion** in calculating ATI for tax years beginning **after 2024**. The OBBBA also modifies the **definition of motor vehicles** for purposes of deducting **floor plan interest after 2024** to include certain trailers and campers designed to be towed by or affixed to a motor vehicle. In addition, for **tax years beginning after 2025**, certain amounts otherwise required to be recognized in gross income by a U.S. shareholder of a foreign corporation, including subpart F and net CFC tested income under §951(a) and §951A(a), along with any associated gross ups under §78 are **no longer included in ATI**.

- **Residential Construction Contracts Not Required To Use Percentage Of Completion Method For Tax Purposes.** The OBBBA exempts residential construction contracts from the requirement to use the percentage of completion method of accounting for income tax reporting for contracts entered in tax years **beginning after July 4, 2025**. A “**residential construction contract**” means any contract if **80% or more** of the estimated total contract costs (as of the close of the taxable year in which the contract was entered into) are reasonably expected to be attributable to the building, construction, reconstruction, or rehabilitation of, or the installation of any integral component to, or improvements of a house or apartment used to provide living accommodations in a building or structure. A residential construction contract **does not include** a unit in a hotel, motel, or other establishment, more than one-half of the units in which are used on a transient basis. Residential construction contracts entered into in a tax year beginning **after July 4, 2025**, are also exempt from the requirement to use the percentage of completion method for **AMT purposes**.
- **Qualified Sound Recording Productions Commencing In Tax Years Ending After July 4, 2025, Qualify For Bonus Depreciation.** Qualified sound recording productions are eligible property under §168(k) and qualify for bonus depreciation for productions commencing in **taxable years ending after July 4, 2025**. A recording is deemed placed in service at the time of its initial **release or broadcast**.

Provisions Of The Tax Cuts And Jobs Act (TCJA) Permanently Extended By The OBBBA Beginning With The 2026 Tax Year

- **Qualified Business Income Deduction Permanently Extended And Modified.** Since the highest C corporation rate was reduced from 35% to 21%, the **TCJA introduced a new 20% deduction** that is generally provided to individuals, trusts and estates who receive qualified business income from S Corporations, Partnerships, or Sole Proprietorships. The 20% deduction also applies to qualified REIT dividends and income from qualified publicly traded partnerships. The Qualified Business Income or “**QBI**” deduction, was set to **expire for tax years beginning after 2025**. For 2025, the QBI deduction for individuals with taxable income of **\$197,300 or less (\$394,600 or less for joint returns)** is generally 20% of the **lesser of 1) QBI or 2) taxable income**. However, once an individual taxpayer’s taxable income exceeds **\$247,300 (\$494,600 for joint returns)**, the deduction is limited to the **lesser of 1) 20% of QBI, 2) the W-2 wage and qualified property limitation, or 3) 20% of taxable income**. In addition, once taxable income exceeds these threshold amounts, the income of a **specified service trade or business (SSTB)** (e.g., income of accountants, attorneys, physicians) **does not qualify** for the QBI deduction. As taxable income increases from **\$197,300 to \$247,300 (\$394,600 to \$494,600 for joint returns)** the W-2 wage and qualified property limitation phases in and the deduction for SSTB income phases out. Therefore, the range of taxable income over which the W-2 wage and qualified property limitation phases in and the QBI deduction for SSTBs phases out is **\$50,000 (\$100,000 for joint returns)**.

The OBBBA makes the **20% QBI deduction permanent**. In addition, **beginning in 2026**, the OBBBA expands the **phase-in range** for the W-2 and qualified property limitation **and the loss** of the QBI deduction for specified service trade or business income. **For 2026**, the W-2 and qualified property limitation will phase in and the QBI deduction for SSTB income will phase out over a taxable income range of **\$75,000 rather than \$50,000 (\$150,000 rather than \$100,000 for joint returns)**.

Note! Beginning with the 2026 tax year, the OBBBA adds a new deduction of **\$400** for taxpayers who **materially participate** in one or more **active trades or businesses** and has **at least \$1,000** of QBI. This \$400 deduction and the \$1,000 threshold will be **indexed for inflation**.

- **Employer Credit For Paid Family And Medical Leave.** The Internal Revenue Code allows a **tax credit** for employers who provide paid family and medical leave to their employees. Employers who qualify may claim a credit ranging from **12.5% to 25% of the wages** paid to qualifying employees for up to 12 weeks while on family and medical leave. The credit is effective for wages paid in **taxable years beginning after December 31, 2017, and before January 1, 2026**.

The OBBBA makes the credit for paid family and medical leave **permanent**. In addition, beginning with the **2026 tax year**, employers may elect to claim the credit on **wages paid** to qualifying employees while on family and medical leave or on a portion of the **insurance premiums paid** during the tax year on family and medical leave policies provided for employees. **Alert!** Employers may elect to claim the credit on **wages paid or on a portion of insurance premiums paid but not both**.

Note! If an employer **elects** to take the credit for a portion of paid leave **insurance premiums**, the insurance premium **expense must be reduced** by the **amount of the credit**.

Other Business Provisions First Effective After 2025

- **Information Reporting Threshold Increased To \$2,000 Or More.** Those operating a trade or business are responsible for filing **information returns** (Forms 1099-MISC & 1099-NEC) with the IRS each year for payments made in the course of the trade or business. **Form 1099-MISC** is used to report various types of income including rents, annuities, prizes, and awards. **Form 1099-NEC** is used for reporting payments for services performed by persons who are not employees. In addition to filing a copy with the IRS, the trade or business is required to **provide a copy of the information return to the individual** who received the payment. Historically, Form 1099-MISC and Form 1099-NEC have been required for payments to a recipient of **\$600 or more**. In addition, if the trade or business is unable to **obtain the necessary information** from the payee to accurately file Form 1099, the trade or business is required to **withhold federal tax at a flat rate of 24%**.

The OBBBA increases the information return filing threshold amount for **Forms 1099-MISC and 1099-NEC from \$600 or more to \$2,000 or more** for payments made **after 2025**. In addition, the dollar threshold for payments subject to **backup withholding** has also been **increased to payments of \$2,000 or more**. **After 2025**, both of these threshold amounts will be **adjusted for inflation**.

- **1% Floor For Charitable Contribution Deduction For Corporations For Tax Years Beginning After 2025.** Generally, **charitable deductions for contributions** made by corporations are **limited to 10%** of the corporation's **taxable income**. A corporation's charitable **contributions over** this 10% limitation in any tax year can be **carried forward** to the next **5 years**.

The OBBBA provides a **1% floor** for deductions of charitable contributions made by corporations in tax years beginning **after 2025**. Therefore, after 2025, charitable contribution deductions of corporations are allowed only to **the extent** the corporation's charitable **contributions are greater than 1%** of the **corporation's taxable income** and do **not exceed 10%** of the corporation's taxable income. The amount of charitable contributions greater than the 10% limitation may be carried forward for 5 years and allowed as a deduction on a **first-in, first-out basis**. These carryforwards are applied after contributions for the **current tax year**. **Note!** **Contributions less than 1%** of the corporation's taxable income may be **carried forward only from years** in which the corporation's charitable contributions are **greater than the 10% limitation**.

- **Employer-Provided Childcare Credit Increased For Amounts Paid Or Incurred After 2025.** Currently, employers are allowed a tax credit for the qualified childcare expenses they pay for their employees. The credit is **25% of qualified childcare expenses, plus 10% of qualified resource and referral expenditures**. The maximum childcare credit is **\$150,000 annually**. Qualified childcare expenditures are expenses paid or incurred: **1) to purchase, build, remodel or expand property** used as part of a qualified childcare facility, **2) to operate a qualified childcare facility**, including training

costs and certain employee compensation and scholarship programs, or **3) to a childcare facility** to provide childcare for employees. Expenses are **not deductible** if they are **greater than the fair market value** of childcare.

The OBBBA increases the 25% credit to **40% (50% for eligible small businesses)** and increases the maximum credit amount from \$150,000 to **\$500,000 (\$600,000 for eligible small businesses)** for amounts paid or incurred **after 2025**. An eligible small business for purposes of the **50% credit and \$600,000** maximum credit amount is generally a taxpayer that meets the **gross receipts test** for using the cash method of accounting (**\$31 million or less for 2025**). The maximum credit amount of \$500,000 (\$600,000 for eligible small businesses) will be **indexed for inflation after the 2026 tax year**.

- **Meal Expense Deductions After 2025.** The TCJA provided that **1) meals** (food and beverages) provided on the employer's premises for the convenience of the employer and excludable from an employee's income under §119(a) and **2) food, beverage, and facility expenses** for meals qualifying as de minimis fringe benefits under §132(e) are no longer deductible for **amounts paid or incurred after 2025**.

The OBBBA does not change this provision. Therefore, absent future legislation these meals (food and beverages) paid or incurred **after 2025** will no longer be deductible by the employer unless included in the employee's income. However, **it is possible** that the current deduction for **1) meals** provided on the employer's premises for the convenience of the employer and excludable from an employee's income under §119(a) and **2) food, beverage, and facility expenses** for meals qualifying as de minimis fringe benefits under §132(e), will be **extended by future legislation**. In addition, the OBBBA clarifies that food and beverages provided to **the crews of commercial vessels** that employers are required to provide under Federal law and **the crews of offshore drilling rigs** that meet certain requirements **remain fully deductible**. In addition, the OBBBA provides that employers may **deduct 100%** (previously 50%) of the costs of **food and beverages provided to crews on fishing vessels and certain fish processing facilities located in nonmetropolitan areas** of the United States.

Selected Energy Provisions

- **Energy Efficient Commercial Building Deduction Terminated Where Construction Begins After June 30, 2026.** Currently, taxpayers may claim a deduction for the cost of certain energy-efficient improvements made to domestic commercial buildings. The credit generally applies to improvements to the building's interior lighting systems; heating, cooling, ventilation, and hot water systems; or the building envelope.

The OBBBA terminates this deduction where construction of the property **begins after June 30, 2026**.

- **Energy Efficient Home Credit Under §45L Terminated For Homes Acquired After June 30, 2026.** Contractors who construct or substantially reconstruct and rehabilitate qualified energy efficient homes in the U.S. have been eligible for various energy tax credit amounts depending on the energy efficiency of the home. The credit under §45L was originally available for qualified energy efficient homes acquired from eligible contractors and manufacturers after 2022 and before 2033.

The OBBBA terminates this credit for homes acquired by buyers **after June 30, 2026**.

- **Other Business Energy Credits.** The OBBBA modified many business energy credits not discussed above. Several of these credits are **terminated prior to their original expiration date**. However, **none of the credits will expire before 2028**. The **credits modified** by the OBBBA include: the clean fuel production credit, carbon oxide sequestration credit, clean hydrogen production credit, zero-emission nuclear power production credit, advanced manufacturing production credit, clean energy investment credit, advanced manufacturing investment credit, and qualifying advanced energy project credit.

International Tax Provisions

The OBBBA also addresses several International tax provisions. However, these provisions are beyond the scope of this letter and therefore will not be addressed.

Provisions Expiring After 2025 Not Included In The OBBBA

- **Work Opportunity Tax Credit.** The Work Opportunity Tax Credit is available to employers for wages paid during the tax year to employees who are part of targeted groups that are hard to employ and who begin work for the employer before January 1, 2026. In general, the credit amount is 40% of qualified wages up to a maximum of \$6,000 paid to each targeted employee during the first year of their employment. The amount of the credit may be modified in several situations.

Alert! The OBBBA did not extend the Work Opportunity Tax Credit. Therefore, the **credit will expire** at the end of the **2025 tax year** unless extended by future legislation.

FINAL COMMENTS

The One Big Beautiful Bill Act (OBBBA) extended provisions of the **Tax Cuts And Jobs Act Of 2017 and introduced new tax provisions.** We have attempted to discuss only selected provisions that we believe will have the greatest impact on the largest number of our clients. If you have heard of a provision in the OBBBA that was not discussed in this letter (or if you want additional information on a topic we discussed), please contact us. **Note!** The information contained in this material represents a general overview of selected provisions in **the One Big Beautiful Bill Act** and should not be relied upon without an independent professional analysis of how any of the items discussed may apply to a specific situation.

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