One
Big
Beautiful
Bill
Act

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Part I.
TCJA
Tax Cuts and Jobs Act 2018

Introduction: The Tax Cuts and Jobs Act (TCJA) was a major overhaul of the tax code, signed into law by President Donald Trump in his first term on Jan. 1, 2018. The Senate passed TCJA on Dec. 2, 2017, by a party-line vote of 51 to 49. The House passed its version by a vote of 224 to 201. No House Democrats supported the bill, and 12 Republicans voted against it.

A. The reform impacted taxpayers and business owners, particularly through tax cuts.

B. Many of the tax reform benefits for individuals expire in 2025.

C. <u>Effects on Individuals</u>

TCJA impacted individuals based on their income level, filing status, and deductions. It permanently removed the mandate requiring individuals to purchase health insurance, a key provision of the Affordable Care Act. The highest earners were expected to benefit most from the law, while the lowest earners are expected to pay more in taxes after individual tax provisions expire in 2025.

- Income Tax Rates: The law retained the seven individual income tax brackets. The top rate fell from 39.6% to 37%, while the 33% bracket dropped to 32%, the 28% bracket to 24%, the 25% bracket to 22%, and the 15% bracket to 12%. The lowest bracket remained at 10%, and the 35% was unchanged.
- Standard Deduction: TCJA raised the standard deduction. For tax year 2025, the standard deduction for single filers is $15,000 (up from 2024's $14,600). For married couples filing jointly, it's $30,000 in 2025 (up from $29,200 in 2024).
- Personal Exemption: The law suspended the personal exemption, which was $4,150, through 2025.
- Health Coverage Mandate: TCJA ended the individual mandate, a provision of the Affordable Care Act (ACA) that levied tax penalties for individuals who did not obtain health insurance coverage.
- Child Tax Credit: The law raised the child tax credit and created a nonrefundable credit for non-child dependents. The credit can only be claimed if the taxpayer provides the child's Social Security number (SSN), who must be younger than 17. For married couples filing jointly, the child credit begins to phase out when adjusted gross income (AGI) exceeds $400,000. For the 2025 and 2024 tax years, the refundable portion of the CTC is $1,700. These changes expire in 2025.
- Estate Tax: The law temporarily raised the estate tax exemption. For single filers, the maximum is $13.99 million for 2025 (up from $13.6 million in 2024). This change will be reversed after 2025.

- Student Loans: TCJA allows 529 plans to fund K through 12 private school tuition—up to $10,000 per year, per child. Under the SECURE Act of 2019, the benefits of 529 plans were expanded, allowing plan holders to withdraw a maximum lifetime amount of $10,000 per beneficiary penalty-free to pay down qualified student debt.
- Retirement Savings: The law repealed the ability to retroactively designate a Roth contribution as a traditional IRA or vice-versa. The Setting Every Community Up for Retirement Enhancement (SECURE) Act lets individuals contribute to Individual Retirement Accounts (IRAs) past 70½. Health savings accounts (HSAs) were not affected by the law.
- Alternative Minimum Tax: The law temporarily raised the exemption amount and exemption phase-out threshold for the alternative minimum tax (AMT), a device intended to curb tax avoidance among high earners. For the tax year 2025, the exemption amount for unmarried individuals increased to $88,100 (up from $85,700 in 2024) and begins to phase out at $626,350. For married couples filing jointly, the exemption amount increased to $137,000 from $133,300 in 2025 and begins to phase out at $1,252,700.
- Mortgage Interest: TCJA limits the mortgage interest deduction for married couples filing jointly to $750,000 worth of debt. The change expires after 2025.
- Pease Limitation: The law repealed the Pease limitation on itemized deductions and gradually reduced their value when adjusted gross income exceeds a certain threshold.
- Miscellaneous Itemized Deductions: Through 2025, the suspended miscellaneous itemized deductions include deductions for moving expenses, except for active-duty military personnel and union dues.

Tax Professional's Alert: The law cut corporate tax rates permanently and individual tax rates temporarily.

Federal Tax Brackets

Tax Years 2024 and 2025

Marginal Rate	Tax Year 2024 Single Filers	Tax Year 2025 Single Filers	Tax Year 2024 Married Filing Jointly	Tax Year 2025 Married Filing Jointly
10%	$11,600 or less	$11,925 or less	$23,200 or less	$23,850 or less
12%	$11,601 to $47,150	$11,926 to $48,475	$23,201 to $94,300	$23,851 to $96,950

Tax Years 2024 and 2025

Marginal Rate	Tax Year 2024 Single Filers	Tax Year 2025 Single Filers	Tax Year 2024 Married Filing Jointly	Tax Year 2025 Married Filing Jointly
22%	$47,151 to $100,525	$48,476 to $103,350	$94,301 to $201,050	$96,951 to $206,700
24%	$100,526 to $191,950	$103,351 to $197,300	$201,051 to $383,900	$206,701 to $394,600
32%	$191,951 to $243,725	$197,301 to $250,525	$383,901 to $487,450	$394,601 to $501,050
35%	$243,726 to $609,350	$250,526 to $626,350	$487,451 to $731,200	$501,051 to $751,600
37%	$609,351 and over	$626,351 and over	$731,201 and over	$751,601 and over

Source: Internal Revenue Service

<u>State and Local Tax</u>

The new law capped the deduction for state and local taxes at $10,000 through 2025.
2024 State and local tax burdens

D. <u>Businesses and the TCJA</u>

- Corporate Tax Rate: The law created a single corporate tax rate of 21% and repealed the corporate AMT. These provisions do not expire. Supporters of cutting the corporate tax rate argued that it reduced incentives for corporate inversions, in which companies shift their tax base to low or no tax jurisdictions, often through mergers with foreign firms.
- Immediate Expensing: TCJA allows full expensing of short-lived capital investments rather than requiring them to be depreciated over time. The section 179 deduction cap doubles to $1 million, and phaseout begins after $2.5 million of equipment spending, up from the previous $2 million.
- Pass-Through Income: Owners of pass-through businesses—which include sole proprietorships, partnerships, and S-corporations—gained a 20% deduction for pass-through income. To discourage high earners from recharacterizing regular

wages as pass-through income, the deduction is capped at 50% of wage income or 25% of wage income plus 2.5% of the cost of qualifying property.

- Interest: The net interest deduction is capped at 30% of earnings before interest and taxes (EBIT).
- Cash Accounting: Businesses with up to $25 million in average annual gross receipts over the preceding three years can use cash accounting—up from the old tax code's $5 million.
- Net Operating Losses: The law scrapped net operating loss (NOL) carrybacks and caps carryforwards at 90% of taxable income, falling to 80%.
- Section 199: The law eliminated the section 199 (domestic production activities) deduction for businesses that engage in domestic manufacturing and other production work.
- Foreign Earnings: The law introduced a territorial tax system under which only domestic earnings are subject to tax. Companies with over $500 million in annual gross receipts are subject to the base erosion anti-abuse tax, designed to counteract base erosion and profit shifting, a tax-planning strategy that involves moving taxable profits from one country to another with low or no taxes. BEAT is calculated by subtracting a company's regular corporate tax liability from 10% of its taxable income, ignoring base-eroding payments.

E. <u>Intangible Property</u>

a. TCJA altered the treatment of intangible property held abroad, such as patents, trademarks, and copyrights. For instance, Nike (NKE) houses its Swoosh trademark in an untaxed Dutch subsidiary.

b. When the foreign tax rate on foreign earnings above a 10% standard rate of return is below 13.125%, the law taxes these excess returns at 21%, after a 50% deduction and a deduction worth 37.5% of FDII. This excess income, which the law assumes to be derived from intangible assets, is called global intangible low-taxed income (GILTI). Credits can offset up to 80% of GILTI liability.

c. Foreign-derived intangible income refers to that which is from the export of intangibles held domestically, which is taxed at a 13.125% effective rate, rising to 16.406% after 2025.

<u>Tax Professional's Alert</u>: The Tax Cuts and Jobs Act (TCJA) was a major tax code overhaul signed into law in 2018 by President Trump in his first term. TCJA cut taxes for shareholders and individual taxpayers alike.

Part II
OBBBA
One Big Beautiful Nill Act - 2025

In a series of marathon Senate and House sessions leading up to the July 4th holiday, Congress passed the Act (formerly referred to as the One Big Beautiful Bill or OBBB). The Act makes the 2017 Tax Cuts and Jobs Act tax cuts permanent.

The Act provides additional tax relief, including enhanced child tax credits, standard deductions, and small business deductions. It introduces new tax breaks for workers (e.g., no tax on tips, overtime, or auto loan interest for U.S.-made cars) and families (e.g., expanded childcare credits, school choice credits, senior exemptions, and savings accounts for children).

The legislation also restores and makes permanent many business provisions, such as full expensing for R&D and capital investments, and enhances Opportunity Zone incentives. It cuts Inflation Reduction Act spending, eliminates certain tax credits (like for commercial EVs), and promotes domestic energy production, including nuclear.

This following provides an overview of the major provisions of the Act.

Extension and Enhancement of Reduced Income Tax Rate

Under pre-Act law, for tax years 2018 through 2025, the Tax Cuts and Jobs Act (TCJA) temporarily modified the number of income tax brackets and reduced the income tax rates for individuals and trusts and estates. For individuals, the rates and brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. For trusts and estates, the rates and brackets are: 10%, 24%, 35% and 37%.

After 2025, the pre-TCJA rates and brackets were scheduled to apply once again. For individuals, those would be rates and brackets of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%, and for trusts and estates, rates and brackets of 15%, 28%, 31%, 36% and 39.6%.

In addition, for 2018-2025, the TCJA expanded the income range for each tax rate bracket, and eliminated most of the "marriage penalty" in the individual tax rate structure (i.e., the result where married joint filers end up paying more tax than they would as single filers) by setting the joint filing tax brackets at twice the single tax bracket amounts, other than for the top tax bracket.

The TCJA did not change the net capital gains and qualified dividends tax rates (of 0%, 15%, and 20%), but did modify the "breakpoints" at which those rates apply for 2018 through 2025.

This section makes the TCJA tax rate reductions and bracket changes, marriage penalty fix, and capital gains/qualified income breakpoints permanent. (Act Sec. 70101(a) amends Code Sec. 1(j))

<u>Indexing for inflation</u>.

The TCJA also modified the rules for the inflation indexing of the income tax brackets to require that the brackets be adjusted annually for inflation each tax year using the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for the prior year exceeds the chained CPI for 2017.

For tax years beginning after December 31, 2025, the section makes the base tax year for measuring the prior year chained CPI, 2016 (instead of 2017) for the 10% and 12% individual tax brackets, and the 10% trust and estate tax bracket. The base year remains 2017 for the 22%, 24%, 32%, 35%, and 37% individual tax rate brackets, and the 24%, 35% and 37% trust and estate tax brackets. (Act Sec. 70101(b) amends Code Sec. 1(j)(3)(B)(i))

<u>Tax Professional's Alert</u>: ***Permanent Tax Rates and Standard Deductions: What it is: The OBBBA makes the individual income tax rates (10%, 12%, 22%, 24%, 32%, 35%, and 37%) from the 2017 Tax Cuts and Jobs Act (TCJA) permanent, preventing them from increasing as scheduled. Crucially, it also permanently increases the standard deduction amounts (e.g., to $15,750 for single filers, $23,625 for heads of household, and $31,500 for married couples filing jointly starting in 2025), with inflation adjustments. Personal exemptions remain at zero.***

Why it matters:

This provides long-term stability and generally lower tax burdens for most Americans. Taxpayers need to be aware of these permanent figures to accurately estimate their taxable income and determine if they should take the standard deduction or itemize. For many, the increased standard deduction will mean they no longer benefit from itemizing.

The section is effective for tax years beginning after December 31, 2025. (Act Sec. 70101(c))

<u>Extension and Enhancement of Increased Standard Deduction</u>

The standard deduction is the sum of the basic standard deduction based on filing status and the additional standard deduction amounts for age 65 and older, and/or blindness. These amounts are indexed annually for inflation.

Under pre-Act law, for tax years 2018 through 2025, the TCJA temporarily increased the basic standard deduction amounts, but not the additional standard deduction.

For tax years 2018 through 2025, the basic standard deduction statutory amounts (before any inflation adjustment) are: $24,000 for joint filers and surviving spouses (computed as 200% of the single filers' amount); $18,000 for heads of household; and $12,000 for singles and marrieds filing separately.

The TCJA also modified the rules for the inflation indexing of the statutory base standard deduction amounts to require that they be adjusted annually for inflation each tax year using the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for the prior year exceeds the chained CPI for 2017. (For 2025, the inflation-adjusted basic standard deduction amounts are: $30,000 for joint filers and surviving spouses; $22,500 for heads of household; and $15,000 for singles and marrieds filing separately.)

For tax years beginning after Dec. 31, 2025, the basic standard deduction amounts were scheduled to revert to the pre-TCJA statutory amounts. Those un-inflated-adjusted amounts were: for a joint return or surviving spouse, 200% of the dollar amount in effect for an unmarried individual; for a head of household, $4,400; and for a single or married-filing-separate return, $3,000.

This section increases the basic standard deduction statutory amounts for tax years beginning after 2025 (Act Sec. 70102(c)) to: $31,500 for joint filers and surviving spouses (computed as 200% of the single filers' amount); $23,625 for heads of household; and $15,750 for singles and marrieds filing separately. (Act Secs. 70102(a), 70102(b)(1) and 7010(b)(2) amend Code Sec. 63(c)(7))

The section also modifies the inflation adjustment for the basic standard deduction for tax years beginning after 2025, to make the base tax year for measuring the prior year chained CPI, 2024 (instead of 2017). (Act Secs. 70102(b)(1), 70102(b)(2), 70102(b)(3) and 70102(b)(4) amend Code Sec. 63(c)(7)(B)(ii))

Tax Professional's Alert ***:The standard deduction is worth $15,000 for single filers and $30,000 for joint filers in 2025 and was scheduled to be cut in half next year. The OBBBA preserves the more generous standard deduction and increases it slightly to $15,750 for single filers and $31,500 for joint filers in 2025, indexed to inflation annually moving forward.***

The more generous standard deduction improves tax simplicity by reducing the number of taxpayers who benefit from itemizing over taking the standard deduction. According to our estimates, about 14.2 percent of taxpayers will itemize in 2026 under the OBBBA, compared to about 32 percent itemizing that year if no action was taken on tax policy and the TCJA provisions expired.

The section is effective for tax years beginning after December 31, 2024. (Act Sec. 70102(c))

<u>Extension and Enhancement of Increased Child Tax Credit; Credit for Other Dependents Extended</u>

<u>Child tax credit</u>.

Under pre-Act law, for tax years 2018 through 2025, the TCJA temporarily modified the child tax credit (CTC) to: increase the credit amount to $2,000 per qualifying child (without adjustment for inflation); increase the refundable portion of the credit (the "additional child tax credit") to $1,400, adjusted annually for inflation (using chained CPI computed using 2017 as the base year) ($1,700 for 2025); decrease the earned income threshold at which taxpayers may qualify to claim the credit, to $2,500 (without adjustment for inflation); and increase the modified adjusted gross income (MAGI) threshold amounts at which the credit begins to phase out to $400,000 for joint filers, and $200,000 for all other filers (without adjustment for inflation).

In addition, for 2018 through 2025, to claim the credit, the TCJA requires that the taxpayer include the qualifying child's Social Security Number (SSN), issued on or before the due date of the return, on the return.

For tax years after 2025, the CTC rules were scheduled to revert to pre-TCJA levels: a $1,000 per qualifying child CTC amount; a maximum $1,000 refundable credit amount; an earned income threshold of $3,000; and MAGI phase-out thresholds of $110,000 for joint filers, $75,000 for singles or heads of household, and $55,000 for marrieds filing separately--none of which are indexed for inflation.

And, post-2025, the qualifying child's name and taxpayer identification number, either an SSN or an Individual Taxpayer Identification Number (ITIN) issued on or before the due date of the return, would have to be included on the tax return.

This section, for tax years after 2025, makes all of the TCJA changes to the CTC permanent (Act Sec. 70104(a) amends Code Sec. 24(h)(1)), with the following modifications: (1) the nonrefundable CTC amount is increased to $2,200 per qualifying child (Act Sec. 70104(a)(2) amends Code Sec. 24(h)(2)), and is indexed for inflation for tax years after 2025, using chained CPI computed using 2024 as the base year (Act Sec. 70104(c) amends Code Sec. 24(i)); and (2) to claim the credit, the taxpayer is required to include on the tax return both the taxpayer's SSN (or for a joint return the SSN of at least one spouse) and the qualifying child's SSN.

A qualifying SSN for these purposes is an SSN issued by the Social Security Administration to a U.S. citizen or national or pursuant to a provision of the Social Security Act relating to lawful admission for employment in the U. S. (Act Sec. 70104(b) amends Code Sec. 24(h)(7))

Credit for other dependents.

Under current law, for tax years 2018 through 2025, the TCJA provides a temporary $500 nonrefundable credit (not adjusted for inflation) for dependents who don't qualify for the CTC--including children aged 17 or over, children with no SSN, and qualified dependents who aren't children (e.g., parents or siblings). The credit is available for dependents who are U.S. citizens, U.S. nationals, or U.S. resident aliens who have either an SSN or an ITIN. The credit for other dependents phases out at MAGI of $400,000 for married joint filers, and $200,000 for all other filers (without adjustment for inflation).

For tax years after 2025, the $500 credit would have expired.

This section makes the credit for other dependents permanent. The credit continues not to be adjusted for inflation. (Act Sec. 70104(a) amends Code Sec. 24(h)(1))
Omission of correct SSN on a return. Omission of a correct SSN on a return under the Code Sec. 24 child and other dependent credit rules will be treated as a mathematical or clerical error that IRS can summarily assess. (Act Sec. 70104(e) amends Code Sec. 6213(g)(2)(I))

Tax Professional's Alert: If you are responsible for a child or other dependent, you may qualify for a credit on your tax return.

Claim the Child Tax Credit

Even if you do not normally file a tax return, you may qualify for a tax break by claiming the Child Tax Credit. Your eligibility depends on your income, the child's age, how you are related to the child, and other factors.

Credit for Other Dependents

If you are not eligible for the Child Tax Credit, you may be able to claim the Credit for Other Dependents. The maximum amount you can receive for each dependent is $500. Your eligibility will depend on your income and whether your dependent qualifies.

The section is effective for tax years beginning after December 31, 2024. (Act Sec. 70104(f))

Individual SALT Limitation

The TCJA capped the individual deduction for state and local taxes at $10,000 ($5,000 for marrieds filing separately). (Code Sec. 164(b)(6)) That cap was slated to sunset December 31, 2025.

The Act retroactively increase es the individual SALT deduction cap from $10,000 to $40,000 for 2025. It further increases the cap to $40,400 in 2026, and by an additional 1% in 2027, 2028, and 2029.

The Act phases out the deduction for taxpayers with modified adjusted gross income (MAGI) greater than $500,000 in 2025. The phaseout threshold increases to $505,000 in 2026, and by an additional 1% after.

For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The Act provides, however, that the deduction will not be reduced below $10,000.

Under the Act, the individual SALT deduction cap will revert to $10,000 beginning in 2030.

***Tax Professional's Alert*: SALT cap: Temporarily increased with income limitations Ultimately, a compromise to save the SALT cap was found between the cacophony of policymakers, taxpayers, and members of Congress. The OBBBA raises the SALT limitation to $40,000 ($20,000, for married separate filers) beginning in 2025 through tax year 2029, after which the limitation will revert to $10,000 ($5,000 for married separate filers).**

The limitation is phased down for taxpayers with modified adjusted gross income (AGI) over $500,000 ($250,000 for married separate filers) for the same period. Under this phasedown, the $40,000 limitation is reduced by 30% of the excess of modified AGI over the threshold amount, not to be reduced below $10,000.

Both the limitation and the modified AGI threshold are increased by 1% each year through 2029.

Pass-through entity taxes (PTET)

Notably, the OBBBA makes no changes to the deductibility of PTETs by a pass-through entity, what types of taxpayers can make state PTET elections, or the ability of taxpayers to make state PTET elections.

The final legislation omitted some changes that the House of Representatives approved on May 22 and others that the Senate proposed in its first draft of legislative text; more specifically, restrictions and, in some cases, complete limitations on a pass-through entity's ability to deduct state PTET.

Next steps for pass-through entities

Accordingly, for most highly profitable flow-through entities, the analysis of whether to elect into a state PTET regime does not meaningfully change.

Through the end of 2025, 36 states and New York City provide a PTET election that would subject the pass-through entity to an entity-level tax in lieu of the owners' being subject to an individual income tax on their distributive share of earnings. A few state

elections are expiring at the end of 2025—including Illinois, Oregon, and Utah—but are generally anticipated to be re-enacted next year.

While this may seem like a simple analysis, there are a myriad of considerations for pass-through entities and their owners to consider before electing into a PTET. For example:

- ***Do all pass-through entities qualify?***
- ***Must all members agree to elect into the tax and will all members benefit from electing into the pass-through entity tax?***
- ***How is the taxable base calculated?***
- ***Sourcing rules may be different for the entity versus the individual member. These differences may have a significant impact for some taxpayers.***
- ***How does a pass-through entity treat net operating losses?***
- ***Is depreciation from basis step-up adjustments deductible at the entity level?***
- ***Is the amount paid by the entity fully creditable or excluded in the same state for the member?***
- ***Are there other administrative complexities that may outweigh the ultimate savings?***
- ***Is a full credit of the tax paid by the entity available for individual tax purposes? (for example, the elective tax in Massachusetts provides a 90% credit)***

There may also be other tax considerations that make the election undesirable. For example, in large, multistate partnerships, a PTET election may provide tax savings for select owners, while increasing tax on other owners, thus producing an unintended result.

Understanding whether a pass-through entity election results in a benefit requires modeling and detailed analysis of all the risks and opportunities involved. Pass-through entities and their owners would be well advised to conduct thorough due diligence to understand how and whether any PTET election is ultimately beneficial.

The provision is effective for tax years beginning after December 31, 2024. (Act Sec. 70120, amends Code Sec. 164(b)(6))

Extension and Increase of Basic Exclusion Amount

U.S. citizens and residents are allowed a unified credit of the applicable credit amount against any estate and gift tax imposed on transfers during life or at death. The applicable credit amount is the amount of tentative tax that would be imposed on transfers that value the applicable exclusion amount. For estates of decedents dying and gifts made after 2009, the applicable exclusion amount is the sum of the basic exclusion amount and, if applicable, the deceased spousal unused exclusion amount.

Under pre-Act law, the basic exclusion amount was $5 million under Code Sec 2010(c)(3)(A). For estates of decedents dying or gifts made after December 31, 2017 through December 31, 2025, the basic exclusion amount was increased to $10 million under Code Sec. 2010(c)(3)(C). (Code Sec. 2010(c)(3))

Effective 2026, the basic exclusion amount will increase to $15 million under Code Sec. 2010(c)(3)(A). The basic exclusion amount is adjusted for inflation after 2025 under Code Sec. 2010(c)(3)(B). Code Sec. 2010(c)(3)(C) is removed. (Act Sec. 70106(a))

<u>Tax Professional's Alert</u>: The 2017 Tax Cuts and Jobs Act (TCJA) temporarily doubled the lifetime estate, gift, and generation-skipping transfer tax exemptions for U.S. citizens and green card holders, from $5 million to $10 million (adjusted for inflation). Currently, the exemption for 2025 is set at $13.99 million per individual (1) for the gift and estate tax exemptions (which are unified such that if an individual uses less than all of his or her gift exemption during life, the balance is available to apply against his or her estate tax liability at death) and (2) for the generation-skipping transfer tax exemption.

As a result, married U.S. citizen couples effectively have twice the exemption between them, which equates to a $27.98 million exemption through 2025. The doubled exemption limit was due to sunset at the end of 2025, which would have caused it to revert back to the pre-TCJA $5 million limit (adjusted for inflation) per individual. In the years leading up to OBBBA, clients and advisors alike have been concerned that taxpayers may lose the ability to make significant tax-free gifts with the inflated lifetime exemption amounts.

As a result, the last few years have seen dramatically increased rates of gifting and filing of gift tax returns. OBBBA, however, alleviates this rush to finish significant gifts this year by permanently extending the exemption, raising it to $15 million per individual in 2026. This provision does not sunset but rather continues to increase for inflation adjustments going forward, beginning in 2027. While OBBBA has eased the end-of-year gifting crunch that many were expecting, there may still be good and important reasons for making gifts sooner rather than later and discussing with your tax advisors is always recommended.

This provision is effective for estates of decedents dying and gifts made after December 31, 2025. (Act Sec. 70106(b))

<u>Pease Limitation Repealed</u>

Pre-TCJA, taxpayers were subject to an overall limitation on itemized deductions, known as the "overall limitation on itemized deductions," the "3%/80% rule," or the "Pease limitation." (Code Sec. 68) Under the Pease limitation, if an individual's adjusted gross income (AGI) exceeded the inflation-adjusted applicable amount, then the amount of itemized deductions otherwise allowed for the tax year was reduced by the lesser of: (a) 3% of the excess of AGI over the applicable amount, or (b) 80% of the amount of itemized deductions otherwise allowable for the tax year.

Pre-Act, the Pease limitation was set to apply again in tax year 2026. Applicable thresholds were $250,000 for single filers, $275,000 for head of household filers, and $300,000 for married joint filers, all adjusted for inflation.

The Act permanently repeals the Pease limitation and instead generally applies a 2% reduction. Under the Act, itemized deductions will be reduced by 2/37 of the lesser of (a) the amount of the deductions or (b) the taxable income that exceeds the dollar amount at which the 37% rate bracket begins.

The Act excludes from the limitation the Code Sec. 199A deduction for qualified business income.

***Tax Professional's Alert*: Under OBBBA, the Pease limitation is permanently eliminated and, in its place, high earners in the top 37% tax bracket are now limited to a $0.35 tax benefit per $1 of itemized deductions, including SALT. This new limitation goes into effect starting in 2026.**

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70111, amends Code Sec. 68)

Individual Alternative Minimum Tax Exemption Amounts Permanently Increased, Phaseout Thresholds Modified

An individual's alternative minimum tax (AMT) liability is calculated by subtracting an exemption amount from the individual's alternative minimum taxable income (AMTI). The exemption amounts are phased out above certain income thresholds.

The TCJA increased individual AMT exemption amounts and exemption phaseout thresholds through December 31, 2025. (Code Sec. 55(d)(4)) The statutory AMT exemption dollar amounts for 2017 to 2025 are $70,300 ($109,400 for marrieds filing jointly), adjusted for inflation. The amount is reduced by 25% of the amount by which AMTI exceeds $1,000,000, adjusted for inflation (or 25% of the amount by which AMTI exceeds 50% of the married-filing-jointly phaseout threshold amount for individuals or marrieds filing separately).

Under the Act, individual AMT exemption amounts are increased permanently. In addition, the exemption phaseout threshold is set at $500,000 (or $1,000,000 for joint returns) in 2026, and indexed for inflation. The Act also increases the phase-out rate for higher-income taxpayers from 25% to 50%.

***Tax Professional's Alert*: The alternative minimum tax (AMT) was created in 1969 to close tax loopholes for those in higher tax brackets. Since it mainly affects the wealthiest individuals and couples, the AMT may never come into play for most U.S. taxpayers.**

The 2017 Tax Cuts and Jobs Act (TCJA) increased the AMT exemption amounts and exemption phaseout thresholds, lowering the number of taxpayers who were subject to the alternative minimum tax. The 2025 legislative package known as the (or OBBBA) makes the higher exemption amounts permanent but modifies the exemption phaseout thresholds.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70107, amends Code Sec. 55(d)(4))

<u>Repayment Cap on Excess Advance PTC Payments Is Eliminated</u>

Taxpayers can elect to have advance payments of their estimated premium tax credit (PTC) made directly by IRS to the insurer. Taxpayers who choose this option must reconcile the advance payments with the actual credit (on Form 8962) when they file their returns. If the advance payments exceed the PTC to which the taxpayer is entitled for the tax year, the taxpayer generally owes the excess amount as an additional income tax.

Under pre-Act law, a "repayment cap" limited the additional tax to an applicable dollar amount, for taxpayers whose household income was less than 400% of the federal poverty line (FPL) for a family of the size involved.

For tax years beginning in 2025, the applicable dollar amounts are $750 if household income is less than 200% of the FPL, $1,950 if household income is at least 200% but less than 300% of the FPL, and $3,250 if household income is at least 300% but less than 400% of the FPL. For unmarried individuals other than surviving spouses or heads of household, the applicable dollar amounts are one-half of the above amounts.

The Act strikes Code Sec. 36B(f)(2)(B), which provides for the repayment cap. (Act Sec. 71305(a) amends Code Sec. 36B(f)(2))

As a result, all taxpayers will have to repay their excess advance PTC payments in their entirety.

<u>Tax Professional's Alert</u>: ***The OBBBA imposes new requirements for Premium Tax Credit (PTC) recipients. For example, beginning in 2028, eligible individuals must annually verify information such as household income, immigration status and place of residence. Previously, many insureds were allowed to automatically re-enroll annually.***

Beginning in 2026, individuals who receive excess advanced PTCs based on estimated annual income must return the entire excess unless actual income is less than 100% of the federal poverty limit. Currently, individuals with incomes below 400% of the limit are required to make only partial repayments.

Historical personal exemption deduction. Under Internal Revenue Code (IRC) 151, taxpayers were historically allowed to claim a personal exemption deduction for themselves, their spouse, and qualifying dependents. For tax years prior to 2018, this deduction reduced taxable income by a set amount per eligible individual. Suspension of the deduction by the TCJA. The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the personal exemption deduction for tax years 2018 through 2025. During this period, the deduction amount was set to zero for most taxpayers, but the underlying statutory language remained in place, allowing for the deduction to return after 2025 unless further legislative action was taken.

This change is effective for tax years beginning after December 31, 2025. (Act Sec. 71305(c))

Permanent elimination and introduction of senior deduction.

Section 70103 of the Act amends Code Sec. 151(d)(5) to permanently eliminate the personal exemption deduction for most taxpayers. However, this section also introduces a new, temporary deduction specifically for seniors.

Personal Exemptions

Under United States tax law, a personal exemption is an amount that a resident taxpayer is entitled to claim as a tax deduction against personal income in calculating taxable income and consequently federal income tax. In 2017, the personal exemption amount was $4,050, though the exemption is subject to phase-out limitations. The personal exemption amount is adjusted each year for inflation. The Tax Cuts and Jobs Act of 2017 eliminated personal exemptions for tax years 2018 through 2025, and the One Big Beautiful Bill Act made the elimination permanent except for taxpayers aged 65 and up.

The exemption is composed of personal exemptions for the individual taxpayer and, as appropriate, the taxpayer's spouse and dependents, as provided in Internal Revenue Code at 26 U.S.C. § 151.

Section 151 of the Internal Revenue Code was enacted in August 1954, and provided for deductions equal to the "personal exemption" amount in computing taxable income. The exemption was intended to insulate from taxation the minimal amount of income someone would need receive to live at a subsistence level (i.e., enough income for food, clothes, shelter, etc).] In addition to personal exemptions, taxpayers may claim other deductions that further reduce the level of income subject to taxation.

Generally speaking, for tax years prior to 2018, personal exemption can be claimed by the taxpayer and qualifying dependents. A personal exemption may also be claimed for a spouse if (1) the couple files separately, (2) the spouse has no gross income, and (3) the spouse is not the dependent of another, §151(b). For taxpayers filing a joint return with a spouse, the Treasury Regulations allow two personal exemptions as well.

If a taxpayer could be claimed as a dependent by another taxpayer (regardless of whether anyone actually claims them), he or she cannot claim a personal exemption for himself or herself.

In computing taxable income, taxpayers may claim all personal exemptions for which they are eligible under §151, and deduct that amount from the adjusted gross income (AGI).

Phase-out

The personal exemptions begin to phase out when AGI exceeds $309,900 for 2017 joint tax returns and $258,250 for 2017 single tax returns. Each tax exemption is reduced by 2% for each $2,500 by which a taxpayer's AGI exceeds the threshold amount until the benefit of all personal exemptions is eliminated.

In 2017, the personal exemption amount was $4,050, and it began to phase out at, and reached the maximum phaseout amount after, the following adjusted gross income amounts:

Filing status	AGI – Beginning of phaseout (2017)	AGI – Maximum phaseout (2017)
Married filing jointly	$313,800	$436,300
Heads of households	$287,650	$410,150
Single	$261,500	$384,000
Married filing separately	$156,900	$218,150

Details of the senior deduction.

Taxpayers aged 65 or older-and their spouses, if filing jointly-can claim a $6,000 deduction per qualified individual for tax years beginning before January 1, 2029 (i.e., tax years 2025-2028). This senior deduction is reduced by 6% (but not below zero) for the adjusted gross income that exceeds $75,000 (or $150,000 for joint filers).

Social Security Number requirement. To claim the deduction, the taxpayer must include the qualifying individual's Social Security number (SSN) on the return. The law amends Code Sec. 6213(g)(2) to treat the omission of a correct SSN for the senior deduction as a mathematical or clerical error, allowing the IRS to disallow the deduction without a formal audit.

***Tax Professional's Alert*: The One Big Beautiful Bill Act (OBBBA) does not directly change Social Security benefit amounts or the taxation of those benefits. However, it does include a temporary, nonrefundable senior deduction for taxpayers aged 65 or older that could indirectly affect those receiving Social Security benefits.**

Here's a breakdown:

- ***No direct impact on benefit amounts:***

The OBBBA does not alter the way Social Security benefits are calculated or the percentage of benefits subject to taxation (up to 85%).

- ***Temporary senior deduction:***

The OBBBA creates a temporary deduction of up to $6,000 for single filers and $12,000 for married couples filing jointly, for those aged 65 or older.

- ***Phase-out of senior deduction:***

This deduction phases out as modified adjusted gross income (MAGI) increases, with complete phaseout at $175,000 for single filers and $250,000 for joint filers.

- ***Indirect impact:***

By providing a senior deduction, the OBBBA could reduce the taxable income of some retirees, potentially lowering their overall tax liability, but it doesn't change the fundamental structure of Social Security taxes.
In essence, while the OBBBA doesn't directly modify Social Security benefits, the new senior deduction could offer some financial relief to older taxpayers who also receive Social Security benefits.

Effective date. These changes apply to tax years beginning after December 31, 2024 (Act Section 70103 amends Code Sec. 151(d)(5)).

No Tax on Car Loan Interest

Under pre-Act law, individual taxpayers cannot deduct 'personal interest' such as interest on loans used to purchase cars for personal use.

The Act provides individuals (including non-itemizers) with a temporary tax deduction for interest paid on loans used to purchase a new personal-use passenger vehicle.

For tax years 2025-2028, individuals can deduct up to $10,000 of car loan interest per year, subject to a phase-out starting at $100,000 modified adjusted gross income (MAGI) for single filers ($200,000 for joint filers). To qualify for the deduction:

The debt must be incurred after December 31, 2024, for the purchase of a new personal use vehicle, secured by a first lien on the vehicle, and the vehicle's original use must begin with the taxpayer.

The vehicle must be a car, minivan, van, SUV, pickup truck, or motorcycle, with a gross vehicle weight rating under 14,000 pounds, and final assembly of the vehicle must occur in the United States, and

The taxpayer must report the vehicle identification number (VIN) on their tax return.

In addition, the provision requires lenders to file information returns reporting interest received on qualified personal auto loans with the IRS.

__Tax Professional's Aler__**t:** ***Who Qualifies for the Deduction?***
To qualify for the car loan interest deduction:

✅ ***The vehicle must be brand new, not used.***
✅ ***The car's final assembly must take place in the United States.***
✅ ***The vehicle must be for personal use only.***
✅ ***Commercial and fleet vehicles are not eligible.***

Income Limits and Phaseouts

The deduction phases out for higher-income earners:

<u>Single Filers</u>:

Starts phasing out at $100,000 AGI.

Fully phased out at $150,000 AGI.

<u>Married Filing Jointly</u>:

Starts phasing out at $200,000 AGI.

Fully phased out at $250,000 AGI.

If your income exceeds these limits, you may qualify for only a partial deduction—or none at all.

<u>How to Claim the Deduction</u>

Here's what you will need:

Vehicle Purchase Records – Keep copies of your sales contract and financing documents.

Lender Interest Statements – Obtain annual statements showing how much interest you paid.

Proof of Final Assembly Location – Check the vehicle's window sticker or use the NHTSA VIN lookup tool to verify assembly in the U.S.

The IRS is expected to release a form to help taxpayers identify qualifying vehicles, similar to what's used for electric vehicle tax credits.

<u>Important Deadlines</u>

This deduction applies only to vehicles purchased between 2025 and 2028. Unless Congress acts to extend it, the provision will expire at the end of 2028.

<u>Key Takeaways</u>

Deduction Amount: Up to $10,000 annually for interest on qualifying car loans.

Eligibility Window: Applies to vehicles purchased 2025–2028.

<u>Assembly Requirement</u>:

New vehicles must be assembled in the United States.

<u>Income Limits</u>:

Phases out for single filers above $100,000 AGI and married couples above $200,000 AGI.

<u>No Itemization Required</u>:

You can claim this deduction even if you take the standard deduction.

If you're thinking about buying a new car, now is the time to consider models that qualify under the OBBBA and take advantage of this limited-time tax savings opportunity.

The provision applies to qualified indebtedness incurred after December 31, 2024. (Act Sec. 70203(e) amends Code Sec. 613(h) and Code Sec. 6050AA).

<u>Enhancement of Child and Dependent Care Credit</u>

Under pre-Act law, 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. For this purpose, employment-related expenses are expenses for household services and expenses for the care of a qualifying individual.

This credit is 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 rate.

The credit rate varies by the taxpayer's adjusted gross income, with a maximum credit rate of 35% that declines, as AGI increases, to 20% for taxpayers with AGI above $43,000.

The Act increases the maximum credit rate to 50%, reduced by one percentage point, but not below 35%, for each $2,000 or fraction thereof by which the taxpayer's AGI exceeds

$15,000. For AGIs between $43,001 and $75,000 ($86,001 and $150,000, respectively, in the case of a joint return), the credit rate is 35%.

This credit rate is further phased down to 20% for AGI between $75,001 and $105,000 ($150,001 and $210,000, respectively, in the case of a joint return).
This provision is effective for tax years after December 31, 2025. (Act Sec. 70405 amends Code Sec. 21)

Key Takeaways

- The Child Tax Credit can be worth up to $2,000 per qualifying child for the 2024 tax year and up to $2,200 for 2025. However, the maximum credit can be reduced if your modified adjusted gross income is above a certain amount.
- With the passage of the One Big Beautiful Bill, the 2025-2026 Child Tax Credit adds an eighth qualifying test: work-eligible Social Security Numbers for both the child and the person claiming the credit (only one filer is required to have the number for a joint tax return).
- To be a “qualifying child,” your child must be 16 or younger at the end of the year, have a Social Security number, live with you for more than half of the tax year, and satisfy several other requirements.
- The Child Tax Credit is a partially refundable credit. The refundable portion – which is known as the Additional Child Tax Credit – is up to $1,700 per qualifying child for the 2024 and 2025 tax years.

<u>What is the Child Tax Credit</u>?

From diapers and formula when they’re babies to braces and car insurance when they’re teenagers, parents fork out a lot of money for their children every year. Fortunately, Uncle Sam provides a valuable tax break that can help offset some of these costs – it’s called the Child Tax Credit.

The Child Tax Credit is a federal income tax credit available to certain families with children. For the 2024 tax year, it’s worth up to $2,000 for each qualifying child. However, that amount can be reduced – potentially to $0 – if your modified adjusted gross income for the year is too high. The 2025 Child Tax Credit increases to $2,220 per eligible child.

The credit is also partially refundable. This basically means it can trigger a tax refund if the credit amount is greater than the tax you owe before applying the credit. But the refundable amount – known as the Additional Child Tax Credit – may be limited.

If you have children, you will certainly want to claim the Child Tax Credit on your 2024 and 2025 tax returns if you can. But to take full advantage of this valuable tax break, you need to be familiar with the eligibility requirements, how the credit is calculated, how to claim the credit, and more.

So, let's take a closer look at the 2024 - 2025 Child Tax Credit so you can get all the tax savings you're entitled to from this federal tax credit.

Who can claim the Child Tax Credit?

To claim the Child Tax Credit, first and foremost, you must have at least one "qualifying child" (more on this in a minute).
In addition, you (or your spouse if you're filing a joint return) must have a Social Security number or Individual Taxpayer Identification Number (ITIN) issued by the date your federal income tax return is due (including any tax filing extensions).

You can meet this requirement if you apply for an ITIN by the deadline and the IRS actually issues one to you.

Finally, you generally can not claim the Child Tax Credit if you (or your spouse if you are filing jointly) can be claimed as a dependent on someone else's tax return.

However, you can still claim the credit if the person who could claim you as a dependent on their return either:

- isn't required to file a return, and actually doesn't file
- files a return only to get a refund for withheld income taxes or estimated taxes paid for the tax year, and doesn't claim you as a dependent

What is a "qualifying child" for purposes of the Child Tax Credit?

As noted earlier, you can only claim the Child Tax Credit if you have a "qualifying child."

To qualify, a child generally has to pass the following eight tests:
1. Age test. Your child has to be 16 or younger at the end of the tax year to qualify for the Child Tax Credit. Since it's the child's age on December 31 that matters, a kid that turns 17 or older at any time during the year isn't a qualifying child for purposes of the credit.

On the other hand, a child that's born (or adopted) at any time during the tax year – even if it's at 11:59 p.m. on December 31 – can be a qualifying child for the year if all the other tests are met.

2. Relationship test. A child generally has to be either your:

- biological child
- stepchild
- adopted child
- foster child
- sibling (including a stepbrother, stepsister, half-brother, or half-sister)

However, a qualifying child can also be a descendant of one of the above (such as a grandchild, niece, or nephew).

3. Dependency test. The child must be claimed as a dependent on your tax return to be a qualifying child. Simply being able to claim the child as a dependent isn't enough – you must actually do it.

If a child's parents are divorced or separated, the custodial parent is usually the one who claims the child as a dependent. However, the non-custodial parent can claim the child as a dependent in certain cases (see below for more information).

4. Financial support test. A qualifying child can't provide more than half of their own financial support for the tax year.

Temporary Assistance to Needy Families (TANF) payments or similar assistance used to support a child don't count when determining if the child provided more than half of their own support. The same is true for money you receive from the government or a placement agency for a foster child's support.

On the other hand, if a child receives Social Security benefits and uses them toward their own support, the benefits are treated as if they are provided by the child.

5. Residency test. A child generally has to live with you for more than half of the tax year to be a qualifying child for Child Tax Credit purposes. However, there are a few exceptions to this requirement that apply in certain situations.

For example, temporary absences – such as for school, vacation, medical care, or detention in a juvenile facility – count as time lived with you.

If a child is born or dies during the tax year, the residency test is satisfied if the child lives in your home for more than half the time they were alive that year. If a child had to stay in the hospital following birth, the time spent in the hospital is also treated as time living in your home.

Likewise, an adopted or foster child passes the residency test if they're adopted or placed with you during the tax year, and they lived in your home for more than half the time since they were adopted or placed with you.

An exception to the residency test may also apply if your child is kidnapped by someone who isn't a family member.

In addition, when a child's parents are divorced or separated, special rules may allow the non-custodial parent to claim the Child Tax Credit in certain situations).

6. Joint return test. A child that is married and files a joint return generally isn't a qualifying child. However, a child can still qualify if they file a joint return if it's only filed to claim a refund for withheld taxes or estimated tax payments.

7. Citizenship test. A child generally has to be a U.S. citizen, U.S. national, or U.S. resident alien to be a qualifying child for purposes of the Child Tax Credit. However, if you're a U.S. citizen or U.S. national and your adopted child lived with you all year as a member of your household, the child is treated as a U.S. citizen.
According to the IRS, a U.S. national is someone who isn't a U.S. citizen but owes allegiance to the U.S. This includes American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

A U.S. resident alien is generally someone who has a green card or has been physically present in the U.S. for a certain period of time.

The One Big Beautiful Bill changed some of the requirements and amounts of the Child Tax Credit for 2025 and for future years. The bill adds an eighth requirement to the seven from above:

8. Work-eligible Social Security Number Requirement - The person claiming the credit (at least one person if filing a joint tax return) and the child are required to have Social Security Numbers that make them eligible for work in the United States.
In addition to adding the eighth requirement, the One Big Beautiful Bill increased the credit from $2,000 to $2,200 for 2025. The credit is indexed for inflation for years after 2025.

If a child died before receiving a Social Security number, you can still claim the Child Tax Credit for the child. However, you'll have to provide the IRS with a copy of the child's birth certificate, death certificate, or hospital records to show that the child was born alive.

How much is the Child Tax Credit?

To calculate your Child Tax Credit, first determine your base amount by multiplying the number of qualifying children you have by $2,000 for 2024, $2,200 for 2025. So, for example, if you have three qualifying children in 2024, your base amount is $6,000 ($3 x $2,000 = $6,000).

The next step is to determine your modified adjusted gross income (MAGI). For purposes of the Child Tax Credit, your MAGI is equal to the adjusted gross income (AGI) reported on your tax return, plus any amount claimed as a:

- foreign earned income exclusion
- foreign housing deduction or exclusion
- exclusion of income from Puerto Rico or American Samoa

If your MAGI is $200,000 or less ($400,000 or less for joint filers), then you don't have to do anything else. Your credit is equal to the base amount ($2,000 per qualifying child for 2024).

However, if your MAGI exceeds the $200,000 (or $400,000) thresholds, you have to reduce the base amount by $50 for each $1,000 that your MAGI is over the threshold. If your MAGI exceed the threshold by an amount that isn't a multiple of $1,000, then round up to the nearest $1,000. For example, if the excess amount is $2,400, then round up to $3,000 for purposes of calculating the reduction. Depending on the number of qualifying children you have, this phase-out requirement could drop your credit down to $0.

To show how the credit phase-out works, suppose you and your spouse have four qualifying children, you're filing a joint return, and your MAGI is $412,500. The base amount for four qualifying children is $8,000 (4 x $2,000 = $8,000). However, your MAGI is $12,500 over the phase-out threshold for joint filers ($412,500 - $400,000 = $12,500). Since the excess amount isn't a multiple of $1,000, round it up to $13,000. In this case, the $8,000 base amount must be reduced by $650 ($50 x 13 = $650), leaving you with a total Child Tax Credit of $7,350.

Can you claim the Additional Child Tax Credit?

As noted earlier, part of the Child Tax Credit is refundable. The IRS calls the refundable portion the Additional Child Tax Credit. Depending on your tax situation, the Additional Child Tax Credit can generate a tax refund (or a bigger refund), while the Child Tax Credit's nonrefundable part can at best reduce your tax bill to $0.

However, the Additional Child Tax Credit comes with a few limits and restrictions.

For example:

- You can only claim the Additional Child Tax Credit if the total Child Tax Credit (as calculated using the instructions above) is greater than your pre-credit tax liability.
- The Additional Child Tax Credit is capped at $1,700 per qualifying child for the 2024 and 2025 tax years. So, for example, if you have two qualifying children, the refundable portion of the Child Tax Credit can't be more than $3,400 (2 x $1,700 = $3,400) for 2024.
- You need at least $2,500 of earned income in 2024 for the tax year to claim the Additional Child Tax Credit. Earned income generally includes wages, salary, tips, earnings from self-employment, and other compensation received for work.
- The Additional Child Tax Credit generally can't be more than 15% of your earned income above $2,500. For example, if you have $50,000 of earned income, the refundable portion of the Child Tax Credit can't be more than $7,125 (($50,000 - $2,500) x 0.15 = $7,125). However, this limit can be increased for certain people with three or more qualifying children.
- You can't claim the Additional Child Tax Credit if you file Form 2555, which is used to claim the foreign earned income exclusion, foreign housing deduction, and foreign housing exclusion.

<u>Tax Professional's Alert</u>*: *If you file your tax return early and claim the Additional Child Tax Credit, the IRS is required to hold your tax refund (if any) until at least mid-February.

<u>Who can claim the Child Tax Credit if the parents are divorced or separated?</u>

When a qualifying child's parents are divorced or separated, the custodial parent typically claims the Child Tax Credit. In most cases, the custodial parent is the parent with whom the child lived the majority of nights during the tax year. The other parent is the noncustodial parent.

However, under certain conditions, the noncustodial parent may be able to claim the

Child Tax Credit. The first requirement is that the parents either:

- are divorced or legally separated under a decree of divorce or separate maintenance
- are separated under a written separation agreement
- lived apart at all times during the last six months of the tax year (whether or not they are or were married)

The parents also had to provide over half of the child's support for the tax year. Support provided by a parent's spouse is treated as provided by the parent.
In addition, the child had to be in custody of one or both parents for more than half of the tax year.

Finally, the custodial parent generally must sign Form 8332 (or a similar statement) indicating that they won't claim the child as a dependent for the tax year. The noncustodial parent also has to include a copy of the form or statement with their tax return. If the divorce decree or separation agreement went into effect before 2009, the noncustodial parent may be able to include certain pages from the decree or agreement instead of Form 8332.

<u>What if a child is a "qualifying child" for more than one person?</u>

What if a child's parents were never married, and they all live together in the same home? Or suppose a child lives with both a parent and a grandparent. In these cases, more than one person might be able to claim the child as a "qualifying child" for Child Tax Credit purposes.

However, the Child Tax Credit for a single child can only be claimed on one tax return for the year. So, where a child can be a qualifying child for two or more people, the IRS uses the following tie-breaker rules to determine which eligible person can claim the credit for the child:

- If only one eligible person is the child's parent, that parent can claim the credit.
- If the parents file a joint return, both parents can claim the credit on the joint return.

- If the parents file separate returns, the parent with whom the child lived with longer during the tax year can claim the credit.
- If the parents file separate returns, and the child lived with each parent for the same amount of time during the tax year, the parent with the highest AGI for the year can claim the credit.
- If no parent can claim the child as a qualifying child, the eligible person with the highest AGI for the year can claim the credit.
- If a parent can claim the child as a qualifying child, but no parent actually does so on their return, the eligible person with the highest AGI for the year can claim the credit if that person's AGI is higher than the AGI of any parent who can claim the child.

For purposes of these tie-breakers, a “parent” is only a biological or adoptive parent – not a stepparent or foster parent unless that person has adopted the child.

<u>How do you claim the Child Tax Credit?</u>

Use Schedule 8812 (Form 1040) to calculate the Child Tax Credit. Both the nonrefundable and the refundable portion are then reported on Form 1040 (although on different lines). When you list your dependents on Form 1040, check the “Child Tax Credit” box for each dependent that’s a qualifying child.

If you claim the Child Tax Credit by mistake, and the IRS later determines that your error was due to “reckless or intentional disregard” of the credit rules, you won’t be able to claim the credit for two years. If it’s determined that your error was due to fraud, you won’t be allowed to claim the credit for 10 years. You might also have to pay a penalty to the IRS.

In addition, if the IRS denies or reduces your Child Tax Credit for any reason other than a math or clerical error, you generally have to file Form 8862 with your tax return to claim the credit for a later tax year.

<u>Can you claim the Credit for Other Dependents?</u>

If you cannot claim the Child Tax Credit for a dependent, you still might be able to claim the Credit for Other Dependents. If all the requirements are met, this credit can be claimed for dependents of any age, including elderly parents that you support. However, you can’t claim the credit for anyone who is your qualifying child for Child Tax Credit purposes.

The Credit for Other Dependents is worth up to $500 for each qualifying dependent. However, as with the Child Tax Credit, it’s gradually phased out if your MAGI is greater than $200,000 ($400,000 for joint filers).

Use Schedule 8812 to calculate the Credit for Other Dependents (that's the same form used to calculate the Child Tax Credit). The credit amount is then reported on Form 1040 along with the nonrefundable portion of the Child Tax Credit (if any).

<u>Is the Child Tax Credit going to change soon?</u>

The Tax Cuts and Jobs Act (TCJA) of 2017 made some significant changes to the Child Tax Credit. It also created the Credit for Other Dependents. However, the changes and the new credit were only temporary – they were scheduled to expire after the 2025 tax year. However, in July of 2025, Congress passed, and President Trump signed, the One Big Beautiful Bill that made many of the TCJA changes permanent rather than letting them expire.

In some cases, such as with the Child Tax Credit, the new legislation increased certain credits and deductions. For 2025, the credit is increased to $2,200 and is indexed for inflation in future years. The new law also made permanent the $1,400 refundable portion of the credit which is indexed for inflation and is $1,700 for 2024 and 2025. The phase-out threshold has been made permanent at $200,000 for Single filers and $400,000 for those filing as Married Filing Jointly.

The Credit for Other Dependents has also been made permanent at $500.

<u>Credit of up to $1,700 For Contributions to Scholarship-Granting Organizations</u>

Cash donations to scholarship-granting organizations may be deductible under Code Sec. 170.

The Act allows an individual taxpayer who is a U.S. citizen or resident an income tax credit for each tax year equal to the aggregate amount of qualified contributions of cash made by the taxpayer during the tax year to a scholarship-granting organization. (Code Sec. 25F(a), as added by Act Sec. 70411(a)(1)) A scholarship-granting organization must be (among other things) a Code Sec. 501(c)(3) public charity and must maintain separate accounts for qualified contributions. (Code Sec. 25F(c)(5), as added by Act Sec. 70411(a)) Qualified contributions must be used to fund scholarships to eligible students solely within the state in which the organization is listed as a qualifying scholarship-granting organization. (Code Sec. 25F(c)(3), as added by Act Sec. 70411(a)) The credit is only allowed for organizations in states that elect to participate in this program and that provide IRS with a list of scholarship-granting organizations within the state. (Code Sec. 25F(g), as added by Act Sec. 70411(a))

The credit cannot exceed $1,700 per taxpayer per tax year, and is reduced by the amount allowed as a credit on any state tax return of the taxpayer for qualified contributions made by the taxpayer during the tax year. Code Sec. 25F(b), as added by Act Sec. 70411(a)) An amount taken as a credit under this provision can't be counted as a charitable contribution for purposes of the Code Sec. 170 deduction. (Code Sec. 25F(e), as added by Act Sec. 70411(a))

Credits in excess of the Code Sec. 26(a) limit on combined amount of nonrefundable personal credits can be carried forward for five years. (Code Sec. 25F(f), as added by Act Sec. 70411(a))

<u>Tax Professional's Alert</u>: An eligible student for these purposes is an individual who is a member of a household with an income which, for the calendar year before the date of the application for a scholarship, is not greater than 300% of the area median gross income (as such term is used in Code Sec. 42), and is eligible to enroll in a public elementary or secondary school. (Code Sec. 25F(c)(2), as added by Act Sec. 70411(a))

An individual's gross income won't include any amounts provided to that individual or any dependent of that individual under a scholarship for qualified elementary or secondary education expenses of an eligible student which is provided by a scholarship-granting organization. (Code Sec. 139K, as added by Act Sec. 70411(b))
The credit is available in tax years ending after December 31, 2026. (Act Sec. 70411(c)(1)) The exclusion for scholarship amounts described above will apply to amounts received after December 31, 2026, in tax years ending after that date. (Act Sec. 70411(c)(2))

<u>Extension of Rules for Treatment of Certain Disaster-Related Personal Casualty Losses</u>

The Act extends the application of Section 304(b) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 by substituting the date of enactment for "the date of enactment of this Act" in each instance it appears.

The extended rules allow victims of qualified natural disasters to continue to claim personal casualty losses without needing to itemize their deductions. The standard deduction is increased by the amount of the net disaster loss, defined as the excess of qualified disaster-related personal casualty losses over personal casualty gains. Further, the 2020 Act raised the per-casualty floor from $100 to $500.

To qualify, the losses must arise in a qualified disaster area on or after the first day of the incident period of the qualified disaster. (Act Sec. 70438. Amends Code Sec. 165(h).)

<u>Tax Professional's Alert</u>: The new law will authorize the IRS to postpone such federal tax deadlines for taxpayers affected by a qualified state-declared disaster upon written request by the state's governor or the authorities in the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands. It will apply to declarations made after the date the law is enacted.

Also, the legislation will increase to 120 days from 60 days the automatic extension of such federal tax deadlines for certain relief workers, individuals killed or injured as a result of a federally declared disaster, and taxpayers whose principal residence, business, or tax records are located in a federally declared disaster area.

A qualified state-declared disaster is any natural catastrophe, fire, flood, or explosion that causes damage of sufficient severity and magnitude to warrant a request to postpone such federal tax deadlines.

Social Security Number Requirement for American Opportunity and Lifetime Learning Credits

Under pre-Act law, Code Sec. 25A allows a taxpayer to qualify for the American Opportunity Tax Credit (AOTC) and the Lifelong Learning credit for the education of an individual only if the taxpayer includes on their tax return the taxpayer identification number ("TIN") of that individual. (Code Sec. 25A(g)(1)(A))
A taxpayer is allowed the AOTC only if the taxpayer includes the employer identification number ("EIN") of any institution to which qualified tuition and related expenses were paid. (Code Sec. 25A(g)(1)(B)(iii))

Under the Act, to qualify for the AOTC, a taxpayer must include on the taxpayer's tax return their (or their spouse's) social security number ("SSN") or, for an individual other than the taxpayer or the taxpayer's spouse, that individual's name and social security number. (Act Sec. 70606(a)(1)(A))

The present-law EIN requirement is clarified to provide that a taxpayer must include on their tax return for that year, the EIN of any institution to which the taxpayer paid qualified tuition and related expenses taken into account in computing the credit. (Act Sec. 70606(a)(1)(B))

A taxpayer's omission of a required correct SSN or EIN is treated as a mathematical or clerical error for purposes of Code Sec. 6213. (Act Sec. 70606(b))

This provision is effective for tax years beginning after Dec. 31, 2025. (Act Sec. 70606(c))

***Tax Professional's Alert*: In addition, effective January 1, 2026, individuals must have a Social Security number to be eligible for the American Opportunity Tax Credit and the Lifetime Learning Credit under IRC 25A.**

Some Lawfully Present Aliens Made Ineligible for PTC

Under Code Sec. 36B, an applicable taxpayer who enrolls in a qualified health plan (QHP) through an Affordable Insurance Exchange is allowed a refundable premium tax credit (PTC). The PTC allowed to a taxpayer is based, in part, on the monthly premiums for one or more QHPs covering the taxpayer, the taxpayer's spouse, or the taxpayer's dependent(s) that were enrolled in through an Exchange.

Premiums attributable to individuals who aren't lawfully present in the U.S. aren't taken into account in computing the PTC. However, under current law, premiums attributable to individuals who are lawfully present in the U.S. are taken into account.

The Act amends this rule by introducing a new category of "eligible aliens." Under the Act, premiums attributable to individuals who are lawfully present in the U.S. but aren't eligible aliens aren't taken into account in computing the PTC. (Act Sec. 71301(a), amending Code Sec. 36B(e)(1))

The Act defines an "eligible alien" as an alien who is lawfully present in the U.S. and who, for the entire enrollment period for which the PTC is claimed, is reasonably expected to be:

a. An alien lawfully admitted for permanent residence under the Immigration and Nationality Act (8 U.S.C. 110120 et seq.), i.e.,

b. A green card holder;

c An alien who has been granted the status of Cuban and Haitian entrant, as defined in section 501(e) of the Refugee Education Assistance Act of 1980 (Public Law 96-422), i.e., an individual granted parole as a Cuban-Haitian entrant; or

d. an individual who lawfully resides in the U.S. in accordance with a Compact of Free Association (COFA) referred to in section 402(b)(2)(G) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (8 U.S.C. 1612(b)(2)(G)), i.e., an individual from Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau who lives and works in the U.S. under a COFA. (Act Sec. 71301(b), amending Code Sec. 36B(e)(2))

***Tax Professional's Alert*: Under the Act, the PTC won't be available for premiums paid for individuals who are lawfully present in the U.S. but don't fall into one of the above three categories. These ineligible aliens include Deferred Action for Childhood Arrivals (DACA) recipients, temporary protected status (TPS) holders, and nonimmigrant visa holders.**

The provision is effective for tax years beginning after Dec. 31, 2026. (Act Sec. 71301(e))

Exchange Must Verify Applicant's Eligibility to Enroll in QHP and Receive Advance PTC Payments-Post-2027 Tax Years

The premium tax credit (PTC) allowed to a taxpayer enrolled in an Exchange-purchased qualified health plan (QHP) is based, in part, on the premiums paid for "coverage months" during the tax year.

Under pre-Act law, a month is a "coverage month" for an individual if these three requirements are met:

(1) as of the first day of the month, the individual is enrolled in a QHP through an Exchange;
(2) the premium for coverage under the plan for the month is paid by the taxpayer or through advance PTC payments; and
(3) the individual isn't eligible for "minimum essential coverage," other than coverage in the individual market, for the full calendar month.

The Act imposes a new verification requirement on Exchanges. It provides that the term "coverage month" won't include, for any individual covered by a QHP enrolled in through an Exchange, any month beginning before the Exchange verifies the individual's eligibility (i) to enroll in the plan through the Exchange and (ii) for advance PTC payments.

***Tax Professional's Alert*:. If a month is not a coverage month, the taxpayer will not be eligible for the PTC for that month.**

The verification will be made using applicable enrollment information that the applicant will provide or verify. "Applicable enrollment information" includes affirmation of at least the following information, to the extent relevant in determining eligibility for plan enrollment and advance PTC payments:

- household income and family size.
- whether the individual is an eligible alien (i.e., a lawfully present alien who is eligible for the PTC, see Act Sec. 71301).
- any health coverage status or eligibility for coverage.
- place of residence.
- other information that the Treasury Secretary, in consultation with the Secretary of Health and Human Services (HHS), determines to be necessary for the verification.

The Act allows for verification of past months. Thus, a month that begins before the required verification will be treated as a coverage month if the Exchange verifies for that month, using applicable enrollment information provided or verified by the applicant, the individual's eligibility to have enrolled and for any advance payment.
An individual who fails to meet the verification requirements for a month will not, solely for that reason, be treated as ineligible to enroll in a QHP through an Exchange for that month.

The Treasury Secretary may waive application of the verification requirement in the case of an individual who enrolls in a QHP through an Exchange for one or more months of the tax year during a special enrollment period (SEP) provided by the Exchange based on a change in the individual's family size.

An Exchange may use any available data and any reliable third-party sources in collecting information for verification by the applicant.
In addition, the term "coverage month" will not include, for any individual covered by a QHP enrolled in through an Exchange, any month for which the Exchange does not meet,

with respect to the individual, the requirements of 45 CFR 155.305(f)(4)(iii), as published in the Federal Register on June 25, 2025 (90 Fed. Reg. 27074), applied as though it applied to all plan years after 2025. (Act Sec. 71303(a), amending Code Sec. 36B(c))

<u>Tax Professional's Alert</u>: The cited reg contains a failure to file and reconcile (FTR) process under which Exchanges must determine a tax filer ineligible for advance PTC payments if: (1) HHS notifies the Exchange that the tax filer (or their spouse if the tax filer is a married couple) received advance payments for a prior year for which tax data will be utilized for verification of income, and (2) the tax filer or tax filer's spouse didn't comply with the requirement to file a federal income tax return and reconcile advance PTC payments for that year. While 45 CFR 155.305(f)(4)(iii) by its terms applies only for plan year 2026, the Act provision treats it as applying for all post-2025 plan years.

Pre-enrollment verification process required. The Act provides that the term "qualified health plan" will not include any plan enrolled in through an Exchange, unless the Exchange provides a pre-enrollment verification process through which any applicant may, beginning not later than August 1, verify with the Exchange the applicant's household income and eligibility for enrollment in the plan for plan years beginning in the following year. (Act Sec. 71303(b), amending Code Sec. 36B(c)(3)(A))

These changes are effective for tax years beginning after Dec. 31, 2027. (Act Sec. 71303(c))

<u>Limitation on Deduction for Qualified Residence Interest Extended</u>

Home acquisition debt incurred by a taxpayer in acquiring a qualified residence (i.e., a principal residence and one other residence) generated qualified residence interest.

Pre-Act law. The TCJA temporarily lowered the deduction for qualified residence interest to $750,000 ($375,000 for marrieds filing separate returns). (Code Sec. 163(h)(3)(F)) The limitation was set to increase to $1 million, effective January 1, 2026.

The Act permanently lowers the deduction for qualified residence interest to $750,000 in home mortgage acquisition debt. It also permanently treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70108, amends Code Sec. 163(h)(3)(F))

<u>Mortgage interest deduction limit</u>

You can deduct the mortgage interest you paid during the tax year on the first $750,000 of your mortgage debt for your primary home or a second home. If you are married filing separately, the limit drops to $375,000.

If you bought the house before Dec. 16, 2017, you can deduct the interest you paid during the year on the first $1 million of the mortgage ($500,000 if married filing separately). Note: There's an exception to that Dec. 15, 2017, cutoff: If you entered into a written binding contract before that date to close before Jan. 1, 2018, and you closed on the house before April 1, 2018, the IRS considers your mortgage to be obtained prior to Dec. 16, 2017
[1]

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Mortgage interest tax deduction <u>example</u>

If you received an $800,000 mortgage in 2017 and paid $25,000 in interest on that loan during 2025, you probably can deduct all $25,000 of that mortgage interest on your 2025 tax return. However, if you received an $800,000 mortgage in 2024, that deduction might be a little smaller. That's because the deduction is limited to the interest on the first $750,000 of a mortgage if you got the mortgage after 2017.

<u>What qualifies for the mortgage interest deduction?</u>

IRS Publication 936 has all the details, but here's the list in a nutshell.
Interest on a mortgage for your main home

- The property can be a house, co-op, condo, mobile home, house trailer, houseboat or an apartment.
- The home has to be collateral for the loan.
- The home must have sleeping, cooking and toilet facilities to count.
- If you get a nontaxable housing allowance from the military or through the ministry, you can still deduct your home mortgage interest.
- A mortgage that you get in order to "buy out" your ex's half of the house in a divorce counts.

Interest on a mortgage for your second home

- You don't have to use the home during the year.
- The house has to be collateral for the loan.
- If you rent out the second home, you have to be there for the longer of at least 14 days or more than 10% of the number of days you rented it out.

Points you paid on your mortgage

- Points are a form of prepaid interest on your loan. You can deduct points little by little over the life of a mortgage, or you can deduct them all at once if you meet every requirement.

Late payment charges on a mortgage payment

- You can deduct a late payment charge if it wasn't for a specific service performed in connection with your mortgage loan.

Prepayment penalties

- You may face a penalty for paying off your mortgage early, but you may also be able to deduct the penalty as interest.

<u>How to claim the mortgage interest deduction</u>

You will need to take the following steps.

1. Look in your mailbox for Form 1098
Your mortgage lender should send you a Form 1098 in January or early February. It details how much you paid in mortgage interest and points during the previous year. Your lender sends a copy of that 1098 to the IRS, which will try to match it up to what you report on your tax return.

You will get a Form 1098 if you paid $600 or more of mortgage interest (including points) during the year to the lender. You may also be able to get year-to-date mortgage interest information from your lender’s monthly bank statements.

2. Keep good records
The good news is that you may be able to deduct mortgage interest in the situations below under certain circumstances:

- You used part of the house as a home office (you may need to fill out a Schedule C and claim even more deductions).
- You were a co-op apartment owner.
- You rented out part of your home.
- The home was a timeshare.
- Part of the house was under construction during the year.
- You used part of the mortgage proceeds to pay down debt, invest in a business or do something unrelated to buying a house.
- Your home was destroyed during the year.
- You were divorced or separated, and you or your ex has to pay the mortgage on a home you both own (the interest might actually be deemed alimony).
- You and someone who is not your spouse were liable for and paid mortgage interest on your house.

***Tax Professional’s Alert*: The bad news is that the rules get more complex. Check IRS Publication 936 for the details, or consult a qualified tax pro. Be sure to keep records of the square footage involved, as well as what income and expenses are attributable to certain parts of the house.**

3. Itemize on your taxes
You claim the mortgage interest deduction on Schedule A of Form 1040, which means you'll need to itemize instead of take the standard deduction when you do your taxes. That can also mean spending more time on tax prep, but if your standard deduction is less than your itemized deductions, you should consider itemizing to save money anyway. If your standard deduction is more than your itemized deductions (including your mortgage interest deduction), take the standard deduction and save yourself some time.

Miscellaneous Itemized Deductions Terminated, Educator Expenses Excepted

Under the TCJA, individual miscellaneous itemized deductions were not available for tax years 2018 - 2025. (Code Sec. 67(g)) The limitation does not apply to itemized deductions listed under Code Sec. 67(b).

Pre-Act, miscellaneous itemized deductions would have been available for tax years beginning in 2026.

The Act permanently suspends miscellaneous itemized deductions.

The Act also adds a deduction for unreimbursed employee expenses for eligible educators to the list of itemized deductions under Code Sec. 67(b). Eligible educators include K - 12 teachers, instructors, counselors, interscholastic sports administrators and coaches, principals, and aides in a school for at least 900 hours during a school year. The deduction is available for equipment and supplementary materials used by eligible educators as part of an instructional activity.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70110, amends Code Sec. 67(g))

***Tax Professional's Alert*: Permanent suspension of miscellaneous deductions**
The suspension of miscellaneous itemized deductions under the TCJA is made permanent by the OBBBA. Prior to 2018, taxpayers who itemized could take deductions for investment expenses, tax preparation fees, and certain employee expenses that exceeded 2% of their adjusted gross income. These deductions were set to return in 2026 until the OBBBA was passed.

Educator expenses are the only miscellaneous itemized deduction that remains, though with some modifications. For 2025, the above-the-line deduction of up to $300 for unreimbursed educator expenses remains in place under the TCJA. Beginning in 2026, the deduction becomes an itemized deduction on Schedule A, and the $300 cap is removed. However, filers using the standard deduction will lose eligibility for the deduction starting in 2026.

New Tax-Deferred Investment Accounts for Children

The Act creates a new tax-deferred investment account for children, called a "Trump account." Specifically, these accounts are eligible to receive contributions from parents, relatives, employers, and other taxable entities as well as non-profit and government entities. To be eligible for an account, the child must be a U.S. citizen and have a Social Security number (SSN). Trump account funds must be invested in a diversified fund that tracks an established index of U.S. equities and grow tax deferred.

***Contributions*:**

Contributions to a Trump account are limited to $5,000 annually of after-tax dollars. The $5,000 contribution limit is indexed for inflation.

Contributions provided to Trump accounts from tax exempt entities, such as private foundations, are not subject to the $5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group (i.e. all children in a state, specific school district or educational institution, etc.). No additional contributions of any kind shall be made to Trump accounts after the beneficiary has attained age 18.

***Distributions*:**

Subject to some exceptions, Trump account holders may not take distributions until age 18.

***Pilot Program*:**

Under a newborn pilot program, for U.S. citizens born between January 1, 2025, and December 31, 2028, the federal government will contribute $1,000 per child into every eligible account.

If the IRS determines that an eligible individual does not have an account opened for them by the first tax return where the child is claimed as a qualifying child, the IRS will establish an account on the child's behalf. Parents have the option to opt out of the account.

Tax Professional's Alert:

The "Big Beautiful Bill" introduces a new savings vehicle for American families called the Trump Account. This novel provision has largely been overshadowed by other headline items including the SALT cap—and perhaps understandably so. This article will explain what these accounts are, how they would work, and their tax implications, so that if the legislation passes, you can be informed on whether they fit into your family's financial future.

What are Trump Accounts?

Trump Accounts are specialized savings accounts designed for parents to invest in the futures of their children.

- ***Account requirements: These accounts must be established as either a trust or custodial account before the child (the beneficiary) turns eight years old.***
- ***Contributions: Contributions are limited to cash only, with an annual cap of $5,000 per child (indexed for inflation), and can continue until the beneficiary reaches age 18.***
- ***Account limit: Each child is allowed only one Trump Account. If multiple accounts are created for the same beneficiary, only the first one qualifies as legitimate; any additional accounts are subject to a steep 100% excise tax on any income they generate.***

- ***Investment options: Funds can only be invested in stock of a regulated investment company that tracks a "well-established index" or a portfolio composed exclusively of US equities. While this restriction aims to promote long-term, stable growth through proven market indexes, it may limit flexibility compared to other savings options.***

Tax implications and distributions

The rules governing distributions from Trump Accounts are somewhat intricate, but the overall tax benefits appear limited.

- ***Return of investment: Any portion of a distribution that represents a return of the original contributions is not subject to tax, which aligns with the fact that contributions are made with after-tax dollars and are not deductible.***
- ***Earnings: Any earnings or investment gains within the account are taxable to the beneficiary, regardless of how the funds are used.***
- ***Qualified purposes: If the funds are used for qualified purposes (defined as higher education expenses, a small business or farm loan taken out by the beneficiary, or a first-time home purchase), then the resulting gains are taxed at capital gains rates rather than as ordinary income.***
- ***Penalties: There is an additional 10% penalty on distributions to beneficiaries under the age of 31 which are not attributable to qualified expenses.***

Encouraging participation: The federal credit

To encourage participation, the legislation includes a one-time federal credit of $1,000 for beneficiaries born between 2025 and 2028.

- ***Automatic deposit: This credit is automatically deposited into a Trump Account unless the taxpayer opts out on their tax return.***
- ***IRS establishment: If no account has been created and no election out has been indicated, the IRS will establish an account on the beneficiary's behalf, following the processing of the parent's tax return. This automatic enrollment feature could jumpstart savings for many families, particularly those who might not otherwise take the initiative to open an account.***

Comparing Trump Accounts to other savings options

While Trump Accounts offer some advantages, they have limitations when compared to existing savings plans like 529 plans.

- ***Advantages: Trump Accounts offer potential rate arbitrage, tax deferral, and a degree of investment security due to regulatory constraints. They also expand the definition of qualified expenses to include small business loans and first-time home purchases.***
- ***Disadvantages: They fall short of the full tax-free growth and withdrawal benefits associated with 529 plans. Additionally, they lack some of the flexibility of 529 plans, such as the ability to repay student loans or roll over unused funds into a Roth IRA. The annual contribution cap of $5,000, even when adjusted***

for inflation, may also limit the long-term impact of these accounts compared to the more generous limits available under 529 plans.

American children born from 2025 through 2028 qualify for a Trump Account "Baby Bonus." The account will be funded with an initial $1,000 deposit from the U.S. government. Additional family and employer contributions are permitted going forward, subject to annual limits.

The limit for family contributions is $5,000 per year. This figure is indexed for inflation, so it will adjust annually to keep pace with the economy. Businesses can contribute $2,500 for an employee’s child without increasing the employee’s taxable income. The money will be invested in a stock fund that follows market indexes.

“The funds will sit in a single, ultra-low-fee U.S. stock index fund and grow tax-deferred until your child reaches adulthood,” explains Joshua Mangoubi, CFA, founder and chief investment officer at Considerate Capital Wealth Management.

On the child's 18th birthday, the account transitions into a traditional individual retirement account (IRA) where the money continues to grow until they reach retirement age. The child can use the money for college, a first home, childbirth, or certain other expenses, but they may face a 10% penalty on unapproved distributions before they reach age 59½. They will also need to pay taxes on any gains when they take a distribution.

The money in a Trump Account can be used for a first-time home purchase, tuition, training programs, or business loans after the child reaches the required age, according to

Parents can open a Trump Account for their newborn child at a bank or other financial institution. If not, the U.S. government will do it for them, provided that a tax return has been filed naming the child as a dependent.56 The child must have a Social Security number and be an American citizen. The initial $1,000 from the government will be deposited when the account has been established.

“The account is opened automatically once your baby gets a Social Security number,” Mangoubi says. “You’ will receive login details from the Treasury once the system is live: target mid-2026.

Keep in mind that this is still a “pilot program” that has not yet left the ground. Nasdaq indicates that the groundwork is still “being laid.” It also warns that some details might change with the program’s official launch.

One such tweak might involve where and how the account money is invested. “It must be invested in diversified index funds,” says Evan Morgan, CPA and tax principal at Kaufman Rossin. “We believe that the IRS will need to issue a list of qualifying index funds.”

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70204(e). Adding Code Sec. 530A, Code Sec. 128, Code Sec. 139J, and Code Sec. 6434)

Enhancement of Adoption Credit

Under pre-Act law, Code Sec. 23 allowed taxpayers to claim a nonrefundable income tax credit for qualified adoption expenses incurred, up to a maximum of $17,280 per child.

Effective 2025, the adoption credit is enhanced to include a refundable portion of up to $5,000. (Act Sec. 70402(a)) This refundable amount will be adjusted for inflation annually, with the adjustments beginning in 2025 using a base year of 2024 for cost-of-living calculations. (Act Sec. 70402(b)) The provision clarifies that the refundable portion of the adoption credit will not be eligible for carryforward to subsequent years. (Act Sec 70402(c))

This provision is effective for tax years beginning after Dec. 31, 2024. (Act Sec. 70402(d))

Additional Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts

The Act provides that tax-exempt distributions from 529 savings plans - tax-advantaged accounts that fund education expenses - apply to more expenses attributable to enrollment or attendance at an elementary or secondary public, private, or religious school.

The expanded list of eligible education expenses includes tuition; curriculum and curricular materials; books or other instructional materials; online educational materials; tuition for tutoring or educational classes outside of the home; fees for nationally standardized tests, advanced placement exams, and college admission exams; fees for dual enrollment at higher education institutions; and educational therapies for students with disabilities provided by a licensed or accredited professional.

The Act increases the annual limit for 529 account distributions from $10,000 to $20,000. This limitation applies only to K-12 expenses.

The effective date for the expanded expenses applies to distributions made after the date of enactment, and the doubled limitation applies to tax years beginning after December 31, 2025. (Act Sec. 70413. Amending Code Sec. 529(c)(7).)

Qualified Higher Education Expenses for Purposes of 529 Accounts

The Act allows 529 savings plan tax-exempt distributions to apply to "qualified postsecondary credentialing expenses."

Under new Code Sec. 529(f), such expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at a recognized postsecondary credential program. This also includes fees for testing or continuing education required to obtain or maintain a recognized postsecondary credential.

A recognized postsecondary credential program is one that: 1) is on a state list under the Workforce Innovation and Opportunity Act; 2) is listed in the public directory of the Web Enabled Approval Management System of the Veterans Benefits Administration; 3) prepares individuals for an exam required for a credential; or 4) is identified as reputable for obtaining a recognized postsecondary credential.

A recognized postsecondary credential means: any postsecondary employment credential program 1) accredited by the Institute for Credentialing Excellence, the National Commission on Certifying Agencies, or the American National Standards Institute; or 2) included in the Credentialing Opportunities On-Line directory maintained by the Department of Defense or by any branch of the Armed Forces.
Alternatively, credentials may be deemed industry recognized by the Secretary of Labor.

Recognized postsecondary credentials also include certificates of completion of an apprenticeship registered and certified with the Secretary of Labor; occupational or professional licenses issued or recognized at the state or federal government level; and credentials as defined in Section 3(52) of the Workforce Innovation and Opportunity Act.

This section applies to distributions made after the date of enactment. (Act Sec. 70414. Amends Code Sec. 529)

Tax Professional's Alert:

What the OBBBA Means for Your 529 Educational Plan

The "One Big Beautiful Bill Act" (OBBBA) has transformed these accounts into a more flexible and powerful tool for a broader range of educational pursuits.
K-12 Education Is Now More Flexible Than It Used To Be

The OBBBA significantly expands the definition of a "qualified expense" for K-12 schooling. While previously limited to just tuition for this age group, the law now allows for tax-free withdrawals for a broader array of expenses. This includes:

- ***Curriculum materials and books***
- ***Fees for nationally standardized tests (like the SAT or ACT)***
- ***Dual enrollment fees for college courses taken in high school***
- ***Online educational materials and tutoring, which could include software***
- ***Specialized therapies for students with disabilities***

This expansion of qualified expenses brings the K-12 rules closer to the current higher education rules.

In addition, the annual withdrawal limit for K-12 education was doubled, increasing from $10,000 per year per beneficiary to $20,000 per year [Source: my529]. This is especially beneficial if you have a child or grandchild going to a private high school.

You can deposit into the 529 plan and then withdraw it for tuition. 529 plan tax benefits vary by state. Be sure to check your state's rules.

(As a reminder, there are no annual withdrawal limits for qualified higher education expenses. That detail did not change with the passing of this new bill.) South Carolina offers a generous state tax deduction for contributions to its 529 plan, called Future Scholar. SC residents can deduct 100% of their contributions to a Future Scholar account from their South Carolina state income taxes. (Which is not the case in every state)

Here are some key details:

- *No Cap: There is no annual contribution cap for the deduction. You can deduct the full amount of your contributions, up to the maximum account balance limit.*
- *In-State Plan: The deduction is only available for contributions made to the South Carolina-sponsored plan, Future Scholar. Contributions to 529 plans from other states are not eligible for this deduction.*
- *Contribution Deadline: You have until the tax-filing deadline (typically April 15th) to make a contribution for the previous tax year and still claim the deduction on that year's state tax return.*

Workforce and Career Development-

In a world where career paths are constantly evolving, the OBBBA acknowledges the importance of lifelong learning. It now allows for tax-free withdrawals to cover costs for a variety of non-traditional educational programs, including:

- *Tuition and fees for certificate programs, trade schools, and other credentialing programs authorized under the Workforce Innovation and Opportunity Act [Source: Invest529].*
- *Testing fees for professional certifications and licenses.*
- *Continuing education costs required to renew a credential. HA! This would even apply to me with my CFP®, CIMA®, and other certifications!*

Permanent ABLE Account Rollovers

The OBBBA makes permanent the ability to roll over funds from a 529 plan to an Achieving a Better Life Experience (ABLE) account. This provision, which was previously set to expire at the end of 2025, provides more certainty and flexibility for families saving for a loved one with a disability.

These changes make 529 plans a more versatile tool for saving for a variety of educational and career paths, not just traditional college degrees.

<u>Individuals' Charitable Deductions: Floor of 0.5 % of AGI is Imposed, and 60%-of-AGI Ceiling for Certain Cash Gifts is Made Permanent</u>

Under pre-Act law, no floor applies for individuals' charitable contribution deduction. (Code Sec. 170)

The Act provides for a floor of 0.5% of the taxpayer's contribution base (which is, generally, adjusted gross income, AGI) on the charitable deductions of individuals. Thus, an otherwise deductible charitable contribution must be reduced by 0.5% of an individual's contribution base for the tax year. The Act provides rules for the order in which the taxpayer's contributions are taken into account, and for carryforwards of contributions disallowed by the 0.5% floor. (Act Sec. 70425(a))
Under pre-Act law, individuals can't deduct more than a specified percentage of their "contribution base"-generally AGI-as a charitable deduction in any year. For contributions to "50% charities," an individual may deduct up to 50% of the contribution base-the "50% ceiling." (Code Sec. 170(b)(1)(A)) And a 60%, limit ("60% ceiling") applies to cash-only contributions by individuals to 50% charities. (Code Sec. 170(b)(1)(G))

The rule providing for a 60% ceiling for cash gifts to 50% charities was slated to expire after 2025. (Code Sec. 170(b)(1)(G)(i))

The Act makes permanent the 60% ceiling for cash gifts to 50% charities, and provides that a contribution of cash to a 50% charity is deductible to the extent that the total amount of contributions of cash to 50% charities doesn't exceed the excess of: (a) 60% of the taxpayer's contribution base for the tax year, over (b) the total amount of contributions to 50% charities for the tax year. (Act Sec. 70425(b))
Both the floor provision and the 60%-limit provision are effective for tax years beginning after Dec. 31, 2025. (Act Sec. 70425(c))

<u>Tax Professional's Alert</u>:   The existing 60% of adjusted gross income (AGI) ceiling for deducting cash charitable contributions is now permanent, but the OBBBA introduces a floor of 0.5%. This means that itemizers can deduct charitable contributions only once they exceed 0.5% of AGI.

<u>For example</u>, donors with AGIs of $100,000 won't be able to deduct their first $500 of 2026 donations.

The OBBBA also applies a 1% of taxable income floor to corporate charitable deductions beginning in 2026. However, in certain situations, corporations can carry forward the disallowed deductions for up to five years.

<u>PTC Disallowed to Aliens Below Poverty Line Who Are Ineligible for Medicaid</u>

To be eligible for the premium tax credit (PTC), a taxpayer must generally have household income of at least 100% of the federal poverty line for a family of the size involved (the "applicable poverty line").

However, under current law, this income threshold doesn't apply to an alien who is lawfully present in the U.S. if the taxpayer isn't eligible for Medicaid under Title XIX of the Social Security Act because of the taxpayer's status as an alien.
The Act eliminates this special income threshold rule for lawfully present aliens. (Act Sec. 71302(a), amending Code Sec. 36B(c)(1))

<u>Tax Professional's Alert</u>: As a result of this change, lawfully present aliens with income below the applicable poverty line will no longer be eligible for the PTC, even if the alien can't receive Medicaid coverage due to alien status.

This change is effective for tax years beginning after Dec. 31, 2025. (Act Sec. 71302(b))

<u>PTC Disallowed for Certain Coverage Enrolled in During Special Enrollment Period</u>

Under Code Sec. 36B, applicable taxpayers who enroll in a qualified health plan (QHP) through an Affordable Insurance Exchange are allowed a refundable premium tax credit (PTC).

Under pre-Act law, a QHP for purposes of the PTC is a "qualified health plan" as defined by Sec. 1301(a) of the Patient Protection and Affordable Care Act (PPACA) (PL 111-148, 3/23/2010), except that it doesn't include a catastrophic plan described in PPACA Sec. 1301(e).

The Act adds to this definition that a QHP doesn't include any plan enrolled in during a special enrollment period (SEP) provided for by an Exchange:
on the basis of the relationship of the individual's expected household income to a percentage of the poverty line (or another amount) that the Secretary of Health and Human Services prescribes for purposes of the SEP, and not in connection with the occurrence of an event or change in circumstances that the Secretary of Health and Human Services specifies for those purposes. (Act Sec. 71304(a), amending Code Sec. 36B(c)(3)(A))

<u>Tax Professional's Alert</u>: The federal marketplace (HealthCare.gov) and many state marketplaces currently provide a year-round SEP for taxpayers whose household income doesn't exceed 150% of the federal poverty line. This low-income SEP is available even if the taxpayer hasn't experienced a life event or change of circumstances, such as marriage, divorce, birth, etc. The Act eliminates this type of SEP by making such coverage ineligible for the PTC.

This change is effective for plan years beginning after Dec. 31, 2025. (Act Sec. 71304(b))

Extension and Modification of Limitation on Casualty Loss Deduction

The TCJA limited itemized deductions for personal casualty losses for tax years 2018 - 2025 to losses attributable to a federally declared disaster.

Pre-Act, that limitation was set to expire and an itemized deduction for uncompensated personal casualty losses would be available for losses resulting from fire, storm, shipwreck, or other casualty, or from theft after December 31, 2025. (Code Sec. 165(h))

The Act permanently limits the deduction to personal casualty losses resulting from federally declared disasters and certain state-declared disasters.

***Tax Professional's Alert*: Casualty loss deduction is limited to personal losses from federally or state-declared disasters, including events such as earthquakes, floods, fires, and explosions.**

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70109, amends Code Sec. 165(h)(5))

Permanent Non-Itemizers' Charitable Deduction for Individuals

Under pre-Act law, no provision currently allows individuals to deduct charitable contributions without electing to itemize deductions. (Code Sec. 170)
The Act provides that non-itemizers may claim a charitable deduction, not in excess of $1,000 ($2,000 for a joint return). (Act Sec. 70424(a))

To qualify for the non-itemizers' charitable deduction, contributions must be in cash, must be made to a public charity, and must meet certain other requirements set forth in Code Sec. 170(p). (Code Sec. 170(p))

The non-itemizers' charitable deduction is a below-the-line deduction, deducted from adjusted gross income in arriving at taxable income. (Code Sec. 63(b)(4))
The provision applies for tax years beginning after Dec. 31, 2025. (Act Sec. 70424(b))

***Tax Professional's Alert*: Under the One Big Beautiful Bill Act (OBBBA), individuals who do not itemize deductions can deduct charitable contributions. Specifically, starting in 2026, non-itemizers can deduct up to $1,000 for single filers and $2,000 for married couples filing jointly for cash donations to qualifying charities. This is an "above-the-line" deduction, meaning it is taken before calculating adjusted gross income (AGI), without needing to itemize.**

Excise Tax on Certain Remittance Transfers

Under pre-Act law, there is no tax on remittance transfers for a U.S. sender of a payment to a recipient in a non-U.S. country.

The Act establishes a 1% excise tax on any remittance transfer, to be paid by the sender, to be collected by the remittance transfer provider and to be remitted quarterly to the Secretary of the Treasury. (Act Sec. 70604 (a); (b)(2))

A secondary liability is imposed on the remittance transfer provider to the extent that the tax is not collected from the sender. (Act Sec. 70604 (b)(3))

An exception from the imposition of the excise tax is available if the remittance transfer is withdrawn from a financial institution governed by Title 31, Chapter 53 or funded with a U.S.-issued debit or credit card. (Act Sec. 70604 (d)

Where appropriate, anti-conduit rules apply to recharacterize remittance transfers to prevent the avoidance of tax. (Act Sec. 70604 (f))

Tax Professional's Alert*: The One Big Beautiful Bill Act, enacted as Public Law 119-21 on July 4, 2025, introduces new section 4475,i which imposes a 1% excise tax on remittance transfers made after December 31, 2025. The provision was initially touted as one that "Makes America Win Again," because it would affect only certain immigrants. As enacted, however, the excise tax applies equally to all individual taxpayers, whether US citizen, resident, or immigrant. It is unclear just how broadly section 4475 will be applied, but the Joint Tax Committee estimated that it will bring in nearly $10 billion of revenue over 10 years.

Key takeaways

Section 4475 either:
• fully excludes remittance transfers sent from certain financial institutions or funded with a US debit or credit card, or
• treats the transfer as fully taxable, with secondary liability for the transfer providers.

Definitions

Under new section 4475, an excise tax of 1% is levied on all "remittance transfers" made by a "sender" after December 31, 2025, via a "remittance transfer provider," each of which are defined by cross reference to section 919(g) of the Electronic Funds

Transfer Act.ii For this purpose:
• A "remittance transfer" is the "electronic transfer of funds" requested by a sender located in any State, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any political subdivision of any of the foregoing to a designated recipient in a foreign country that is initiated by a "remittance transfer provider," whether or not the sender holds an account with the remittance transfer provider and whether or not the remittance transfer is also an electronic fund transfer.iii
• An "electronic fund transfer" is any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an

electronic terminal, telephonic instrument, or computer or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account.iv
• A "sender" is a consumer (further defined as a natural person under 15 USC 1693a(6)) who primarily for personal, family, or household purposes requests a remittance provider to send a remittance transfer to a designated recipient.v
• A "remittance transfer provider" is any person or financial institution that provides remittance transfers for a consumer in the normal course of its business, whether or not the consumer holds an account with such person or financial institution.vi

Operation and Requirements

The section 4475 excise tax will operate via a requirement to withhold, which is imposed on the remittance transfer provider at the time of the remittance transfer. Remittance transfer providers are then required to remit the withheld excise tax to the Secretary of the Treasury on a quarterly basis, as directed by the Secretary. Failure to withhold the tax, if required, results in liability for the remittance transfer provider in the amount required to be withheld.

Unlike prior versions of the provision, there is no longer a requirement for remittance transfer providers to file and furnish information returns with respect to individuals from whom they withheld the excise tax. However, given the requirement to remit the withheld taxes, we expect that remittance transfer providers will be required to report the amounts withheld and remitted, either on a current form, such as the Form 720, Quarterly Federal Excise Tax Return, or a new form created for this purpose. Section 4475 includes anti-conduit provisions. Specifically, section 4475(f) provides that for purposes of the anti-conduit rules, with respect to any multiple-party arrangements involving the sender, a remittance transfer is treated as a financing transaction in the sense of section 7701(l). In general, under the anti-conduit rules, any multiple-party financing transaction can be recharacterized as a transaction directly among two or more of the parties in order to prevent the avoidance of tax. Individuals who attempt to get around the excise tax by using intermediaries not subject to the provision may be subject to the anti-conduit provisions and could face penalties, such as the accuracy-related penalty under section 6662, and interest on the transaction.

Cash only—virtual currency not impacted

By its terms, section 4475 applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or other similar physical instrument, as determined by the Secretary of the Treasury, to the remittance transfer provider. As such, it clarifies that the excise tax is not applicable to transfers of virtual currency such as cryptocurrencies or stablecoins.

Exceptions for certain remittance transfers

Section 4475 specifically excepts from the excise tax any remittance transfer for which the funds being transferred are withdrawn from accounts held in or by certain financial institutions subject to Bank Secrecy Act reporting, and for those funded with a US issued debit card or credit card. For purposes of the exception, financial institutions are defined by cross reference to 31 USC section 5312(a)(2)(A) through (H), and include FDIC insured banks, commercial banks or trust companies, private bankers, an agency or branch of a foreign bank in the US, any credit union, a thrift institution, a broker dealer registered with the SEC, and a broker or dealer in securities or commodities. The exception would not apply to remittance transfers from which the funds being transferred are withdrawn from accounts held by money services businesses, despite the fact that they are subject to the Bank Secrecy Act. Therefore, to the extent an electronic funds transfer is made from accounts at any of these financial institutions that is subject to the Bank Secrecy Act, or is funded with a US credit or debit card, the excise tax will not apply. Individuals should consider the extent to which they can make any remittances through these excepted financial institutions or fund the remittances using US issued credit or debit card.

Covered businesses

While section 4475 as enacted limits applicability via its exceptions, there are still a number of businesses that will be impacted. These include money transfer operators, digital payment providers, non-bank financial institutions such as foreign exchange service providers and remittance businesses, and certain retailers and businesses offering remittance services such as travel agencies, check-cashing businesses and convenience stores.

Businesses will want to ensure they understand whether they are affected by the provision or excepted as soon as possible, taking into account any guidance issued by Treasury and the IRS. Impacted businesses should prepare to implement the withholding requirements beginning January 1, 2026, as well as the related quarterly remittance requirements in order to ensure compliance with the requirements of section 4475 and avoid any secondary liability for the tax.

All individuals transferring funds are potentially impacted—no exceptions for US citizens or residents

Prior versions of section 4475 (e.g., section 112105 of the House Bill) had included exceptions for US citizens and nationals, whether via a tax credit, or via an exemption from withholding. Because the provision was initially touted as a way of addressing immigration, it was therefore expected that it would not apply to US citizens or nationals. For example, the Ways and Means Committee described the remittance transfer excise tax as one of the provisions that "Makes America Great Again" by "applying new fees on remittance payments from illegal immigrants to outside the U.S." Similarly, in H. Rept. 119-106 at 1779, House Republicans indicated that the remittance excise tax provision was based on the Committee's belief "that the ability of non-citizens and non-nationals of the United States to send payments to individuals in

other countries through the system of remittance transfers may encourage illegal immigration and lead to the overreliance of some jurisdictions on the receipt of such remittance flows."

However, as enacted, section 4475 provides no exceptions for any individuals and impacts US citizens, residents, and immigrants alike, to the extent they make a remittance transfer that is covered. This means that the provision, despite having been reduced from an initial 5% tax to a now 1% tax, will bring in higher revenue than it otherwise would have given its broader applicability, a surprising turn in light of the rationale offered for its promulgation.

Admittedly, the provision will likely have the most impact on individuals who do not have the ability to obtain US bank accounts or other excepted accounts or to obtain US issued credit or debit cards with which to fund a remittance transfer. However, the provision could also impact US citizens or residents who send cash from accounts not otherwise excepted via remittance transfer providers to their own or their family's foreign accounts. This could pull in, for example, parents who send funds to their children who are abroad, such as those studying abroad or traveling during a "gap" year, and US individuals who receive checks or other cash who want to deposit the funds into foreign accounts. Similarly, mobile workers and students who are in the US legally but who may not have excepted accounts or US issued debit or credit cards would be subject to the excise tax if they send money abroad, whether to their own accounts or to their family. And, perhaps as intended, the excise tax will be imposed on working-class immigrant households who send a portion of their earnings to support their family abroad.

Of note, individuals legally in the US who are otherwise covered by a tax treaty will remain subject to the excise tax given US tax treaties generally cover only income taxes and limited excise taxes (e.g., related to insurance).

Open questions and considerations
- ***Withholding, remitting and reporting: In light of the requirements to withhold and remit the excise tax on a quarterly basis, guidance will be needed to direct businesses as to how to withhold, how and when to remit the taxes, and whether any reporting will be required and, if so, where. Businesses will need time to process the guidance and implement the requisite withholding and reporting procedures.***
- ***Amounts withheld in error: While there are no exceptions for individuals, section 4475 does provide exceptions for certain remittance transfers, such as those withdrawn from accounts subject to Bank Secrecy Act reporting and those funded with US-issued debit or credit cards. However, as enacted, section 4475 does not provide any mechanism for an individual to recover the excise tax in the case that it is withheld in error, and there is a risk that a remittance transfer provider may withhold the excise tax in error, particularly given concerns around secondary liability. Further, the fact that there is no longer any individual reporting via information returns as to what was withheld and from whom makes this prospect even riskier for individuals.***

***For example*, a money transfer operator may incorrectly withhold on a transaction funded with a US-issued debit card. In this case, there does not appear to be a mechanism for the individual to recover the incorrectly withheld tax, other than by somehow attempting to recover it from the remittance transfer provider directly. It would be helpful if the Secretary issued guidance to address these situations so that individuals have a process for requesting erroneously withheld amounts back, whether from the remittance transfer provider or from the IRS (e.g., via their individual return).**

Conclusion

New section 4475 imposes a new excise tax on cross-border transfers initiated in the US and sent abroad via remittance transfer providers, regardless of whether the sender or the recipient is US or foreign. While the provision is expected to yield approximately $10 billion over 10 years, it creates withholding and remittance requirements for businesses, and financial burdens on working-class households and others who send money to their families abroad or to their foreign accounts, even if the senders are US citizens or residents. Impacted businesses will need to prepare for the new withholding and remittance requirements, which have to be implemented timely enough to be tested and deployed by January 1, 2026. Individuals will want to plan for this new excise tax and determine whether they can find other means to transfer money abroad.

This provision is effective for transfers made after Dec. 31, 2025. (Act Sec. 70604(c))

Limitation on Wagering Losses

Pre-Act, losses from wagering transactions were deductible only to the extent of gains from such transactions. (Code Sec. 165(d)) For the 2018 - 2025 tax years, losses from wagering transactions included otherwise allowable deductions incurred in carrying on any wagering transactions.

The Act instead provides that for losses from wagering transactions, the deduction amount is 90% of the amount of losses in the tax year, to the extent of the gains from such transactions during the tax year.

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70114, amends Code Sec. 165)

Extension and Modification of Limitation on Deduction and Exclusion for Moving Expenses

Historical moving expense deduction. The federal moving expense deduction was first introduced in 1964 under the Revenue Act of 1964, codified in Internal Revenue Code (IRC) §217. It allowed taxpayers to deduct reasonable expenses incurred when relocating for a new job, provided certain distance and time tests were met.

Suspension of the deduction by the TCJA. The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the deduction for most taxpayers from 2018 through 2025, preserving it only for active-duty military members moving due to a permanent change of station. This suspension was implemented through IRC?217(k) and the related exclusion for employer-paid moving expense reimbursements under IRC §132(g).

Permanent disallowance for most taxpayers. Section 70113 of the Act makes permanent the suspension of the moving expense deduction (IRC §217) and exclusion (IRC?132(g)) for most taxpayers, which continues the policy originally enacted under the TCJA.

Limited exceptions for military and intelligence community. Under the TCJA, only active-duty members of the U.S. Armed Forces moving due to a military order and permanent change of station were allowed to claim the deduction or exclusion (IRC §217(g), IRC §132(g)). Section 70113 expands this exception to include employees and appointees of the U.S. intelligence community who relocate due to a change in assignment.

***Tax Professional's Alert*: OBBBA permanently eliminates the tax-free, employer-paid moving expense benefit for all taxpayers except for members of the active-duty military and intelligence personnel.**

Effective date. These changes apply to tax years beginning after December 31, 2025, meaning the expanded eligibility for intelligence community members begins with the 2026 tax year (Act Section 70113, amending IRC §217(k) and §132(g)).

ABLE Account Contributions, Rollovers

Pre-Act, additional contributions to an Achieving a Better Life Experience (ABLE) account for employed individuals with disabilities were available through 2025. (Code Sec. 529A(b)(2)(B)) Additional contributions were limited to the lesser of the applicable federal poverty level for a one-person household in the prior year, or the beneficiary's compensation for the year.

Also pre-Act, beneficiaries who made qualified contributions to their ABLE accounts were eligible for the Saver's Credit. (Code Sec. 25B(d)(1)) In addition, tax-free rollovers from Section 529 qualified tuition programs to qualified ABLE programs were permitted. (Code Sec. 529(c)(3)(C)(i)(III)) Both provisions were slated to sunset December 31, 2025.

The Act permanently provides for additional contributions to ABLE accounts for employed individuals with disabilities. It also adjusts the base limit amount by one year for inflation. (Act Sec. 70115, amending Code Sec. 529A(b)(2)(B))

The Act also permanently allows beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit. It provides an additional calculation formula for qualified retirement contributions, elective deferrals, and voluntary employee contributions made in tax years before 2027. The Act also increases the credit amount to $2,100 beginning in the 2027 tax year. (Act Sec. 70116, amending Code Sec. 25B(d)(1))

In addition, the Act permanently allows tax-free rollovers of amounts in Section 529 qualified tuition programs to qualified ABLE programs. (Act Sec. 70117, amending Code Sec. 529(c)(3)(C)(i)(III))

<u>Tax Professional's Alert</u>: ABLE (Achieving a Better Life Experience) accounts, established under Section 529A of the tax code, are a savings and investment option for individuals with disabilities. The One Big Beautiful Bill Act (OBBBA) includes provisions related to ABLE accounts, such as making rollovers from 529 plans to ABLE accounts permanent and expanding eligibility.

The provisions, except for the Saver's Credit amount increase, apply for tax years beginning after December 31, 2025. The increase in the Saver's Credit amount is effective for tax years beginning after December 31, 2026.

<u>Extension and Enhancement of Deduction for Qualified Business Income</u>

Under the TCJA, specified non-corporate taxpayers could deduct 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship. The 20% deduction also applied to certain real estate investment trust dividends and publicly traded partnership income.

The Act sets the minimum deduction for active QBI at $400. It also provides that an applicable taxpayer must have a minimum of $1,000 QBI to claim the deduction. An "active qualified trade or business" means any qualified trade or business of the taxpayer in which the taxpayer "materially participates," as defined in Code Sec. 469(h).

The Act increases the phase-in threshold for single filers from $50,000 to $75,000 and the joint filer threshold from $100,000 to $150,000. Inflation adjustments apply to the new minimum amounts for tax years beginning after 2026.
This section takes effect for tax years beginning after December 31, 2025. (Act Sec. 70105, amends Code Sec. 199A)

<u>Tax Professional's Alert: Pass-Through Entities and the QBI Deduction</u>

The OBBBA makes permanent the 20% Qualified Business Income (QBI) deduction for pass-through entities such as partnerships, disregarded entities, and S corporations. Beginning in 2026, the phase-in limitation range will increase to $150,000 for joint filers and $75,000 for all others, with a $400 minimum deduction for active QBI.

With the QBI deduction now permanent and combined with the expanded Qualified Small Business Stock (QSBS) exclusion, many business owners should revisit whether their entity structure—pass-through versus C corporation—remains optimal for their long-term goals.

Bonus Depreciation Made Permanent at 100%

Code Sec. 168(k) provides additional first-year ("bonus") depreciation for qualified property. Before the Act, the applicable rate for bonus depreciation was being phased down to zero over multiple years. The Act permanently sets bonus depreciation at 100% (now informally stylized as 100% expensing).

Other than adjusting certain date criteria, the Act did not alter the types of property eligible for the Code Sec. 168(k) deduction. A limited transitional election is provided to apply the pre-Act phase-down rates instead of 100%.
This provision is effective for property acquired after Jan. 19, 2025 (Act Sec. 70301. Amending Code Secs. 168 and 460)

Tax Professional's Alert: The OBBBA permanently reinstates 100 percent bonus depreciation for qualified property (e.g., certain machinery, equipment, and other short-lived assets) acquired on or after January 20, 2025.

Allocation of Deductions to Foreign Source Net CFC Tested Income (Formerly Known as GILTI) for Foreign Tax Credit Purposes

The foreign tax credit is generally limited to a taxpayer's U.S. tax liability on its foreign source taxable income. This limitation is applied separately to specific categories of income, among them the global intangible low tax income (GILTI) category.

The Act, which renames GILTI to net CFC tested income (Act Sec. 70323), limits the deductions that may be allocated to income in the net CFC tested income category to (i) the deduction for net CFC tested income itself as well as for taxes imposed on that income and (ii) any other deductions directly allocable to net CFC tested income. Further, no amount of interest expense or R&E expense may be allocated to this category. Deductions which would have been allocated to the net CFC tested income category but for this provision must instead be allocated to U.S. source taxable income for purposes of the foreign tax credit limitation. (Act Sec. 70311(a))

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70311(c))

Foreign Provisions

Key International Tax Provisions Under the One Big Beautiful Bill Act

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) was signed into law. It is a landmark piece of legislation that introduces several important changes to the US international tax regime. This alert provides an overview of certain international tax provisions included in the OBBBA and outlines some of the implications for US taxpayers with foreign operations.

Modification of CFC rules

One of the most notable international tax changes under the OBBBA is modification of the downward attribution rules that determine whether a foreign corporation is treated as a controlled foreign corporation (CFC). CFC status is generally dependent on whether US shareholders, each owning at least 10% of the corporation's value or voting power, collectively own more than 50% of the corporation's value or voting power. If a corporation is a CFC, certain of its 10% US shareholders (referred to as inclusion shareholders) generally must include in income their pro rata share of the CFC's global intangible low-taxed income (GILTI) and a category of income referred to as subpart F income (collectively, CFC inclusions).

Under longstanding attribution rules, a person can be treated as owning shares actually owned by a related person for purposes of determining CFC status and, in some cases, status as an inclusion shareholder. Historically, US tax law did not allow "downward attribution" of stock from a foreign parent corporation to a US subsidiary. The prohibition on downward attribution was changed by the Tax Cuts and Jobs Act (TCJA) in 2017, such that a US subsidiary in a foreign-parented group was treated as constructively owning stock in certain foreign subsidiaries of the group, potentially causing them to be treated as CFCs (even though the foreign parent was not a CFC). As a result of this classification, 10% US shareholders of the foreign parent would be treated as inclusion shareholders of those foreign subsidiaries, required to include in income their share of GILTI and subpart F income of the foreign subsidiaries.

The OBBBA largely restores the pre-TCJA prohibition on downward attribution, but introduces a more targeted regime that applies CFC-like inclusions to a newly defined class of US shareholders, referred to as foreign-controlled US shareholders. Foreign-controlled US shareholders are US shareholders who own (by voting power or value and after applying downward attribution) more than 50% of a foreign corporation other than a CFC (such foreign corporation is referred to as a "foreign-controlled foreign corporation"). Foreign-controlled US shareholders are required to include their pro rata share of such foreign-controlled foreign corporation's GILTI and subpart F income. This significantly narrows the scope of inclusion shareholders who must include their pro rata share of a CFC's GILTI and subpart F income due to downward attribution.

In addition, the OBBBA expands the scope of inclusion shareholders. Under current law, only those holding shares in a CFC on the last day of the CFC's taxable year in which it is a CFC were required to include in income their pro rata share of the CFC's GILTI and subpart F income. For example, if a 10% US shareholder that would otherwise be an inclusion shareholder sold its stock of a CFC to another US person during the year, only the transferee would be an inclusion shareholder and would be required to pick up CFC inclusions for the entire year (no matter how long it actually held the CFC stock).

Under the OBBBA, for taxable years of foreign corporations beginning after December 31, 2025, any 10% US shareholder who owns shares in a CFC at any point during the taxable year will generally be an inclusion shareholder, required to include in income its pro rata share of the CFC's GILTI and subpart F income. However, this change does not apply to all types of income of a CFC that must be included in the income of inclusion shareholders; inclusions with respect to investments in US property will continue to be included only by those inclusion shareholders holding shares in the CFC on the last day of the CFC's taxable year.

The OBBBA also permanently extends a CFC look-through rule for related-party payments. Previously set to expire for taxable years beginning after December 31, 2025, this rule allows a CFC's "foreign personal holding company income," which is a subcategory of subpart F income that includes dividends, interest, rents and royalties received by a CFC from a related CFC, to be excluded from subpart F income if it is attributable or properly allocable to active income of the related payor CFC that is neither subpart F income nor income that is effectively connected with the conduct of a US trade or business (effectively connected income or ECI). By making this rule permanent, the OBBBA provides long-term certainty for taxpayers engaged in cross-border intercompany transactions.

Modification of GILTI and FDII rules

The OBBBA renames and reforms the GILTI rules and the foreign-derived intangible income (FDII) rules. GILTI is now referred to as net CFC tested income (NCTI), and FDII is now referred to as foreign-derived deduction eligible income (FDDEI). The name changes generally reflect a shift away from a previous focus on intangible income, reflected in the qualified business asset investment (QBAI) deduction described below.

Under current GILTI rules, an inclusion shareholder of a CFC is taxed on its pro rata share of the CFC's GILTI. GILTI generally means income (other than subpart F income, ECI and certain other items otherwise required to be included in income by a CFC or its inclusion shareholders), minus a deemed 10% return on QBAI, which broadly means certain tangible property. The theory was that any income in excess of this return on QBAI was deemed to be attributable to intangibles. US corporations are entitled to deduct 50% of GILTI that is subject to the standard 21% US federal corporate income tax rate, which results in an effective tax rate of 10.5% on GILTI. For taxable years beginning after December 31, 2025, the GILTI deduction was originally scheduled to be reduced to 37.5%, which would have increased the effective tax rate on GILTI to 13.125%.

The OBBBA eliminates the QBAI reduction and permanently sets the GILTI (now NCTI) deduction at 40%, resulting in an effective tax rate of 12.6% on NCTI if foreign tax credits are not taken into account. The OBBBA also increases the percentage of foreign taxes paid or accrued on NCTI that may be eligible for foreign tax credits from 80% to 90%. Accordingly, if the foreign tax on NCTI is fully creditable, no additional US corporate income tax on NCTI should apply, provided that the foreign tax rate imposed on the CFC's income is at least 14%. These changes potentially increase the tax burden for many taxpayers.

Under current FDII rules, a US corporation may be entitled to a 37.5% deduction with respect to its FDII, which, when applied to income subject to the standard 21% US federal corporate income tax rate, results in an effective tax rate of 13.125% on FDII. FDII generally includes income from property sold by a US corporation to a foreign person for foreign use and services provided by a US corporation to a person, or with respect to property, not located in the United States, minus a deemed 10% return on QBAI. For taxable years beginning after December 31, 2025, the FDII deduction was originally scheduled to be reduced to 21.875%, which would have increased the effective tax rate on FDII to 16.406%. Instead, the OBBBA permanently sets the FDII (now FDDEI) deduction at 33.34%, resulting in an effective rate of 14% on FDDEI. As with NCTI, the QBAI reduction is eliminated, streamlining the computation and aligning the effective tax rate for FDDEI with that of NCTI.

Adjustments to BEAT and foreign tax credit rules

The OBBBA also modifies the base erosion and anti-abuse tax (BEAT). Under current law, the BEAT is a 10% corporate minimum tax that applies to large US corporations (generally those with average annual gross receipts of at least $500 million) that make deductible payments to foreign related parties in an amount above a certain threshold. The BEAT, originally scheduled to increase to 12.5% for taxable years beginning after December 31, 2025, will instead be permanently set at 10.5% under the OBBBA.

In addition to the change to the NCTI foreign tax credits discussed above, the OBBBA makes other modifications to the foreign tax credit regime. For purposes of calculating the NCTI foreign tax credit limitation, the OBBBA excludes interest expense and research and experimental expenses from allocation to NCTI, and limits deductions to those that are directly allocable to NCTI. For purposes of calculating the foreign tax credit limitation generally, the OBBBA allows US-produced inventory sold through a foreign office to be treated as partially foreign-source income (up to 50% of the taxable income from such sale). These changes will apply to taxable years beginning after December 31, 2025.

What was left out: The ‘revenge tax’

Notably, the final version of the OBBBA omits the controversial Section 899, also known as the “revenge tax,” which would have increased tax rates on individuals and business entities resident in – and governments of – “discriminatory foreign countries.” This provision was removed by the Senate following an agreement between the US Treasury and the G7.

<u>One Percent Floor for Deductions of Corporate Charitable Contributions</u>

A corporation can deduct charitable contributions. The deduction cannot exceed 10% of the corporation's taxable income (as computed without regard to the charitable contribution). Contributions in excess of that limit in any year can be carried forward and deducted over the next five years. Code Sec. 170(b)(2)

The Act provides that any otherwise allowable charitable contribution by a corporate taxpayer for any tax year (other than certain qualified conservation contributions) will be allowed only to the extent that the aggregate of such contributions exceeds 1% of the taxpayer's taxable income for the tax year. (Code Sec. 170(b)(2)(A), as amended by Act Sec. 70426(a))

Charitable contributions disallowed either for exceeding the 10% maximum or failing to reach the 1% threshold can be carried forward for five years. (Code Sec. 170(d)(2), as amended by Act Sec. 70426(b))

***Tax Professional's Alert*: The new 1% floor on corporate charitable contributions applies in addition to the 10%-of-taxable-income limitation discussed above.**
This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70426(d))

Increased 179 Expensing Limits - $2,500,000/$4,000,000

Code Sec. 179 allows immediate expensing deductions for certain business property. There is an annual statutory limit of $1,000,000, which is adjusted for inflation (pre-Act limit was $1,250,000 for 2025 property). That limit is phased down dollar-for-dollar once property placed in service during the year exceeds a statutory threshold of $2,500,000, which is adjusted for inflation (pre-Act threshold was $3,130,000 for 2025 property).

The Act increases the statutory expensing limit to $2,500,000 and increases the phase-down threshold to $4,000,000. Both statutory amounts will continue to be subject to future inflation adjustments.

***Tax Professional's Alert*: 179 Small Business Expensing: Finally, the OBBBA raises the cap on § 179 first-year expensing from $1 million to $2.5 million with inflation.**

This provision is effective for property placed in service in tax years beginning after Dec. 31, 2024. (Act Sec. 70306. Amending Code Sec. 179)

100% Depreciation Election for Real Property Used for Producing Tangible Personal Property

The Act adds new Code Sec. 168(n). This provision allows a taxpayer to elect a 100% depreciation deduction for qualified production property (QPP) in the year it is placed in service. Adjusted basis is reduced accordingly. To be eligible, generally, QPP construction must start between January 20, 2025, and December 31, 2029; and the property must be placed in service in the U.S. (or a U.S. possession) before January 1, 2031.

QPP is nonresidential real property used as an integral part of a qualified production activity (QPA). QPP does not include property used for a variety of functions unrelated

to QPAs, such as offices for sales or research activities. Additionally, QPP does not include Alternative Depreciation System (ADS) property, or property the taxpayer leases to another person.

QPP is subject to an original use requirement, but an exception is allowed if the property (i) was not previously used by the taxpayer, (ii) was not previously used in a QPA by another person, and (iii) was not acquired from a related party or certain non-recognition transactions.

A QPA is the manufacturing, production (agricultural and chemical only), or refining of a qualified product. A qualified product is tangible personal property other than food or beverages prepared in the same building as a retail outlet that sells those products.

QPP is subject to a 10-year recapture period. If QPP ceases to be used for a QPA, then Code Sec. 1245 is applied as if there had been a disposition of the property. There are coordination rules for the alternative minimum tax and for QPP that might also be eligible for other forms of additional first-year depreciation.

<u>Tax Professional's Alert</u>: What is Qualified Production Property?

Qualified Production Property (QPP) is a newly defined class of real property that bridges the gap between manufacturing incentives and real estate investment. To qualify, the property must be:

- ***Nonresidential real property***
- ***Used by the taxpayer as an integral part of a Qualified Production Activity (QPA)***
- ***Located in the U.S. or its territories***
- ***Originally used by the taxpayer, or meet specific exceptions for unused acquired property outlined below***
- ***Constructed between Jan. 20, 2025, and Dec. 31, 2028***
- ***Placed in service before Jan. 1, 2031***

Unlike traditional property classes eligible for Bonus Depreciation, QPP includes Section 1250 real property directly used in production, such as the production floor, mezzanines, or lighting systems tied to the process.

Many taxpayers utilize a business structure that holds the real estate in a separate holding company from the operating company of the business. The statement within the provision, "used by the taxpayer," leaves some ambiguity as to whether a taxpayer utilizing this structure could take advantage of the immediate expensing of qualified production property.

Important Note on Acquired Property

For previously owned property to qualify as QPP, it must not have been used in a qualified production activity by any person between January 1, 2021, and May 12, 2025, and must also never have been used by the acquiring taxpayer. This enables underutilized or vacant industrial properties to be repositioned for production use and still qualify.
:
This is an excellent opportunity to acquire and rehabilitate vacant manufacturing or warehouse buildings. In this scenario, a portion of the acquired warehouse as well as the improvements may be QPP.

What is a Qualified Production Activity?

A Qualified Production Activity (QPA) involves manufacturing, producing, or refining tangible personal property and must result in a "substantial transformation."

The IRS has not yet issued regulations to define what constitutes a "substantial transformation" or clarify how QPP elections will be made. These rules are expected to follow the structure of IRC §168(k), but may evolve with formal guidance.

<u>Example</u>s of Substantial Transformation (per IRC §954(d) and Treas. Reg. §1.954-3):

- *Converting wood pulp into paper*
- *Machining steel rods into bolts*
- *Molding plastic pellets into auto parts*

The term "production" is further defined to include only agricultural and chemical production, and a "product" must be tangible personal property, not food or beverages prepared in the same building as a retail establishment in which the property is sold.

Food and beverage manufacturing facilities are a great opportunity, but a restaurant does not meet the QPP definition.

How to Claim Qualified Production Property

To claim 100% Bonus Depreciation on QPP a Taxpayer must make an irrevocable election to do so. A taxpayer may elect Bonus Depreciation for qualified production property by identifying the qualified production property or the portion of property subject to the election on the taxpayer's tax return for the year of the election. The exact manner for making the election will be provided by the IRS. State conformity is also unknown currently.

Guidance is still required to determine how these allocations should occur. For example, saying 30% of the building footprint is production area. Is that sufficient, or must a taxpayer get more granular and exclude individual items like drywall, wiring, or flooring not in use by QPA?

Conclusion

QPP presents a groundbreaking opportunity aligned with the administration's commitment to stimulate U.S. manufacturing and drive downstream real estate growth. Acting early ensures you're positioned to fully leverage the benefits. KBKG is here to support taxpayers and their preparers with expert guidance on eligibility, strategic planning, and compliance.

This provision is effective for property placed in service after the date of enactment of the Act. (Act Sec. 70307. Amending Code Secs. 168 and 1245)

Coordination of Business Interest Limitation with Interest Capitalization Provisions.

Code Sec. 163(j) limits the amount of interest a business can deduct, with certain exceptions. Any business interest not allowed as a deduction for any tax year may be carried forward indefinitely.

Under current IRS regulations, Code Sec. 163(j) applies after the application of provisions that subject interest expense to disallowance, deferral, capitalization or other limitations.

The Act provides that

The Code Sec. 163(j) limitation is calculated prior to the application of any interest capitalization provision.

After applying the limitation, any allowable interest is allocated first to amounts that would be capitalized and the remainder, if any, to amounts that would be deducted.

Any business interest carried forward is not subject to the interest capitalization provisions.

Tax Professional's Alert: At the same time, however, the OBBBA requires that most capitalized interest be included in applying the business interest limitation in section 163(j) and the amount of the deduction allowed under the section 163(j) limitation be applied first to such capitalized interest.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70341, amends Code Sec. 163(j))

Definition of Adjusted Taxable Income for Business Interest Limitation

A taxpayer's adjusted taxable income (ATI) is the taxable income of the taxpayer computed without regard to non-business income, gain, deduction or loss, any business interest income, any net operating loss, any 199A deduction, or depreciation, amortization or depletion or other adjustments required by the Treasury Secretary.

The Act adds a new item to the list of things that are added back to taxable income when calculating "adjusted taxable income" for the business interest deduction limit.

The new item includes the amounts included in gross income under sections 951(a), 951A(a), and 78 (and the portion of the deductions allowed under sections 245A(a) (by reason of section 964(e)(4)) and 250(a)(1)(B) by reason of such inclusions).
This change applies to tax years beginning after December 31, 2025. (Act Sec. 70342, amends Code Sec. 163(j)(8))

<u>Tax Professional's Alert</u>: Definition of Adjusted Taxable Income (ATI) for Business Interest Limitation: Subject to certain exceptions, Section 163(j) generally limits the amount of business interest that a taxpayer can deduct to 30% of the taxpayer's ATI for the taxable year

<u>Expansion of Qualified Small Business Stock Gain Exclusion</u>
Under pre-Act law, Code Sec. 1202 allowed noncorporate taxpayers that hold qualified small business stock (QSBS) for more than 5 years to potentially exclude all or part of the gain realized on the sale or exchange of that QSBS from gross income. There were a number of limitations on the exclusion, including a limitation that the aggregate amount of gain from dispositions of stock issued by the corporation that can be taken into account under the exclusion can't exceed the *greater* of (i) $10 million ($5 million for married taxpayers filing separate returns) minus the aggregate amount of eligible gain (gain on the sale or exchange of QSBS held for more than five years) excluded under Code Sec. 1202 for earlier tax years and attributable to dispositions of stock issued by the corporation and (ii) ten times the taxpayer's aggregate adjusted bases in QSBS issued by the corporation (generally determined on the date the stock was originally issued) and disposed of by the taxpayer in the tax year. In addition, the aggregate gross assets of the issuing corporation (cash and the adjusted basis of its assets) generally must not have exceeded $50 million at any point before and immediately after the stock issuance (including amounts received in the issuance) at all times on or after the date of the enactment of the Revenue Reconciliation Act of 1993.

Under the Act, gain on the applicable percentage (50% for stock held for 3 years, 75% for stock held for 4 years, 100% for stock held for 5 years (Code Sec. 1202(a)(5) as amended by Act Sec. 70431(a)(2)) is eliminated for QSBS acquired after the applicable date (July 4, 2025. (Code Sec. 1202(a)(1)(B) as amended by Act Sec. 70431(a)(2)); (Code Sec. 1202(a)(6)(A) as amended by Act Sec. 70431(a)(3)) Stock that would otherwise be treated as having been acquired before, on, or after the applicable date, will be treated as acquired on the first day on which the stock was held by the taxpayer under the Code Sec. 1223 holding period rules. (Code Sec. 1202(a)(6)(B) as amended by Act Sec. 70431(a)(3))

As under pre-Act law, the eliminated gain will not be treated as an alternative minimum tax preference. (Code Sec. 57(a)(7) as amended by Act Sec. 70431(a)(4)(A))

The limitation on the aggregate amount of gain from dispositions of stock issued by the corporation that can be taken into account under the exclusion is amended so that it is the applicable dollar limit. (Code Sec. 1202(b)(1)(A) as amended by Act Sec. 70431(b)(1) This limit is (i) for stock acquired by the taxpayer before the applicable date, $10 million minus the aggregate amount of eligible gain taken into account by the taxpayer for earlier tax years and attributable to dispositions of stock issued by the corporation and acquired by the taxpayer before, on, or after the applicable date and (ii) for stock acquired by the taxpayer after the applicable date, $15 million minus the aggregate amount of eligible gain taken into account by the taxpayer for earlier tax years and attributable to dispositions of stock issued by such corporation and acquired by the taxpayer before, on, or after the applicable date, plus the aggregate amount of eligible gain taken into account by the taxpayer for the tax year and attributable to dispositions of stock issued by such corporation and acquired by the taxpayer on or before the applicable date. (Code Sec. 1202(b)(4) as amended by Act Sec. 70431(b)(2))

The $15 million limit will be increased for inflation by multiplying the amount by the Code Sec. 1(f)(3) cost-of-living adjustment for the calendar year in which the tax year begins, determined by substituting "calendar year 2025" for "calendar year 2016" in Code Sec. 1(f)(3)(A)(ii). If any increase under this rule is not a multiple of $10,000, the increase is rounded to the nearest multiple of $10,000. If for any tax year, the eligible gain attributable to dispositions of stock issued by a corporation and acquired by the taxpayer after the applicable date exceeds the applicable dollar limit, then notwithstanding the above inflation increase for any later tax year, the applicable dollar limit for the subsequent tax year will be zero. (Code Sec. 1202(b)(5) as amended by Act Sec. 70431(b)(2))

As under pre-Act law, the $10 million limit is reduced to $5 million for married taxpayers filing separate returns and the limitation for stock acquired by the taxpayer after the applicable date is similarly reduced by one-half of the dollar amount otherwise in effect. (Code Sec. 1202(b)(3)(A) as amended by Act Sec. 70431(b)(3))

The Act also increases the $50 million aggregate gross asset limit to $75 million and provides for an inflation adjustment to the $75 million limit similar to the above adjustment to the $15 million limit (with rounding off to the nearest $10,000). (Code Sec. 1202(d) as amended by Act Sec. 70431(c))

The provision eliminating gain on the applicable percentage described above is effective for tax years beginning after July 4, 2025, although the elimination of the tax preference for the exclusion for alternative minimum tax purposes is effective as if included in Section 2011 of the Creating Small Business Jobs Act of 2010. (Act Sec. 70431(a)(6))

The increase in the limitation on the aggregate amount of gain is effective for tax years beginning after July 4, 2025. (Act Sec. 70431(b)(4))

The increase in the gross asset limitation is effective for stock issued after July 4, 2025. (Act Sec. 70431(b)(4))

According to Justin Miller, partner and national director of wealth planning at Evercore, the new rules allow an investor to place $74.9 million in a small business and have up to $749 million exempt from capital gains if the sale exceeds ten times the original investment base. This change is clearly aimed at incentivizing wealthy investors to engage with small qualified businesses with significant potential.

In addition to the threshold and exclusion increases, the OBBBA introduces a new tiered system for early sales. This system provides tax exemptions for those wishing to sell their shares before the five-year holding period, offering flexibility and additional incentives for investors.

The QSBS program, originally conceived during the Clinton administration and expanded under President Barack Obama, actively seeks to promote investments and the establishment of small businesses. The adjustments implemented under the OBBBA amplify these incentives, directly benefiting entrepreneurs and investors in the small business sector

Tax Professional's Alert*: The One Big Beautiful Bill Act (OBBBA), enacted on July 4, 2025, significantly expands the tax benefits associated with Qualified Small Business Stock (QSBS) under Section 1202 of the Internal Revenue Code. The OBBBA introduces tiered gain exclusions based on holding periods and increases the gross asset threshold for eligible companies. It also increases the amount of gain that can be excluded.

Here's a breakdown of the key changes:

1. Reduced Holding Periods for Partial Gain Exclusion:

- ***Prior to the OBBBA, QSBS had to be held for more than five years to qualify for any gain exclusion.***
- ***The OBBBA introduces a tiered system for QSBS issued after July 4, 2025:***
    - ***50% exclusion: for QSBS held for at least three years.***
    - ***75% exclusion: for QSBS held for at least four years.***
    - ***100% exclusion: for QSBS held for five years or more.***

2. Increased Gain Exclusion Amount:

- ***The OBBBA increases the amount of capital gain that can be excluded from taxation.***
- ***The gain exclusion is now capped at the greater of $15 million or ten times the investor's basis in the stock.***

3. Increased Gross Asset Threshold:

- ***The OBBBA increases the maximum gross assets a company can have to be considered a "small business" for QSBS purposes from $50 million to $75 million.***
- ***This change applies to stock issued on or after July 5, 2025.***

4. Other Important Considerations:

- ***The OBBBA does not change the requirement that QSBS must be acquired directly from the issuing corporation.***
- ***The issuing corporation must still meet the active business requirements during substantially all of the taxpayer's holding period.***
- ***The OBBBA does not change the fact that only domestic C corporations can issue QSBS.***
- ***Banking and financing activities are still not considered a qualified trade or business for QSBS purposes.***
- ***The OBBBA does not change the requirement that at least 80% of a company's assets must be used in a qualified trade or business.***

<u>Enhancement of Advanced Manufacturing Investment Credit</u>

Under current law, eligible taxpayers are allowed a 25% advanced manufacturing investment credit (also known as the semiconductor credit or the CHIPS credit) on qualified investments in an advanced manufacturing facility built before January 1, 2027. An advanced manufacturing facility is a facility that has a primary purpose of manufacturing semiconductors or semiconductor manufacturing equipment.
This section increases the credit to 35% for property placed in service after December 31, 2025. (Act Sec. 70308. Amends Code Sec. 48D)

<u>Tax Professional's Alert</u>: The One Big Beautiful Bill Act (OBBBA) significantly enhances the Advanced Manufacturing Investment Credit for semiconductor and related equipment manufacturers. Specifically, the OBBBA increases the credit from 25% to 35% of qualified investment for property placed in service after December 31, 2025, according to legal and accounting sources. This enhanced credit applies to facilities and equipment used in the manufacturing of semiconductors or semiconductor manufacturing equipment.

Key Provisions of the OBBBA related to the Advanced Manufacturing Investment Credit:

- ***Increased Credit Rate:***

The OBBBA raises the credit rate from 25% to 35%.

- ***Effective Date:***

The increased credit rate is applicable to property placed in service after December 31, 2025.

- ***Qualified Investment:***

The credit applies to investments in facilities and equipment for semiconductor manufacturing.

- ***CHIPS Act Connection:***

***The OBBBA builds upon the existing Advanced Manufacturing* Investment Credit established by the CHIPS and Science Act of 2022.**

Increased Information Reporting Threshold for Certain Payees

Under pre-Act law, Code Sec. 6041(a) requires all persons engaged in a trade or business to file an information return (typically, Form 1099-MISC or 1099-NEC) for payments totaling $600 or more made during a calendar year for specified types of income (including rent, salaries, wages, and other fixed or determinable income). Code Sec. 6041A imposes a similar reporting requirement for payments totaling $600 or more made as remuneration for services to persons other than employees. Backup withholding under Code Sec. 3406(b)(6) applies when payments meet or exceed the $600 threshold and the payee fails to provide a correct taxpayer identification number or otherwise fails to comply with applicable reporting requirements.

The Act increases the general reporting threshold and the reporting threshold for remuneration to non-employees from $600 to $2,000. (Act Secs. 70433(a) and 70433(c). Amend Code Secs. 6041(a) and 6041A(a)(2), respectively)

Beginning in 2027, the general reporting threshold is adjusted annually for inflation using the cost-of-living adjustment formula in Code Sec. 1(f)(3), with calendar year 2025 as the base year. (Act Sec. 70433(b). Adds new Code Sec. 6041(h)) The Act aligns the reporting threshold under Code Sec. 6041A with this inflation-adjusted threshold (Act Sec. 70433(c). Amends Code Sec. 6041A(a)(2))

The Act also revises the backup withholding rules to reflect the inflation-adjusted threshold established under new Code Sec. 6041(h). (Act Sec. 70433(d). Amends Code Sec. 3406(b)(6))

***Tax Professional's Alert*: Increased Threshold for Requiring Certain Information Reporting. The OBBBA increases the $600 threshold to $2,000 (with an inflation adjustment for calendar years after 2026) for Forms 1099-MISC and 1099-NEC (contractor/Service Payments), significantly easing the burden on individuals and small businesses. The payment threshold is based on a calendar year.**

This provision is effective for payments made after December 31, 2025. (Act Sec. 70433(f). Amends Code Sec. 6041 and Code Sec. 6041A)

Form 1099-K De Minimis Exception for Third-Party Networks Reverts to $20,000 plus 200 Transactions

Code Sec. 6050W requires third-party network transactions to be reported on Form 1099-K, and reportable transactions are potentially subject to backup withholding under Code Sec. 3406. There is a de minimis exception which excludes aggregate transactions in a year below a certain threshold from the 1099-K reporting requirements. This exception does not extend to payment card transactions.

The American Rescue Plan Act of 2021 (ARPA) changed the statutory de minimis threshold to $600. That threshold was scheduled to start applying to 2022 transactions. However, the IRS allowed delayed implementation. Before the Act, under IRS guidance, reporting entities could follow a $2,500 de minimis exception for 2025 transactions.

The Act reverts the de minimis exception to the pre-ARPA threshold, which means that only aggregate transactions in a year for a payee exceeding both $20,000 and 200 transactions are required to be reported.

The Act also clarifies that both components of the de minimis exception - dollar amount and transaction count - are considered for backup withholding.

The threshold reversion provision is effective as if it had been included in the ARPA. The backup withholding clarification is effective for calendar years beginning after Dec. 31, 2024. (Act Sec. 70432. Amending Code Secs. 6050W and 3406)

<u>Treatment of Capital Gains From Sale of Certain Farmland Property</u>

The Act allows sellers of qualified farmland property to elect to pay capital gains tax resulting from the sale in four equal annual installments.

Qualified farmland property means real U.S. property used as a farm or leased to a qualified farmer. To qualify, the property must be used substantially for farming purposes for the 10 years preceding the sale. The property must also be subject to prohibitions on non-farm use for at least 10 years after the sale.

A qualified farmer is an individual actively engaged in farming, as defined in the Food Security Act of 1986.

The first installment payment is due with the tax return for the year in which the sale occurs. The following three payments are also due with the returns for the subsequent tax years. If a payment is missed, the entire remainder of the capital gains tax balance is then due immediately.

If the taxpayer is an individual who dies before paying all four installments, the unpaid installments are due with the last year's return. If the taxpayer is a C corporation, trust, or estate - and there is a liquidation, sale of substantially all assets, or cessation of business - then the unpaid installments are due immediately.

In the event of a tax deficiency assessed as a result of the gain from the farmland sale, the deficiency is prorated across the remaining installments. However, this does not apply if the deficiency is due to negligence or fraud.

<u>Tax Professional's Alert</u>: Treatment of Capital Gains from Sale of Certain Farmland. The OBBBA provides for an election to pay in four installments the net income tax on the gain from the sale or exchange of qualified farmland property to a qualified

farmer. Available to partnerships and S corporations at the partner or shareholder level, as applicable. The election applies to sales and exchanges of property in taxable years beginning after July 4, 2025.

This section applies to sales or exchanges in tax years beginning after the date of enactment. (Act Sec. 70437. Redesignates Code Sec. 1062)

Payments from Partnerships to Partners for Property or Services

Under pre-Act law, Code Sec. 702(a)(2) provided for the recharacterization under IRS regs of both disguised sales of property to partnerships and direct or indirect allocations and distributions to a partner who provides services or transfers property to a partnership, where the performance of the services (or the transfer of property) and the allocation and distribution, when viewed together, are properly characterized as a transaction between the partnership and the partner acting other than in his capacity as a partner. In those cases, the allocation and distribution are treated as a transaction between the partnership and an outsider. IRS has issued regs regarding disguised sales of property to partnerships, but has not issued any regs regarding allocations and distributions to partners who provide services or transfer property to partnerships.

***Disguised Payments to Partners for Property or Services*. The OBBBA amends Section 707(a)(2) of the Code to clarify that the statute for payments by partnerships to partners is self-executing, as opposed to being effective "under regulations prescribed by the Secretary." In effect, the change treats payments as disguised sales without the need for IRS regulation. This change is effective for services performed, and property transferred, after July 4, 2025.

Tax Professional's Alert: The Act eliminates the language that the recharacterization be under IRS regs. Thus, IRS may recharacterize transactions without issuing any regs. (Code Sec. 702(a)(2) as amended by Act Sec. 70602(a)) The change is not intended to create any inference with respect to the proper treatment of payments from a partnership to a partner for services performed, or property transferred, on or before July 4, 2025. (Act Sec. 70602(c))

This provision is effective for services performed or property transferred after July 4, 2025. (Act Sec. 70602(b))

Section 162(m) Extended to Controlled Groups

Under pre-Act law, Code Sec. 162(m) limits the amounts that publicly held corporations may deduct for compensation of certain top executives to $1 million per year. The limitation applies to "covered employees," which typically includes the CEO, CFO, and the three highest-compensated executive officers (excluding the CEO and CFO). Pre-Act law also provides that for tax years beginning after Dec. 31, 2026, the definition of covered employees is currently set to expand to include the next five highest-compensated employees, regardless of their officer status. Thus, the number of covered employees for most publicly held companies will increase from 5 to 10.

Under pre-Act law, Code Sec. 162(m) applies to any "covered employee" within the Public Company's controlled group as defined under Code Sec. 1504 for the consolidated return rules. Under the Act, which uses the term "specified covered employee" instead of "covered employee," determining compensation that is subject to Code Sec. 162(m) is expanded to include all members of a publicly-held corporation's controlled group and affiliated service group under Code Sec. 414(b), (c), (m), or (o) (which is a broader group than under the pre-Act aggregation rule).

Compensation paid to a "specified covered employee" by any member of the controlled group is aggregated. To the extent the aggregated compensation exceeds $1 million, the deduction limitation is allocated pro rata to each controlled group member based on the ratio of compensation paid by that member to aggregate compensation paid by all members.

Tax Professional's Alert: ***The Act changes the Code Sec. 162(m) rules so that individuals employed by an unincorporated trade or business under common control with the publicly held corporation could be specified covered employees. This could include partnerships or affiliated service groups, such as certain service organizations connected through ownership or management. In addition, certain entities in controlled group structures (e.g., an Up-C or REIT) may have to analyze the potential application of Code Sec. 162(m).***

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70603(b))

Tax Professional's Alert: A controlled group, in the context of employee benefits, refers to a group of companies with overlapping ownership that are treated as a single entity for certain purposes, such as 401(k) plan administration. This means that the employees of all companies within the controlled group must be considered when conducting required plan testing. There are two main types of controlled groups: parent-subsidiary and brother-sister.

Exceptions From Limitations on Deduction of Business Meals

Taxpayers may deduct food and beverage expenses associated with operating the taxpayer's trade or business, such as meals consumed by employees on work travel.

However, with certain limited exceptions, the deduction is limited to 50% of the otherwise deductible amount through the end of 2025, and eliminated entirely for amounts paid or incurred after December 31, 2025. (Code Sec. 274)

The Act provides an additional exception from the limitations on the deduction of business meals for the expenses of food or beverages provided (a) on a fishing vessel, fish processing vessel, or fish tender vessel (as defined in 46 U.S. Code Sec. 2101), or (b) at a facility for the processing of fish for commercial use or consumption which *is* located in the United States north of 50 degrees north latitude and *is not* located in a metropolitan statistical area (within the meaning of Code Sec. 153(k)(2)(B)). (Code Sec. 274(n)(2)(C)(v), as added by Act Sec. 70305(b))

The Act also clarifies that the limitations on the deduction of business meals don't apply to expenses for goods or services (including the use of facilities) sold by a taxpayer in a bona fide transaction for an adequate and full consideration in money or money's worth. (Code Sec. 274(o), as amended by Act Sec. 70305(a))

This section applies to amounts paid or incurred after December 31, 2025. (Act Sec. 70305(c))

***Tax Professional's Alert*: OBBBA Post-2025 Changes**

- ***After December 31, 2025, the deduction for employer-provided meals will be disallowed, except for certain meals provided on vessels, oil or gas platforms, drilling rigs, and support camps.***

*******Every other provision regarding the deductibility of business meals remains unchanged and are as follows: *******

1. ***Business Meal Expenses Deduction***

A taxpayer can generally deduct 50% of business meal expenses if they meet the following conditions:

- ***The expenses are ordinary and necessary for carrying on a trade or business.***
- ***The taxpayer or their employee is present at the meal.***
- ***The food or beverage is not lavish or extravagant.***
- ***The meal is provided to current or potential clients or business contacts.***
- ***Food and beverages provided during entertainment must be purchased or invoiced separately.***

2. ***Deductible Travel Expenses***

Travel expenses, including meals and lodging, are deductible if they are incurred while away from home in the pursuit of a trade or business. These expenses must be reasonable and necessary.

3. ***Exceptions to the 50% Limitation***

Several exceptions allow for full deduction of meal expenses:

- ***Expenses Treated as Compensation: If meal expenses are treated as compensation to the recipient and included in wages, the employer can deduct it as wages.***
- ***Reimbursed Expenses: When expenses are reimbursed under an accountable plan.***

- ***Employee Recreational and Social Activities: Expenses for activities primarily benefiting non-highly compensated employees (i.e. Company parties).***
- ***Goods and Services Available to the Public: Expenses for meals made available to the general public.***
- ***Meals Sold to Customers: Expenses for meals sold to customers in a bona fide transaction.***

Please ensure that all meal expenses are documented and substantiated according to these guidelines to maintain compliance with IRS regulations.

Overall Dollar Limit on the Advanced Energy Project Credit No Longer Increased by Amounts Allocated to Revoked Project Certifications

Allocations of the Code Sec. 48C advanced energy project credit are subject to a cumulative (not annual) $10 billion limit. (Code Sec. 48C(e)(2))
Under pre-Act law, when a project certification was revoked, the amount that had been allocated to that project was added back to the unused amount of the $10 billion limit. (Code Sec. 48C(e)(3)(C))

Tax Professional's Alert: Advanced Energy Project Credit

Manufacturers and other entities that invest in qualifying advanced energy projects may apply for a tax credit through the U.S. Department of Energy (DOE). A total of $10 billion has been allocated for the credits under the Inflation Reduction Act, with $4 billion set aside for projects in certain energy communities over the duration of the program.

The tax credit equals:

- ***30% of qualified investment costs for projects that meet prevailing wage and apprenticeship requirements***
- ***6% for projects that don't meet prevailing wage and apprenticeship requirements***

A qualifying project:

- ***Re-equips, expands or establishes an industrial or a manufacturing facility to produce or recycle specified advanced energy property (defined in Notice 2023-18)***
- ***Installs technology in an industrial or manufacturing facility to reduce greenhouse gas emissions by at least 20%***
- ***Re-equips, expands or establishes an industrial facility to process, refine or recycle critical materials***

Projects that produce property for refining or blending non-renewable transportation fuels are excluded.

The Act discontinues this add-back. (Act Sec. 70515(a))

This provision is effective as of the date of enactment of The Act. (Act Sec. 70515 (b))

<u>Limit on Excess Business Losses</u> <u>is Made Permanent; Inflation Adjustment is Modified; Inapplicability of Farm Loss Limits is Made Permanent</u>

For taxpayers other than corporations, any "excess business loss" of the taxpayer for the tax year is disallowed. Briefly, excess business loss is the excess of trade or business deductions for the tax year, over the sum of: gross income or gain for the tax year attributable to those trades or businesses, plus (a) $250,000 (as adjusted for inflation-i.e., for 2025, $313,000)-or (b) $500,000 for a joint return (as adjusted for inflation-i.e., for 2025, $626,000). (Code Sec. 461(l)(1); Code Sec. 461(l)(3))

Under pre-Act law, the inflation adjustment to the $250,000 amount (above) was calculated by applying the cost-of-living adjustment determined under Code Sec. 1(f)(3), determined by substituting "2017" for the "2016" in Code Sec 1(f)(3)(A)(ii). (Code Sec. 461(l)(3)(C))

For taxpayers other than corporations, the farm loss limitation rules of Code Sec. 461(j) do not apply. (Code Sec. 461(l)(1)(A))

<u>Tax Professional's Alert</u>: During the period when the farm loss limitation rules of Code Sec. 461(j) do not apply, farm losses are subject to the broader excess business loss limitation of Code Sec. 461(l) (above).

Under pre-Act law, the excess business loss provision was slated to expire for tax years beginning after 2028. (Code Sec. 461(l)(1)(B)) The inapplicability of the Code Sec. 461(j) excess farm loss limit was also slated to expire for tax years beginning after 2028.

The Act makes the limit on excess business losses permanent. It also makes permanent the inapplicability of the Code Sec. 461(j) excess farm loss limit. (Act Sec. 70601(a))

The Act changes the inflation adjustment calculation for the $250,000 amount (above); "2024" (and not "2017") is substituted for the "2016" in Code Sec 1(f)(3)(A)(ii). (Act Sec. 70601(b))

The change making permanent the excess business loss limit/inapplicability of Code Sec. 461(j) is effective for tax years beginning after Dec. 31, 2026. (Act Sec. 70601(c)(1)) The change to the calculation of the inflation adjustment is effective for tax years beginning after December 31, 2025. (Act Sec. 70601(c)(2); Code Sec. 461(l)(3)(C))

<u>Tax Professional's Alert</u>: Excess business losses are carried forward and treated as net operating loss carryovers in succeeding years. The Act makes permanent the Section 461(l) limitation on excess business losses for non-corporate taxpayers.

<u>Enforcement Provisions with Respect to COVID-Related Employee Retention Credits</u>

The Employee Retention Credit (ERC), also known as the Employee Retention Tax Credit (ERTC), was established through Sec. 2301(a) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; PL 116-136). The ERC was a refundable payroll tax credit. For the 2020 tax year, the ERC was claimed by eligible employers who paid qualified wages after March 12, 2020, and before January 1, 2021, if they experienced a full or partial suspension of their operations or a significant decline in gross receipts ("eligible employers"). The credit was equal to 50% of qualified wages paid, including qualified health plan expenses. The maximum credit per employee was $5,000.

The ERC was later extended to qualified wages paid after December 31, 2020, and before July 1, 2021, and the ERC rate was increased from 50% to 70% of qualified wages. The required percentage of significant decline in gross receipts was reduced for eligibility, and the limit per-employee on per-employee creditable wages was increased from $10,000 for the year to $10,000 for each quarter, among other items. It was further expanded and modified to include wages paid after June 30, 2021, and before January 1, 2022.

On November 15, 2021, the ERC was terminated for most employers beginning with the fourth quarter of 2021. However, recovery startup businesses continued to be eligible for the ERC through December 31, 2021.

Caution claiming the expired ERC. Generally, for 2020 tax periods, the deadline was April 15, 2024. For 2021 tax periods, the deadline was April 15, 2025. While a business may be eligible to claim the expired ERC via an amended payroll tax return, the IRS received numerous ERC claims from ineligible businesses, and has repeatedly warned about predatory ERC marketers aggressively advertising their services to "help" businesses claim the already expired ERC without verifying whether the business is in fact eligible for the ERC.

On September 14, 2023, the IRS paused the processing of new ERC claims due to the increase of improper claims submitted through the use of ERC mills. On August 8, 2024, the IRS announced it had processed ERC claims filed between September 14, 2023, and January 31, 2024.

The Act provides several provisions covering the enforcement by the IRS of fraudulent ERC claims.

First, it imposes penalties on any COVID-ERTC promoter who aids or advises on COVID-ERTC documents and who fails to meet due diligence requirements similar to those under Code Sec. 6695(g) when determining eligibility for, or the amount of, any credit or advance payment under Code Sec. 3134. The promoter will face a $1,000 penalty per failure. The penalty applies only to documents used in connection with tax returns or claims for refund, and will be treated as assessable under Code Sec. 6695(g) and assessed under Sec. 6201.

The Act defines a COVID-ERTC Promoter as any person that provides aid, assistance, or advice regarding COVID-ERTC documents and:

Their fee is based on the amount of the credit/refund, and COVID-ERTC work is more than 20% of their gross receipts in the year or prior year, or

COVID-ERTC work is more than 50% of gross receipts, or

Both COVID-ERTC work is more than 20% of gross receipts and the aggregate of gross receipts exceeds $500,000.

Certified professional employer organizations (CPEOs) are not considered a COVID-ERTC Promoter. All persons treated as a single employer under Code Sec. 52 or section 414 are treated as a single employer.

The Act goes on to define a COVID-ERTC document as any return, affidavit, claim, or document related to credit or advance payment of a credit under Code Sec. 3134, including any document related to eligibility for, or the calculation or determination of any amount directly related to, any such credit or advance payment.

The Act limits the availability of new ERTC credits or refunds after the enactment date unless the claim was filed before February 1, 2024. It further extends the limitation on the time period for the assessment of any amount related to ERTC credits, for 6 years from the latest of:

> The date the original return which includes the calendar quarter with respect to which the credit is determined was filed,
> The date the return is treated as filed, or
> The date a claim for credit or refund is made.
> The period to claim deductions for improperly claimed ERTC wages is also extended to match the assessment period.

Finally, the Act expands the penalty for erroneous claim for refund or credit to cover employment tax, not just income tax.

The provisions apply generally after the date of enactment of the Act. (Act Sec. 70605. Amends Code Sec. 3134 and 6676)

No Tax on Tips

History on taxation of tips. Historically, cash tips received by employees have been considered taxable under the Internal Revenue Code. Employees are required to report tips to their employers, who then withhold income and payroll taxes. Employers also pay their share of FICA taxes on reported tips.

There has never been a general deduction for tip income; all tips were fully taxable, and the only related tax benefit was the FICA tip credit for employers in the food and beverage industry under IRC?45B. The Tax Cuts and Jobs Act (TCJA) of 2017 did not alter the taxability of tips for employees.

Creation of temporary deduction for tips. Section 70201 of the Act creates a new, temporary deduction for individuals who receive qualified cash tips in occupations where tipping was customary before January 1, 2025. This is codified as new IRC?225.

Deduction amount and phaseout. The deduction is up to $25,000 per year per taxpayer. The deduction phases out by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 (or $300,000 for joint filers).

Qualifying criteria for tips. Tips must be properly reported on IRS-approved forms. Tips must be voluntary, not negotiated, and not received in specified service trades or businesses (as defined in IRC?199A(d)(2)). For individuals receiving tips through a business, they operate (other than as employees), the deduction is allowed only if gross income from the business (including tips) exceeds business-related deductions.

Additional requirements. Married taxpayers must file jointly to claim the deduction. A valid Social Security Number (SSN) must be provided. An omission of a valid SSN is treated as a mathematical or clerical error under IRC?6213(g)(2).

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction (IRC?63).

Exclusion from qualified business income. Any amount deducted under new IRC?225 is excluded from the definition of qualified business income for purposes of the IRC?199A deduction, preventing double tax benefits.

Expansion of FICA tip credit. The FICA tip credit under IRC?45B is expanded to include beauty service businesses (barbering, hair care, nail care, esthetics, spa treatments) where tipping is customary, aligning them with food and beverage establishments.

Enhanced reporting requirements. Businesses, third-party payers, and platforms must separately report designated cash tips and the recipient's occupation on Forms W-2, 1099, and 1099-K (IRC §6041, §6041A, §6050W, §6051, etc.). Employers must report total employee tips and occupations on wage statements.

IRS guidance and withholding adjustments. The IRS is required to publish a list of occupations that customarily receive tips not later than 90 days after the date of the enactment of this Act. The list must cover occupations that customarily and regularly received tips on or before December 31, 2024. IRS must adjust withholding procedures to reflect the new deduction starting in 2026 (IRC §3402). For tips received before January 1, 2026, reporting entities may use reasonable methods to approximate designated tip amounts during the transition period.

Effective date. The new tip deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028 (Act Section 70201, adding new IRC §225).

Extension and Enhancement of Paid Family and Medical Leave Credit

Code Sec. 45S provides a general business credit equal to the applicable percentage (12.5% to 25% depending on the rate of payment) of the amount of wages paid to qualifying employees during any period in which the employees are on family and medical leave, up to a maximum of 12 weeks of leave for any employee for the tax year. An employer can't deduct wages for which a credit is taken. A qualifying employee must have been employed by the employer for one year or more. Any leave paid by a state or local government or required by state or local law is not taken into account in determining the amount of paid family and medical leave provided by the employer.

.Under pre-Act law, the credit won't be available for wages paid in tax years beginning after 2025.

The Act makes the credit permanent. (Act Sec. 70304(a)(5), repealing Code Sec. 45S(i))

The Act allows an employer to instead choose a credit for the applicable percentage of premiums paid or incurred by an employer for an insurance policy that provides paid family and medical leave (in other words, an employer must choose between a credit based on premiums paid or wages paid). (Act Sec. 70304(a)(1)(A), amending Code Sec. 45S(a)(1)(B)) The credit for insurance premiums is available whether or not leave is actually taken. (Act Sec. 70304(a)(1)(B), adding Code Sec. 45S(a)(3))

The Act clarifies that an eligible employee for purposes of the credit includes any employee employed not less than 20 hours per week. (Act Sec. 70304(a)(4)(C), adding Code Sec. 45S(d)(3)) At the election of the employer, an eligible employee can be one who has been employed by the employer for not less than six months, rather than one year. (Act Sec. 70304(a)(4)(A), amending Code Sec. 45S(d)(1))

The Act clarifies that employer-provided paid leave required by state or local government counts toward paid leave provided by the employer for purposes of determining eligibility for the credit, although it is not taken into account in determining the amount of credit. (Act Sec. 70304(a)(3), amending Code Sec. 45S(c)(4))

The Act amends the aggregation rule to provide that all persons treated as a single employer under Code Sec. 414(a) or Code Sec. 414(b) are generally treated as a single employer for purposes of the family and medical leave credit. (Act Sec. 70304(a)(3), amending Code Sec. 45S(c)(3))

Tax Professional's Alert:

Section 45S Employer Credit for Paid Family and Medical Leave FAQs

Internal Revenue Code Section 45S provides a tax credit for employers who provide paid family and medical leave to their employees. Eligible employers may claim the credit, which is equal to a percentage of wages they pay to qualifying employees while they're 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. For more information, see Notice 2018-71.

Q. What is the employer credit for paid family and medical leave?

A. This is a general business credit employers may claim, based on wages paid to qualifying employees while they are on family and medical leave, subject to certain conditions.

Q. Who may claim the employer credit for paid family and medical leave?

A. Employers must have a written policy in place that meets certain requirements, including providing:

1. ***At least two weeks of paid family and medical leave (annually) to all qualifying employees who work full time (prorated for employees who work part time), and***
2. ***The paid leave is not less than 50 percent of the wages normally paid to the employee.***

Q. Who is a qualifying employee?

A. A qualifying employee is any employee under the Fair Labor Standards Act who has been employed by the employer for one year or more and who, for the preceding year, had compensation of not more than a certain amount. For an employer claiming a credit for wages paid to an employee in 2018, the employee must not have earned more than $72,000 in 2017.

Q. What is "family and medical leave" for purposes of the paid family and medical leave credit?

A. This is leave for one or more of the following reasons:

1. ***Birth of an employee's child and to care for the child.***
2. ***Placement of a child with the employee for adoption or foster care.***
3. ***To care for the employee's spouse, child, or parent who has a serious health condition.***
4. ***A serious health condition that makes the employee unable to perform the functions of his or her position.***
5. ***Any qualifying exigency due to an employee's spouse, child, or parent being on covered active duty (or having been notified of an impending call or order to covered active duty) in the Armed Forces.***

6. *To care for a service member who is the employee's spouse, child, parent, or next of kin.*

If an employer provides paid vacation leave, personal leave, or medical or sick leave (other than leave specifically for one or more of the purposes stated above), that paid leave is not considered family and medical leave. In addition, any leave paid by a State or local government or required by State or local law will not be taken into account in determining the amount of employer-provided paid family and medical leave.

Q. How is the paid family and medical leave credit calculated?

A. The credit is a percentage of the amount of wages paid to a qualifying employee while on family and medical leave for up to 12 weeks per taxable year. The minimum percentage is 12.5% and is increased by 0.25% for each percentage point by which the amount paid to a qualifying employee exceeds 50% of the employee's wages, with a maximum of 25%. In certain cases, an additional limit may apply.

Q. How does the credit impact an employer's deduction for the wages paid to an employee while on family and medical leave or claim for any other general business credits?

A. An employer must reduce its deduction for wages or salaries paid or incurred by the amount determined as a credit. Also, any wages taken into account in determining any other general business credit may not be used in determining this credit.

Q. What is the effective date of the paid family and medical leave credit? (updated February 16, 2023)

A. The credit is effective for wages paid in taxable years beginning after December 31, 2017, and before January 1, 2026.

Q. What's the general rule for when an employer's written policy must be in place?

A. Except for the first taxable year of an employer beginning after December 31, 2017, * an employer can claim the credit only for leave taken after the written leave policy is in place. The written policy is in place on the later of the policy's adoption date or the policy's effective date.

Example

Facts: Employer adopts a written policy that satisfies all requirements of Section 45S on June 15, 2019, with an effective date of July 1, 2019.

Conclusion: Assuming the employer met all other requirements for the credit, the employer may claim the credit for family and medical leave paid per that policy to qualifying employees for leave taken on or after July 1, 2019.

**** A transition rule in Q&A 6 of** <u>Notice 2018-71</u> **applies for the first taxable year of an employer beginning after December 31, 2017.***

Q. For the first taxable year of an employer beginning after December 31, 2017, what's the transition rule for when the employer's written policy must be in place?

A. For an employer's first taxable year beginning after December 31, 2017, a written leave policy (whether new or amended) will be in place as of the effective date of the policy or amendment, rather than a later adoption date, if the employer:

- ***Adopted the policy or amendment on or before December 31, 2018, and***
- ***Brings its leave practices into compliance with the terms of the retroactive policy or amendment for the entire period it covers, including making any retroactive leave payments no later than the last day of the taxable year.***

<u>Example 1</u>

Facts: Employer's taxable year is the calendar year. Employee takes two weeks of unpaid family and medical leave beginning January 15, 2018. Employer adopts a written policy that satisfies the law's requirements on October 1, 2018 and chooses to make the policy effective retroactive to January 1, 2018. At the time the employer adopts the policy, the employer pays the employee at the payment rate in in the policy for the two weeks of unpaid leave taken in January 2018.

Conclusion: Assuming the employer met all other requirements for the credit, the employer may claim the credit for the family and medical leave paid to the employee for the leave taken in January 2018.

<u>Example 2</u>

Facts: Employer's taxable year is the calendar year. Employer amends its Family and Medical Leave Act (FMLA) policy in writing on April 15, 2018, effective for leave employees took on or after that date, to allow four weeks of paid FMLA leave. . Employer's FMLA policy doesn't allow leave for qualifying employees not covered by Title I of the FMLA or include "non-interference" language. Employee is a qualifying employee not covered by Title I of the FMLA who takes three weeks of unpaid family and medical leave beginning June 18, 2018. On October 1, 2018, the employer amends its written policy to include "non-interference" language and paid leave effective April 15, 2018, for qualifying employees not covered by Title I of the FMLA. On October 15, 2018, the employer pays the employee for the three weeks of family and medical leave the employee took beginning June 18, 2018.

Conclusion: Assuming all other requirements for the credit are met, the employer may claim the credit for the family and medical leave paid to the employee for leave taken beginning in June 2018.

Q. What must an employer's written leave policy include?

A. In their written policy, an eligible employer must allow at least two weeks of paid family and medical leave (prorated for part-time employees) for all qualifying employees at a rate of at least 50 percent of the wages normally paid to them. And for any qualifying employees not covered by Title I of the FMLA, the employer needs to make sure the employer will not interfere with, restrain, or deny any right under the policy. They also need to make sure they will not discharge or discriminate against any individual for opposing any practice prohibited by the policy. Q&A 3 of Notice 2018-71 has sample language to satisfy this "noninterference" requirement.

Employers must make the leave available to all qualifying employees, which means all employees who've been employed for at least one year and had compensation from the employer for the preceding year that didn't exceed a certain dollar amount. (For 2017 or 2018, this amount is $72,000.) The law allows an employer to prorate the two-week leave period for part-time employees (those customarily employed for fewer than 30 hours per week).

Q. Is an employer not subject to the FMLA eligible to claim the credit?

A. Yes, if the employer's policy meets the requirements described in the previous question.

Q. Under what circumstances does Section 45S consider paid leave to be family and medical leave?

A. Other than the narrow exception described in Q&A 10 of Notice 2018-71, paid leave made available to an employee is considered family and medical leave only if it's:

- ***Specifically designated for one or more FMLA purposes and not used for any other reason, and***
- ***Not paid by a state or local government or required by state or local law.***

Example 1

Facts: Employer's written policy includes six weeks of annual paid leave for the birth of an employee's child and to care for that child (an FMLA purpose). An employee may not use the leave for any other reason. The state or local government doesn't pay for leave, nor does state or local law require it.
Conclusion: Employer's policy includes six weeks of family and medical leave under Section 45S.

Example 2

Facts: Employer's written policy includes three weeks of annual paid leave specifically designated for any FMLA purpose and an employee may not use it for any other

reason. The state or local government doesn't pay for leave, nor does state or local law require it.

Conclusion: Employer's policy includes three weeks of family and medical leave under Section 45S.

<u>Example 3</u>

Facts: Employer's written policy includes three weeks of annual paid leave for: FMLA purposes, minor illness, vacation and specified personal reasons. The state or local government doesn't pay for leave, nor does state or local law require it.

Conclusion: Employer's policy doesn't include family and medical leave under Section 45S because the leave isn't specifically designated for one or more FMLA purposes and can be used for reasons other than FMLA purposes. This is true even if an employee uses the leave for an FMLA purpose.

Q. What's the consequence if an employer's written policy allows paid leave that otherwise would be specifically designated for an FMLA purpose, such as care for a spouse, child or parent who has a serious medical condition, except for the fact that the leave is available to care for other individuals not specified in the FMLA, such as a grandchild or grandparent who has a serious medical condition?

A. In this limited circumstance, the fact that leave could also be used to care for other individuals for whom care under the FMLA purpose isn't required doesn't prevent the leave from being considered specifically designated for an FMLA purpose. But, the employer may not claim the credit for any leave taken to care for an individual other than a qualifying employee's spouse, parent or child.

<u>Example</u>

Facts: Employer's written policy allows four weeks of annual paid leave to care for family members with a serious health condition. The policy's definition of "family members" includes individuals specified in the FMLA (spouse, children and parents) and grandparents, grandchildren and domestic partners too. Employee uses one week of annual paid leave to care for her grandmother and later uses one week of annual paid leave to care for her son.

Conclusion: Employer's policy allows paid leave specifically designated for an FMLA purpose. The paid leave taken by the employee to care for her grandmother isn't family and medical leave under Section 45S, and the employer may not claim the credit for this leave. The paid leave taken by the employee to care for her son is family and medical leave under Section 45S for which the employer may claim the credit, assuming they meet all other requirements for the credit.

Q. Can paid leave allowed under an employer's short-term disability program be characterized as family and medical leave?

A. Yes. Paid leave allowed under an employer's short-term disability program, whether self-insured by an employer or through a short-term disability insurance policy, may be characterized as family and medical leave if it meets the requirements under the law.

Q. How does an employer figure whether an employee has been employed for one year or more?

A. Until further guidance is issued, an employer may use any reasonable method to figure whether an employee has been employed for one year or more. Treating employees as employed for one year or more if they've been employed for twelve months, per the FMLA regulations, is an example of a reasonable method. But, requiring twelve consecutive months of work to be a qualifying employee isn't a reasonable method for deciding whether an employee has been employed for one year.

Q. In figuring the rate of payment under the employer's written policy, is leave paid by a state or local government or required by state or local law considered?

A. No. Leave paid by a state or local government or required by state or local law isn't considered in figuring whether an employer's written policy includes a rate of payment of at least 50 percent of the wages normally paid to an employee for services done for the employer. To be eligible to claim the credit, an employer must independently satisfy the minimum paid leave requirements, including a rate of payment of at least 50 percent of wages normally paid to an employee for services done for the employer.

<u>Example 1</u>

Facts: Under state law, an employee on family and medical leave is eligible to receive six weeks of benefits paid by a state insurance fund at a rate of 50 percent of the employee's normal wages. Additionally, the employer's written policy concurrently allows six weeks of annual paid family and medical leave at a rate of payment of 30 percent of the employee's normal wages for services done for the employer. So, in the aggregate, a qualifying employee can receive six weeks of annual paid family and medical leave at a rate of payment of 80 percent of the employee's normal wages.

Conclusion: Employer's policy doesn't independently satisfy the requirement to provide a rate of payment of at least 50 percent of wages normally paid to an employee.

<u>Example 2</u>

Facts: Same facts as Example 1, except that the employer's written policy allows for each qualifying employee six weeks of annual paid family and medical leave at a rate of payment of 50 percent of the employee's normal wages that runs concurrently with the State leave. So, in the aggregate, a qualifying employee can receive six weeks of

annual paid family and medical leave at a rate of payment of 100 percent of the employee's normal wages.

Conclusion: Employer's policy independently satisfies the requirement to provide for a rate of payment of at least 50 percent of wages normally paid to an employee. Only wages paid under employer's written policy (50 percent of wages normally paid to an employee) may be used in calculating the credit. Wages paid under state law aren't used in calculating the credit.

Example 3

Facts: Under state law, employers need to allow employees six weeks of family and medical leave, and the state law permits this leave to be either paid or unpaid. Employer's written policy allows each qualifying employee six weeks of annual paid family and medical leave at a rate of payment of 50 percent of wages normally paid to the employee.

Conclusion: Employer's policy independently satisfies the requirement to provide a rate of payment of at least 50 percent of wages normally paid to an employee.

Q. Are employers aggregated for purposes of calculating the credit?

A. No. Except as noted below, employers aren't aggregated for any purpose , including calculating the credit as in Section D of *Notice 2018-71*. ***All persons treated as a single employer under the law are treated as a single taxpayer. Per this aggregation rule, employers are aggregated for purposes of Section 45S(h)(1), which states that a taxpayer may elect to have Section 45S not apply for any taxable year.***

This is the only purpose for which employers are aggregated.

Q. Does each member of a controlled group of corporations and each member of a group of businesses under common control generally make a separate election to claim or not to claim the credit?

A. Yes. Each member of a controlled group of corporations and each member of a group of businesses under common control generally makes a separate election to claim or not to claim the credit. But, for a consolidated group, the agent of the group makes the election. They make an election for the taxable year in which the credit is available by claiming or not claiming the credit on either an original return or an amended return filed for that taxable year.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70304(c))

No Tax on Overtime

History of overtime taxation. Historically, overtime pay-defined as compensation for hours worked beyond 40 in a workweek, as required by the Fair Labor Standards Act (FLSA)-has always been fully taxable under the Internal Revenue Code. Employees pay regular income and payroll taxes on all wages, including overtime.

There has never been a special deduction or exclusion for overtime pay for individual taxpayers. Employers are required to report all compensation, including overtime, on IRS Form W-2, and employees must include all such compensation in their gross income. The Tax Cuts and Jobs Act (TCJA) of 2017 did not alter the taxability of tips for employees.

Creation of a temporary deduction for overtime pay. Section 7202 of the Act creates a new, temporary deduction for individuals who receive "qualified overtime compensation." This is codified as new Internal Revenue Code (IRC) §226.

Deduction amount and phaseout. Taxpayers may deduct up to $12,500 per year in qualified overtime compensation ($25,000 for joint filers). The deduction phases out by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 (single filers) or $300,000 (joint filers).

Definition and qualifying criteria for overtime. "Qualified overtime compensation" is defined as overtime pay required under section 7 of the FLSA that is in excess of the regular rate. The deduction does not apply to any amounts already deducted as qualified tips under new IRC §224.

Overtime must be properly reported on IRS forms such as W-2s (for employees) or 1099s (for non-employees). The deduction is only available for overtime compensation, not for regular wages or other forms of compensation.

Additional requirements. To claim the deduction, taxpayers must include a valid Social Security Number (SSN) on their return. Married individuals must file jointly to be eligible for the deduction. The omission of a required SSN is treated as a mathematical or clerical error under IRC §6213(g)(2), allowing the IRS to correct the return without a formal audit. The IRS is authorized to issue regulations to prevent abuse or misclassification of income.

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction (IRC §63).

Reporting requirements. Employers must report the total amount of qualified overtime compensation on employees' W-2 forms. Businesses must also report this information for non-employees on applicable 1099 forms. For overtime compensation earned before January 1, 2026, reporting entities may use reasonable methods to estimate and report qualifying amounts during the transition period.

Withholding and IRS guidance. The IRS must update withholding procedures beginning in 2026 to reflect the new deduction (IRC §3402). The IRS is authorized to issue regulations or guidance to prevent abuse of the deduction.

Effective date. The new overtime deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028 (Act Section 70202, adding new IRC §226).

Tax Professional's Alert : Tax Deduction on Overtime Premium

The OBBBA creates a limited deduction for overtime pay premiums required by the Fair Labor Standards Act (FLSA). Premium pay is the amount paid in excess of an employee's regular rate of pay. For example, if an employee's regular rate is $15 per hour, the employee's overtime rate (time and one-half) is $22.50 per hour. Only the $7.50 overtime premium for that hour may be deducted.

The annual deduction is capped at $12,500 (or $25,000, in the case of a married employee filing a joint return). For married individuals, the deduction is available only if the employee files a joint return. The deduction decreases for employees who earn more than $150,000: the allowable deduction is reduced by $100 for each $1,000 (10%) by which an employee's gross income exceeds $150,000 (or $300,000, in the case of a joint return). For example, if the employee's income is $200,000, then the deduction is reduced by essentially 10% of $50,000, or $5,000, leaving the employee with a $7,500 deduction from overtime earnings. A single individual earning $275,000 or more would not be eligible for any deduction.

Importantly, not all "overtime" pay is eligible for the deduction. Only overtime pay required by the FLSA is deductible. Employees may not deduct additional overtime earned under state law requirements (e.g., daily overtime). Nor can they deduct extra overtime paid pursuant to a more generous collective bargaining agreement, or employer compensation policy, such as double-time for working a holiday (where the hours do not exceed 40 hours in a week).

Additionally, because the overtime deduction is limited to overtime required by the FLSA, overtime paid to exempt employees (e.g., employers will sometimes pay additional straight-time compensation or time-and-one half to otherwise exempt employees when they work more than 40 hours) is not subject to the deduction because the overtime pay is voluntarily provided and not required by the FLSA.
The law provides the deduction for overtime does not apply to qualified tips.

Although the meaning of this provision is unclear, it likely indicates that a tipped employee who is paid the tip credit rate (below the minimum wage) and works overtime can take a deduction only for the premium in excess of the minimum wage, excluding the tip credit. For example, if the state minimum wage is $15.00 per hour, and the cash wage for a tipped employee is $10.00 per hour, the "tip credit" is $5.00 per hour. The

overtime rate for a tipped employee in this example is $22.50 (1.5 x $15.00), but, given the tip credit, the employee receives $17.50 ($22.50 – $5.00) for each hour of overtime. The deduction for overtime premiums is likely limited to $2.50, the premium directly paid by the employer over the minimum wage, not the $7.50 per hour overtime premium. The tipped employee may be eligible, however, for a separate deduction for tips received, as discussed below. This provision likely prevents double-dipping.

Reclassify Exempt Employees?

The deduction on overtime pay is a win for employees. Indeed, it may make overtime more appealing to workers. In addition to the overtime pay, employees will now get a boost on top of the additional pay — a tax deduction. Ironically, when Congress enacted the FLSA's overtime provisions, it intentionally made overtime more costly to discourage employers from having employees work overtime to prevent overwork and spread employment. The new law creates arguably the opposite incentive for employees — it encourages employees to seek overtime by making it even more lucrative.

To maximize the benefit for employees, employers might consider reclassifying exempt employees to nonexempt. For example: An exempt employee who earns $75,000 per year and routinely works more than 40 hours in a workweek could be reclassified as nonexempt with an annual salary of $50,000, working the same number of hours per week. The employee takes home $50,000 in regular wages and $25,000 in overtime premiums. In this scenario, $12,500 of the employee's overtime premiums would be deductible (or $25,000 if the employee is filing a joint return). Restructuring their compensation in this manner lets the employee reap the benefit of more pay at no cost to the employer.

Reclassifying employees as nonexempt also means more flexibility for employers to control payroll costs by reducing employees' work hours when not needed.
Of course, not everything is so rosy. There are drawbacks to adopting this strategy:

- *Employers will have the added burden of tracking work hours of previously exempt employees. Newly nonexempt employees also will need to follow timekeeping requirements: time sheets, timeclocks, rigid meal breaks, and docked pay for hours not worked.*

- *Formerly exempt employees may view the reclassification as a demotion. They also may be giving up certain perks of exempt status and certain employee benefits, as well as their own scheduling flexibility.*

- *Predicting overtime needs can be a challenge. Unanticipated overtime may prove to be more costly for the employer; conversely, newly nonexempt employees who do not work the overtime hours they expected may see a loss of income.*

- *Employers also must consider the limitations of the tax deduction in the cost-benefit analysis: Overtime earnings are still subject to Social Security and*

Medicare withholdings, as well as state and local taxes. That reduces the value of the federal deduction, especially for lower-earning workers. For high earners, the available tax deduction is reduced starting at $150,000, so reclassification provides less benefit for these employees. For lower-wage earners, the tax benefit may permit an employer to provide employees with a pay increase simply by restructuring the way they are paid, without increasing the amount.

Deductions on Tipped Earnings

The OBBBA creates a separate deduction for tipped workers, allowing them to deduct up to $25,000 of qualified tips earned. Like the overtime deduction, the allowable deduction for tipped earnings is reduced by $100 for each $1,000 by which the tipped worker's gross income exceeds $150,000 (or $300,000, in the case of a joint return). As with the overtime deduction, workers must continue to pay Social Security and Medicare taxes on tip earnings, as well as state and local taxes.
To be a "qualified" tip, the tip must be paid voluntarily by the customer or client, not subject to negotiation. Therefore, earnings from mandatory service charges assessed automatically to customers are not deductible. Tips received under tip-sharing arrangements count as qualified tips.

The deduction is available only for tips earned in "traditionally and customarily tipped industries." This most typically means the hospitality industry (such as restaurants and hotels), but there are other businesses where tips are common (such as barber shops and hair salons). The new law aims to minimize the prospect that employers and employees may abuse the tip deduction by reclassifying as tipped income the compensation earned by workers who do not typically work for tips. To that end, the treasury secretary will publish a list of occupations that have customarily and regularly received tips on or prior to Dec. 31, 2024.

The tip deduction also applies to independent contractors and self-employed individuals who earn tips in the course of a trade or business — but only to the extent the income from that trade or business (including tips) exceeds the full sum of allowable deductions (not counting the tip deduction) allocable to that trade or business. This provision may be most applicable to gig workers who are classified as independent contractors but receive substantial tips.

In addition, the OBBBA extends an existing employer tax credit for Social Security taxes paid on tips, currently applicable only to food or beverage service employees, to include tips customarily earned by employees providing beauty services such as hair care, nail care, and spa treatments.

Tip Deduction: Industry Impact

Tipped workers stand to benefit by having most of their earnings in tips rather than straight wages. Consequently, the tax deduction on tips may deflate a recent trend at

the state and local levels to eliminate use of the tip credit employers may take against minimum wage requirements. Passage of OBBBA may push these states and localities to reconsider recently enacted laws eliminating the tip credit. (Already, Washington, D.C. paused the next phase of the city's gradual rollback of the tip credit.)

Further, the tip deduction could slow a growing trend in restaurants to replace traditional tipping with a service charge model.

Hospitality employers also have adopted commission-based compensation, typically for banquet or catering staff, which qualifies the servers as exempt from overtime under FLSA Section 7(i)'s "retail or service establishment" exception. With the deduction on tipped earnings, however, employers may face pressure to revert to the traditional tipping model or suffer a competitive disadvantage in recruiting service staff if they choose not to do so.

The deduction on qualified cash tips may present other challenges. Some states allow back-of-the-house workers (such as cooks) to participate in a tip pool. This is permitted under the FLSA if the employer does not take a tip credit. In those states, the tax deduction may also benefit kitchen workers. In states that prohibit the practice, however, the deduction may widen the asserted unfairness between service staff and kitchen staff regarding compensation. The servers will be eligible to receive up to a $25,000 tax deduction, but the cooks, who may earn less in regular wages, will not be eligible. This could increase the divide between the earnings of tipped and non-tipped workers.

Reporting, Withholding Requirements

The OBBBA's tip and overtime pay deductions impose additional reporting obligations on employers. Employers will be required to report on Form W-2 the portion of an employee's pay that is qualified overtime compensation in excess of the employee's regular hourly rate. For the tip deduction, employers must separately report the specific portion of a tipped employee's pay that is qualified tips and identify the employee's qualifying tip-earning occupation.

Likewise, businesses that retain independent contractors will need to report the amount of qualified tips earned on Form 1099. Reporting requirements also extend to "third-party settlement organizations" such as gig economy companies. These companies must report the portion of payments made that were "reasonably designated by payors as cash tips," along with the occupation of the payee receiving those tips. (The OBBBA also states that businesses must report qualified overtime pay earned by independent contractors. This provision could be a result of hasty drafting, however. The new law makes clear that the overtime deduction is available only to overtime premium pay "required under section 7 of the FLSA," and independent contractors are not FLSA-covered workers entitled to overtime compensation.)

Employers will continue to withhold income taxes on qualified tips and overtime pay, but the IRS will modify withholding amounts to account for the new deductions for tax years beginning after Dec. 31, 2025. For the current tax year, a transition rule permits employers to approximate a separate accounting of amounts designated as cash tips or qualified overtime pay by any reasonable method specified by the IRS.

Awaiting Further Guidance

The IRS will need to flesh out a number of unknowns and revise its tax withholding procedures and forms to incorporate the tip and overtime deductions.

- ***For the current tax year, businesses may "approximate" the amount of qualified tips and overtime pay on employees' W-2 forms. Employers should be on the lookout for IRS guidance specifying the "reasonable method" that employers may use in estimating these earnings.***

- ***The treasury secretary has an Oct. 2, 2025, deadline to publish the list of occupations eligible to take the tip deduction. Tipping culture has expanded in recent years, with a growing array of businesses urging customers to leave gratuities for their workers. It remains to be seen whether the IRS will interpret "traditionally and customarily tipped" to encompass part of this "tip creep."***

- ***The OBBBA directs the treasury secretary to issue "necessary and appropriate" rules and guidance to deter abuse of the overtime deduction. What might such a regulation entail? The IRS could potentially adopt a rule to discourage widespread reclassification of exempt employees. The new law provides no timeline for the IRS to promulgate the required rule and guidance.***

Employer Takeaways

Deductions on tips and overtime earnings are uncharted territory. Some open questions will be answered by upcoming guidance. There are steps employers can begin to take now:

- ***Adjust payroll systems to accurately capture the required compensation information (tips and overtime premiums); or***
- ***Ensure your payroll vendor incorporates the necessary changes.***

Given the inherent risks, employers should consult with counsel before undertaking drastic changes to established pay practices. As a practical matter, as the tax breaks are set to expire in three years, the benefits of revamping compensation policies may be short-lived. It is possible Congress may extend the deductions, but it is not assured.

<u>Enhancement of Employer-Provided Child Care Credit</u>

Under pre-Act law, Code Sec. 45F allowed employers to claim the employer-provided child care credit for certain costs of providing childcare assistance to employees. Subject to a $150,000-per-tax-year limit, the credit was available for (1) 25 percent of "qualified childcare expenditures" and (2) 10 percent of the costs of certain other types of childcare assistance.

Effective 2026, the Act enhances the employer-provided child-care credit by increasing the credit percentage for "qualified childcare expenditures" from 25 percent to 40 percent for regular businesses and 50 percent for eligible small businesses. (Act Sec. 70401(a)) The maximum annual credit amounts increase to $500,000 for regular businesses and $600,000 for eligible small businesses, with both amounts subject to annual inflation adjustments beginning in 2027. (Act Sec. 70401(b))

The provision defines eligible small businesses as those meeting a modified gross receipts test based on a 5-year period rather than the standard 3-year period (Act Sec. 70401(c)) and expands credit eligibility to include third-party intermediary arrangements (Act Sec. 70401(d)) and jointly owned or operated childcare facilities (Act Sec. 70401(e)).

<u>Tax Professional's Alert</u>: The One Big Beautiful Bill Act (OBBBA) significantly expands tax benefits for employer-provided childcare. Specifically, it increases the employer-provided childcare tax credit, raising the percentage of qualified expenses from 25% to 40% (50% for eligible small businesses) and increasing the maximum credit amount to $500,000 ($600,000 for eligible small businesses). The bill also allows for the credit to be applied to expenses incurred through third-party providers and allows for the pooling of resources for childcare among multiple employers.

This provision is effective for amounts paid or incurred after Dec. 31, 2025. (Act Sec. 70401(g))

<u>Employee Exclusion for Employer Payments of Student Loans is Made Permanent; Inflation Adjustment Added</u>

"Educational assistance" provided under an employer's qualified educational assistance program, up to an annual maximum of $5,250, is excluded from the employee's income. (Code Sec. 127(a))

Under pre-Act law, "educational assistance" includes "eligible student loan repayments" made after Mar. 27, 2020. These are payments by the employer, whether paid to the employee or to a lender, of principal or interest on any qualified higher education loan as defined in Code Sec. 221(d)(1) for the education of the employee (but not of a spouse or dependent). (Code Sec. 127(c)(1)(B))

Under pre-Act law, the employee exclusion for eligible student loan repayments made by an employer was slated to expire for payments made after Dec. 31, 2025. (Code Sec. 127(c)(1)(B))

Tax Professional's Alert: Tucked into President Trump's "One Big Beautiful Bill Act" (OBBBA) is a costly and ineffective provision that allows employees to repay their student loans out of their compensation tax free.

The tax expenditure was first enacted in 2020 and expires this year. Under current law, up to $5,250 per year of an employee's compensation can be used to repay their student loans, and those payments are not subject to federal income or payroll taxes. Extending the student loan tax break would cost $11 billion over the next ten years.
When the provision was first debated, I argued that instead of providing relief for struggling borrowers it would instead be a windfall for high-income, white-collar workers who would have been able to pay off their loans without a tax break. There are two reasons for this:

1. ***In order to benefit from the tax break, a borrower not only needs to be employed but must be working for an employer large and sophisticated enough to establish and sponsor a repayment plan.***
2. ***As with many "upside down" exclusions and deductions, the borrower's tax savings depends on their tax bracket, with the highest-earners getting the largest break.***

Data from the Bureau of Labor Statistics' National Compensation Survey bear out these predictions: Benefits are indeed concentrated among high-income workers, in occupations requiring four-year degrees, and at large employers.

Pre-Act law did not provide for an inflation adjustment to the above $5,250-per-year limit. (Code Sec. 127)

The Act makes the employee exclusion permanent for qualifying employer payments of student loans under Code Sec. 127(c)(1)(B). (Act Sec. 70412(a)) And the Act provides for an inflation adjustment to the $5,250 amount, for tax years beginning after 2026. (Act Sec. 70412(b))

Both provisions apply for payments made after Dec. 31, 2025. (Act Sec. 70412(c))
Dependent Care Assistance Program's Tax-free Contribution Limit Increased
Under pre-Act law, the maximum annual exclusion for dependent care assistance is $5,000 ($2,500 for a married individual filing separately). Code Sec. 129 provides that gross income of an employee does not include amounts paid or incurred by an employer for dependent care assistance provided to an employee if the amounts are furnished under a dependent care assistance program.

This section increases the exclusion for dependent care assistance up to $7,500 annually ($3,750 for a married individual filing separately).

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70404. Amends Code Sec. 129)

<u>Exclusion for Qualified Bicycle Commuting Reimbursement Permanently Eliminated</u>

Under pre-Act law, the $20 per month qualified bicycle commuting reimbursement exclusion received by an employee from an employer (which is suspended for tax years 2018 through 2025) is scheduled to return for tax years beginning after December 31, 2025.

This section permanently eliminates the qualified bicycle commuting reimbursement exclusion. For qualified transportation fringe benefits other than the qualified bicycle commuting reimbursement, the provision changes the base year (from 1998 to 1997) for purposes of calculating the inflation adjustment.

***Tax Professional's Alert*: The OBBB (One Big Beautiful Bill) permanently repeals the tax-free bicycle commuting reimbursement, effective for taxable years beginning after December 31, 2025. This means employers can no longer offer tax-free reimbursements for bicycle commuting expenses. While the benefit is eliminated, employers can still offer bicycle commuting assistance on a taxable basis.**

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70112. Amends Code Sec. 132(f))

Termination of Cost Recovery for Energy Property

Under pre-Act law, Code Sec. 168(e)(3)(B)(vi) classifies certain energy property as 5-year property eligible for accelerated depreciation under the Modified Accelerated Cost Recovery System (MACRS). Energy property, as defined in Code Sec. 48(a)(3)(A), includes solar panels, wind turbines, geothermal systems, fuel cells, microturbines, combined heat and power systems, and certain energy storage and hydrogen technologies. To qualify, the property must (a) be constructed or first used by the taxpayer, (b) be eligible for depreciation or amortization, and (c) meet IRS and Department of Energy standards.

Effective 2025, the Act removes this 5-year classification, thereby eliminating accelerated cost recovery under MACRS for newly constructed energy property. (Act Sec. 70509(a). Amends Code Sec. 168(e)(3)(B)(vi))

***Tax Professional's Alert*: Eliminating 5-year MACRS classification for energy property reduces the upfront tax benefits of clean energy investments.
This provision applies to property for which construction begins after December 31, 2024.(Act Sec. 70509(b))**

Termination for Wind Energy After 2027 and Other Changes to the Advanced Manufacturing Production Credit

The Code Sec. 45X advanced manufacturing production credit applies to the production and sale of eligible components in a trade or business where the sale is to an unrelated person. (Code Sec. 45X(a))

Three of the five categories of eligible components are wind energy components, applicable critical minerals, and qualifying battery components. (Code Sec. 45X(c)(1)(A)) The last category includes the subcategory battery modules. (Code Sec. 45X(c)(5)(A)(iii), (Code Sec. 45X(c)(5)(B)(iii))

Credit rates can vary among the categories and subcategories of eligible components. (Code Sec. 45X(b)(1)).

Under pre-Act law sales to unrelated people included sales of components integrated, incorporated, or assembled into another eligible component sold to an unrelated person (the subcomponent rule). (Code Sec. 45X(d)(4))

Under pre-Act law, the credit, generally, was phased out for eligible components as follows: 75% of the otherwise-allowable credit for eligible components sold in calendar year 2030, 50% for sales in calendar year 2031, 25% for sales in 2032, and 0% for sales in 2033 and thereafter. But the phaseout didn't apply to applicable critical minerals. (Code Sec. 45X(b)(3))

The Act narrows the subcomponent rule by requiring that the component that includes the subcomponent be produced within the same manufacturing facility as the subcomponent. The Act also provides that the rule applies to a component only if at least 65% of the direct material costs paid or incurred by the taxpayer to produce the including component are attributable to subcomponents mined, produced, or manufactured in the U.S. (Act Sec. 70514 (a))

The Act terminates the credit for wind energy components produced and sold after December 31, 2027. (Act Sec. 70514 (b)(3))

The Act adds metallurgical coal (suitable for production of steel without regard to where the steel is produced) to the applicable critical mineral category of eligible components at a credit rate of 2.5% of production costs (Act Sec. 70514 (e)), but only for the metallurgical coal produced before January 1, 2030. (Act Sec. 70514 (b)(3))

The Act newly subjects pre-Act applicable critical minerals to phaseout on the following schedule: 75% of the otherwise-allowable credit for applicable critical minerals produced in calendar year 2031, 50% for production in calendar year 2032, 25% for production in 2033, and 0% for production in 2034 and thereafter. (Act Sec. 70514 (b)(3))

The Act adds to the requirements for being a battery module that, in addition to any other required equipment, the module be comprised of all other essential equipment needed for battery functionality, such as current collector assemblies and voltage sense harnesses, or any other essential energy collection equipment. (Act Sec. 70514 (d))

The Act provides that eligible components don't include any property that includes "material assistance from a prohibited foreign entity," as that term is defined in Code Sec.

7701(a)(52), as added to the Code by Act Sec. 70512(c), except that the treatment described in Code Sec. 7701(a)(52)(D)(iv) of existing contracts is modified as applied to the credit. (Act Sec. 70514 (c)(1))

Additionally, The Act prohibits the credit if the taxpayer is a specified foreign entity as defined in Code Sec. 7701(a)(51)(B) or a foreign influenced entity as defined (with modification) in Code Sec. 7701(a)(51)(D), both as added to the Code by Act Sec. 70512(c). The credit is also prohibited for a tax year to which Code Sec. 7701(a)(51)(D)(i)(II), concerning giving effective control of certain activities to a specified foreign entity, is determined to apply if the determination relates to an eligible component. (Act Sec. 70514 (c)(2))

The above provisions apply to tax years beginning after the date of enactment of The Act except that the rules for subcomponents apply to components sold during tax years beginning after December 31, 2026. (Act Sec. 70514 (f))

Sunsetting Energy Efficient Home Improvement Credit by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit equal to 30% of expenditures on energy efficient home improvements. (Code Sec. 25C(a)) Energy efficient home improvement expenditures include qualified energy efficiency improvements, residential energy property expenditures, and home energy audits. (Code Sec. 25C(a)) The credit was limited to $1,200. (Code Sec. 25C(b)(1)) The credit was only available for property placed in service through December 31, 2032. (Code Sec. 25C(i)(2))

The Act amends Code Sec. 25C(h) to terminate the energy efficient home improvement property credit for any property placed in service after December 31, 2025. (Act Sec. 70505(a))

Sunsetting Residential Clean Energy Credits by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit for residential clean energy credit for expenditures. (Code Sec. 25D(a)) Residential clean energy expenditures included expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. (Code Sec. 25D(a)) For property placed in service after December 31, 2021 and before January 1, 2033, the credit was for 30 percent of the expenditures. (Code Sec. 25D(g)(3)).

Tax Professional's Alert: The One Big Beautiful Bill Act (OBBBA) significantly impacts residential clean energy credits. Specifically, the OBBBA terminates the Residential Clean Energy Credit (Section 25D), which provides a 30% tax credit for installing solar panels, wind turbines, geothermal heat pumps, and battery storage, effective December 31, 2025. This means homeowners must have these systems installed and placed in service by the end of 2025 to qualify for the credit.

The Act amends Code Sec. 25D(h) to terminate the residential clean energy expenditures credit for any expenditures after December 31, 2025. (Act Sec. 70506(a))

Sunsetting Energy Efficient Commercial Buildings Deduction for Construction Beginning after June 30, 2026

Under pre-Act law, taxpayers were eligible for a deduction for an amount equal to the cost of energy efficient commercial building property placed in service during the tax year. (Code Sec. 179D(a)) There were limitations based upon square footage and previous deductions claimed as well as the amount of reduction of energy and power costs. (Code Sec. 179D(b)) Under pre-Act law the deduction was not scheduled for sunsetting.

The Act adds Code Sec. 179D(i) to terminate the energy efficient commercial building deduction for the cost of energy efficient commercial building property the construction of which begins after June 30, 2026. (Act Sec. 70507)

Tax Professional's Alert:

The OBBBA will soon eliminate certain clean energy tax incentives.

Termination of the Previously-Owned Clean Vehicles Credit

Code Sec. 25E provides a credit for a "qualified buyer" of a used clean vehicle. The credit amount is the lesser of $4,000 or 30% of the vehicle sale price.

The credit is subject to an income cap and a number of other limits and requirements, including that the vehicle model year be at least two years earlier than the calendar year in which the taxpayer acquires the vehicle, the sale price must not exceed $25,000, the seller must be a dealer, a "first transfer" rule must be met, and the taxpayer must purchase the vehicle for use, not resale.

Under pre-Act law, the credit was set to terminate for vehicles acquired after 2032. The Act significantly changes this and accelerates the termination date to vehicles acquired after 9/30/2025.

Tax Professional's Alert: Beginning January 1, 2023, if you buy a qualified used electric vehicle (EV) or fuel cell vehicle (FCV) from a licensed dealer for $25,000 or less, you may be eligible for a used clean vehicle tax credit. The credit equals 30% of the sale price up to a maximum credit of $4,000. The date of expiration, 9/30/25, leaveds little time for taxpayers to react tothis change.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70501 amends Code Sec. 25E(g)).

Termination of Clean Vehicle Credit

Code Sec. 30D, as modified by the Inflation Reduction Act of 2022, provides a credit for each new clean vehicle a taxpayer places in service in a tax year. The credit is subject to a host of requirements and limits, including the critical mineral and battery component requirements for vehicles placed in service after 4/17/2023.

The critical mineral and battery component requirements are aimed at incentivizing domestic manufacturing and the use of supply chains in the U.S., or with countries with which the U.S. has trusted trade agreements. To that end, an "applicable percentage" of the value of the critical minerals of the vehicle's battery must be extracted or processed in the U.S. or in any country with which the U.S. has a free trade agreement or recycled in North America. And an applicable percentage of the battery's components must be manufactured or assembled in North America.

Under pre-Act law, the applicable percentages were set at annually increasing percentages, and the credit was to terminate for vehicles *placed in service* after 2032. The Act significantly accelerates and changes the parameter for termination, such that the credit now terminates for vehicles *acquired* after 9/30/2025. And the critical mineral and battery component applicable percentage clauses for vehicles placed in service after calendar year 2026 (pre-Act Code Sec. 30D(e)(1)(B)(v) and Code Sec. 30D(e)(2)(B)(iv)-(vi) are stricken).

***Tax Professional's Alert*: As indicated above, when a vehicle is placed in service affects the Code Sec. 30D credit. And placed in service generally means the date the taxpayer takes delivery of the vehicle. So, although the credit terminates for vehicles acquired after 9/30/2025, if a taxpayer acquires a vehicle before that date but doesn't take delivery until 2026, the credit may be available, albeit subject to the rules for vehicles placed in service in 2026.**

This provision is effective as of the date of enactment of The Act. (Act Sec. 70502 amends Code Sec. 30D(h), 30D(e)).

Termination of Qualified Commercial Clean Vehicles Credit

Code Sec. 45W provides credit for taxpayers purchasing qualified commercial clean vehicles for use or sale (not resale).

The credit, which is part of the Code Sec. 38 general business credit, is calculated as the lesser of 15% of the basis of the vehicle (30% for a vehicle not powered by a gasoline or diesel internal combustion engine), or the vehicle's "incremental cost."

The maximum allowable credit is $7,500 for a qualified commercial clean vehicle with a gross vehicle weight rating (GVWR) of less than 14,000 pounds, or $40,000 for such a vehicle with a higher GVWR.

Under pre-Act law, the credit was available for vehicles acquired after 2022 and before 2033.

The Act significantly changes this and terminates the credit for any vehicle acquired after 9/30/2025.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70503 amends Code Sec. 45W(g)).

<u>Termination of Alternative Fuel Vehicle Refueling Property Credit.</u>

Code Sec. 30C provides an "alternative fuel vehicle refueling property" credit for taxpayers that install qualified refueling or recharging property (such as an electric vehicle (EV) charger) in an eligible location. The credit, as modified and extended by the Inflation Reduction Act (IRA) of 2022, could cover the cost of the property itself, along with installation costs, for qualified property located in low income and rural areas (subject to a number of conditions and requirements).
Under pre-Act law, the credit was to terminate for property placed in service after 2032.

The Act significantly accelerates this and terminates the credit for property placed in service after 6/30/2026.

<u>Tax Professional's Alert</u>: The Alternative Fuel Vehicle Refueling Property Credit, under section 30C, will be terminated for property placed in service after June 30, 2026, as a result of the One Big Beautiful Bill Act (OBBBA). This accelerates the original sunset date from 2032. The credit, which provides a tax incentive for installing equipment like EV chargers, will no longer be available for new installations after this date.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70504 amends Code Sec. 30C(i)).

<u>Termination of New Energy Efficient Home Credit</u>

Under pre-Act law, the Code Sec. 45L tax credit for constructing qualified energy-efficient homes was set to expire for homes acquired after December 31, 2032. The credit is $2,500 for ENERGY STAR certified single-family or manufactured homes, and $5,000 for homes meeting the Zero Energy Ready Home standard. For multifamily units, the credit is $500 per unit for ENERGY STAR certification or $1,000 per unit for Zero Energy Ready Home certification. If prevailing wage requirements are met, these amounts increase to $2,500 and $5,000 per unit, respectively.

<u>Tax Professional's Alert</u>: Section 45L New Energy Efficient Home Credit
This tax credit is available to builders of energy efficient single-family and multifamily homes. To qualify, the dwelling unit must qualify for either Energy Star or the Zero

Energy Ready Home program. Under the Inflation Reduction Act, this credit was extended through the end of 2032.

OBBBA Change: This credit will terminate for homes acquired (i.e., rented or sold) after June 30, 2026.

<u>Changes to Energy Credits</u>

For some time, President Trump and the GOP have had their sights on repealing many of the tax incentives created or enhanced by the Inflation Reduction Act (IRA). With the enactment of the One, Big, Beautiful Bill Act (OBBBA), they've made progress toward accomplishing that goal. Here's a closer look at some of the individual-related and business-related clean energy tax incentives that are being scaled back or eliminated by the OBBBA.

Clean energy tax breaks affecting individuals

The OBBBA eliminates several tax credits that have benefited eligible individual taxpayers. It provides short "grace periods" before they expire, though, giving taxpayers a window to take advantage of the credits.

For example, the Energy Efficient Home Improvement Credit (Section 25C) was scheduled to expire after 2032. It's now available for eligible improvements put into service by December 31, 2025. The IRA increased the credit amount to 30% and offers limited credits for exterior windows, skylights, exterior doors, and home energy audits.

The Residential Clean Energy Credit (Sec. 25D) was scheduled to expire after 2034. It's also now available only through December 31, 2025. The IRA boosted the credit to 30% for eligible clean energy improvements made between 2022 and 2025. The credit is available for installing solar panels or other equipment to harness renewable energy sources like wind, geothermal or biomass energy.
Clean energy tax breaks affecting businesses

The Alternative Fuel Vehicle Refueling Property Credit (Sec. 30C) for property that stores or dispenses clean-burning fuel or recharges electric vehicles will also become unavailable sooner than originally set by the IRA. The credit — worth up to $100,000 per item (each charging port, fuel dispenser or storage property) — had been scheduled to sunset after 2032. Under the OBBBA, property must be placed in service on or before June 30, 2026, to qualify for the credit.

The law also eliminates Sec. 179D **Energy Efficient Commercial Buildings Deduction for buildings or systems on which the construction begins after June 30, 2026.** The deduction has been around since 2006, but the IRA substantially boosted the size of the potential deduction and expanded the pool of eligible taxpayers.

Wind and solar projects stand to take a big hit. The **OBBBA eliminates the Clean Electricity Investment Credit (Sec. 48E) and the Clean Electricity Production Credit** (Sec. 45Y) for wind and solar facilities placed in service after 2027, unless construction begins on or before July 4, 2026. Wind and solar projects begun after that date must be put in service by the end of 2027.

In addition, wind energy components won't qualify for the **Advanced Manufacturing Production Credit (Sec. 45X) after 2027.** The law also modifies the credit in other ways. For example, it adds "metallurgical coal" suitable for the production of steel to the list of critical minerals. And, for critical materials other than metallurgical coal, the credit will now phase out from 2031 through 2033. The credit for metallurgical coal expires after 2029.

Note: The OBBBA permits taxpayers to transfer clean energy credits while the credits are still available (restrictions apply to transfers to "specified foreign entities").

Clean vehicle credits

If you havve been pondering the purchase of a new or used electric vehicle (EV), you'll want to buy sooner rather than later to take advantage of available tax credits. The Clean Vehicle Credit (Sec. 30D) was scheduled to expire after 2032. Under the OBBBA, the credit is available only through September 30, 2025.

The IRA significantly expanded the credit for qualifying clean vehicles placed in service after April 17, 2023. For eligible taxpayers, it extended the credit to any "clean vehicle," including EVs, hydrogen fuel cell cars and plug-in hybrids. The maximum credit for new vehicles is $7,500, based on meeting certain sourcing requirements for 1) critical minerals and 2) battery components. Clean vehicles that satisfy only one of the two requirements qualify for a $3,750 credit.

The IRA also created a new credit, Sec. 25E, for eligible taxpayers who buy used clean vehicles from dealers. The credit equals the lesser of $4,000 or 30% of the sale price. It also expires on September 30, 2025.

Additionally, the OBBBA targets the incentive for a business's use of clean vehicles. **The Qualified Commercial Clean Vehicle Credit** (Sec. 45W) had been scheduled to expire after 2032. It's now available only for vehicles acquired on or before September 30, 2025. Depending on vehicle weight, the maximum credit is up to $7,500 or $40,000.

<u>Section 25D Residential Clean Energy Credit</u>

This allows home owners to claim a 30% tax credit for certain clean energy systems, such as solar panels, small wind turbines, geothermal systems and battery storage technology.

Under the Inflation Reduction Act, this credit was extended for property placed in service prior to Jan. 1, 2035, with the credit being phased down to 22% starting in 2033.

OBBBA Change: This credit will expire with respect to expenditures made after Dec. 31, 2025.

More on Energy Credits and OBBBA

Section 48E Clean Electricity Investment Credit

Beginning at the start of this year, the Section 48 Investment Tax Credit changed to a technology neutral approach under Section 48E, but projects that began construction prior to 2025 may continue to fall under the Section 48 tax credit rules (consult your tax advisor). For projects commencing construction in 2025, Section 48E is a technology neutral tax credit for installing energy producing technology that does not emit greenhouse gases, such as solar panels and wind turbines. The Inflation Reduction Act made numerous changes to this credit, including extending it through 2032, or when the U.S. reaches certain emission targets, whichever occurred sooner.

OBBBA Change: The Section 48E credit terminates for solar and wind facilities placed in service after Dec. 31, 2027, unless construction began within 12 months of the bill being signed into law (i.e., by July 4, 2026). Facilities that begin construction prior to July 4, 2026, generally have four years to be placed in service.

Note: Earlier versions of OBBBA would have prohibited companies offering solar leasing arrangements to home owners from claiming the Section 48E tax credit. In the final law, leased residential solar panel systems remained eligible, but leased residential solar water heater and small wind systems are not eligible.

Section 179D Energy Efficient Commercial Buildings Tax Deduction

This deduction allows commercial building owners, including multifamily buildings falling under the ASHRAE standard, a tax benefit for making energy efficient upgrades that reduce energy consumption by at least 25%. This deduction was a permanent tax provision.

OBBBA Change: This deduction will expire for properties beginning construction after June 30, 2026.

Section 25C Energy Efficient Home Improvement Tax Credit

This tax credit allows home owners to claim a credit for qualifying energy-efficient improvements, including windows, doors, insulation and HVAC systems. Under the Inflation Reduction Act, this credit was extended for property placed in service prior to Jan. 1, 2033.

OBBBA Change: This credit will expire for any property placed in service after Dec. 31, 2025.

Clean energy tax breaks affecting individuals

The OBBBA eliminates several tax credits that have benefited eligible individual taxpayers. It provides short "grace periods" before they expire, though, giving taxpayers a window to take advantage of the credits.

For example, the **Energy Efficient Home Improvement Credit (Section 25C) was scheduled to expire after 2032. It's now available for eligible improvements put into service by December 31, 2025.** The IRA increased the credit amount to 30% and offers limited credits for exterior windows, skylights, exterior doors, and home energy audits.

The Residential Clean Energy Credit (Sec. 25D) was scheduled to expire after 2034. It's also now available only through December 31, 2025. The IRA boosted the credit to 30% for eligible clean energy improvements made between 2022 and 2025. The credit is available for installing solar panels or other equipment to harness renewable energy sources like wind, geothermal or biomass energy.

Clean energy tax breaks affecting businesses

The Alternative Fuel Vehicle Refueling Property Credit (Sec. 30C) for property that stores or dispenses clean-burning fuel or recharges electric vehicles will also become unavailable sooner than originally set by the IRA. The credit — worth up to $100,000 per item (each charging port, fuel dispenser or storage property) — had been scheduled to sunset after 2032. Under the OBBBA, property must be placed in service on or before June 30, 2026, to qualify for the credit.

The law also eliminates the **Sec. 179D Energy Efficient Commercial Buildings Deduction for buildings or systems on which the construction begins after June 30, 2026.**

The deduction has been around since 2006, but the IRA substantially boosted the size of the potential deduction and expanded the pool of eligible taxpayers.

Wind and solar projects stand to take a big hit. The OBBBA eliminates the Clean Electricity Investment Credit (Sec. 48E) and the Clean Electricity Production Credit (Sec. 45Y) for wind and solar facilities placed in service after 2027, unless construction begins on or before July 4, 2026. Wind and solar projects begun after that date must be put in service by the end of 2027.

In addition, wind energy components will not qualify for the Advanced Manufacturing Production Credit (Sec. 45X) after 2027. The law also modifies the credit in other ways. For example, it adds "metallurgical coal" suitable for the production of steel to the list of critical minerals. And, for critical materials other than metallurgical coal, the credit will now phase out from 2031 through 2033. The credit for metallurgical coal expires after 2029.

Note: The OBBBA permits taxpayers to transfer clean energy credits while the credits are still available (restrictions apply to transfers to “specified foreign entities”).

Clean vehicle credits

If you’ve been pondering the purchase of a new or used electric vehicle (EV), you will want to buy sooner rather than later to take advantage of available tax credits. **The Clean Vehicle Credit (Sec. 30D) was scheduled to expire after 2032. Under the OBBBA, the credit is available only through September 30, 2025.**

The IRA significantly expanded the credit for qualifying clean vehicles placed in service after April 17, 2023. For eligible taxpayers, it extended the credit to any “clean vehicle,” including EVs, hydrogen fuel cell cars and plug-in hybrids. The maximum credit for new vehicles is $7,500, based on meeting certain sourcing requirements for 1) critical minerals and 2) battery components. Clean vehicles that satisfy only one of the two requirements qualify for a $3,750 credit.

The IRA also created a new credit, Sec. 25E, for eligible taxpayers who buy used clean vehicles from dealers. The credit equals the lesser of $4,000 or 30% of the sale price. It also expires on September 30, 2025.

Additionally, the OBBBA targets the incentive for a business’s use of clean vehicles. The Qualified Commercial Clean Vehicle Credit (Sec. 45W) had been scheduled to expire after 2032. It’s now available only for vehicles acquired on or before September 30, 2025. Depending on vehicle weight, the maximum credit is up to $7,500 or $40,000.

Tax Professional’s Alert**:** ***The One Big Beautiful Bill has almost 1,000 pages.***

Part III.
Timeline for Key Tax Brakes

Timeline

Tax provision	**Effective date**	**Temporary or permanent**
SALT deduction cap raised to $40,000	**2025 through 2029**	**Temporary (cap drops to $10,000 in 2030)**
Auto loan interest deduction of up to $10,000	**2025 through**	**Temporary**

	2028	
Bonus deduction of $6,000 for people aged 65 and older	**2025 through 2028**	**Temporary**
No tax on tips and overtime pay	**2025 through 2028**	**Temporary**
New charitable contribution deduction for people who don't itemize	**2026**	**Permanent**
Elimination of electric vehicle tax credits	**Sept. 30, 2025**	**Permanent**
Elimination of residential clean energy and energy efficient tax credits	**Dec. 31, 2025**	**Permanent**
Higher child tax credit of $2,200, with annual inflation adjustments	**2025**	**Permanent**
Increased standard deduction (TCJA amounts made permanent, plus new inflation adjustment for 2025)	**2025**	**Permanent**
Reduced income tax rates (TCJA rates made permanent, plus new inflation adjustment added)	**2026**	**Permanent**
Qualified business income deduction of up to 20% made permanent (otherwise would have expired after 2025)	**2026**	**Permanent**

2025: Tax changes that could put more money in your pocket
Beginning in 2025, millions of Americans could begin benefiting from a wide range of new tax breaks.

One of the most notable changes is the expanded state and local tax (SALT) deduction, which increases the cap from $10,000 to $40,000. The change will provide meaningful relief to taxpayers in high-tax states such as New York, California, and New Jersey. The increased SALT cap will be adjusted annually for inflation but is set to drop back to $10,000 in 2030 unless extended by Congress.

Another provision beginning in 2025 allows taxpayers to deduct up to $10,000 in auto loan interest for qualifying vehicles — new cars purchased for personal use and with final assembly in the U.S. The deduction applies to loans issued from 2025 through 2028.

Seniors will be eligible for a bonus deduction of up to $6,000. Meanwhile, service workers could benefit from a new exclusion of up to $25,000 in reported tip income, while employees who work overtime may qualify for a deduction of up to $12,500, or up to $25,000 for married couples filing jointly.

"These new tax provisions could bring about meaningful changes for taxpayers starting in 2025," says Tracey Carney, a certified public accountant in New Orleans. "Now is the time to review how these updates might impact your finances and consider meeting with a qualified tax professional to plan ahead."

<u>2026</u>: More changes ahead, including health care impacts
Several tax changes, including extensions of TCJA provisions, are set to begin in 2026. That said, taxpayers may not notice some of these changes that much, because many of these new provisions are simply continuing what is already in effect for 2025.

The 2017 TCJA, passed during Trump's first term, made sweeping changes to the tax code. However, many of its provisions were set to expire after 2025. The new law makes several of those provisions permanent and extends them beyond Dec. 31 of this year. Some of those tax rules include reduced income tax rates, the limit on deducting mortgage interest on debt up to $750,000 and the qualified business income deduction.

The new law also makes two significant changes related to health care and taxes beginning in 2026.

"There are two overlooked elements of the big beautiful bill that can have major tax implications for your health care," says Whitney Stidom, vice president of consumer enablement at eHealth, an independent insurance advisor. "One impacts how health insurance subsidies are calculated, and the other changes who qualifies to use a health savings account."

The law modifies rules for Affordable Care Act (ACA) subsidies, which help reduce premiums for lower-income Americans. Under the new rules, individuals who earn more than 400 percent of the federal poverty level may still qualify for subsidies, but any excess subsidies received must be repaid in full when filing taxes.

"In the past, there was a cap on how much of the overpaid subsidies you had to return," Stidom says. "Now, you may have to repay the full amount."

The law also expands eligibility for health savings accounts (HSAs), allowing more health insurance plans — specifically, catastrophic and bronze-tier ACA marketplace plans — to qualify. An HSA allows people to stash money into a tax-advantaged account for qualified medical expenses, but you can only have an HSA if you also have a qualified high-deductible health plan.

For 2025, people can contribute up to $4,300 for themselves into an HSA and the amount increases to $8,550 for families. People aged 55 or older can add a $1,000 catch-up contribution to those amounts.

"There are about 7 million Americans currently enrolled in bronze plans who haven't been able to use an HSA," Stidom says. "This change could offer significant new tax benefits."

Some tax breaks will now expire this year

The sweeping legislation also ends several clean energy tax credits, but on different timelines.

The popular electric vehicle (EV) tax credit is set to expire on Sept. 30. After that date, the credit will no longer be available. Originally introduced in 2008, the credit was expanded under President Joe Biden's Inflation Reduction Act of 2022, offering up to $7,500 for new EVs and $4,000 for used models.

"If you're considering buying a vehicle, now is the time to buy an electric vehicle," Carney says. "Unless Congress extends the credit in the future, buyers won't have the chance to take advantage of it once it's gone."

Other credits — specifically, the energy efficient home improvement credit and the residential clean energy credit — are now scheduled to end after 2025.

Until the end of the year, taxpayers can claim up to $3,200 per year for eligible improvements to their primary residence under the energy efficient home improvement credit. The credit covers 30 percent of qualified expenses, such as for installing energy efficient doors and windows.

The residential clean energy credit allows taxpayers to claim 30 percent of the cost for new qualified clean energy property — including solar panels, solar water heating systems, geothermal heat pumps and more. These credits are nonrefundable, meaning they cannot reduce your tax bill below zero.

IV
Client Letters

<u>Individuals</u>

Dear Client:

On July 3, the House adopted the Senate substitute to H.R. 1, the One, Big, Beautiful Bill Act (OBBBA) by a vote of 218-214. The bill was signed into law on July 4, 2025 and is now Public Law 119-21.

The legislation makes permanent the Tax Cuts and Jobs Act (TCJA) expiring business provisions—namely, the section 199A passthrough deduction, bonus depreciation, R&D expensing and the broader section 163(j) interest limitation.

There are changes to:

Social Security Taxation
Energy Credits
Child Tax Credit
Child Care Credit
Charitable Contributions
State and local tax deductions
Gambling loss deductions
And many other provisions

Many of these provisions are for 2025 and some have deadline dates coming up soon, such as energy credits.

Failing to plan is planning to fil.

Give me a call and let's get together to discuss how these provisions in the One Big Beautiful Bill Act will affect you.

Sincerely,

Your Tax Professional

Business Clients with Payroll

Dear Business Client:

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, includes several provisions that impact payroll, particularly related to overtime and tip income. Employers need to adapt their payroll systems to handle new deductions and reporting requirements for qualified overtime and tips.

Here's a breakdown of the key changes:
Overtime:

- Deduction for Qualified Overtime:

The OBBBA allows for a deduction of qualified overtime pay, up to $12,500 for individuals and $25,000 for married couples filing jointly, for those within certain Modified Adjusted Gross Income (MAGI) limits.

- Separate Reporting:

Employers must now report qualified overtime pay separately on W-2 forms, including for non-employee payees.

- State Compliance:

It's important to note that while this deduction is a federal provision, individual states may or may not conform to this federal provision.

Tips:

The OBBBA provides a deduction for qualified tips, with eligible occupations determined by the Treasury Secretary.

Employers must separately report qualified tip amounts and the occupation of the tip recipient, possibly using forms like 1099-NEC or 1099-K.

For cash tips paid before January 1, 2026, employers may estimate tip amounts using reasonable methods.

Other Important Considerations:

- Employer Responsibilities:

Employers need to update payroll systems, track overtime hours separately, and maintain detailed records.

Payroll, benefits, and finance teams need to coordinate efforts to ensure systems are ready for the changes.

The IRS is expected to release guidance on eligible occupations and reporting requirements.

In essence, the OBBBA introduces new deductions and reporting requirements for overtime and tips, necessitating adjustments to payroll processes and systems for employers.
I know you will have questions regarding this important tax legislation and its 1000 pages.

Know that as your tax professional I am here to assist you in this important transition. Give me a call.

Sincerely,

Your Tax Professional

Part V.
More Tax Legislation

The Question: Are we done yet?

The United States Government has a year end of September 30.

Each year the Congress must go through the Appropriations Bill to fund the Government for the next 12 months.

Oftentimes, the delay in Congressional action will require the government go on “continuing resolution” only being allowed to spend what they spent in the prior year.

In the Appropriations Act, Congress has the opportunity to write additional tax legislation.

The following represents the current proposals Congress will approach once they return from the August recess on September 1, 225.

The appropriations process for Fiscal Year (FY) 2026 has begun, with action in both the House of Representatives and the Senate.

The discretionary spending caps that were put in place by the Fiscal Responsibility Act (FRA) are no longer binding for FY 2026, though the legislation implies that Congress could continue to implement the caps by raising spending 1 percent above the FY 2025 level. Congress has not yet taken action to address this issue. The Budget Committees of the House and the Senate should debate a new resolution for FY 2026, where a new topline level for discretionary spending will be decided. In the meantime, the House has been developing interim allocations for their subcommittee bills as they work on them, while the Senate may wait until after the reconciliation bill is completed before deciding how to proceed with their allocations.

The table below shows the status of each appropriations bill.

The table below compares the FY 2025 302(b) allocations from the House and Senate, as well as enacted funding levels for FY 2025, with requested levels from the President’s FY 2026 budget request.

Regular Appropriations (Budget Authority)

Subcommittee	FY 2025 House Committee	FY 2025 Senate Committee	FY 2025 Enacted*	F F
Agriculture	$25.9 billion	$27 billion	$26.6 billion	N
Commerce, Justice, Science	$78.3 billion	$69.2 billion	$67.8 billion	N
Defense	$833.1 billion	$830.9 billion	$831.5 billion	N
Energy and Water	$59.2 billion	$61.5 billion	$58.1 billion	N
Financial Services and General Government	$23.6 billion	$21.2 billion	$15.9 billion	N

Regular Appropriations (Budget Authority)

Subcommittee	FY 2025 House Committee	FY 2025 Senate Committee	FY 2025 Enacted*
Homeland Security	$64.8 billion	$60.5 billion	$65 billion
Interior and Environment	$37.7 billion	$37.7 billion	$40.9 billion
Labor, HHS, Education	$186.6 billion	$198.7 billion	$198.2 billion
Legislative Branch	$7.1 billion ($5.5 billion in House-only spending formally approved)	$7 billion	$6.7 billion
Military Construction and VA	$147.5 billion	$148.9 billion	$146.5 billion
State, Foreign Operations	$51.7 billion	$55.7 billion	$56.8 billion
Transportation, HUD	$90.4 billion	$87.7 billion	$86.4 billion
TOTAL Base Funding	$1.606 trillion	$1.606 trillion	$1.600 trillion

Sources: CBO Status of Discretionary Appropriations Report, House Appropriations Committee, Senate Appropriations Committee.

*In addition to base discretionary spending, the two six-bill minibus packages provided for certain adjustments to Fiscal Responsibility Act caps, including $12.5 billion in total emergency spending, $2.65 billion for Interior-Environment for wildfire suppression, and a total of $20.4 billion for disaster relief ($20.261 billion to Homeland Security and $143 million to Financial Services). Emergency spending was distributed as follows: $2 billion for Commerce-Justice-Science, $2.5 billion for State-Foreign Operations, and $8 billion for Transportation-HUD.

As Congress considers appropriations bills, it is important that lawmakers avoid budget gimmicks and contemplate the longer-term trajectory of discretionary spending.

Part VI.
Taxpayers and
Tax Professionals

Winners and Losers in the One Big Beautiful Bill Act

The One Big Beautiful Bill Act (OBBBA) stands as one of the most fiscally consequential pieces of legislation in recent memory, fundamentally reshaping federal spending priorities and tax policy across dozens of sectors. The massive package, which adds $3.4 trillion to federal deficits over the next decade before accounting for interest costs, exemplifies how Congress can use sweeping reconciliation bills to advance narrow interests at the expense of fiscal responsibility.

Marketed as essential for economic growth and national security, OBBBA primarily benefits wealthy individuals, established industries, and well-connected special interests. It permanently extends tax cuts for high earners, dramatically expands subsidies for already-profitable fossil fuel and agriculture industries, and pours tens of billions into new defense contracts, while slashing social safety net programs and eliminating incentives for emerging clean energy sectors.

What follows is a breakdown of the winners and losers in OBBBA. By cataloguing the bill's specific provisions and their costs, we aim to provide taxpayers with the transparency they deserve about how their government spends their money.

The Winners

High-Income Taxpayers

Taxpayer Cost: Hundreds of billions in lost revenue from estate, income, and business tax breaks.

OBBBA delivers a suite of permanent and long-term tax advantages for high earners, expanding their ability to shield income and wealth from federal taxes. The bill doubles the federal estate tax exemption to $15 million per person ($30 million per couple), allowing ultra-wealthy families to transfer vast fortunes tax-free.

Top-bracket individual income tax cuts, first enacted in 2017, are made permanent—locking in lower rates and delivering the largest dollar benefits to the highest-income households.

For business owners and investors, the bill locks in the 20% deduction for pass-through income (Section 199A) and restores the full bonus depreciation, both of which reduce effective tax rates for those with large profits and capital reserves. Expanded eligibility for publicly traded partnerships (PTPs) and continued favorable treatment of pass-through entities further enhance tax sheltering opportunities. The cap on state and local tax (SALT) deductions is temporarily raised from $10,000 to $40,000 through 2029 for those earning up to $400,000—delivering targeted relief to upper-middle and high-income residents in high-tax states.

High-income taxpayers also stand to benefit indirectly from OBBBA's industry subsidies. Massive new spending on defense, fossil fuels, and biofuels boosts the value of corporate holdings and pass-through income streams tied to these sectors—benefiting owners, investors, and shareholders.

Artificial Intelligence

Taxpayer Cost: $1.5 billion on AI development in federal agencies.

The bill provided $150 million for the Department of Energy (DOE) to develop artificial intelligence models and make them available to the scientific community on top of $1.4 billion for various DOD-related AI activities. In a possible setback to AI firms, the final bill stripped a provision from the original House draft thatwould have implemented a 10-year moratorium on state-level regulation of artificial intelligence models and systems entered into interstate commerce.

Already Highly Subsidized Farmers

Taxpayer Cost: $67 billion in increased Farm Bill spending.

The bill plants nearly $70 billion in increased spending across a variety of federal farm programs normally authorized in a Farm Bill. The biggest cost comes from increases in government guaranteed minimum crop prices for a range of row crops (such as corn, cotton, wheat, and rice) by 11% to 21%, depending on the crop. A related provision allows farmers to enroll 30 million new acres into these programs. The Price Loss Coverage (PLC) program alone is expected to result in $50 billion in additional farm income subsidies, with especially generous checks for rice, cotton, and peanut growers.

Agricultural Accountants, Lawyers, and Lobbyists

Taxpayer Cost: $2 billion+ and billions in economic inefficiency.

The Agriculture section of OBBBA will be a boon to individuals who help farm operations maximize their payouts from federal programs. Lawmakers increased the limit an individual farmer can receive annually from farm subsidy programs from $125,000 to $155,000 and set the limit to increase annually with inflation. A loophole that previously allowed farms structured as "joint ventures" or "partnerships" to treat limits on payments at each partner's level, as opposed to the whole operation, was expanded to include all partnerships, S Corporations, and LLCs.

At the same time, the bill weakens a 40-year-old rule that prevented farm subsidies from going to operations or individuals who earn more than $900,000 in adjusted gross income annually. Now any farmer or farm operation, whether their income is $100,000 or $100,000,000, can receive farm subsidies as long as they make at least 75 percent of their income from farming, ranching, or "similar activities." The bill leaves the definition of "similar activities" up to the Secretary of Agriculture. One should expect a wave of activity from folks lobbying to influence that definition and laying out the paperwork to restructure farms to harvest more taxpayer cash.

Shipbuilding

Taxpayer Cost: $29,016,301,000.

Much of OBBBA's funding for shipbuilding is marked for particular capabilities that apply to contractors across the shipbuilding industrial base, such as $500 million for "advanced manufacturing techniques in the shipbuilding industrial base." However, there are clear industry winners tied to increased funding for the procurement of specific ships.

Two prime contractors, Huntington Ingalls Industries (HII) and General Dynamics Bath Iron Works (BIW), stand to profit from the bill's inclusion of $5.4 billion for two additional guided missile destroyers, or DDGs. The bill also includes $4.6 billion for an additional Virginia-class submarine, for which General Dynamics Electric Boat (GDEB) is the prime contractor and HII is a major subcontractor. Bollinger Shipyards will likely cash in on the bill's inclusion of $1.8 billion for a Landing Ship Medium, while General Dynamics NASSCO stands to gain from the bill's $2.7 billion for T-AO oilers.

Beyond traditional Pentagon contractors, tech companies focused on emerging military technology like unmanned autonomous systems will also reap billions in contracts from this section of the bill, though precisely which companies will profit from which line items is more difficult to parse.

Golden Dome

Taxpayer Cost: $24,413,000,000.

OBBBA includes over $24 billion for various missile defense technologies that collectively represent an initial investment in President Trump's concept of a plan for the Golden Dome. These funds will likely be divided amongst a wide range of Pentagon contractors, with a few prime contractors managing the bulk of the work.

A recent Congressional Budget Office (CBO) report found that the cost of deploying space-based interceptors (SBIs) "designed to defeat one or two intercontinental ballistic missiles (ICBMs) fired at the United States by a regional adversary, such as North Korea," could cost up to $542 billion. While many have since characterized this as an estimate of costs for the space-based component of Golden Dome, the notion that this cost would deliver a system capable of reliably intercepting the ICBMs of a peer-level adversary like Russia or China, let alone a full-scale attack from such an adversary, is thoroughly misplaced. Physicists have pointed out that the technology to viably defend the United States against ICBMs and hypersonic missiles does not exist. But even if pouring enough resources into this effort could change that—which is far from clear—the results would be destabilizing, as adversaries would seek to improve their offensive capabilities to get around the new defenses.

Nuclear Weapons

Taxpayer Cost: $14,688,300,000.

OBBBA includes over $14 billion for nuclear weapons. As the prime contractor for both the Sentinel ICBM program, which received $2.6 billion in the bill, and the B-21 nuclear bomber, which received $4.5 billion, Northrup Grumman is likely one of the biggest winners in this tranche of funding. Northrup is also involved in sustainment contracts for Minuteman III, which received $500 million in the bill and is slated to be replaced by the Sentinel.

Aircraft

Taxpayer Cost: $8,643,680,000.

**OBBBA includes over $8 billion for aircraft research and procurement. Boeing is likely one of the biggest winners, with $3.15 billion in the bill to increase production of its F-15EX aircraft and $400 million to accelerate production of the F-47, the Air Force's sixth-generation fighter. Boeing secured its role as the prime contractor for the F-47 earlier this year. The company also stands to profit from the bill's inclusion of $100 million to accelerate production of its MQ-25 aircraft. The bill also includes $750 million to accelerate production of the F/A-XX, the Navy's sixth-generation fighter, which Boeing and Northrup Grumman are currently competing over.
Not to be left out, Lockheed Martin will likely profit from the bill's inclusion of over $361 million to prevent the retirement of the F-22, and will definitely profit from $440 million to increase production of C-130J aircraft.**

There's also $600 million for the development, procurement, and integration of Air Force long-range strike aircraft, and $500 million for the development, procurement, and integration of Navy long-range strike aircraft. It's unclear if this funding would support Northrup Grumman's B-21, the sixth-generation fighters for the Air Force and Navy, or some other set of aircraft.

Munitions

Taxpayer Cost: $25,380,700,000.

OBBBA includes over $25 billion for munitions and supply chain resiliency. This includes over $16 billion spread out over 67 line items, as well as an additional $8.8 billion for various industrial base funds to make grants, purchase commitments, investments, and loans.

One winner is RTX, which is the prime contractor for advanced medium-range air-to-air missiles (AMRAAMs). These missiles have three line items in the bill, including $250 million for procurement, $225 million for expanding production capacity, and $50 million "for the mitigation of diminishing manufacturing sources."

With $400 million to produce heavy-weight torpedoes, Lockheed Martin, the prime contractor for MK-48 heavy-weight torpedoes, is likely a winner. Science Applications International Corporation (SAIC) and RTX also have contracts for the MK-48, and may benefit from this increased funding, as well as a $70 million line item for the improvement of heavyweight torpedo maintenance activities.

Oil and Natural Gas

Taxpayer Cost: Billions in lost royalties and bid revenue, delayed methane fees, and expanded tax breaks.

OBBBA delivers major wins to oil and gas producers. It makes federal leasing cheaper and easier, both onshore and offshore. Onshore, the Department of Interior (DOI) must offer at least 50% of nominated parcels at quarterly lease sales and hold a replacement sale if fewer than 75% of acres receive bids. The bill extends drilling permits from three to four years and requires DOI to approve applications to commingle production from multiple sources. It also mandates five lease sales in the National Petroleum Reserve in Alaska and four in the Arctic National Wildlife Refuge over the next decade. The bill rolls back taxpayer protections by slashing royalty rates for new onshore leases from 16.7% to 12.5%, repealing the $5 fee for submitting expressions of interest (EOIs), and reopening noncompetitive leasing—allowing companies to sidestep bidding entirely.

Offshore, the bill requires at least 30 lease sales in the Gulf of America by 2040 and six in Alaska's Cook Inlet by 2032. It lowers royalty rates for new offshore leases to between 12.5% and 16.7%, down from a minimum of 16.67% and a maximum of 18.75%.

OBBBA also delays implementation of the methane waste emissions fee and repeals a requirement to impose royalties on all gas produced, including gas that is flared, vented, or used onsite. These changes reduce industry costs while cutting off revenue streams for taxpayers.

On the tax side, the bill allows oil and gas companies to deduct intangible drilling costs (IDCs) from their adjusted financial statement income when calculating their corporate alternative minimum tax (CAMT). While the Joint Committee on Taxation (JCT) estimates this will cost $427 million over the next decade, earlier analyses pegged the price tag closer to $1 billion.

Coal

Taxpayer Cost: Reduced royalty payments and expanded leasing on public land.

The Trump Administration has long called for the return of King Coal. OBBBA furthers this effort by increasing subsidies and expanding access to federal lands for coal mining. The bill gives the DOI 90 days to: 1) publish environmental reviews and hold lease sales for currently pending applicants; 2) authorize mining on all federal coal reserves and adjacent state or private lands with previously approved mining plans; and 3) open an additional 4,000,000 acres for leasing. OBBBA lowers

the federal coal royalty rate from 12.5% to just 7% for the next 10 years. Earlier drafts of the bill would have gone further, halting the implementation of new resource management plans in the Powder River Basin that significantly reduced the federal land available for coal leasing.

The bill also creates a new subsidy for metallurgical coal—used in steelmaking—by expanding eligibility for the Advanced Manufacturing Production Credit (45X). Under the new language, metallurgical coal qualifies as a critical mineral, making producers eligible for a 2.5% tax credit through 2029. Other critical minerals remain eligible for a 10% credit through 2030, with the credit phasing down to 0% after 2033.

The bill provides an additional boost for coal by amending the Section 1706 loan guarantee program, which was created by the Inflation Reduction Act (IRA) to repurpose or replace existing energy infrastructure that has ceased operation, or to reduce, use, or sequester greenhouse gas (GHG) emissions. OBBBA amended the language to redirect the program to support electricity supply at time intervals to "maintain or enhance grid reliability", which is generally referring to coal and nuclear power. The IRA appropriated $5 billion through FY2026 and provided a $250 billion loan guarantee authority. OBBBA extends the deadline to FY2028 and provides an additional $1 billion for the loan guarantee program.

Timber

Taxpayer Cost: Increased harvest mandates with minimal safeguards.

OBBBA mandates the U.S. Forest Service (USFS) and Bureau of Land Management (BLM) increase timber sale volumes from federal lands over the next decade. USFS is required to increase timber volumes by 250 million board feet and BLM by 20 million board feet every year from FY2026 to FY2034, compared to what was sold in the previous fiscal year. For USFS, which administers the bulk of federal timber sales, the additional 250 million board feet represents an 8.7% increase over the 2.9 billion board feet sold in FY2024. If met precisely, this mandate would require USFS to sell at least 37.2 billion board feet from FY2026 to FY2034. In addition, the final bill requires the USFS to enter into no fewer than 40 and the BLM no fewer than 5 timber sale contracts, with each contract lasting at least 20 years.

Nuclear

Taxpayer Cost: Over $3.2 billion in new tax preferences.

While the up to $15-per-megawatt-hour nuclear production tax credit (45U) remained largely untouched, nuclear scored a big win with a special carveout in the Clean Electricity Production Credit (45Y). That carveout—especially the expanded eligibility for the 10% bonus credit—amounts to a major new subsidy for the nuclear industry.

The 45Y credit offers a 10% bonus credit for facilities located in "energy communities," and OBBBA expanded that definition to give nuclear a further boost. The new definition includes "advanced nuclear energy communities"—areas where at least 0.17% of direct employment has been tied to an "advanced nuclear facility" since 2009. While previous statutes defined advanced nuclear as a reactor design approved after 1993, the final bill drops that cutoff for bonus eligibility, allowing nearly all nuclear facilities to qualify, since most designs date back to 1970-1990. Existing nuclear plants generally do not qualify for 45Y unless they expand operations, but if they do, they can now also claim the bonus credit.

The only limitation added to the nuclear production credit was a set of new restrictions on foreign and foreign-influenced entities—rules that apply to many credits across the bill. Earlier Senate versions would have barred credits for facilities using fuel produced in North Korea, China, Russia, or Iran after 2027 (with exceptions for contracts in effect before 2023), but that restriction was dropped from the final bill.

Additionally, OBBBA allows certain income from advanced nuclear facilities to avoid corporate-level taxation by expanding eligibility under the Publicly Traded Partnership (PTP) rules. PTPs are generally taxed as corporations, but if 90 percent or more of their gross income comes from qualifying sources—like rents, gains on real property sales, or income from natural resources—they can instead be taxed as partnerships. OBBBA adds several new qualifying income streams, including income from generating electricity at advanced nuclear facilities. This effectively allows nuclear companies and their investors to form PTPs that shield income from corporate taxes. Across all new qualifying sources, this expansion will cost taxpayers more than $3.2 billion from FY2025 to FY2034.

The nuclear industry will also benefit from the extended and expanded Section 1706 loan guarantee program, which now has $6 billion through the end of FY2028 to administer $250 billion worth of loan guarantee authority for any nuclear facility to continue or expand operations.

Biofuels

Taxpayer Cost: Expanded and overlapping tax credits for mature bioenergy industries.

The Clean Fuel Production Credit (45Z) for low-emission transportation fuels is the only energy tax credit expanded and extended in OBBBA. Originally created in the IRA to replace expiring biofuel incentives, 45Z offers a maximum credit of $1.00 per gallon for non-aviation fuel and $1.75 per gallon for aviation fuel (if prevailing wage and apprenticeship requirements are met). The final bill extends the credit's expiration from the end of 2027 to the end of 2029 and lowers the lifecycle GHG assessment standards—broadening eligibility, particularly for first-generation,

food-based biofuels like corn ethanol and biodiesel. However, the bill disallows credits for fuels that use feedstock grown outside the U.S., Canada, or Mexico. One minor loser in the biofuels category: sustainable aviation fuel (SAF).

Previously, SAF was eligible for a maximum 45Z credit of $1.75 per gallon ($0.35 without bonuses), while other fuels could claim only $1.00 per gallon ($0.20 without bonuses). So, while SAF benefits from the overall expansion and extension of the credit, under OBBBA all fuels—SAF included—are capped at the same $1.00, erasing SAF's premium.

OBBBA also revives a previously expired credit for small producers of agri-biodiesel—including certain corn- and soy-based biodiesel—and doubles its value from $0.10 to $0.20 per gallon. The megabill specifically clarifies that this small agri-biodiesel producer credit can be claimed on top of 45Z, allowing qualifying biofuel producers to double dip these credits.

Carbon Capture and Storage

Taxpayer Cost: Increased 45Q payouts and preferential tax treatment.

OBBBA increases the value of the Carbon Oxide Sequestration Tax Credit (45Q) for companies that capture carbon dioxide they emit or from ambient air and use it for enhanced oil recovery (EOR)—a technique that injects carbon into depleted wells to extract more oil—and other uses. Before OBBBA, the credit amount varied based on end use, with higher rates for geological sequestration and lower rates for EOR or other uses. Under the new law, all new facilities can claim up to $85 per ton—or $180 per ton for direct air capture (DAC) facilities—regardless of how the captured carbon is used.

Like nuclear energy, carbon capture also benefits from changes to Publicly Traded Partnership (PTP) rules. OBBBA allows income from CCS-related activities—including electricity generation at qualifying CCS facilities—to avoid corporate-level taxation if structured as a PTP. To qualify, a facility must meet 45Q's minimum capture thresholds and capture at least 50% of its total carbon output.

Hydropower

Taxpayer Cost: Additional PTP tax shelters and taxpayer-funded projects.

Hydropower also benefits from changes to the definition of "qualifying income" that allow publicly traded partnerships (PTPs) to avoid corporate-level taxation. Under OBBBA, income from producing electricity or thermal energy using a hydroelectric or non-hydroelectric dam can now flow through tax-shielding PTPs to avoid corporate taxation.

Additionally, hydropower may benefit from the $1 billion appropriated to the Bureau of Reclamation to improve existing conveyance facilities—systems used to

move water, including for hydropower—and surface water storage facilities. Notably, these funds will not be subject to matching or cost sharing requirements, meaning that taxpayers will carry much of the financial risk of these projects.

The Losers

SNAP Recipients

Taxpayer Cost: $186 billion in cuts over ten years and higher state administrative costs.

OBBBA reshapes the Supplemental Nutrition Assistance Program (SNAP), cutting benefits, tightening eligibility, and shifting costs to states. The federal work requirement now applies to able-bodied adults without dependents up to age 64—ten years older than before—and parents of children as young as 14 are no longer exempt. The bill also removes previous exemptions for homeless individuals, veterans, and individuals that turned 18 while in foster care (previously they were exempt until the age of 24).

Individuals may face reductions in benefits depending on how their states manage the program. The state share of administrative costs for the program is doubled, costing $26 billion. For the first time in program history states will also be required to cover up to 15 percent of the benefits paid to recipients. States with payment error rates above 6% will face new financial penalties, covering between 5% and 15% of benefit costs depending on their error rate. If states are unable to reduce their error rate – which is often the result of paperwork or processing errors – or are unwilling to cover the additional financial burden, they may reduce eligibility or even withdraw from the program.

Overall, the law reduces federal SNAP spending by $186 billion over ten years. By 2034, annual cuts are expected to exceed 24%, leading to an average benefit reduction of $18 per recipient per month starting in 2026. The total number of participants is expected to drop by 2 to 2.9 million. Vulnerable groups—including refugees, veterans, and near-retirees—will be disproportionately affected.

Medicaid Users

Taxpayer Cost: Coverage loss for 10 million Americans, reduced federal support, and higher uncompensated care costs.

OBBBA imposes sweeping changes to Medicaid that shrink enrollment and shift costs to states. For the first time, work requirements are mandatory for many adult enrollees: childless adults without disabilities aged 19–64 must log 80 hours per month of employment or "community engagement" to retain coverage. The law also ends 12-month continuous eligibility, replacing it with biannual redeterminations that increase churn and procedural disenrollments.

The bill tightens income verification rules and limits coverage for some immigrants, restricting access for mixed-status households and recent lawful entrants. At the same time, it cuts federal matching funds for Medicaid expansion and limits the use of provider taxes and supplemental payments that states have relied on to finance their programs.

These changes are projected to push 10 million people off Medicaid over the next decade. Hospitals and clinics, particularly in expansion states, anticipate major drops in insured patient volume and surges in uncompensated care. The burden will fall hardest on safety-net providers, who already operate on thin margins. Pregnant women and parents of children under 14 are exempt from work rules but still face more frequent paperwork and redetermination requirements.

Wind and Solar

Taxpayer Cost: Reduced investment in clean energy, rescinded grant funds, and early termination of credits could stall wind and solar deployment—undercutting long-term returns on federal investments and increasing reliance on more expensive energy sources.

The One Big Beautiful Bill Act phases out two key tax credits for wind and solar energy projects: the Section 45Y Clean Electricity Production Credit and the Section 48E Clean Electricity Investment Credit. These credits were originally scheduled to phase out beginning in 2033—dropping to 75% in 2034, 50% in 2035, and zero in 2036—or starting in the year after U.S. GHG emissions from electricity production fell to 25% of 2022 levels, whichever came first. Under OBBBA, wind and solar facilities that begin construction after July 4, 2026 must be placed in service before 2028 to qualify—effectively ending eligibility eight years earlier than previously planned. The bill terminates the Section 45X Advanced Manufacturing Production Credit for wind components produced and sold after 2027. The bill also repeals the special 5-year cost recovery for wind and solar energy properties—as defined under Section 48—constructed after 2024.

OBBBA doubles the rent that wind developers must pay to lease federal land by increasing the encumbrance factor from 5% to 10%. It also imposes a flat capacity fee of 3.9% on the gross proceeds from solar and wind electricity sales, with a potential 10% reduction for wind projects if at least 25% of the leased land is authorized for another use. In a modest win for developers, a last-minute change lowered the final capacity fee from 4.58%—the rate proposed in the House-passed bill and an early Senate draft.

The megabill also rescinds currently unobligated funding from grant and loan programs aimed at supporting wind and solar development. This includes funding for interregional electricity transmission studies related to offshore wind and money

from the Greenhouse Gas Reduction Fund's Solar for All Program, which offered grants for rooftop solar projects in low-income and disadvantaged communities.

Electric Vehicles

Taxpayer Cost: Elimination of vehicle and charging tax credits, along with rescinded loan and grant funding, weakens market incentives for zero-emission vehicles—jeopardizing past taxpayer investments in clean transportation and domestic manufacturing.

OBBBA eliminates three tax credits for purchasing "clean" vehicles after September 30, 2025: the Clean Vehicle Credit (30D), which offered up to $7,500 for a new vehicle; the Used Clean Vehicle Credit (25E), which provided up to $4,000 or 30% of the sale price (whichever was less) for a previously owned vehicle; and the Qualified Commercial Clean Vehicles Credit (45W), which covered the lesser of 15% of a commercial vehicle's cost or the amount by which it exceeded the cost of a comparable "unclean" vehicle.

The megabill also terminates the tax credit for "clean" vehicle refueling properties placed in service after June 30, 2026. Originally created in 2005, the Alternative Fuel Refueling Property Credit (30C) applied to equipment used to recharge electric vehicles or to store or dispense "clean-burning fuel," primarily biofuels. The IRA later limited it to projects in low-income or rural communities.

OBBBA also rescinds currently unobligated funding from grant and loan programs aimed at supporting zero-emission vehicles. This includes the Advanced Technology Vehicle Manufacturing Program, which provided direct loans for manufacturing facilities producing advanced technology vehicles, and funding for the Clean Heavy-Duty Vehicles Program, which offered grants and rebates for zero-emission trucks and buses.

Energy Efficiency

Taxpayer Cost: Ending energy efficiency credits and pulling back related program funds forfeits future energy savings and cost reductions, shifting more burden onto taxpayers through higher energy use and infrastructure demand.
OBBBA eliminates four tax credits for activities that improve building energy efficiency:

- **The Energy Efficient Home Improvement Credit (25C), which offered a 30% credit for energy efficient home improvements like exterior doors and windows;**
- **The Residential Clean Energy Credit (25D), which provided a 30% credit for residential clean energy property like solar panels;**
- **The Energy Efficient Commercial Buildings Deduction (179D), which allowed certain deductions for energy-efficient commercial building owners; and**

- **The New Energy Efficient Home Credit (45L), which offered $2,500 or $5,000 credits for new homes that met specific energy efficiency standards.**

The final bill went further than earlier versions in cutting support for efficiency.

The Senate added—and passed—a provision to terminate the 179D deduction that had not been included in the House-passed version.

The megabill also rescinds unobligated funding from grant and loan programs designed to support energy efficiency improvements. This includes the State-Based Home Energy Efficiency Contractor Training Grants Program, which supported workforce training for residential home energy upgrades, and the Advanced Industrial Facilities Deployment Program, which funded the purchase and installation of advanced industrial technologies.

The One Big Beautiful Bill introduces sweeping federal tax changes that impact individuals, families, and businesses alike. Understand key provisions, clauses, and strategic actions tax professionals should take to guide clients through the evolving landscape.

For tax professionals, the newly signed One Big Beautiful Bill Act (OBBBA) of 2025 has significant impacts for client tax planning and compliance. Signed into law by President Donald Trump on July 4, 2025, this sweeping legislation makes some of the 2017 tax cuts permanent, while introducing a variety of new provisions that can reshape the financial landscape for individuals, families, and businesses.

Keeping clients informed and updated on legislative developments is essential not only for compliance but also for identifying strategic opportunities, minimizing tax liabilities, and maximizing available benefits under the new law. Let's take a look at the federal implications of the OBBBA and how you can take advantage of tools and resources to keep pace and best serve your clients.

How OBBBA is impacting federal tax policy

From an expanded state and local tax (SALT) deduction to a senior "bonus," and increased estate and gift tax exemptions, the federal changes in the OBBBA require tax professionals' immediate attention when advising high-net-worth clients and those living in high-tax states. The bill also introduces new tax breaks for tip income, overtime pay, and auto loans, along with the establishment of a tax-advantaged savings account for children which offer potential saving opportunities for a broad range of taxpayers.

Key individual provisions

The OBBBA brings significant updates to individual tax policy by permanently extending many of the Tax Cuts and Jobs Act (TCJA) provisions that

were previously set to expire. This includes individual income tax rate reductions, the increased standard deduction, and higher alternative minimum tax (AMT) exemption thresholds.

The Act also introduces new deductions aimed at workers, such as those for tip income, overtime pay, and car loan interest, which could benefit lower and middle-income clients. However, compliance has tightened. Individuals must meet more stringent Social Security number requirements for claiming new deductions, the SALT deduction remains capped (albeit at a higher threshold), and eligibility rules for the Premium Tax Credit (PTC) have narrowed.

AT-A-GLANCE – OBBBA federal implications for individuals:

- **Permanent extension of TCJA brackets & standard deduction. Individual tax brackets from the 2017 Tax Cuts and Jobs Act are now permanent through 2025 and beyond.**
- **Standard deduction. Increased to $15,750 for single filers and $31,500 for married filers (up from $15,000/$30,000), indexed for inflation.**
- **State and Local Tax (SALT) deduction. Cap increased from $10,000 to $40,000 through 2029 (phases with inflation), then reverts to $10,000 in 2030. Phase-out begins at $500,000 MAGI (single) and $600,000 upper cap.**
- **Senior "bonus" deduction. New extra deduction of $6,000 per senior (age 65+) ($12,000 for qualified couples), effective 2025–2028; phases out at $75K MAGI (single), $150K (joint).**
- **Child Tax Credit. Increased to $2,200 per child, indexed for inflation beginning 2026.**
- **Tip and overtime deductions. Up to $25,000 deduction for tip income per filer; applies 2025–2028, phases out at $150K MAGI single ($300K joint). Overtime deduction capped at $12,500 (single) / $25,000 (joint); same phase-outs apply.**
- **Auto loan interest deduction. Up to $10,000 per year for interest on loans for U.S.-assembled vehicles taken after 2024; phases out at $100K/$200K income ($150K/$250K cutoff).**
- **Estate and gift tax exemptions. Exemptions increased to $15 million (single) and $30 million (joint).**
- **Child savings accounts. New tax-advantaged "Trump Accounts" for children under age 8; details limited but designed for long-term savings.**

Key business provisions

For businesses, the OBBBA reintroduces and enhances several valuable tax incentives. Bonus depreciation is revived, allowing 100% expensing of qualified property placed in service, and Section 179 expensing limits have been raised, giving small and mid-sized businesses more flexibility in capital investment decisions. The legislation also reinstates enhanced charitable deduction limits and imposes stricter 1099 information reporting, requiring tighter compliance protocols.

Updates to fringe benefit rules, including modifications to meal and transportation benefits, as well as expanded payroll tax credits for certain industries, provide both opportunities and challenges. Advising your clients on proper substantiation and timing of deductions is more important than ever, as the IRS will likely scrutinize these areas closely.

AT-A-GLANCE – OBBBA federal implications for businesses:

- **100% bonus depreciation and new expensing for certain real property. The OBBBA provides for a 100% bonus depreciation and new expensing for certain real property, including nonresidential property, which can help businesses recover costs more quickly.**
- **Section 199A (QBI) deduction. The 20% deduction for qualified business income from partnerships, S corporations, and sole proprietorships is made permanent, ensuring that businesses can continue to benefit from this tax break. The phase-outs for this deduction have been expanded, and there is now a minimum deduction available for activities generating $1,000 or more of QBI.**
- **Section 179 expensing. The Section 179 expensing limit has been increased to $2.5 million, allowing businesses to deduct more of their smaller capital purchases upfront.**
- **Temporary increase in SALT cap. The SALT cap is temporarily raised to $40,000 for taxpayers earning under $500,000 between 2025 and 2029, providing more tax deductions for high earners.**
- **Pass-Through Entity Tax (PTET) remains intact. Pass-throughs may continue to pay state income taxes at the entity level, which reduces taxable income for owners.**
- **Charitable contributions. Nonitemizers may now deduct charitable contributions up to a specified limit, and new floors apply to itemized deductions.**

Provisions and credits ending with the One Big Beautiful Bill Act

While the OBBBA adds and extends several incentives, it also sunsets some key tax benefits, particularly those related to energy. Popular clean energy credits, such as those for residential solar installations and electric vehicles, are being phased out. Additionally, the more generous accelerated depreciation schedules for energy-efficient property are coming to an end, which could affect planning for businesses and individuals considering sustainable upgrades.

It's crucial to help your clients pivot their planning strategies to account for these expirations, ensuring they take final advantage of expiring provisions where possible and shift toward other tax-efficient opportunities.

AT-A-GLANCE – OBBBA ending certain energy tax credits, including:

- **Residential Clean Energy Credit (Section 25D). 30% credit for solar panels, wind, geothermal, and battery storage systems expires after December 31, 2025 — no more credit for systems installed in 2026 and beyond.**
- **Energy-Efficient Home Improvement Credit (Section 25C). Current credit (30 % for insulation, windows, doors, HVAC) also ends after December 31, 2025.**
- **New Energy Efficient Home Credit (Section 45L). Credit for builders of energy-efficient homes terminated for properties acquired after June 30, 2026.**
- **Investment Tax Credit for Solar & Wind (Section 48E). 30% ITC for commercial wind and solar ends after December 31, 2027, unless construction begins by July 4, 2026 (then must be placed in service by end of 2027).**
- **Clean Vehicle & Charging Credits (Sections 30D, 25E, 30C). New and used EV credits expire after September 30, 2025, and EV charger credit expires after June 30, 2026.**
- **Accelerated depreciation for energy property (Section 168 for § 48 property). 5year accelerated cost recovery period removed for energy property beginning construction after December 31, 2024; only 100 % bonus depreciation remains for property acquired after January 19, 2025, with no energy property bonus depreciation after 2024. Strategic implications in a shifting political landscape**

While the 'One Big Beautiful Bill Act' provides near-term clarity by making key provisions of the Tax Cuts and Jobs Act permanent, it doesn't eliminate long-term uncertainty. Many of the original TCJA sunset clauses technically remain in place for 2026, leaving the door open for future reversals or revisions — especially as political dynamics shift following the 2024 elections.

In this climate of legislative unpredictability, tax professionals must do more than react — they must lead. That means helping clients prepare for a range of possible outcomes, maintaining flexible strategies, and staying ahead of both federal and state-level developments.

To navigate this evolving landscape, firms should focus on five key areas:

1. **Scenario planning: Model multiple tax outcomes — federal and state — to prepare clients for a variety of possibilities. This includes anticipating how different states may conform to or decouple from federal changes and identifying planning opportunities under each scenario.**
2. **Client communication: Proactively explain how the OBBBA affects clients' current and future tax positions. Clear, timely updates build trust and empower clients to make informed decisions before deadlines hit.**
3. **Advisory services: Go beyond compliance by helping clients optimize deductions, restructure income, or take advantage of time-limited provisions.**

This is a prime opportunity to position your firm as a strategic partner, not just a tax preparer.

4. **Technology enablement: Use tools like CoCounsel Tax to streamline research, generate client-ready summaries, and access up-to-date guidance across federal and state levels — all in one place. With explainable AI-backed answers and built-in citations, your team can move faster and advise with confidence.**
5. **Regulatory monitoring and advocacy: Stay on top of evolving IRS guidance and Treasury regulations related to OBBBA provisions. Being proactive in tracking changes ensures your firm can respond quickly and accurately.**

What tax professionals should do now to manage the OBBBA impact

As the landscape of federal tax policy shifts under the OBBBA, tax professionals must remain agile and proactive. Staying current with legislative updates and political developments is necessary to deliver accurate, forward-looking advice. Equally important is clear, proactive communication with clients to help them understand the impacts of these changes and prepare for multiple possible outcomes.

Remember: Major tax changes present an opportunity to expand beyond compliance and position your firm as a strategic advisor. Together with powerful technology and expert insights, your firm can identify planning opportunities, model outcomes, and guide clients through uncertainty.

Tax Professional's Alert: With the number of tax professional's leaving their practices, it is incumbent on the tax professional of 2025 to staff up, learn up and practice up