

Making Sense Of The One Big Beautiful Bill: Tax Changes & Planning Tips

Presented by —

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Overview Of Topics

Tax Changes For Businesses & Individuals

- Individual Topics

- State & Local Tax Deduction (SALT)
- New Temporary Deductions
- Charitable Contributions
- 529 Expansion
- Trump Accounts
- Estate & Gift Tax Exemption
- Gambling Loss Changes
- Extended Provisions
- Energy Credits Expiring*
- Qualified Business Deduction*

*Effects businesses too

- Business Topics

- Depreciation Updates
- 1099 Thresholds
- Deduction Limitations
- Advanced Manufacturing Credit
- Other Credits Extended
- Percentage of Completion Method
- Business Interest Expense Limitation
- Research & Development Expenses
- Qualified Small Business Stock Exclusion
- Opportunity Zone Changes



Individual Tax Topics

- State & Local Tax Deduction (SALT)
- New Temporary Deductions
- Charitable Contributions
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State & Local Tax Deduction Cap Increase

- Under the Tax Cuts and Jobs Act of 2017, individuals were limited to deducting \$10,000 (\$5,000 married filing separately (MFS)) of state and local taxes on their tax returns
- Under the OBBB, this limit has been increased to \$40,000 (\$20,000 MFS)
 - Earners with modified adjusted gross income (MAGI) of \$500,000 or more will be phased out of the higher deduction and will revert to \$10,000 (\$5,000 MFS) when MAGI reaches \$600,000 (\$350,000 MFS)
- This increase is temporary and sunsets in 2030
- Business pass-through entity (PTE) taxes continue to be a workaround



Example 1

- Married taxpayers that have \$200,000 in wages pay \$20,000 in mortgage interest, pay \$10,000 in real estate taxes and have \$18,000 in state taxes withheld



	Previous Law	Under OB BB 2025	Difference
Wages	\$ 200,000	\$ 200,000	\$ -
Total Federal Adjusted Gross Income	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Itemized Deductions			
State Income Taxes	(18,000)	(18,000)	
State Real Estate Taxes	(10,000)	(10,000)	
State Tax Limitation	18,000	-	
Mortgage Interest	<u>(20,000)</u>	<u>(20,000)</u>	
Total Itemized Deductions	<u>(30,000)</u>	<u>(48,000)</u>	<u>(18,000)</u>
Federal Taxable Income	<u>170,000</u>	<u>152,000</u>	<u>(18,000)</u>
Income Tax	28,015	24,055	(3,960)
Total Tax	\$ <u>28,015</u>	\$ <u>24,055</u>	\$ <u>(3,960)</u>



Temporary Changes/Deductions

- Senior Deduction
- “No Tax On Tips” Deduction
- “No Tax On Overtime” Deduction
- U.S. Assembled Car Loan Interest Deduction
- Child Tax Credit

Note: These new deductions can be taken regardless of using standard deduction or itemized deductions.



Senior Deduction

- Taxpayers that are 65 and older can deduct an additional \$6,000 per taxpayer
 - Independent of receiving Social Security distributions
- Phased out at \$150,000 adjusted gross income (AGI) for joint filers (\$75,000 single/married filing separately)
- This deduction is temporary and will only be available through the 2028 tax year



“No Tax On Tips” Deduction

- Workers who earn tip income can deduct up to \$25,000 from income sourced from tips
- This applies to employees and business owners
- You must work in a field where tips are ordinary; the IRS has published the list of approved job fields on their website
 - Please see document provided with webinar materials
- Phases out at \$300,000 AGI for joint filers and \$150,000 AGI for single/MFS filers
- Still subject to FICA/Self-Employment Tax
- Temporary — effective for tax years 2025-2028



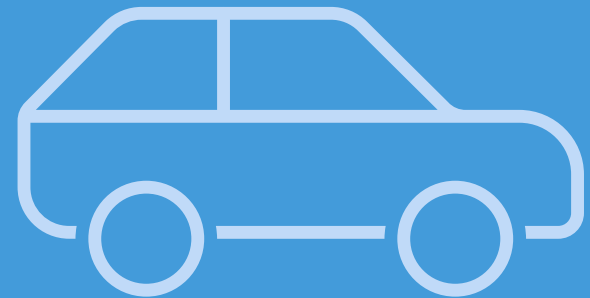
"No Tax On Overtime" Deduction

- Workers with overtime income can deduct up to \$25,000 for joint filers and \$12,500 for single/MFS filers from income sourced from overtime pay
- Phases out at \$300,000 AGI for joint filers and \$150,000 for single/MFS filers
- Still subject to FICA/Self-Employment Tax
- Temporary — effective for tax years 2025-2028



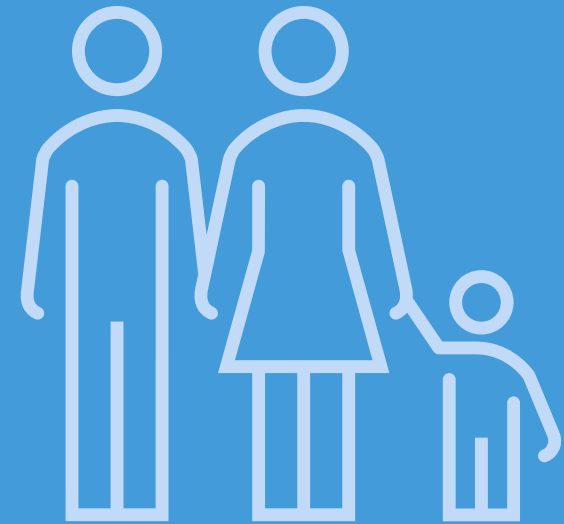
Car Loan Interest Deduction

- If your vehicle was assembled in the U.S. and was purchased between 2025-2028, you will be allowed a deduction of auto loan interest up to \$10,000
 - Automobiles purchased in previous tax years will not qualify
- The deduction begins to phase out when MAGI exceeds \$200,000 for joint filers and \$100,000 for single/MFS filers
- This is also temporary and will not be available after the 2028 tax year



Child Tax Credit Changes

- Child Tax Credit remains intact and is expanded
- Child Tax Credit is permanently set at \$2,200 per child, beginning in 2025 (eligible for children dependents under the age of 17)
 - \$1,700 of the credit may be refundable
- \$500 credit for other dependents is now permanent
- Income threshold for credit phaseout remains at \$400,000 MAGI for MFJ filers and \$200,000 MAGI for single/MFS filers



Charitable Contributions — Non-Itemizers

- Previously, taxpayers who used the standard deduction were not allowed to deduct charitable contributions
- The OBBB allows taxpayers using the standard deduction to deduct up to \$1,000 of charity if filing single/MFS or \$2,000 if filing jointly
- This provision begins in the 2026 tax year and will not affect 2025 filers



Charitable Contributions — Itemizers

- For taxpayers that itemize their deductions, the charity deduction benefit has been reduced. There is now a limitation on charitable deductions calculated at .5% of adjusted gross income.
 - Taxpayers that have an adjusted gross income of \$200,000 and contribute \$10,000 in charitable deductions could previously deduct all \$10,000 of charitable deductions if they itemized. However, under the new law, \$1,000 of the charity will be disallowed ($.5\% \times \$200,000$) and the taxpayers can only deduct \$9,000 of the charity.



Charitable Contributions — Itemizers

- This limitation will not go into effect until 2026, so 2025 filers can still take full advantage of charitable giving this year.
- **Planning Tip:** This is a great opportunity to discuss charitable giving with your tax advisor. You can make a large contribution into a donor advised fund or foundation in 2025 to take advantage of a current year deduction but pay the charitable gifts over several years.



Tax Credit For Contributions Of Individuals To Scholarship Granting Organizations (SGOs)

- A new tax credit has been created under the OBBB which will allow taxpayers to receive a dollar-for-dollar credit (\$1 dollar paid = \$1 dollar reduction in tax) up to \$1,700 for cash contributions made to an SGO
- States may elect to participate in this program and identify and provide a list of eligible SGOs
- This credit goes into effect January 1, 2027
- There is still a lot of pending guidance on this matter



What Is A Scholarship Granting Organization (SGO)?

- An SGO is defined as an organization that meets the following requirements:
 - Falls within the requirements of IRC Section 501(c)(3) and be exempt from income tax under Section 501(a)
 - Not a private foundation
 - Maintains separate accounts and prevents comingling with qualified contributions
 - Provides scholarships to 10 or more eligible students who do not all attend the same school
 - Spends at least 90% of contributions on scholarships
 - Does not earmark scholarships for specific students
 - Located within the electing state and included in the list of eligible SGOs submitted by the state



Expansion Of 529 Plans

- Qualified higher educational expenses related to elementary and secondary schools now include the following expenses:
 - Curriculum and curriculum materials
 - Books and instructional materials
 - Online education materials
 - Tuition for certain tutoring or education classes outside of the home
 - Standardized achievement test fees
 - Certain educational therapies for students with disabilities



Expansion Of 529 Plans

- Additionally, the annual limit on cash distributions related to elementary and secondary schools increases from \$10,000 to \$20,000
- Expands qualified higher education expenses and now includes post-secondary credentialing expenses
 - Vocational school/training
 - CPA Exam and certification materials and expenses



Trump Accounts

- Account must be created before the beneficiary reaches 18
- The account is treated as a Traditional IRA
- **Pilot Program:** The federal government will contribute \$1,000 as a seed deposit for an eligible child born between 2025 and 2028, with an election
- Contributions limited to \$5,000 in 2026 (indexed for inflation)
 - Contributions are non-deductible up to the age of 18 and do not count towards other retirement plan limits (Roth IRA)
 - Contributions once the beneficiary reaches 18 will be subject to other retirement plan limitations
 - No contributions allowed until July 4, 2026
- Withdrawals are taxed as ordinary income



Estate & Gift Tax

- **Exemption increased:** The federal estate and gift tax exemption rises to \$15 million per individual (\$30 million for married couples) starting January 1, 2026
- **Permanent and indexed:** This new exemption level is permanent (no sunset) and will be adjusted annually for inflation, providing long-term certainty for planning
- **Generation-Skipping Transfer (GST) exemption:** Raised to match the \$15 million estate and gift exemption — enabling more tax-free wealth transfer to future generations

OBBB 2026	TCJA 2025	Pre-TCJA 2017
\$15,000,000 (indexed for inflation)	\$13,990,000	\$5,490,000



Changes To Gambling Losses

- Under previous tax law, taxpayers could deduct their gambling losses up to their winnings as an itemized deductions with no other limitation
- As of January 1, 2026 taxpayers can only deduct up to 90% of their gambling losses not to exceed their gambling winnings
- This will result in higher taxable gambling income and may result in taxable gambling income even if gambling losses exceed gambling income for the year
 - Example: A taxpayer that had \$100,000 in gambling winnings and \$100,000 in gambling losses can only deduct their losses up to 90% of their expenses. In this case, \$90,000. Even though the taxpayer netted zero income, they will still have taxable gambling income of \$10,000.



Extended Provisions — Permanently Extended/Eliminated

- TCJA tax brackets
- Personal exemptions eliminated
- Lower mortgage interest phase-out for itemized deductions
- Miscellaneous deductions for itemized deductions eliminated
 - Accounting fees, professional dues, etc.
- Higher standard deduction
- Increased AMT thresholds/phase outs remain



Clean Energy Incentives

- Expires 9/30/2025 instead of 12/31/2032
 - Clean vehicle credit
 - Previously-owned clean vehicle credit
 - Qualified commercial clean vehicle credit
- Expires 12/31/2025 instead of 12/31/2032
 - Energy efficient home improvements
 - Residential clean energy credit
- Expires 6/30/2026 instead of 12/31/2032
 - Alternative fuel vehicle refueling property credit
 - Energy efficient commercial building deduction
 - New energy efficient home credit
- Expires 9/30/2026
 - Sustainable aviation fuel credit
- Expires 1/1/2028
 - Clean hydrogen production credit



Qualified Business Income Deduction (QBI) Individuals & Business

- Deduction for individuals of 20% of “qualified business income”
 - Available to S-Corps, partnerships, LLCs and sole proprietors defined as Qualified Trade or Business (not available to C-Corps)
- This deduction was new with TCJA to help level the playing field for the significant tax cut the C-Corps received
- 20% deduction is made permanent (originally set to expire in 2025)





Qualified Business Income Deduction (QBI) Individuals & Business

- Income limits — increased starting 2025
 - **Married Filing Jointly:** Full deduction allowed if taxable income is up to \$394,600; the deduction phases out between \$394,600 and \$544,600
 - **Single or Other Filers:** Full deduction allowed if taxable income is up to \$197,300; the deduction phases out between \$197,300 and \$272,300
- Specified Services Trade or Business (SSTB)
- **New:** Starting 2026, a minimum deduction of \$400 (indexed for inflation) is allowed for any business activity with QBI activity of \$1,000 or more



Business Tax Topics

- Depreciation Updates
- 1099 Thresholds
- Deduction Limitations
- Advanced Manufacturing Credit
- Other Credits Extended
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- Qualified Small Business Stock Exclusion
- Opportunity Zone Changes



Depreciation Updates — Bonus

- 100% for placed in service after January 19, 2025
 - Permanent change — previously was limited to 40% for 2025
 - Taxpayers have the option to choose 40% in 2025

	<u>TCJA</u>	<u>OBDD</u>
2024	60%	N/A
2025	40%	100%
2026	20%	100%
2027 & later	0%	100%



Depreciation Updates — Bonus

- New property classification: Qualified Production Property (QPP)
 - Defined as any portion of nonresidential real property that meets the following conditions:
 - Manufacturing, producing or refining tangible personal property used as an integral part of a qualified production activity
 - Located in the U.S. or its territories
 - Original use begins with the taxpayer (or meets certain unused-acquisition rules)
 - Construction starts after January 19, 2025, and before January 1, 2029
 - Placed in service before January 1, 2031
- *TEMPORARILY* eligible for 100% bonus depreciation for structures like production floors, specialized lighting and plant infrastructure directly tied to production



Example — Bonus Depreciation

	TCJA 2025	OBBB 2025
Machine purchased Dec 2025	100,000	100,000
Bonus rate	40%	100%
Bonus depreciation exp	40,000	100,000
Income before depreciation (EBITDA)	150,000	150,000
Bonus depreciation exp	40,000	100,000
Taxable income	110,000	50,000



Depreciation Updates — Section 179

- Section 179 Depreciation
 - Another depreciation option that allows the full cost of qualifying assets in the year it was placed in service with some limitations
 - Qualifying assets examples:
 - Computer equipment, office furniture
 - Roofs, HVAC, alarm systems, qualified improvements (non-residential buildings only)
 - OBBB increased expense to \$2,500,000 and property threshold to \$4,000,000



Depreciation Updates — Section 179

	TCJA 2024	OBBB 2025
Maximum deduction	\$1,220,000	↑ \$2,500,000
Phase-out threshold	\$3,050,000	↑ \$4,000,000
Phase-out range	\$3,050,000 to \$4,270,000	\$4,000,000 to \$6,500,000
Phase-out rate	\$1 for every \$1 over threshold	\$1 for every \$1 over threshold



Example — Section 179

	TCJA 2024	OBBA 2025
Total qualified property purchased	\$4,000,000	\$4,000,000
Phase-out threshold	\$3,050,000	\$4,000,000
Deduction reduced for phase out	\$950,000	\$ 0
Max deduction before phase out	\$1,220,000	\$2,500,000
Max deduction after phase out	\$270,000	\$2,500,000



1099 Reporting Requirements

- 1099-NEC/MISC filing threshold increase to \$2,000 starting 2026
 - Note for 2025 it will still be \$600
- 1099-K reporting threshold will increase to \$20,000 on more than 200 transactions



Deduction Limitations

- Business Meals Changes starting 2026
 - Employer-provided meals that are furnished on the employer's business premises for the convenience of the employer (such as meals in cafeterias, overtime meals, on-call staff meals) will no longer be deductible starting in 2026
 - Traditional business meals provided to clients or business contacts remain 50% deductible if properly substantiated and meet conditions like the taxpayer or employee being present, and the meal not being lavish or extravagant
 - Some meals are 100% deductible, such as company holiday parties, food/drink offered free to the public and meals included as employee compensation
 - **New:** Businesses can claim a deduction for meals if the meal is included as taxable compensation on the employee's W-2 — the W-2 reporting requirements will mandate separate tracking and reporting of non-deductible meal expenses by employers



Deduction Limitations

- Entertainment remains the same as nondeductible
- **Key takeaway:** These deductions are a maze to navigate sometimes, and exceptions exist but require careful consideration and documentations. Take the time now to review these changes and how to implement proper tracking or policy updates at your business.



Meals & Entertainment — Summary

Meal Type	2025 Deduction	2026 Deduction	Example
Meals provided on business premises for employer convenience	50%	0%	Lunch provided in employer-operated cafeteria or meals for on-call staff at hospital
Business meals with clients involving business discussion	50%	50%	Lunch meeting with prospective clients to discuss contracts
Meals on vessels, oil/gas platforms, drilling rigs	50%	50%	Meals provided to crew on oil rig working remotely
Company holiday party meals for all employees	100%	100%	Food and drinks at annual holiday party
Meals reimbursed under accountable plans or treated as compensation	N/A	Deductible	Meals included as employee wages and reported accordingly
Entertainment	0%	0%	Taking a client to a Ravens game



Deduction Limitations

- Charitable contributions — C corporations only
 - Only charitable contributions in excess of 1% of the corporation's adjusted taxable income (ATI) are deductible for tax years beginning after December 31, 2025
 - 10% limitation — max allowed deduction cap remains 10% of ATI
 - The disallowed amount under the 1% floor may be carried only if the corporation's charitable contributions exceed the 10% limit



Deduction Limitations

Example — Charitable Contribution for C corporation:

- Adjusted taxable income: \$1,000,000
- Floor at 1%: \$10,000
- Max deduction at 10%: \$100,000

Charitable Donations	Deductible Amount	Carryforward Allowed
\$15,000 (1.5%)	\$5,000 (excess over 1%)	\$0 below 10% limit
\$120,000 (12%)	\$100,000 (10% limit)	\$20,000 carryforward



Advanced Manufacturing Production Credit

- Increased credit rate from 25% to 35% for property placed in service after December 31, 2025
- Eligible property must meet the following criteria:
 - Tangible property used in the manufacturing of semiconductors or semiconductor manufacturing equipment
 - Includes buildings and structural components that are integral to the manufacturing process
 - Original use commences with the taxpayer
 - Located in the U.S.
 - Depreciable asset
- Construction must begin before December 31, 2026



Other Credits — Extended

- Paid family leave credit
- Employer-provided childcare credit
- New market credit
- Work opportunity tax credit



Business Interest Expense Limitation

- The 30% cap on deductible business interest (IRC §163(j)) now uses EBITDA instead of EBIT when calculating adjusted taxable income
- Businesses can add back depreciation, amortization and depletion when computing their ATI
- Benefits Industry
 - This reversal favors capital-intensive businesses
 - Manufacturers and distributors with substantial depreciation expenses (e.g., from machinery or fleet purchases) will once again enjoy increased interest deductibility — lowering effective borrowing costs and incentivizing reinvestment



Percentage Of Completion Method

- Expanded exemption from Percentage of Completion Method (PCM)
 - Residential construction contracts (including multifamily projects) entered into after 2025 can now use any permissible accounting method for income recognition, offering greater flexibility
- **Impact:** May improve cash flow by delaying income recognition and simplifying accounting for contractors and developers working on residential construction projects



Research & Development Expense

- Allows immediate deduction for domestic research and experimental expenses beginning in 2025
- Previously required to capitalize and amortize over five years starting in 2022
 - Small businesses (\$31 million or less average gross receipts) may apply deduction retroactively for tax years beginning after December 31, 2021
 - All taxpayers with remaining amortized expenses from tax years 2022 through 2024 have the option to deduct the total expense over a 1- or 2-year period
- No change to foreign research costs and are still required to be amortized over 15 years



Qualified Small Business Stock Exclusion

- Expansion of Qualified Small Business Stock Gain exclusion for sale of C corporation stock — eligible for stock issued after July 4, 2025 (previous QSBS rules still apply to stock issued prior)
- Stock is eligible if it was originally issued by a company with less than \$75 million in gross assets
 - The gain exclusion is calculated as a greater of \$15 million or 10x basis in stock, whichever is greater
 - Partial gain exclusion granted:
 - Three years — 50%
 - Four years — 75%
 - Five years or more — 100%



Qualified Small Business Stock Exclusion

- Previous rules only allowed \$10 million exclusion or 10x basis and had a gross asset threshold of \$50 million
 - Additionally, there was no phase-in (five years or nothing)
 - Pre-July 4, 2025, stock still subject to old rules
- Stock is no longer considered “QSBS” the moment it hits \$75 million in gross assets, does not requalify if the value falls under the threshold in the future



Qualified Opportunity Zones (QOZs)

- Goal of QOZs are to encourage investment in low-income areas by creating tax incentives
- **Tax Incentives**
 - Temporary tax deferral
 - Step-up in basis of original investment
 - If held for at least five years, there is a 10% increase (so only 90% of deferred gain taxed)
 - If held for at least 10 years, there is no tax on post-investment deferred gains



Qualified Opportunity Zones (QOZs)

- Extended and created rolling designations — every 10 years qualified areas will be reviewed, and new designated qualified areas will be selected by state governors
- Opportunity zone designations starting January 1, 2027
- Stricter criteria have been established to define what qualifies as an income community



Q&A

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