YEAR END TAX PLANNING

JJ THE CPA®

JOSHUA JENSON, CPA

YouTube

CPA Firm Founder
32 Years Practicing CPA
National Speaker
Tax & CPE Instructor
2x Author & YouTuber

JOSHUA JENSON, CPA aka JJ THE CPA®

Joshua has over 33 years of public accounting experience in the field of tax, specializing in LLCs, partnerships, S corporations, and related individual tax matters. He continues to actively practice in the tax industry through the CPA firm he founded 28 years ago.

JJ has traveled extensively throughout the United States, presenting tax courses to thousands of fellow CPAs, covering the latest tax laws and strategies, and delivering virtual tax seminars to CPAs, Enrolled Agents, and tax professionals nationwide.

The U.S. Chamber of Commerce named him one of the top 10 Small Business Experts to follow on social media. He has appeared on local as well as national news programs for the last 20 years, becoming a regular guest during tax season on several local and national radio programs.

JJ the CPA has over 102,000 SUBSCRIBERS and over 8 million views on his YouTube channel "JJ THE CPA," and has authored 2 books available on Amazon.

Joshua Jenson is a licensed CPA in Oklahoma and Texas, and a member of the American Institute of CPAs, the Oklahoma Society of CPAs, as well as the Oklahoma City Chapter of the OSCPAs. JJ serves on the Tax Committee for the Oklahoma Society of CPAs and has served as the past Chairperson of the OSCPA Educational Foundation. Joshua is a 1993 graduate of Abilene Christian University, where he earned a degree in accounting.

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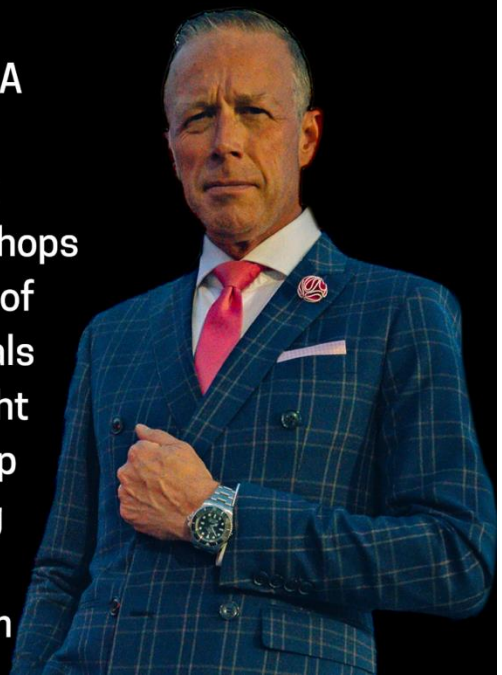

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OVERVIEW

This course covers updates impacting individuals and small businesses, including the One Big Beautiful Bill Act (OBBBA), which is the most significant tax legislation in years, permanently changing and introducing key tax code provisions, including SALT cap changes, PTET, no tax on tips or overtime, senior tax deduction, charitable contributions, car loan interest deduction, and so much more. We will cover examples, planning strategies, and client considerations to apply immediately.

LEARNING OBJECTIVES

- Identify and learn about key tax provisions affecting individuals and businesses.

- Learn what laws have changed with the enactment of OBBBA.

- Apply updated deduction limits and planning strategies.

- Learn to better understand recent Federal tax law changes of these topics and how they may apply to you or your client's circumstances.

- Learn more about these topics better to serve your clients with expanded and up-to-date information

ACRONYMS

- AGI – Adjusted Gross Income
- AMT – Alternative Minimum Tax
- CTC – Child Tax Credit
- ERC – Employee Retention Credit
- EITC – Earned Income Tax Credit
- HSA – Health Savings Account
- IRS – Internal Revenue Service
- MAGI – Modified Adjusted Gross Income
- MFJ – Married Filing Jointly
- OBBBA – One Big Beautiful Bill Act
- PTET – Pass Through Entity Election

ACRONYMS

- QBI – Qualified Business Income
- QBID – Qualified Business Income Deduction (Section 199A)
- SALT – State and Local Taxes
- SEC. 179 – Section 179 Depreciation
- SSTB – Specific Service Trade or Business
  - Refers to a trade or business that falls into specific categories of services, or where its primary asset is the reputation or skill of its owners or employees (Health, Legal, Accounting, etc.)
- TCJA – Tax Cuts and Jobs Act

- Above the Line – Deduction to Calculate at AGI
- Below the Line – Deduction Taken After AGI Calculated

MAJOR TOPICS

- OBBBA Timeline of Effective Dates
- Permanent vs. Temporary Provisions Summary
- OBBBA Form 1040 Road Map
- Individual Provisions
- Clean Energy Expiring Provisions
- Car Loan Interest
- No Tax on Tips
- No Tax on Overtime
- Business Provisions
- Employee Retention Credit
- Qualified Business Income Deduction
- Bonus Depreciation
- Section 179

REMINDER

RENEW YOUR PTIN

REMINDER

UPDATE YOUR WISP

WRITTEN INFORMATION SECURITY PLAN

STATE OF THE IRS

HOW MANY EMPLOYEES AT THE IRS

That TIGTA reports the IRS has undergone a quarter-of-its-workforce reduction. Here's the key breakdown.

Total workforce drop:

- From 103,000 to 77,428 employees as of May 2025
- 25% decrease

Departures include voluntary early retirements, deferred resignations, and involuntary separations. reduction-in-force (RIF) layoffs were nearly 300 staffers.

1,400 IRS EIMPLOYEES RECEIVE LAYOFF NOTICES

The IRS sent layoff notices to 1,399 employees.

According to court documents, reduction-in-force notices were sent to:

- 527 staffers in exam and collections (29,380 employees)
- 489 staffers in information services (7,211 employees)
- 297 staffers in shared services and support (5,258 employees)

HOW MANY EMPLOYEES AT THE IRS

Divisions Most Affected

- IT Business Unit: Down 25% (now just over 2,100 employees)
- IT management roles across agency: Down 23%
- Small Business/Self-Employed Division: Down 35%
- Human Capital: Down 28%
- Tax Exempt & Government Entities: Down 25%.
- Taxpayer Services: Down 20%
- Large Business & International: Down 19%

IRS COMMISSIONER

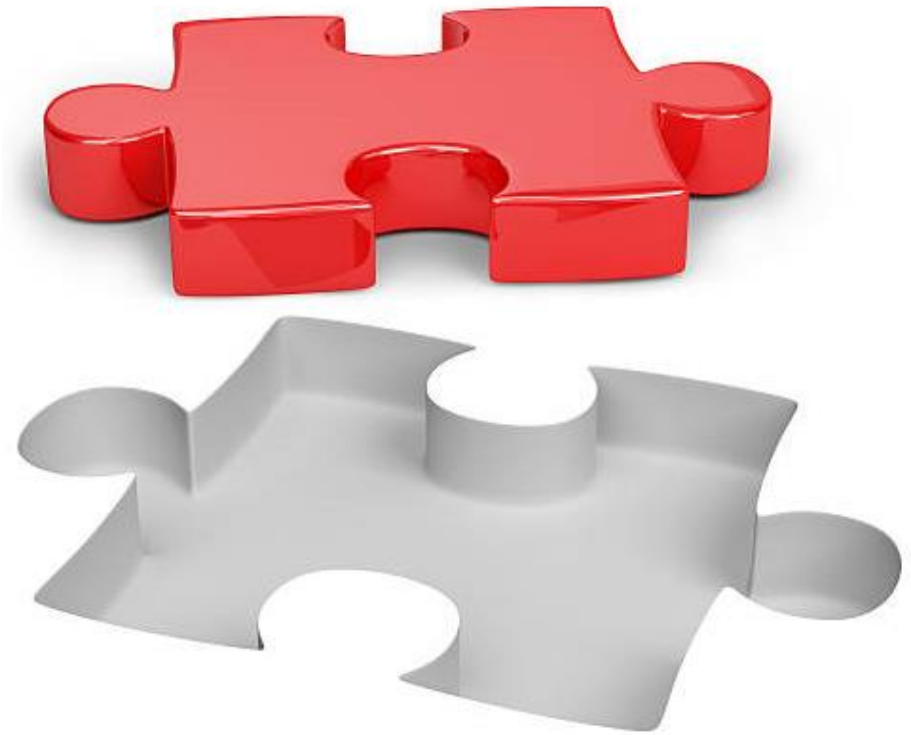
Treasury Secretary Scott Bessent has stepped in as Acting IRS Commissioner while the administration considers potential replacements.

IRS: PAPER CHECKS PHASED OUT

The IRS, working with the U.S. Department of the Treasury, today announced that paper tax refund checks for individual taxpayers will be phased out beginning on September 30, 2025, as required by Executive Order 14247, to the extent permitted by law. This marks the first step of the broader transition to electronic payments.

The IRS will publish detailed guidance for 2025 tax returns before the 2026 filing season begins.

One Big Beautiful Bill Act: Tax Law Changes



Individual OBBBA Timeline


ROLEX
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One Big Beautiful Bill Act (OBBBA)

With the One Big Beautiful Bill Act (OBBBA) now signed into law, CPAs are no longer watching from the sidelines, as many provisions are effective retroactively and will impact the 2026 tax season. This is not a theoretical shift. It is a comprehensive rewriting of significant provisions of the tax code, with permanent changes, strategic deadlines, and a wide-open window for initiative-taking planning.

OBBBA Timeline: Permanent January 1, 2025

Tax year 2025: Individual Permanent

Terminates personal exemptions

Increases the standard deduction

$2,200 child tax credit per child, with $1,700 refundable, adjusted for inflation

$5,000 of the adoption credit becomes refundable, indexed for inflation

Exclusion from income for student loan debt discharged due to death or disability

OBBBA Timeline: Permanent January 1, 2025

Tax year 2025: Individual Permanent

Permanently extends exclusion from income of up to $5,250 annually for student loan payments made under an employer's borrower assistance program

Extends the 529A ABLE account rules, allowing contributions up to the current gift exclusion limit *plus* the beneficiary's compensation up to the Federal poverty line

The federal government funds $1,000 into a “Trump account” for all U.S. citizens born in 2025, 2026, 2027, and 2028.

OBBBA Timeline: New Provisions to Expire

Effective 2025 tax year, but expires December 31, 2028

Up to $25,000 deduction for cash tips, per return, subject to phase-outs

- If married, requires MFJ. MFS gets zero deduction.

Up to $10,000 deduction for auto interest on new cars

- Assembled in the US, subject to phase-outs
- Debt on the vehicle acquired after December 31, 2024

OBBBA Timeline: New Provisions to Expire

Effective 2025 tax year, but expires December 31, 2028

Up to $12,500 deduction on overtime pay, per person, subject to phase-outs

- Up to $25,000 MFJ
- If married, requires MFJ. MFS gets zero deduction.

$6,000 deduction for seniors aged 65 or older, subject to phase-outs

- Up to $12,000 MFJ if both spouses qualify
- If married, requires MFJ. MFS gets zero deduction.

OBBBA Timeline: Provisions with Limited Time

SALT $40,000 (adjusted for inflation after 2025) deduction limitation
- Subject to phase-out but not below $10,000;
- Reverts back to $10,000 maximum deduction in 2030 and later

Deduction of unamortized pre-2025 domestic R&E
- In 2025 or ratably over the two tax years beginning with the 2025 tax year

Energy-efficient home improvement and residential clean energy credits end
- Expenditures to be made before December 31, 2025

OBBBA Timeline: Specific Effective Dates

July 4, 2025

- Expansion of 529 plan distributions begins
  - Distributions can include certain post-secondary credentialing and increase the qualified K-12 limit to $20,000

- The OBBBA extends the rules from the Federal Disaster Relief Act of 2023 to disasters occurring on or before July 4, 2025, and that are declared within 60 days of July 4, 2025.

OBBBA Timeline: Specific Effective Dates

July 4, 2025

Youth Empowerment Account, aka the "Trump Account"

- Contributions are allowed starting July 4, 2026, by parents, relatives, or others up to $5,000 annually ($2,500 for employers), indexed for inflation.
- Contributions are not deductible, do not require the child to have earned income, and do not count toward IRA or workplace plan limits.
- Earnings will grow tax-free until the child reaches 18, at which time the funds can be withdrawn without restriction.
- These accounts must be held by a financial institution and invested in a qualified index fund.

OBBBA Timeline: Specific Effective Dates

September 30, 2025

- Clean vehicle credits end
  - $7,500 New clean vehicle
  - $4,000 Used clean vehicle credits end
  - Vehicles required to be acquired by September 30, 2025

OBBBA Timeline: Specific Effective Dates

December 31, 2025

- Energy-efficient home improvement credit ends
  - Up to $1,200 toward the cost of energy-efficiency improvements (e.g., windows, doors, insulation, or heating and cooling equipment, and home energy audits)

- Residential clean energy credit ends
  - Up to 30% of the cost of purchasing or installing solar panels, wind power, geothermal heat pumps, or fuel cell equipment

OBBBA Timeline: Permanent January 1, 2026

Tax year 2026: Individual Permanent

Individual income tax rates remain lowered as under TCJA (37% top rate).

Terminates miscellaneous itemized deductions subject to 2% AGI threshold (other than unreimbursed educator expenses).

New overall limitation on itemized deductions (2/37)

AMT higher exemption and phase-out thresholds

OBBBA Timeline: Permanent January 1, 2026

Tax year 2026: Individual Permanent

$1,000 ($2,000 MFJ) below-the-line charitable deduction for cash donations

.5% (half of 1%) floor on individual charitable deduction only when itemizing

Only 90% of wagering losses allowed

Estates and gift tax exemption to $15,000,000 (indexed for inflation in 2027)

OBBBA Timeline: Permanent January 1, 2026

Tax year 2026: Individual Permanent

Sec. 199A 20% deduction with changes in phase-ins and wider "window"

$500 other dependent credit allowed

Casualty loss deduction has been expanded to include state-declared disasters

Excess business loss limitation is permanent with a threshold reset to $250,000 (single) and $500,000 (MFJ)

OBBBA Timeline: Permanent January 1, 2026

Tax year 2026: Individual Permanent

The Saver's Credit is extended to ABLE account contributions

Permanently extends the provision allowing tax-free rollovers from 529 plans to 529A ABLE accounts

Increases the applicable percentage of care expenses used to calculate the Child and Dependent Care Credit

OBBBA Timeline: Future Effective Dates

June 30, 2026

- Clean credits end
  - Alternative fuel vehicle refueling property credit
  - New energy-efficient home credits

OBBBA Timeline: Future Effective Dates

January 1, 2027

- New Opportunity Zone (OZ) designations
  - Rolling 10-year OZ designation starting in 2027
  - New investments qualify for benefits

- Charitable Contributions Funding K–12 State Scholarships
  - Creates a tax credit of up to $1,700 for contributions to charitable organizations that fund K–12 scholarships within their state

- Annual inflation adjustment begins for the already permanently extended exclusion from income of up to $5,250 annually for student loan payments made under an employer's borrower assistance program

Business OBBBA Timeline


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One Big Beautiful Bill Act (OBBBA)

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OBBBA Timeline: ERC Retroactive Provisions

Pre-2025 and retroactive provisions

July 1, 2021 (3rd Quarter & 4th Quarter 2021)

No ERC credit/refund allowed for the last two quarters of 2021

- Unless claims were filed by January 31, 2024
- If the claim was paid already, it does not need to be repaid
- Extension of the statute of limitations on assessment
  - 6-year period for assessment of ERC-related amounts, generally from when the ERC claim was filed
  - 6-year period to amend income tax return for wages not properly accounted for, generally from when the ERC claim was filed

OBBBA Timeline: R&E Retroactive Provisions

Pre-2025 and retroactive provisions

January 1, 2022

Section 174, research and experimentation (R&E) 2022 - 2024

- Retroactive election for small businesses to expense unamortized amounts
- Election must be made within one year from July 4, 2025
- Amended returns must be filed for each affected year

OBBBA Timeline: Permanent January 1, 2025

Tax year 2025: Business Permanent

100% bonus depreciation for qualifying property “acquired after January 19, 2025”

1099-K reporting threshold restores the $20,000 and 200 transaction threshold

Sec. 179 expensing at higher 2.5 million and 4 million phase-out formula start

Full expensing of domestic R&E (new Sec.174A)

Modification of business interest deduction limitation: EBITDA add back

OBBBA Timeline: New Provisions to Expire

Effective 2025 tax year, but expires December 31, 2028

EMPLOYERS MUST TRACK & REPORT

Up to $25,000 deduction for cash tips

Up to $12,500 deduction on overtime pay

OBBBA Timeline: Specific Effective Dates

July 4, 2025

- Qualified Small Business Stock (QSBS)
  - For QSBS acquired after July 4, 2025, increases the maximum 1202 capital gain exclusion from $10 million to $15 million
  - Excludes gain from QSBS acquired after July 4, 2025, as follows:
    - 50% exclusion if held between 3 and 4 years
    - 75% if held between 4 and 5 years
    - 100% if held for 5 years or more

OBBBA Timeline: Specific Effective Dates

September 30, 2025

- Clean vehicle credits end
  - $40,000 Commercial clean vehicle
  - Vehicles required to be acquired by September 30, 2025

OBBBA Timeline: Permanent January 1, 2026

Tax year 2026: Business Permanent

- 1099-NEC & 1099-MISC reporting threshold increased to $2,000
  - Will be adjusted for inflation in 2027
- New markets/low-income housing credits
- 1% floor on corporate charitable deduction

OBBBA Timeline: Future Effective Dates

June 30, 2026

- Clean credits end
  - Alternative fuel vehicle refueling property credit
  - Energy-efficient commercial buildings deduction
    - Expenditures to be made by June 30, 2026, for all the above

OBBBA Timeline: Future Effective Dates

December 31, 2027

Clean electricity production and clean electricity investment credits for wind and solar facilities end.

- Expenditures to be made by Dec. 31, 2027.

December 31, 2032

Clean electricity production and clean electricity investment credits for all other facilities end.

- Expenditures to be made by Dec. 31, 2032.

OBBBA INDIVIDUAL PROVISIONS

TAX RATES

The current tax rates are permanently extended, with one extra year of inflation adjustments to determine the dollar amounts at which any rate bracket

- higher than 12% ends and
- at which any rate bracket higher than 22% begins

2026 SINGLE FILER TAX BRACKETS: TCJA VS. OBBBA

Estimated Tax Brackets: TCJA (No Additional Inflation Adjustment) vs. OBBBA (With Extra Adjustment for 10% & 12% Brackets)

Bracket	TCJA Start	TCJA End	OBBBA Start	OBBBA End
10%	$0	$12,116	$0	$12,341
12%	$12,116	$49,225	$12,341	$50,142
22%	$49,225	$104,938	$50,142	$104,938
24%	$104,938	$200,335	$104,938	$200,335
32%	$200,335	$254,394	$200,335	$254,394
35%	$254,394	$635,985	$254,394	$635,985
37%	$635,985	—	$635,985	—

2026 HEAD OF HOUSEHOLD TAX BRACKETS: TCJA VS. OBBBA

Estimated Tax Brackets: TCJA (No Additional Inflation Adjustment) vs. OBBBA (With Extra Adjustment for 10% & 12% Brackets)

Bracket	TCJA Start	TCJA End	OBBBA Start	OBBBA End
10%	$0	$17,299	$0	$17,621
12%	$17,299	$65,888	$17,621	$67,115
22%	$65,888	$104,938	$67,115	$104,938
24%	$104,938	$200,335	$104,938	$200,335
32%	$200,335	$254,394	$200,335	$254,394
35%	$254,394	$635,985	$254,394	$635,985
37%	$635,985	—	$635,985	—

2026 MARRIED FILING JOINTLY TAX BRACKETS: TCJA VS. OBBBA

Estimated Tax Brackets: TCJA (No Additional Inflation Adjustment) vs. OBBBA (With Extra Adjustment for 10% & 12% Brackets)

Bracket	TCJA Start	TCJA End	OBBBA Start	OBBBA End
10%	$0	$24,231	$0	$24,682
12%	$24,231	$98,450	$24,682	$100,284
22%	$98,450	$209,875	$100,284	$209,875
24%	$209,875	$400,671	$209,875	$400,671
32%	$400,671	$508,788	$400,671	$508,788
35%	$508,788	$763,182	$508,788	$763,182
37%	$763,182	—	$763,182	—

STANDARD DEDUCTION INCREASES

Standard Deduction: The higher standard deduction is permanently locked, indexed for inflation, and rises for 2025

	2025 (TCJA)	2025 (OBBBA)
Single	$15,000	$15,750
Head of Household	$22,500	$23,625
Married Filing Jointly	$30,000	$31,500

Personal exemptions: The personal exemption is set to zero permanently.

SALT DEDUCTION CAP INCREASE

The long-awaited adjustment to the state and local tax (SALT) deduction cap is now in effect.

Beginning in 2025, the cap increases to $40,000

- Not per taxpayer, per return
- Except for Married Filing Separately (MFS), which is $20,000
- Increases 1% each year through 2029

Beginning in 2030, this deduction reverts to a maximum of $10,000.

SALT DEDUCTION PHASE-DOWN (2025-2029)

Deduction has a phase-down down begins at $500,000 MAGI

- Deduction is reduced by 30% of MAGI over the threshold
- Phaseout maximum at $600,000 MAGI in 2025
- Minimum deduction remains $10,000

- The $500,000 threshold is the same for all filing statuses
- Except MFJ, which is 50% of the threshold or $250,000 in 2025

- The annual cap and threshold increase 1% each year after 2025

SALT DEDUCTION DEDUCTION LIMITS UNDER OBBBA

Year	Maximum SALT Deduction	MAGI Phase-Down Range
2025	$40,000	$500,000 – $600,000
2026	$40,400	$505,000 – $606,333
2027	$40,804	$510,050 – $612,730
2028	$41,212	$515,151 – $619,191
2029	$41,624	$520,302 – $625,716
2030 & beyond	$10,000	Not Applicable

Note: Phasedown threshold is the same for all filing statuses (except MFJ, which is 50% of the threshold

SALT DEDUCTION EXAMPLE

Sandy | Filing Status: Single | MAGI: $550,000
Itemized Deductions: SALT: $40,000 | Mortgage Interest: $20,000 | Charitable: $10,000

Step-by-Step Analysis:
- Sandy is at the start of the SALT deduction phaseout.
- Under OBBBA, 30% of every dollar over $500,000 MAGI reduces her SALT deduction.
- That means each additional $1 earned reduces her SALT deduction by $0.30.
- So, every $1 of income increases taxable income by $1.30.
- In the 35% tax bracket, that makes her effective marginal tax rate 1.3 × 35% = 45.5%.
- Also applied is the .5% floor for charitable contributions

Key Insight:
Taxpayers within the $500,000–$600,000 MAGI range with large SALT payments and other deductions may face a stealth tax hike — higher effective marginal rates due to phasedown mechanics.

SALT & ITEMIZED DEDUCTION CALCULATION

Step-by-Step Calculation Sandy | Filing Status: Single | MAGI: $550,000
Itemized Deductions: SALT: $40,000 | Mortgage Interest: $20,000 | Charitable: $10,000

SALT Deduction Phaseout

- Excess MAGI = $550,000 – $500,000 = $50,000
- Reduction = 30% × $50,000 = $15,000
- SALT Deduction = $40,000 – $15,000 = $25,000

Charitable Contribution Adjustment

- Floor = 0.5% × $550,000 = $2,750
- Charitable deduction = $10,000 – $2,750 = $7,250

Allowed Amount of Each Itemized Deduction

- SALT: $25,000
- Mortgage Interest: $20,000
- Charitable: $7,250

Total Allowed Itemized Deductions = $52,250

PTET WORKAROUND SURVIVES

The OBBBA preserved the federal deduction for pass-through entity taxes (PTETs)

- Zero limitations: No cap, no phase-out, and no exclusions.
- Keeps PTET as a strategic SALT workaround
- Re-evaluate whether PTET elections maximize benefits for pass-through owners under the new deduction landscape, while keeping in mind

CASUALTY LOSS DEDUCTIONS

Starting in 2026

Casualty Loss Deductions are made permanent, limited to personal casualty losses resulting from federally declared disasters, with expanded eligibility to include certain state-declared disasters certified by the IRS.

The OBBBA extends the rules from the Federal Disaster Relief Act of 2023 to disasters occurring on or before July 4, 2025, and that are declared within 60 days of July 4, 2025.

Federally declared disaster during that timeframe can result in a deduction of the losses (potentially above $500) that do NOT have to exceed 10% of AGI and may be claimed as a disaster loss as an additional standard deduction instead of as an itemized deduction.

2% OF AGI MISCELLANEOUS ITEMIZED DEDUCTIONS

2% of AGI Miscellaneous Itemized Deductions

- The suspension of miscellaneous itemized deductions is now permanent.

EDUCATOR EXPENSE: ITEMIZED DEDUCTIONS

Starting in 2026, unreimbursed educator expenses will no longer be included in miscellaneous itemized deductions and will be subject to a 2% limit.

- The $300 deduction cap per educator is removed.
- This expense will be classified only as a miscellaneous itemized deduction.
- No longer an above-the-line deduction.
- As a result, educators will need to itemize to take advantage of this deduction.
- An educator is an individual who is (for at least 900 hours during the school year) a K-12 teacher, instructor, counselor, principal, school aide, interscholastic sports administrator, or coach.

ITEMIZED DEDUCTIONS LIMITATION

Starting in 2026: Itemized Deductions Limitation

The Pease limitation was repealed, and a new formula-based itemized deductions limitation was introduced.

Itemized deductions for taxpayers exceeding the 37% bracket threshold will be reduced by 2/37 of the lesser of

(1) total itemized deductions or

(2) taxable income exceeding the 37% bracket threshold

Taxpayers in the 35% bracket or below are unaffected.

37% TAX BRACKET + ITEMIZED DEDUCTIONS

The purpose of the limitation is to curb the value of itemized deductions for top-bracket taxpayers, who receive a larger tax benefit per dollar deducted compared to lower-income filers.

Under current law (2025), someone in the 37% tax bracket saves 37 cents in tax for every $1 of deductions.

In 2026, OBBBA reduces overall allowable deductions by 2/37, effectively lowering the benefit from 37% to 35%—a way to preserve the deduction while capping its advantage for high earners starting in 2026.

OBBBA specifies that the new itemized deduction limitation does **not apply** when calculating the QBI deduction under Section 199A.

EXAMPLE: ITEMIZED DEDUCTIONS LIMITATION

Example: James and Kim, a married couple filing jointly, have $1 million in AGI and $200,000 in itemized deductions, resulting in $800,000 of taxable income. This puts them in the 37% marginal tax bracket. Under current law (2025), James and Kim can fully deduct their itemized deductions, saving $200,000 × 37% = $74,000 in tax.

Starting in 2026, their itemized deductions would be reduced by 2/37 of the lesser of:

- Their total itemized deductions ($200,000), or
- The amount by which their taxable income ($800,000) plus itemized deductions ($200,000) exceeds the 37% bracket threshold ($751,600), or ($800,000 + $200,000) – $751,600 = $248,400.

EXAMPLE: ITEMIZED DEDUCTIONS LIMITATION

Example: James and Kim (Continued)

Since $200,000 is the lesser amount, their allowable deductions are reduced by 2/37 × $200,000 = $10,811.

This results in their total allowable itemized deductions equaling $200,000 – $10,811 = $189,189.

The tax savings from these deductions under the new law would be $189,189 × 37% = $70,000, equivalent to 35% of their total itemized deductions.

NOTE: For QBID purposes, $200,000 of itemized deductions will be used to determine taxable income for Section 199A purposes, which lowers taxable income.

OPPORTUNITY ZONES

The OBBBA does not change the taxability of gains deferred under the Tax Cut and Jobs Act's (TCJA) Opportunity Zone (OZ) program.

This means that eligible gains invested on or before December 31, 2026, are deferred only to December 31, 2026.

Here's how Opportunity Zones will function in and beyond 2027:

- Permanent program with rolling designations: The OBBBA made the OZ program permanent, eliminating the prior December 31, 2026, sunset date for new investments. States will now designate new OZs every 10 years, with the first redesignation taking effect on January 1, 2027.

2027 & AFTER OPPORTUNITY ZONES

• Rolling deferral: For capital gains invested into Qualified Opportunity Funds (QOFs) after December 31, 2026, the deferral period is now five years from the date of the investment, regardless of when it's made.

• Basis step-up: Investors will receive a 10% basis step-up on the deferred gain after holding their investment in a QOF for five years.

• Tax-free gains after 10 years: Gains on OZ investments held for more than 10 years remain entirely tax-free.

2027 & AFTER OPPORTUNITY ZONES

• New criteria for designation: The criteria for designating new Opportunity Zones are stricter than the original program. The low-income community threshold has been lowered, and the exception allowing non-low-income contiguous tracts is eliminated.

• Focus on rural areas: The OBBBA introduces Qualified Rural Opportunity Zones (QROZs) with enhanced incentives to encourage investment in rural communities. Investments in QROZs may receive a 30% reduction in taxable gain after five years, compared to 10% for urban zones.

• Stricter reporting requirements: The OBBBA includes new oversight and reporting requirements for Qualified Opportunity Funds to track the impact of investments on local communities and ensure accountability.

IRS PROVIDES GUIDANCE ON OPPORTUNITY ZONES

The IRS issued guidance on Qualified Opportunity Zone investments in rural areas as provided for under the OBBBA.

Notice 2025-50 provides clarification on two important OBBBA provisions: the definition of “rural area” and the application of the substantial improvement threshold for certain improvements to property located in a QOZ that is comprised entirely of a rural area.

IRS PROVIDES GUIDANCE ON OPPORTUNITY ZONES

•Under the new law, a rural area means any area other than a city or town with a population greater than 50,000, and any urbanized area contiguous and adjacent to a city or town with a population greater than 50,000. This definition applies to States, the District of Columbia and U.S. territories.

•The OBBBA modified the substantial improvement threshold for improvements to property located in a QOZ that is comprised entirely of a rural area. As of July 4, 2025, the substantial improvement threshold for required additions to the basis for property located in these QOZs was reduced from 100 percent to 50 percent.

IRS PROVIDES GUIDANCE ON OPPORTUNITY ZONES

These changes are intended to offer enhanced QOZ tax incentives for investing in underserved rural areas and to address the unique challenges of rural development.

There are currently 8,764 QOZs in the United States, many of which have experienced a lack of investment for decades. The IRS identifies 3,309 of those QOZs as comprised entirely of a rural area. A list of all current, designated QOZs is found in Notice 2018-48.

QUALIFIED SMALL BUSINESS STOCK (QSBS)

Qualified Small Business Stock (QSBS)

- For QSBS acquired after July 4, 2025, increases the maximum 1202 capital gain exclusion from $10 million to $15 million

- Excludes gain from QSBS acquired after July 4, 2025 as follows:
  - 50% exclusion if held between 3 and 4 years
  - 75% if held between 4 and 5 years
  - 100% if held for 5 years or more

QSBS (SEC. 1202) VS. SBS (SEC. 1244)

The OBBBA affects QSBS (Sec. 1202), not Small Business Stock (SBS - Sec. 1244).

Feature	Section 1202 Stock	Section 1244 Stock
Type of Benefit	Exclusion of capital gains	Ordinary loss deduction
Eligibility	C corporation stock, acquired at original issuance	Small business corporation stock, acquired at original issuance
Holding Period	More than 5 years	No minimum holding period
Benefit Limit	Up to $15M (50% 3-4 years; 75% 4-5 years; & 100% if held 5 years or more	Ordinary loss up to $50K/$100K (S/MFJ); above are capital losses
Entity Type	C Corporations only	C or S Corporations
Asset Size Cap	$50M	$1M total capital contributions
Uses	Long-term investment	Downside protection on failed stock

EXCESS BUSINESS LOSSES

The OBBBA makes permanent an unfavorable provision that disallows excess business losses incurred by noncorporate taxpayers.

It resets the amount to $250,000 (single) or $500,000 (joint) starting in 2026, with inflation adjustments thereafter.

HSA CONTRIBUTIONS

OBBBA expands the definition of a High Deductible Health Plan (HDHP)—a key requirement for Health Savings Account (HSA) eligibility.

Under the new law, all “Bronze” and “Catastrophic” plans available through federal or state Affordable Care Act (ACA) exchanges now qualify as HDHPs. This is a significant change, as not all of these plans previously met the HSA-eligible criteria due to failing to meet both the minimum deductible and the maximum out-of-pocket limit.

OBBBA clarifies that individuals enrolled in direct primary care arrangements remain eligible for HSAs.

These arrangements involve a fixed monthly or annual payment to a primary care provider—capped at $150 per month for individuals or $300 per month for family coverage—in exchange for access to routine primary care services. The provision resolves prior uncertainty by confirming that such arrangements are not considered disqualifying coverage for HSA purposes.

MOVING EXPENSES

Moving Expenses

The new law permanently eliminates the moving expense deduction, with exceptions only for members of the armed forces and certain members of the intelligence community.

DEPENDENT CARE CREDIT PROVISIONS

2026: Increased credit for dependent care expenses

- 50% credit rate: AGI under $15,000

- 35% credit rate: AGI $15,000–$75,000 (single/HOH) or up to $150,000 (joint):
  - Credit reduced by 1% for every $2,000 above $15,000
  - Minimum credit: 35%
  - Credit reduced from 35% by 1% for every $2,000 (single) or $4,000 (joint) over the threshold

- 20% Minimum credit

OBBBA: EMPLOYER-PROVIDED DEPENDENT CARE BENEFITS

- Starting in 2026, the OBBBA increases the annual employee contribution limit to $7,500 for Dependent Care FSAs.
- Employees can set aside up to $7,500 pre-tax to pay for eligible dependent care expenses, such as daycare, preschool, or elder care.
- Contributions reduce taxable income, providing savings on federal income and payroll taxes.
- Employees cannot use both the FSA and the Child & Dependent Care Tax Credit for the same expenses.
- This benefit provides a tax-efficient option for working families and employer recruitment/retention strategies.

COMPARISON Example 1 – AGI $35,000 (50% Credit Rate)

- Filing Status: Head of Household
- AGI: $35,000
- Eligible Dependent Care Expenses: $7,500

Child & Dependent Care Tax Credit:

– Max Eligible Expenses: $6,000

– Credit Rate: 50%

– Credit Amount: $3,000

Dependent Care FSA:

– Employee Contribution (up to $7,500): $7,500

– Estimated Tax Savings (22%): $1,650

✅ Better Option: Child & Dependent Care Credit

COMPARISON Example 2 – AGI $65,000 (35% Credit Rate)

- Filing Status: Married Filing Jointly
- AGI: $65,000
- Eligible Dependent Care Expenses: $7,000

Child & Dependent Care Tax Credit:
- Max Eligible Expenses: $6,000
- Credit Rate: 35%
- Credit Amount: $2,100

Dependent Care FSA:
- Employee Contribution (up to $7,500): $7,000
- Estimated Tax Savings (22%): $1,540

✅ Better Option: Child & Dependent Care Credit

COMPARISON EXAMPLE 3 – AGI $160,000 (20% CREDIT RATE)

- Filing Status: Single
- AGI: $160,000
- Eligible Dependent Care Expenses: $8,000

Child & Dependent Care Tax Credit:
- Max Eligible Expenses: $6,000
- Credit Rate: 20%
- Credit Amount: $1,200

Dependent Care FSA:
- Employee Contribution (up to $7,500): $7,500
- Estimated Tax Savings (22%): $1,650

✅ Better Option: DCFSA (FSA Plan)

CHILD & OTHER DEPENDENT TAX CREDIT

Effective 2025: The child tax credit increases to $2,200 per qualifying child

- Refundable portion up to $1,700
- Under the age of 17. Qualifications did not change.

The other dependent credit remains the same at $500

- 17 and older. Qualifications did not change.

The higher income phase-out thresholds of $200,000 for single filers and $400,000 for MFJ are made permanent

ADOPTION CREDIT

Starting in 2025, the Adoption Tax Credit includes a refundable component for the first time:

- Up to $5,000 of the credit will now be refundable, indexed for inflation.
  - The *refundable* portion of the adoption tax credit is in the first year only
- The total available credit remains capped at $17,280 for 2025
- Carried forward for five years as a non-refundable credit
- The OBBBA allows Indian tribal governments to determine whether a child has special needs for purposes of calculating the adoption tax credit.

NOTE: For 2025, the credit begins to phase out for taxpayers with a MAGI above $259,190. The credit completely phases out once your MAGI reaches $299,190.

ADOPTION CREDIT: EXAMPLE

Qualified Expenses: $20,000

Maximum Credit: $17,280

- $12,280 = Non-refundable portion
- $5,000 = Refundable portion

Tax Liability: $9,000

ADOPTION CREDIT: STEP-BY-STEP APPLICATION

1. Start with tax liability: $9,000
2. Apply the non-refundable portion first:
   - Use $9,000 of the $12,280 non-refundable credit
   - Tax liability now = $0
3. Apply the refundable portion next:
   - Full $5,000 refunded to the taxpayer
4. Carry forward:
   - $3,280 of unused non-refundable credit carried forward (up to 5 years)
   - The carry-forward is not considered refundable

Student Loan Forgiveness Tax Exclusion

Discharges of student loans due to death or disability are permanently tax-free.

EXPANSION FOR 529 ACCOUNTS

Effective for distributions made after July 4, 2025, the definition of "qualified higher education expenses" for 529 plans is expanded to include certain post-secondary credentialing costs and additional expenses related to enrollment or attendance at public, private, or religious elementary and secondary schools.

Covered expenses now include tuition, curriculum and instructional materials, books, online courses, tutoring, qualifying test fees, and certain educational therapies.

Additionally, for distributions made after 2025, the maximum amount of tuition expenses for elementary and secondary education that can be treated as qualified higher education expenses increases from $10,000 to $20,000.

ABLE ACCOUNTS ENHANCEMENT

For contributions made after 2025, the OBBBA permanently extends the existing contribution limit for ABLE accounts and adds an additional year of inflation adjustment to the base contribution limit.

Beginning with taxable years after 2026, the OBBBA makes permanent the Saver's Credit for designated beneficiaries contributing to their own ABLE accounts and raises the maximum credit amount from $2,000 to $2,100.

The OBBBA continues to allow rollovers from qualified tuition programs (such as 529 plans) to ABLE accounts, maintaining this as a permanent provision.

YOUTH EMPOWERMENT ACCOUNT

OBBBA establishes the Trump Account, a new tax-preferred savings account for all children under age 18.

Children born between January 1, 2025, and December 31, 2028, are automatically enrolled and receive a one-time $1,000 federal contribution.

Contributions are otherwise allowed starting July 4, 2026, by parents, relatives, or others, up to $5,000 annually ($2,500 for employers), indexed for inflation.

Contributions are not deductible, do not require the child to have earned income, and do not count toward IRA or workplace plan limits.

Earnings will grow tax-free until the child reaches 18

These accounts must be held by a financial institution and invested in a qualified index fund.

TRUMP ACCOUNT RULES BEFORE & AFTER AGE 18

Rules Before Year In Which Beneficiary Turns 18

- Up to $5,000 in annual direct contributions allowed (indexed to inflation), non-deductible
- Additional contributions allowed from government, charities, and employers, excluded from income
- Must use eligible investments (low-fee US equity funds)
- No distributions allowed
- Rollovers to other Trump accounts allowed, and to an ABLE account in the year the beneficiary turns 17
- May make contributions to other IRA types if allowed

Rules Beginning The Year Beneficiary Turns 18

- Treated like a retirement account
- Distributions allowed (subject to early withdrawal penalties before age 59 ½)
- Withdrawals of direct contributions are tax-free; withdrawals of growth or excluded contributions are taxable
- May use any investment allowed in an IRA
- Trump account is not aggregated with other IRAs for distribution rules

AMT EXEMPTION CHANGES

The increased AMT exemption amounts are made permanent.

Starting in 2025, the exemption amounts are $81,300 for single filers, $126,500 for joint filers, and $63,250 for married filing separately, indexed for inflation.

The exemption phase-out thresholds are $500,000 for single and $1 million MFJ, indexed for inflation, with a phase-out rate of 50%.

This sharper phase-out rate accelerates AMT exposure for high-income clients exceeding these thresholds.

AMT CREATES 42% EFFECTIVE MARGINAL TAX RATE

Additionally, the increased rate at which the AMT exemption phases out under OBBBA will create a narrower, but more pronounced, ”stealth tax" of higher effective marginal tax rates for households with AMT income within the exemption phaseout range.

In essence, because every additional dollar of AMT income now reduces the exemption by 50 cents for taxpayers who will be, by definition, in the 26% AMT bracket, the effective marginal tax rate of income within the phaseout range is 26% × 1.5 = 42%.

This ”stealth tax" will apply to single filers with AMT income between $500,000 and $676,200, and to joint filers with income between $1 million and $1,274,000.

AMT “STEALTH TAX”

Key Feature	Current Law (TCJA)	New Law (OBBBA, 2026+)
Exemption Phaseout Rate	25% of excess AMT income	50% of excess AMT income
Effective Marginal AMT Rate	~32.5%–35%	42%
Phaseout Range (Single)	$609,350 and above	$500,000 – $676,200
Phaseout Range (Married Filing Jointly)	$1,218,700 and above	$1,000,000 – $1,274,000

MISCELLANEOUS PROVISIONS

1% Tax On Foreign Transfers

Starting in 2026, a 1% excise tax will apply to money transfers sent to foreign locations. This includes transfers such as money orders and cashier's checks.

Credit for Contributions to Scholarship-Granting Organizations

The OBBBA enacts a new Section. 25F that provides a credit of $1,700 for charitable contributions to scholarship-granting organizations

CLEAN ENERGY PROVISIONS EXPIRING

CLEAN ENERGY CREDITS TERMINATING

Most of the clean energy credits are terminating early. Here are a few well-known ones expiring:

- Terminating after September 30, 2025:
  - $7,500 new electric vehicle (EV) credit
  - $4,000 used EV credit

Sec. 25C energy-efficient home improvement credit
  - Terminates after December 31, 2025

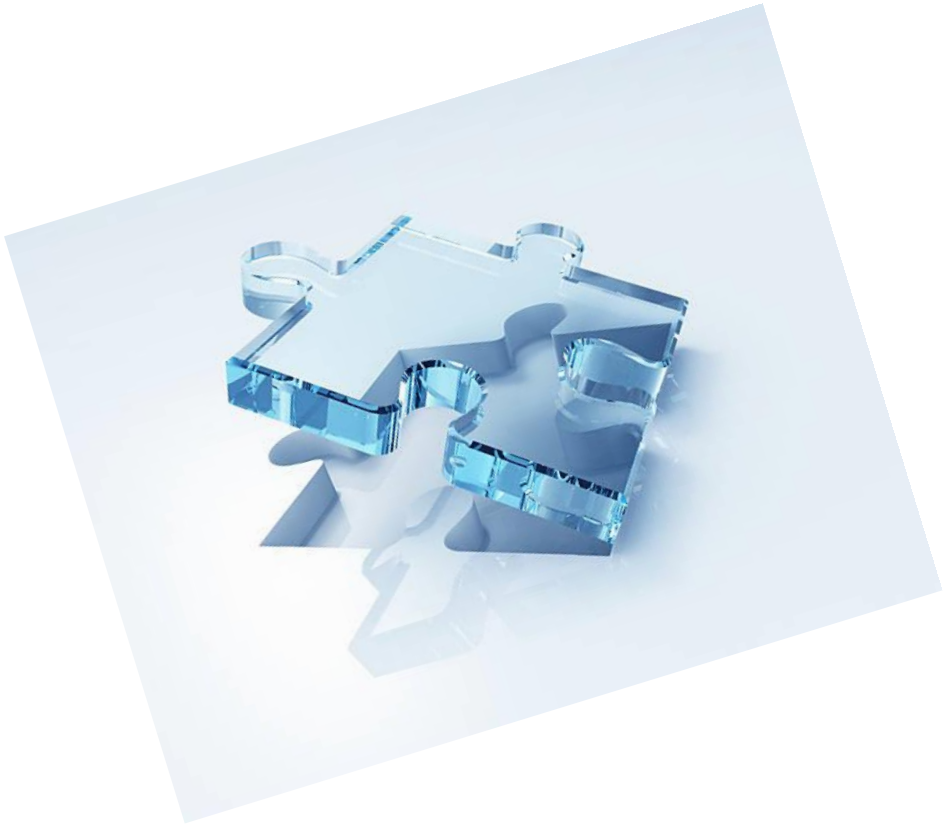
CLEAN ENERGY CREDITS TERMINATING

A large number of clean energy tax incentives are terminating:

Sec. 25D residential clean energy credit
- Terminates for expenditures made after December 31, 2025

Sec. 30C alternative fuel vehicle refueling credit
- Terminates after June 30, 2026

Sec. 45L new energy-efficient home credit
- Terminates after June 30, 2026



BELOW THE LINE DEDUCTIONS

BELOW-THE-LINE DEDUCTION SUMMARY

Existing under TCJA

- Standard Deduction
- Itemized Deductions
- Section 199A (Qualified Business Income) Deduction

New under OBBBA

- $6,000 deduction for seniors age 65+ (2025–2028)
- Charitable contributions up to $1,000 (S) / $2,000 (MFJ) for non-itemizers (2026 and later)
- Qualified tips up to $25,000 (2025–2028)
- Qualified overtime compensation up to $12,500 (S) / $25,000 (MFJ) (2025–2028)
- Qualified car loan interest up to $10,000 (2025–2028)

WHERE WILL THE DEDUCTION BE REPORTED?

A) Above-the-line deduction

B) ”The line”

C) Below-the-line deduction

8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
10 A	Adjustments to income from Schedule 1, line 26	10	
11 B	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
12	**Standard deduction or itemized deductions** (from Schedule A)	12	
13 C	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

CHARITABLE CONTRIBUTIONS

CHARITABLE DEDUCTION FOR NON-ITEMIZERS

Up To $1,000 (Single) or $2,000 (MFJ) in Charitable Contributions

Permanent provision starting in tax year 2026

Available only to non-itemizers

- i.e., only those taking the standard deduction can take advantage of this

Below-the-line deduction

CHARITABLE DEDUCTION FOR NON-ITEMIZERS

Up To $1,000 (Single) or $2,000 (MFJ) in Charitable Contributions

The original statutory requirement that such contributions be "made in cash" remains unchanged, excluding non-cash gifts

The new 0.5% AGI floor is only imposed when itemizing deductions

Contributions to donor-advised funds, private foundations, or supporting organizations are ineligible

NON-ITEMIZERS: CONTRIBUTION TYPE-CASH ONLY

The deduction under IRC §170(p), as amended by OBBBA, remains limited to contributions "made in cash."

• OBBBA increased the deduction limit but did NOT amend or remove the statutory requirement that contributions be made in cash.

• Therefore, only cash contributions to qualified public charities count toward this above-the-line deduction.

❌ Non-cash contributions (e.g., clothing, stock, household goods) do NOT qualify for the above-the-line charitable deduction.

NON-ITEMIZERS: IRC §170(p) POST-OBBBA LANGUAGE

(p) Special rule for taxpayers who do not elect to itemize deductions

In the case of any taxable year beginning after December 31, 2025, if the individual does not elect to itemize deductions for such taxable year, the deduction under this section shall be equal to the deduction, not in excess of $1,000 ($2,000 in the case of a joint return), which would be determined under this section if the only charitable contributions taken into account in determining such deduction were contributions made in cash during such taxable year (determined without regard to subsections (b)(1)(G)(ii) and (d)(1)) to an organization described in section 170(b)(1)(A) and not—

(1) to an organization described in section 509(a)(3), or

(2) for the establishment of a new, or maintenance of an existing, donor advised fund (as defined in section 4966(d)(2)).

CHARITABLE DEDUCTION FOR ITEMIZERS

OBBBA introduces, for the first time, a floor on the deductibility of charitable contributions, effective beginning in 2026.

Taxpayers may only deduct charitable contributions to the extent they exceed 0.5% of their adjusted gross income (AGI).

This only applies to charitable contributions being itemized.

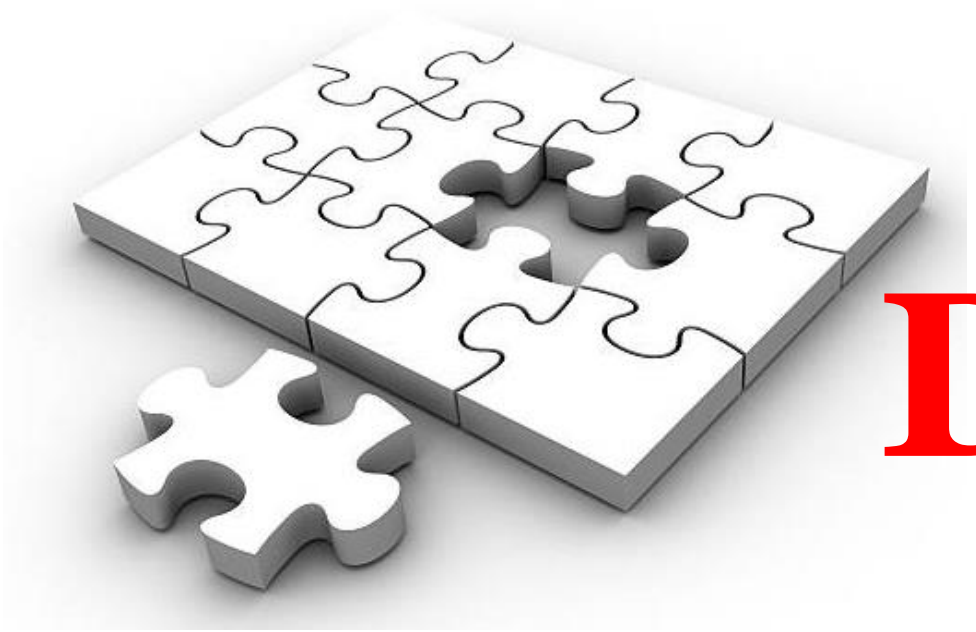
This floor is applied before the traditional AGI percentage limitations (such as the 60%, 50%, or 30% limits)

CHARITABLE DEDUCTION FOR ITEMIZERS

The law also establishes a specific ordering rule for how contributions are applied against the 0.5% AGI floor. Deductions are reduced in the following order:

1. Capital gain property donated to non-public charities
2. Capital gain property donated to public charities using the fair market value
3. Cash donations to non-public charities
4. Qualified conservation contributions
5. Capital gain property donated to public charities using the cost basis
6. Cash contributions to public charities.

If a contribution exceeds the applicable AGI limit and the unused portion is carried forward, the portion subject to the 0.5% floor is carried forward as well.



SENIOR DEDUCTION

SENIOR DEDUCTION INTRODUCED

Up to $6,000 Deduction for Individuals Aged 65 and Older

- Starting in 2025 through 2028
- Must be age 65 or older on the last day of the tax year

- In addition to the current additional standard deduction for seniors
  - Separately stated “below-the-line” deduction
  - Available whether the taxpayer itemized their deductions or took the standard deduction
  - In addition to the current 65+ and blind deduction

SENIOR DEDUCTION INTRODUCED

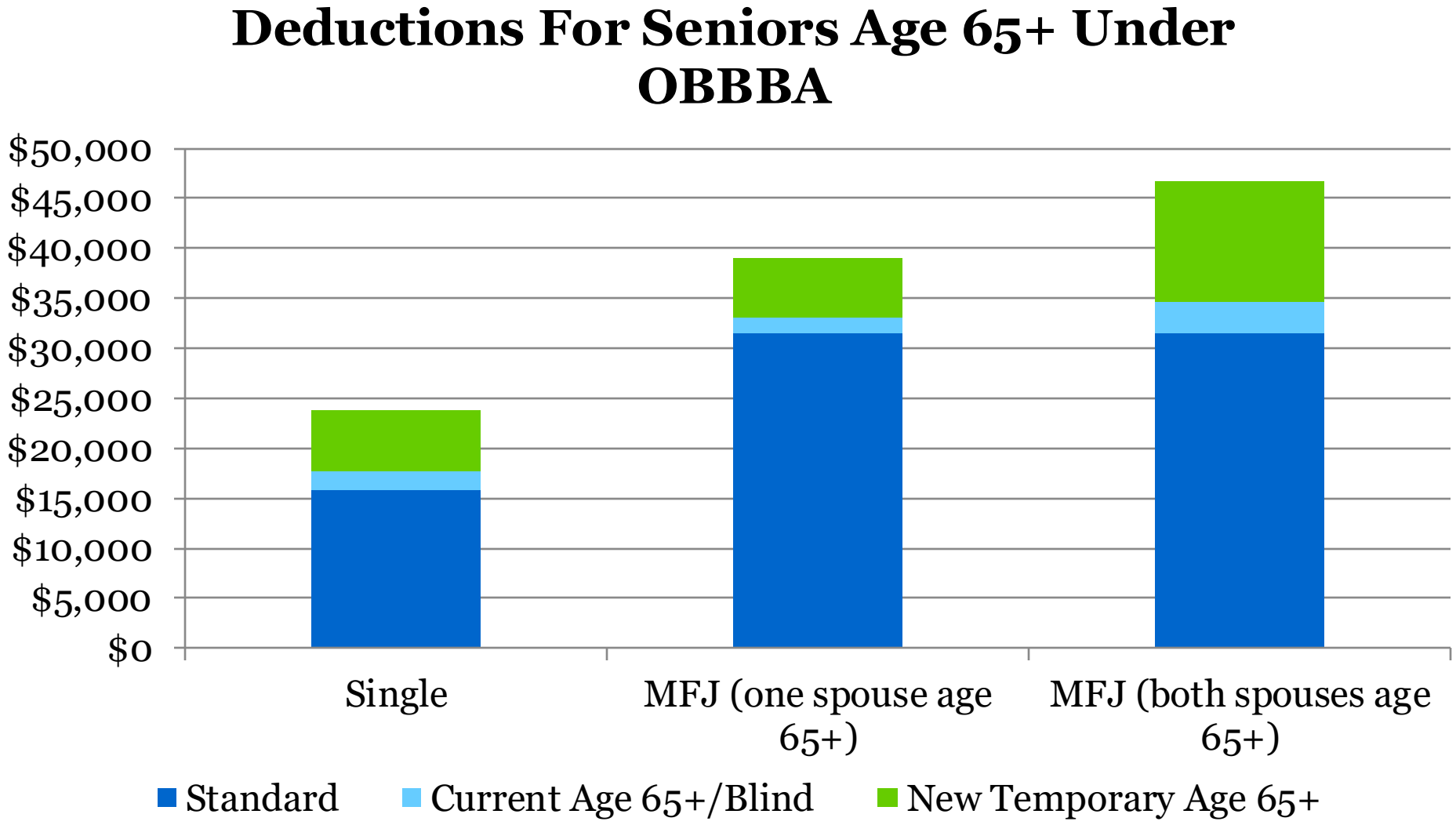
Up to $6,000 Deduction for Individuals Aged 65 and Older

- This deduction applies per eligible person

- Married couples, if both spouses qualify, can claim a total of $12,000
  - However, if married, you must file jointly to claim the deduction.

NOTE: The OBBBA did not address the taxation of Social Security income. This deduction has no correlation to Social Security income.

SENIOR DEDUCTION STACKS UP



SENIOR DEDUCTION PHASE-OUT

The senior deduction phases out for taxpayers with MAGI above $75,000 for single filers and $150,000 for MFJ.

- Phaseout Formula:

  For tax years 2025–2028, the deduction is reduced by 6% of the amount by which your Modified Adjusted Gross Income (MAGI) exceeds the threshold

Households with over $175,000 (single), $250,000 (joint) will be fully phased out of the additional senior deduction.

For married couples where both spouses are age 65 or older, *both* spouses' deductions are reduced simultaneously by the phaseout formula.

SENIOR DEDUCTION PHASE-OUT FORMULA

Formula:

Deduction Reduction = 6% × (MAGI – Threshold)

Senior Deduction Allowed = $6,000 – Deduction Reduction **Per Person**

Example:

Married Couple, both age 65+, MAGI = $200,000

MAGI exceeds threshold by $50,000 →

6%×50,000=3,000 reduction **per person**

Spouse 1: 6% × 50,000 = 3,000 Reduction

Spouse 2: 6% x 50,000 = 3,000 Reduction

Each person gets:

Spouse 1: $6,000 Less 3,000 = $3,000 Deduction Allowed

Spouse 2: $6,000 Less 3,000 = $3,000 Deduction Allowed

Total senior deduction = $6,000 (2 × $3,000)

CAR LOAN INTEREST DEDUCTION


TAXES
1040
U.S. Individual Income Tax Return
2020
Filing Status
Single
Married filing separately (MFS)
Head of household (HOH)
Qualifying widow(er) (QW)
Your social security number
Spouse's social security number
Presidential Election Campaign
Page 2

CAR LOAN INTEREST $10,000 DEDUCTION

Starting from 2025 through 2028, up to $10,000 deduction on car loan interest

Loans to buy new vehicles after December 31, 2024

- Purchase a new vehicle with final assembly in the U.S.
- The original use of which starts with the taxpayer (used vehicles do not qualify),
- Personal use vehicle (not for business or commercial use)

The loan must be secured by the vehicle

- Originated after December 31, 2024
- If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction (per IRS)

CAR LOAN INTEREST REQUIREMENTS

Up to $10,000 Deduction on Car Loan Interest

Vehicle Identification Number (VIN) of the qualified vehicle to be reported each year

- Lenders or other recipients of qualified interest must file information returns with the IRS and furnish statements to taxpayers showing the total amount of interest received during the taxable year.

Eligible vehicles include cars, SUVs, pickup trucks, vans, and motorcycles

- Under 14,000 lbs. GVWR with final assembly in the United States
- Not allowed on used vehicles or leases

CAR LOAN INTEREST DEDUCTION

Up to $10,000 Deduction on Car Loan Interest (Continued)

Below-the-line deduction

A taxpayer can either take the standard deduction or itemize deductions

This will only save federal income tax. Not self-employment taxes

Phases out for taxpayers with MAGI over $100,000 (single) or $200,000 (MFJ)

- Fully phased-out by MAGI $150,000 (single) and $250,000 (MFJ)
- The deduction is reduced by $200 for every $1,000 the taxpayer's income exceeds the MAGI threshold.

CAR LOAN INTEREST DEDUCTION: EXCLUDED VEHICLES

- Excluded Vehicles:

  - Used vehicles
  - Leased vehicles
  - ATVs, campers, RVs, trailers
  - Vehicle purchased for business or commercial use
  - Vehicles held for resale or investment
  - Vehicles purchased before January 1, 2025 or after December 31, 2028
  - Vehicles purchased with a loan not secured with a lien on the vehicle
    - Example: Loans from 2nd mortgage or personal loans without lien

CAR LOAN INTEREST DEDUCTION: W-2 vs. Self-Employed

While the deduction applies broadly, taxpayers will report it differently depending on how they use their personal vehicle and their filing status. Here is how **Schedule C filers** and **W-2 employees** take the deduction.

Schedule C (Self-Employed) Use of Personal Vehicle:
- Allocate interest: business-use to Schedule C, personal-use below-the-line
- Combined max: $10,000 total per year
- Can also deduct depreciation, mileage or actual expenses
- Documentation required: mileage logs, loan interest records

W-2 Employees:
- Deduct full qualified interest below-the-line (up to $10,000)
- No business use required (commuting/personal allowed)
- Vehicle must be new, purchased in 2025 or later
- Vehicles purchased in 2024 or earlier do not qualify

CAR LOAN INTEREST DEDUCTION – EXAMPLES

Example 1: Self-Employed Realtor
- Buys new U.S.-assembled SUV in 2025, 80% business use
- Pays $10,000 interest → $8,000 Schedule C + $2,000 below-the-line deduction

Example 2: W-2 Sales Manager
- Buys new U.S.-assembled sedan in 2025, 100% personal use/commuting
- Pays $9,000 interest → $9,000 below-the-line deduction

Example 3: W-2 Engineer
- Buys vehicle in December 2024 → Not eligible

Example 4: Investor with used Turo fleet → Not eligible

Example 5: New RV (camper) purchase → Not eligible

CAR LOAN INTEREST DEDUCTION – CALCULATIONS

In the past year, over 15 million new vehicles were sold in the U.S., with nearly 80% of buyers using financing to make their purchase.

As of 2025, the average price of a new car is around $48,000, according to Kelley Blue Book, with loan interest rates averaging 8.64%.

That means for a typical five-year loan, buyers are paying about $187 per month in interest or $2,244 annually.

CAR LOAN INTEREST DEDUCTION – U.S. FINAL ASSEMBLY

According to a recent IRS fact sheet, the final assembly location of a vehicle—used to determine eligibility for the car loan interest deduction—is based on the information provided on the vehicle's label.

How to find out?

- Every new car at a dealership is required to display a label showing the final assembly site.
- You can also look up the Vehicle Identification Number (VIN).
- Use the **VIN decoder tool** from the National Highway Traffic Safety Administration can identify where the car was assembled.
  Link: https://www.nhtsa.gov/vin-decoder

CAR LOAN INTEREST DEDUCTION – VERIFICATION

To substantiate the deduction for qualified passenger vehicle loan interest, the taxpayer must maintain proper records and meet every statutory requirement. This checklist outlines what a CPA should verify during planning or audit prep.

✅ Loan Origination Date:
- Must be incurred on or after January 1, 2025
- Retain complete loan agreement with start date and original principal

✅ Vehicle Eligibility:
- Must be a new passenger automobile or light truck
- Must have final assembly in the United States (VIN decoding or manufacturer certificate)
- GVWR must be under 14,000 pounds
- Not eligible: ATVs, RVs, trailers, campers, leases, or used vehicles

CAR LOAN INTEREST DEDUCTION – VERIFICATION

✅ Ownership & Use Certification:

- Vehicle must be acquired for taxpayer's use, not resale or investment
- Business-use vehicles must document percentage split (Schedule C filers)
- W-2 employees: ensure non-investment use (commuting/personal use is sufficient)

✅ Interest Documentation:

- Annual statement from lender showing total interest paid
- Allocation worksheet for mixed-use vehicles (if applicable)

✅ Reporting Position:

- Schedule C: Business-use portion deducted directly
- Form 1040 (below-the-line): Personal-use portion (or full amount for W-2 filers)

CAR LOAN INTEREST DEDUCTION – VERIFICATION

✅ Coordination & Non-duplication:

- Deduction is in addition to mileage or actual expenses
- Interest is still deductible even if mileage method is used

✅ Supporting Materials to Retain:

- Purchase invoice
- Loan agreement
- Proof of new vehicle
- VIN verification of U.S. assembly
- Mileage log (for self-employed)
- Taxpayer statement confirming use and compliance

IRS PROVIDES TRANSITION RELIEF FOR 2025

The IRS has provided transitional guidance for businesses required to report car loan interest under the OBBBA.

Notice 2025-57 provides penalty relief and guidance to certain lenders for new information reporting requirements for car loan interest received in 2025 under the OBBB.

Transition relief for 2025

Notice 2025-57 provides transitional relief for 2025 for lenders and other interest recipients who are required to file information returns with the IRS and provide statements to borrowers showing the total amount of interest received on qualified passenger vehicle loans and other information related to the loan.

IRS PROVIDES TRANSITION RELIEF FOR 2025

A qualified passenger vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.

Under this guidance, the IRS will consider that lenders have met their reporting obligations for interest received on a qualified passenger car loan in 2025 if they make a statement available to the buyer indicating the total amount of interest received.

IRS PROVIDES TRANSITION RELIEF FOR 2025

Specifically, lenders can meet their reporting requirements by making this total amount of interest available:

- On an online portal that the buyer can easily access;
- In a regular monthly statement;
- On an annual statement that is provided to the buyer; or
- By other similar means designed to provide accurate information to the buyer regarding interest received.

IRS PROVIDES TRANSITION RELIEF FOR 2025

In addition, the IRS will not impose penalties on lenders for a failure to file information returns and provide payee statements if they satisfy their reporting obligations as described in the Notice.

Businesses that receive from any individual interest of $600 or more for any calendar year on a qualified passenger vehicle loan must comply with the new reporting requirements.

NO TAX ON TIPS

NO TAX ON TIPS - $25,000

Up to $25,000 Deduction on Tip Income

- Starting in 2025 through 2028, may be deducted annually
- All tip compensation for W-2 employees and 1099 workers is still reportable income
- Applies to cash and non-cash tips (e.g., Venmo, credit card, cash) Only qualified tip income is defined as voluntarily paid
- To be tracked and reported separately on Forms W-2 and 1099.

NO TAX ON TIPS: BELOW-THE-LINE DEDUCTION

Up to $25,000 Deduction on Tip Income

Separately stated “below-the-line” deduction

A taxpayer can either take the standard deduction or itemize deductions

Taxpayers must include their Social Security Number on the return

This will only save federal income tax
- Does not exempt the tips from payroll or self-employment taxes

NO TAX ON TIPS DEDUCTION

Up to $25,000 Deduction on Tip Income

Per tax return deduction. Not a per-person deduction

MFS results in zero deduction. Requires, if married, to file MFJ

Phases out for taxpayers with modified adjusted gross income (MAGI) over $150,000 and $300,000 for MFJ.

MAX TIP DEDUCTION BY FILING STATUS

The OBBBA sets a hard cap on the tip deduction based on how you file — not how much you earn in tips. Who gets to deduct how much. MFS filers? They're out. Everyone else? Capped at $25K per return.

- Single — $25,000 deduction
- Head of Household — $25,000 deduction
- Married Filing Jointly (MFJ) — $25,000 combined (not $25K per spouse)
- Qualifying Widow(er) — $25,000 deduction

- Married Filing Separately (MFS) — $0 deduction allowed

⚠ No partial credit for MFS — it's all or nothing, and MFS gets nothing.

NO INCOME TAX ON TIPS – SELF-EMPLOYED

Additional items to note for self-employed individuals:

- For self-employed, the deduction may not exceed the individual's net income (without regard to this deduction) from the trade or business in which the tips were earned
- Self-employed individuals in a Specified Service Trade or Business (SSTB) under section 199A are not eligible

1099 WORKERS: NO TAX ON TIPS FOR SCHEDULE C

Self-employed workers (Schedule C) who receive tip income can also deduct up to $25,000. This provision also covers gig workers and sole proprietors whose clients/customers give them gratuities.

- Applies to self-employed sole proprietors and independent contractors
- Tip income must be separately stated and documented
- $25,000 deduction applies per individual, not per business ($25,000 max deduction per return)
- Applies even if receiving tips via cash apps, credit cards, or cash
- Must still report total income on Sch C, but the deduction is not on Sch C
- $25,000 is deducted from taxable income on a separate area of the tax return
- Will reduce down QBI (any allowable deduction also reduces QBI)
- Will NOT reduce down SE tax calculations

EXAMPLES OF HOW THE NO TAX ON TIPS WORKS

• Example 1 (W-2 employee): Sarah earns $22,000 in tips as a server in 2026. All tips reported to her employer. She reports the full $22,000 as W-2 wages. On a separately stated line, deducts $22,000 from taxable income.

• Example 2 (1099 contractor): In 2027 John is a valet subcontractor earning $19,000 in cash tips reported in a logbook. He claims the full $19,000 on Schedule C as gross income and CANNOT deduct any tips on Schedule C. He deducts $19,000 on a separate schedule subtracting from federal taxable income only.

• Example 3 (Married couple): Maria earns $26,000 in W-2 tips, Kevin earns $18,000 in 1099 tips. On their joint return, they report all tips as income but can only deduct $25,000 in total from their taxable income.

NO TAX ON TIPS – HAIR INDUSTRY

Workers in the hair industry frequently receive tip income and are specifically made eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- Hair Stylists & Colorists
- Barbers
- Hair Extension Technicians
- Scalp Treatment Specialists

EXAMPLE: NO TAX ON TIPS – HAIR INDUSTRY

Example:
A barber receives $18,500 in tips as a W-2 employee over the year and was reported to the employer via Square and logged daily. The wages are reported including the $18,500. The tips qualify for the deduction.

Add the facts:
The barber received $500 in cash tips separately reported from the fees charged for haircuts but not reported by the employer. If the barber reports the $500 of income as “other income” on Schedule 1, until further IRS clarification, $19,000 would be the tip deduction as all tip income was reported.

NO TAX ON TIPS – NAIL INDUSTRY

Workers in the nail industry frequently receive tip income and are are specifically made eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- Nail Technicians,
- Manicurists
- Pedicurists

EXAMPLE: NO TAX ON TIPS – NAIL INDUSTRY

Example:
A mobile nail tech earns $23,000 in Venmo tips and $1,500 in cash tips during in-home sessions.

Only the $23,000 in Venmo tips were logged and reported as income on Schedule C. Therefore, only $23,000 can be deducted from federal income tax only (not deducted on Schedule C or Schedule SE).

The cash tips not reported is tax fraud. Just because ultimately the net result for federal taxable income would have been zero, that doesn't allow income to not be reported.

If reported $24,500 tip income less $24,500 tip deduction does equal zero for federal taxable income, but the $1,500 is still subject to self-employment taxes and is required to be reported on Schedule C and reduce QBI.

NO TAX ON TIPS – TAXI/UBER INDUSTRY

Workers in the taxi industry frequently receive tip income and are eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- Taxi Drivers
- Airport Shuttle Drivers
- Black Car Drivers
- Private Car Chauffeurs
- Independent Cab Operators

NO TAX ON TIPS – TAXI/UBER INDUSTRY

Example:

An Uber driver makes $27,000 in tips through cash and app-based payments

- $27,000 is logged and included as income on Schedule C

On a separate schedule, only $25,000 is deducted from taxable income

- The maximum deduction is $25,000
- This is not on Schedule C or Schedule SE
- QBI is only reduced by $25,000 on Form 8995

Add the fact that the net income on Schedule C is $14,000

- The tip deduction is only $14,000 (separately stated)
  - It cannot exceed the Schedule C net income
  - The tip deduction does not reduce Schedule C net income
  - QBI is only reduced by $14,000 as that is the allowable deduction

NO TAX ON TIPS – FOOD DELIVERY

Workers in the food delivery frequently receive tip income and are eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- DoorDash Drivers
- Uber Eats Couriers
- Grubhub Drivers
- Postmates Drivers
- Bicycle Food Couriers
- Catering Delivery Staff

EXAMPLE: NO TAX ON TIPS – FOOD DELIVERY

Example:
A DoorDash driver receives $14,500 in customer tips via app payouts and $1,500 in cash tips

- The full $16,000 in tips is tracked and reported as income on Schedule C

That qualifies a $16,000 separately stated deduction

- Not a deduction on Schedule C or SE
- QBI is reduced by $16,000 on Form 8995
- Would assume the net income was at least $16,000 on Schedule C

Add the fact that the driver files *married filing separately*

- No tip deduction is allowed
- No reduction of QBI as no deduction was allowed

NO TAX ON TIPS – RESTAURANTS

Workers in the restaurants frequently receive tip income and are eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- Waitstaff
- Bartenders
- Bussers
- Hosts/Hostesses
- Barbacks
- Food Runners
- Sommeliers
- Takeout Counter Staff

Example: A server earns $23,000 in W-2 tips in 2026. The employer includes these in payroll reporting, and the employee reports all the income and separately deducts the full amount. Social security & Medicare taxes were still withheld in full.

NO TAX ON TIPS – OTHER INDUSTRIES

Workers in the other industries frequently receive tip income and are eligible for the $25,000 deduction under the One Big Beautiful Bill Act (OBBBA), provided they meet reporting requirements.

- Valet Attendants
- Casino Workers
- Tour Guides
- Massage Therapists
- Estheticians
- Hotel Bellhops
- Concierges
- Room Service Staff
- Wedding/Event Servers
- Gig Workers (TaskRabbit, etc.)
- Musicians/DJs

NO TAX ON TIPS – SSTB INDUSTRIES EXCLUDED

- Health services (e.g., doctors, nurses, dentists)
- Law services (e.g., lawyers, legal arbitrators)
- Accounting services (e.g., accountants, tax preparers)
- Actuarial science
- Performing arts (e.g., actors, musicians, directors)
- Consulting
- Athletics (e.g., athletes, coaches)
- Financial services (e.g., investment bankers, wealth planners)
- Brokerage services
- Investing and investment management
- Trading or dealing in securities, partnership interests, or commodities

EMPLOYER'S NEED TO KNOW!

NO TAX ON TIPS

NO INCOME TAX ON TIPS – PAYORS

Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient.

- To be reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137
- Employees whose employer is in an SSTB also are not eligible (See slide on SSTB)
- Tips received in occupations that are listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024
  - By October 2, 2025, the IRS must publish a list of occupations
  - The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.

NO INCOME TAX ON TIPS – SSTB

Employees and self-employed individuals of "Specified Service Trade or Business" (SSTB) under section 199A are excluded as these industries also customarily do not receive tips. SSTB refers to a trade or business that falls into specific categories of services, or where its primary asset is the reputation or skill of its owners or employees.

Examples of services typically classified as SSTBs include:

- Health services (e.g., doctors, nurses, dentists)
- Law services (e.g., lawyers, legal arbitrators)
- Accounting services (e.g., accountants, tax preparers)
- Actuarial science
- Performing arts (e.g., actors, musicians, directors)
- Consulting
- Athletics (e.g., athletes, coaches)
- Financial services (e.g., investment bankers, wealth planners)
- Brokerage services
- Investing and investment management
- Trading or dealing in securities, partnership interests, or commodities

NO INCOME TAX ON TIPS – NOT SSTB

Not all service-based businesses are considered SSTBs. For example, the IRS specifically excludes architecture and some engineering firms from the SSTB classification. Other businesses that typically don't fall under the SSTB umbrella include:

- Rideshare services
- Sales
- Real estate agents
- Property managers (under certain conditions)
- Contractors
- Landscapers
- Childcare and eldercare providers
- Grooming services
- Notary services
- Restaurants and food trucks

However, just because an industry is NOT SSTB doesn't mean it can be included as an industry qualifying for no tax on tips, as it will be per the IRS. *Stay tuned!*

NO INCOME TAX ON TIPS – AUTOMATIC GRATUITY

Typically, restaurants have policies that charge an automatic gratuity for large parties. It would lead to a conclusion that mandatory tips won't be tax-deductible under the new law. The OBBBA states that the "no tax on tips" policy doesn't cover tip income unless it was "paid voluntarily without any consequence in the event of nonpayment, is not the subject of negotiation, and is determined by the payor."

The IRS has made clear before the OBBBA (May 8, 2025) that fees are not considered tips. Per the IRS, "Charges added to a customer's check, such as for large parties, by your employer and distributed to you, should not be added to your daily tip record. These additional charges your employer adds to a customer's bill do not constitute tips as they are service charges."

https://www.irs.gov/businesses/small-businesses-self-employed/tip-recordkeeping-and-reporting

NO INCOME TAX ON TIPS – DEFINING TIPS

Per the IRS (May 8, 2025):

"Tips are discretionary (optional or extra) payments determined by a customer that employees receive from customers.

Tips include:

- Cash tips received directly from customers.
- Tips from customers who leave a tip through electronic settlement or payment. This includes a credit card, debit card, gift card or any other electronic payment method.
- The value of any noncash tips, such as tickets or other items of value.
- Tip amounts received from other employees paid out through tip pools, tip splitting, or other formal/informal tip sharing arrangement.
- Tips also include tips received by both directly and indirectly tipped employees."

https://www.irs.gov/businesses/small-businesses-self-employed/tip-recordkeeping-and-reporting

NO INCOME TAX ON TIPS – DEFINING TIPS

Per the IRS (May 8, 2025):

“An employer's or employee's characterization of a payment as a 'tip' is not determinative. Distributed service charges (often referred to as 'auto-gratuities' by service industries) should be characterized as non-tip wages.”

“Revenue Ruling 2012-18 reaffirms the factors that are used to determine whether payments constitute tips or service charges. Q&A 1 of Revenue Ruling 2012-18 provides that the absence of **any** of the following factors creates a doubt as to whether a payment is a tip and indicates that the payment may be a service charge:

• The payment must be made free from compulsion.

• The customer must have the unrestricted right to determine the amount.

• The payment should not be the subject of negotiation or dictated by employer policy; and,

• Generally, the customer has the right to determine who receives the payment.”
Revenue Ruling 2012-18

https://www.irs.gov/irb/2012-26_IRB#RR-2012-18

https://www.irs.gov/businesses/small-businesses-self-employed/tip-recordkeeping-and-reporting

NO INCOME TAX ON TIPS – DEFINING TIPS

IRS Example:

- The restaurant's menu specifies that an 18% charge will be added to all bills for parties of 6 or more customers.
- Dana's bill for food and beverages for her party of 8 includes an amount on the "tip line" equal to 18% of the price for food and beverages, and the total includes this amount.
- The restaurant distributes this amount to the waitresses and bussers.
- Under these circumstances, Dana did not have the unrestricted right to determine the amount of the payment because it was dictated by employer policy.
- Dana did not make the payment free from compulsion.

Conclusion: The 18% charge is not a tip. Instead, the amount included on the tip line is a service charge dictated by the Restaurant.

https://www.irs.gov/businesses/small-businesses-self-employed/tip-recordkeeping-and-reporting

W-2 EMPLOYEES: WHO QUALIFIES - NO TAX ON TIPS

Employees in tip-based roles can now deduct up to $25,000 of tips from federal income tax. The provision applies broadly to any employee who receives tips in the course of providing personal services.

- If an employee is classified as a W-2 employee, reported on W-2
- Tips must be reported to the employer (e.g., via payroll system, POS tip reports)
- Employer is still responsible for withholding Social Security and Medicare (FICA) and still receives any “tip tax credit” otherwise eligible for
- Employees must still report all tip income, but up to $25,000 is deducted on the federal tax return
- Employees whose employer is in an SSTB also are not eligible (See slide on SSTB)

NEW: WHAT EMPLOYERS NEED TO KNOW

The One Big Beautiful Bill Act creates new opportunities and compliance responsibilities for employers in tipped industries.
To support employees and protect the business, take these steps now:

- ✅ Update payroll systems to track and report all tips accurately (W-2 employees)
- ✅ Ensure Form W-2 includes total tips in Boxes 1, 5, 7 and Box 8 as applicable
- ✅ Be prepared to report tips in a separate box as well on Form W-2
- ✅ Add occupation codes and tip designations to Forms 1099 and 6050W as required
- ✅ Educate employees: tips still must be reported to employer—they are not 'invisible'
- ✅ Alert employees that tips over $25K are taxable
- ✅ Don’t misclassify employees as contractors to avoid tip reporting
- ✅ Be prepared for IRS scrutiny of your industry's tip practices
- ✅ Keep copies of all tip reports, POS logs, and tip-sharing arrangements

IRS ISSUES GUIDANCE ON TIP INDUSTRY "CODES"

The proposed regulations list nearly 70 separate occupations of tipped workers: https://www.federalregister.gov/documents/2025/09/22/2025-18278/occupations-that-customarily-and-regularly-received-tips-definition-of-qualified-tips

IRS ISSUES GUIDANCE ON TIP INDUSTRY "CODES"

List of occupations that receive tips

Treasury Tipped Occupation Code, provides a three-digit code and descriptions for the occupations listed within the proposed regulations. The proposed regulations group the occupations into eight categories:

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services
- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery

NO TAX ON OVERTIME

OVERTIME PAY: $12,500 PER PERSON

Up to $12,500 Deduction on Overtime

- Starting in 2025 through 2028, for qualified overtime compensation.
- Overtime wages and compensation for W-2 and 1099 (per IRS) are still reportable income
- To be tracked and reported separately on Forms W-2 and 1099
- Only qualified employees who are paid the required overtime compensation mandated by Section 7 of the Fair Labor Standards Act (FLSA) are to be included.

OVERTIME PAY: ONLY THE “HALF” INCLUDED

Up to $12,500 Deduction on Overtime

The deduction only includes 0.5 of the 1.5 times the regular rate for hours worked over 40 per week, as required under the Fair Labor Standards Act (FLSA).

Example: $10/hour base → $15/hour OT rate → The $5/hour is includible in the “no tax on tips” deduction

FLSA defines 'overtime compensation' as the total 1.5 times rate, but only requires the .5 times rate to be added, as the employee still would be paid their hourly rate.

OVERTIME PAY: BELOW-THE-LINE

Up to $12,500 Deduction on Overtime

Separately stated “below-the-line” deduction

A taxpayer can either take the standard deduction or itemize deductions

This will only save federal income tax

- Does not exempt the overtime pay from payroll or self-employment taxes (per IRS)

OVERTIME PAY DEDUCTION

Up to $12,500 Deduction on Overtime

Deduction is per taxpayer, per year
- Maximum deduction of $25,000 for MFJ

MFS results in zero deduction. Requires, if married, to file MFJ

Phases out for taxpayers with MAGI over $150,000 ($300,000 MFJ)

MAX OVERTIME DEDUCTION BY FILING STATUS

The One Big Beautiful Bill Act sets a hard cap on the overtime deduction based on how you file, not how much you earn in overtime. This slide lays out exactly who gets to deduct how much. MFS filers? They're out. Everyone else? Capped at $25K per return.

- Single — $12,500 deduction
- Head of Household — $12,500 deduction
- Married Filing Jointly (MFJ) — $25,000 combined (not $25K per spouse)
- Qualifying Widow(er) — $12,500 deduction
- Married Filing Separately (MFS) — $0 deduction allowed

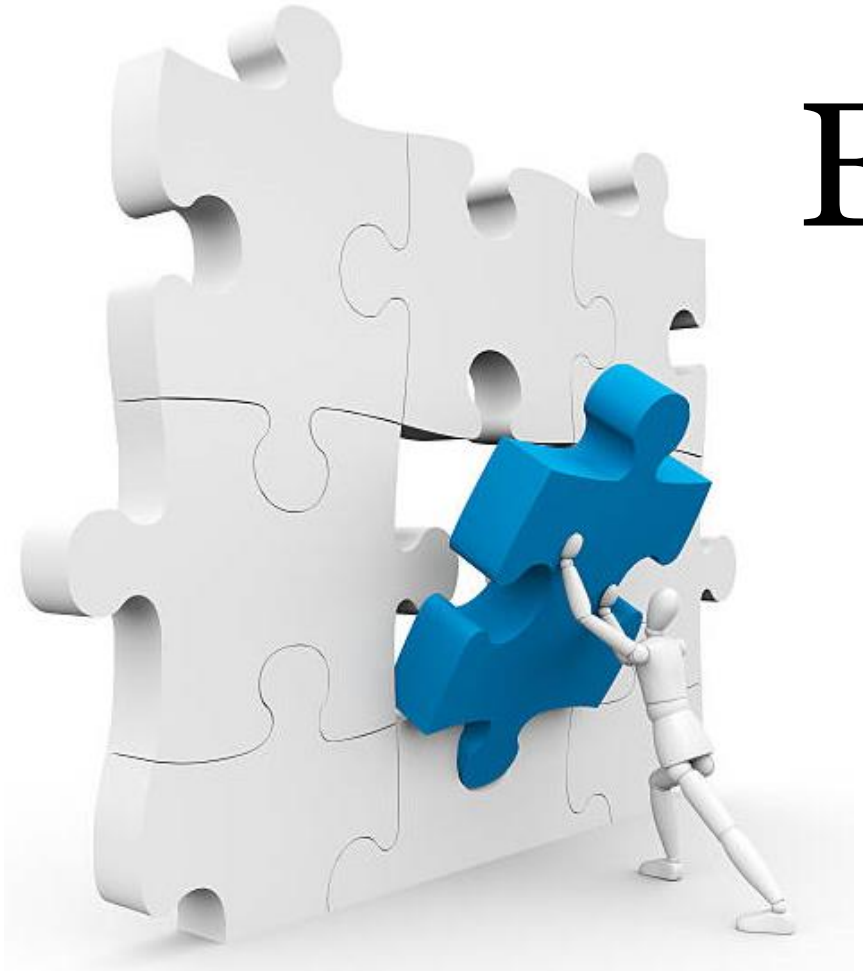
⚠ No partial credit for MFS — it's all or nothing, and MFS gets nothing

⚠ Deduction phases out beginning at $150K AGI (single) and $300K AGI (MFJ).

EXAMPLES: HOW NO TAX ON OVERTIME WORKS

- Example 1 (Joint filers): Pat earns $14,000, and Sandy earns $16,000 in qualified overtime in 2027. Their combined deduction is capped at $12,500 each or $25,000 — not $30,000.

- Example 2 (Ineligible): Lisa is a salaried manager earning $95,000. Her employer voluntarily pays her extra for long weeks, but she's FLSA-exempt. None of it qualifies for the deduction.



EMPLOYER'S NEED TO KNOW!

NO TAX ON OVERTIME

NON-EXEMPT EMPLOYEES: WHO QUALIFIES

Employees in nonexempt roles (as defined by the FLSA) can now deduct up to $12,500 of federally taxed overtime pay — or $25,000 for joint filers. This provision applies to any qualifying employee who receives overtime pay required by law at 1.5× their normal rate for working more than 40 hours in a week.

- Must be classified as a FLSA nonexempt employee
- Must be paid overtime at 1.5× rate for hours over 40 per week
- Employer must report qualified overtime separately on Form W-2
- Employer still withholds Social Security and Medicare (FICA)
- Deduction applies only to federal income tax, not payroll taxes
- Applies to hourly, frontline, and service-industry workers

WHO DOES NOT QUALIFY

Not everyone is eligible for the OBBBA overtime deduction. The law targets working-class, hourly employees covered under the Fair Labor Standards Act. If you're exempt from FLSA or earn above certain thresholds, you're out. Here's who does NOT qualify:

- Exempt employees under FLSA — even if paid overtime voluntarily
- Highly Compensated Employees (HCEs) — over $160,000 prior-year income or 5%+ owner
- Employees whose overtime is not required under FLSA (e.g., salaried)
- Workers who exceed phase-out limits: $275K (single), $550K (joint)
- Anyone whose employer does not report overtime separately on W-2
- Contractors or gig workers (1099s) — unless later updated by IRS

EXAMPLES: HOW NO TAX ON OVERTIME WORKS

- Example (Hourly employee)
  - Alex works 1,040 hours of overtime per week
  - Regular hourly rate is $30/hour
  - Overtime hourly rate is $45/hour 1.5× rate
  - Only $15/hour is the overtime compensation included.

EMPLOYER REPORTING – NO TAX ON OVERTIME

- Employers play a critical role in ensuring that employees can benefit from the OBBBA overtime deduction. To qualify, overtime pay must be reported separately and accurately. The IRS is expected to issue updated forms and guidance.

- Must separately report 'qualified overtime compensation' on Form W-2 (Box TBD)

- Applies to wages paid at 1.5× rate under FLSA only (only the .5 amount is included) — not voluntary overtime bonuses

EMPLOYER REPORTING – NO TAX ON OVERTIME

- Use reasonable estimation methods in 2025 if payroll systems need updates
- IRS will release updated W-2 and W-4 guidance for 2026 and beyond
- Employers remain responsible for withholding FICA and Medicare taxes
- Maintain payroll documentation showing FLSA-compliant overtime calculations

EMPLOYER GUIDE: EXEMPT VS. NONEXEMPT EMPLOYEES

Factor	Nonexempt Employee ✅ Eligible for OBBBA Deduction	Exempt Employee ❌ Not Eligible for OBBBA Deduction
FLSA Overtime Protection	Covered — entitled to 1.5× pay after 40 hrs/week (Only the .5 included in OBBBA deduction)	Not covered — not legally entitled to overtime
Method of Pay	Hourly or salary (below threshold)	Typically salaried
Minimum Salary Threshold	Below $1,128/week ($58,656/year) Effective 1/1/25	At/above $1,128/week ($58,656/year) Effective 1/1/25
Typical Job Duties	Routine, task-based, production, service work	Executive, administrative, professional, or outside sales
Receives Overtime Pay?	Yes — required by law (FLSA)	Possibly — but if voluntary, not FLSA-qualified
Is Overtime Pay Deductible under OBBBA?	✅ Yes — if properly reported on W-2	❌ No — even if paid voluntarily
W-2 Reporting Required	Yes — must list "qualified overtime" separately	Not applicable
Income Eligibility (OBBBA cap)	Under $160,000 (single) or $300,000 (joint)	Irrelevant — not eligible

Review https://www.dol.gov/agencies/whd/overtime/salary-levels

EMPLOYER GUIDE: EXEMPT VS. NONEXEMPT EMPLOYEES

Quick Employer Checklist:

☐ Does the employee earn less than $1,128/week?

☐ Is the employee not performing executive/admin/professional duties?

☐ Are they entitled to overtime by law?

☐ Do you report overtime separately on their W-2?

✅ If YES to all,
The employee is nonexempt and eligible for the OBBBA overtime tax deduction.

Be mindful that these final decisions could require legal analysis. Avoid being an attorney.

Review https://www.dol.gov/agencies/whd/overtime/salary-levels

RECORDKEEPING REQUIREMENTS

Accurate recordkeeping is essential to support eligibility for the OBBBA overtime deduction. Taxpayers and employers must retain documentation proving hours worked, rate of pay, and proper reporting.

- Timecards or digital logs showing hours over 40/week
- Pay stubs or payroll summaries showing 1.5× overtime rate
- Employer payroll system reports with overtime itemized separately
- W-2s clearly showing qualified overtime reported separately (Box TBD)
- Copies of employment agreements or HR policies outlining OT eligibility
- Documentation of job duties supporting nonexempt status
- Year-end reconciliations confirming reported OT matches payroll data
- Retain records for a minimum of 3 years (IRS audit period)

IRS

RELIEF

2025 TRANSITION RELIEF FOR EMPLOYERS

The IRS issued guidance providing penalty relief to employers and other payors for tax year 2025 regarding new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA.

Transition penalty relief for tax year 2025

Notice 2025-62 provides penalty relief from the new information reporting requirements for cash tips and qualified overtime compensation under the OBBB to employers and other payors for not filing correct information returns and not providing correct payee statements to employees and other payees.

2025 TRANSITION RELIEF FOR EMPLOYERS

Specifically, employers and other payors will not face penalties for failing to provide a separate accounting of any amounts reasonably designated as cash tips or the occupation of the person receiving such tips. In addition, employers and other payors will also not face penalties for failing to separately provide the total amount of qualified overtime compensation. The relief is limited to returns and statements filed and provided for tax year 2025 and applies only to the extent that the person required to make the return or statement otherwise files and provides a complete and correct return or statement.

2025 TRANSITION RELIEF FOR EMPLOYERS

Treasury and IRS are aware that employers and other payors may not currently have the information required to be reported under the OBBBA, or the systems or procedures in place to be able to correctly file the additional information with the IRS, or SSA in the case of a Form W-2, and provide it to employees and other payees. Moreover, the IRS has announced that Forms W-2 and 1099 for tax year 2025 will not be updated to account for the OBBBA-related changes. Therefore, tax year 2025 will be treated as a transition period for IRS enforcement and administration of the new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA.

2025 TRANSITION RELIEF FOR EMPLOYERS

While not a requirement to receive the penalty relief provided in Notice 2025-62, employers and other payors are encouraged to provide employees and payees, particularly those in a tipped occupation, with the occupation codes and separate accountings of cash tips, so the employee or payee can claim the deduction for qualified tips for tax year 2025. Likewise, employers and payors are encouraged to provide employees and payees with separate accountings of overtime compensation, so the employee or payee has readily available the information necessary to claim the deduction for qualified overtime compensation for tax year 2025.

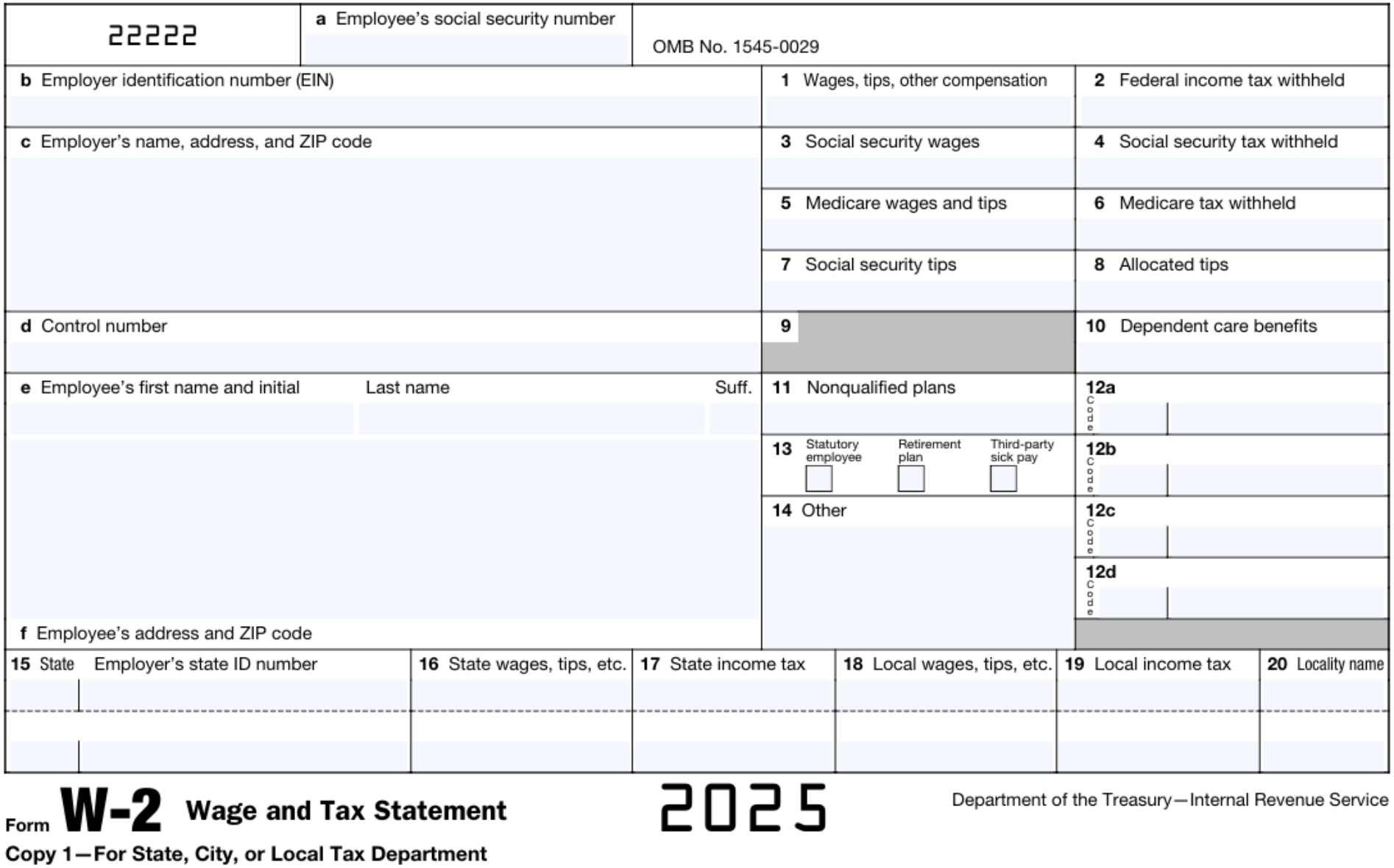
2025 TRANSITION RELIEF FOR EMPLOYERS

Employers and payors can make the information available to their employees and payees through an online portal, additional written statements provided to the employees or payees, other secure methods, or in the case of qualified overtime compensation in Box 14 of the employee's Form W-2.

TAX FORMS

FORM W-2

IRS ANNOUNCED: EXPECT NO 2025 CHANGES



22222

a Employee's social security number

OMB No. 1545-0029

b Employer identification number (EIN)

1 Wages, tips, other compensation

2 Federal income tax withheld

c Employer's name, address, and ZIP code

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

d Control number

9

10 Dependent care benefits

e Employee's first name and initial Last name Suff.

11 Nonqualified plans

12a Code

13 Statutory employee Retirement plan Third-party sick pay

12b Code

14 Other

12c Code

12d Code

f Employee's address and ZIP code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** 2025

Department of the Treasury—Internal Revenue Service

Copy 1—For State, City, or Local Tax Department

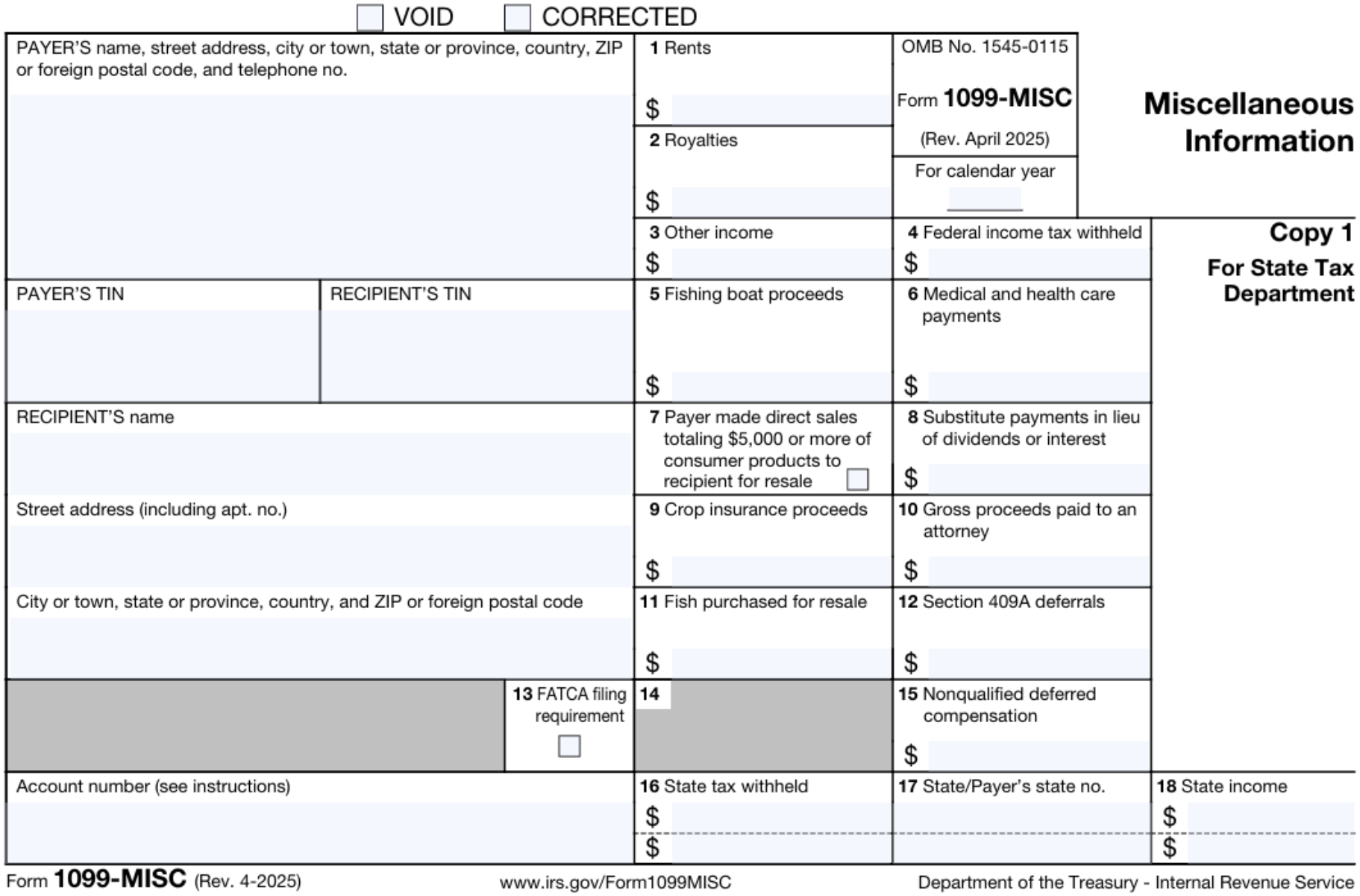
FORM 1099-NEC

IRS ANNOUNCED: EXPECT NO 2025 CHANGES

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 Form **1099-NEC** (Rev. April 2025) For calendar year	**Nonemployee Compensation**
PAYER'S TIN	RECIPIENT'S TIN	**1** Nonemployee compensation $	**Copy 1** **For State Tax Department**
RECIPIENT'S name		**2** Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐	
Street address (including apt. no.)		**3** Excess golden parachute payments $	
City or town, state or province, country, and ZIP or foreign postal code		**4** Federal income tax withheld $	
Account number (see instructions)		**5** State tax withheld $ $	**6** State/Payer's state no.	**7** State income $ $

Form **1099-NEC** (Rev. 4-2025) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service



☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	1 Rents $	OMB No. 1545-0115 Form 1099-MISC (Rev. April 2025) For calendar year	Miscellaneous Information
	2 Royalties $		
	3 Other income $	4 Federal income tax withheld $	Copy 1 For State Tax Department
PAYER'S TIN / RECIPIENT'S TIN	5 Fishing boat proceeds $	6 Medical and health care payments $	
RECIPIENT'S name	7 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐	8 Substitute payments in lieu of dividends or interest $	
Street address (including apt. no.)	9 Crop insurance proceeds $	10 Gross proceeds paid to an attorney $	
City or town, state or province, country, and ZIP or foreign postal code	11 Fish purchased for resale $	12 Section 409A deferrals $	
13 FATCA filing requirement ☐	14	15 Nonqualified deferred compensation $	
Account number (see instructions)	16 State tax withheld $ / $	17 State/Payer's state no.	18 State income $ / $

Form 1099-MISC (Rev. 4-2025) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

FORM 1099-MISC

IRS ANNOUNCED: EXPECT NO 2025 CHANGES

WAGERING LOSSES

90% WAGERING LOSS LIMITATION

Starting in 2026: The new law clarifies that “losses from wagering transactions” include deductions connected to wagering activities (travel).

The OBBBA language appears clear, but additional IRS interpretation may be required, as the Congressional Research Service has interpreted it possibly inconsistently.

Further analysis may be required for gambling “session gains.”

NOTE: A gambling "session gain" under the IRS's approved session method refers to the net gain (or loss) from a continuous, uninterrupted period of gambling activity at a specific location or platform for a specific type of game, within a single calendar day. This means that within a session, you can offset your winnings with your losses to determine your overall gain or loss for that session.

OBBBA LANGUAGE: WAGERING LOSS LIMITATION

SEC. 70114. EXTENSION AND MODIFICATION OF LIMITATION ON WAGERING LOSSES.

(a) IN GENERAL.—Section 165 is amended by striking subsection (d) and inserting the following:

(d) WAGERING LOSSES.—

(1) IN GENERAL.—For purposes of losses from wagering transactions, the amount allowed as a deduction for any taxable year—

(A) shall be equal to 90 percent of the amount of such losses during such taxable year, and

B) shall be allowed only to the extent of the gains from such transactions during such taxable year.

(2) SPECIAL RULE.—For purposes of paragraph (1), the term 'losses from wagering transactions' includes any deduction otherwise allowable under this chapter incurred in carrying on any wagering transaction.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2025.

OBBBA LANGUAGE: WAGERING LOSS LIMITATION

Summary of OBBBA per CRS – Congressional Research Service* (U.S. Government)

"(Sec. 70114) This section makes permanent and further expands the limit on the itemized tax deduction for wagering losses.

Specifically, under this section, wagering losses permanently include expenses incurred in carrying on wagering transactions that would otherwise be deductible (e.g., travel to and from a casino). Thus, expenses incurred in carrying on wagering transactions may be deducted only to the extent that such expenses (in addition to any other wagering losses) are offset by gains from wagering that are included in gross income.

This section further limits the tax deduction for wagering losses to 90% (from 100%) of the amount of wagering gains included in gross income."

*The Congressional Research Service (CRS) of the Library of Congress works exclusively for the United States Congress, providing policy and legal analysis to committees and Members of both the House and Senate, regardless of party affiliation. CRS provides Congress with analysis that is authoritative, confidential, objective, and non-partisan.

90% WAGERING LOSSES: BREAK-DOWN

What the Law Says

(d)(1)(A) — 90% Limit on Loss Deductions

"The amount allowed as a deduction… shall be equal to 90% of the amount of such losses…"

- Translation: No matter what you lose, you can only deduct 90% of your total wagering losses for the year.

(d)(1)(B) — Deduction Limited to Winnings

"…shall be allowed only to the extent of the gains from such transactions…"

- Translation: You cannot deduct the allowable losses more than your total gambling gains.

So that 90% wagering loss amount is capped by your total gains. In essence:

→ You may deduct 90% of your total losses, no more than the total wagering gains

WAGERING LOSS LIMITATION

CONCLUSION BASED ON THE ACTUAL LAW:

You may deduct 90% of your total wagering losses, no more than the total wagering gains.

This means:

1. The deduction = 90% of actual wagering losses
2. BUT that amount is further capped by total wagering gains

So, you must calculate both limits, then deduct the lesser.

EXAMPLE: WAGERING LOSS LIMITATION

Wagering gains: $10,000
Wagering losses: $10,000 + Expenses: $1,000 Total = $11,000

Step 1: 90% of wagering losses = $9,900
Step 2: Deduction capped at wagering gains = $10,000

Taxable Income Schedule 1 = $10,000

Deductible Losses on Schedule A = $9,900

Net Gain $100

EXAMPLE: PROFESSIONAL GAMBLER

Wagering gains: $50,000
Wagering losses: $19,000 + Expenses: $1,000 Total = $20,000

Step 1: 90% of wagering losses = $18,000
Step 2: Deduction capped at wagering gains = $50,000

Gross Income Schedule C	$50,000
Deductions Schedule C	$18,000

Net Income on Schedule C = $32,000 (Subject to S/E Tax)

EXAMPLE: PER SESSION OF SESSION BETTING

ONE Session Wagering Gains: $33,000
ONE Session Wagering Losses: $32,000

Step 1: 90% of ONE session wagering losses = $28,800
Step 2: Deduction capped at ONE wagering gains = $33,000

ONE Session Wagering Gains $33,000
Less: ONE Session Wagering Loss $28,800

Net Income on Schedule 1 = $4,200

MORTAGE INTEREST & INSURANCE PREMIUMS

MORTGAGE INTEREST DEDUCTION

Under OBBBA, the $750,000 acquisition indebtedness limit and related requirements from the TCJA remain unchanged.

The exclusion of interest on home-equity indebtedness remains.

The new law won't change the mortgage interest deduction for those who took out mortgages before December 15, 2017, as they continue to be grandfathered into the pre-TCJA indebtedness limit of $1 million.

MORTGAGE INSURANCE PREMIUMS

Effective 2026: The OBBBA also reinstates the deduction for mortgage insurance premiums (MIP/PMI) and treats them as qualified residence interest. Premiums paid after December 31, 2025, for qualified mortgage insurance in connection with acquisition indebtedness are deductible as home mortgage interest:

Because mortgage insurance premiums are included as mortgage interest, it is subject to mortgage limits.

MORTGAGE INSURANCE PREMIUMS

- The deduction for mortgage insurance premiums is reduced (phased out) for taxpayers with higher incomes. The phase-out begins when your Adjusted Gross Income (AGI) exceeds $100,000, and is completely eliminated if your AGI exceeds $109,000 (with lower thresholds for married filing separately).

- The deduction is reduced (but not below zero) by 10 percent for each $1,000 or fraction thereof by which the taxpayer's adjusted gross income (AGI) for the year exceeds $100,000 ($500 and $50,000, respectively, for a married filing a separate return).

MORTGAGE INTEREST + INSURANCE PREMIUMS

EXAMPLE: $750,000 Mortgage Limit

Jim and Nancy have an $800,000 average mortgage balance

Originated on July 9, 2022

- $36,000 of mortgage interest
- $4,000 of mortgage insurance premiums

They are $50,000 above $750,000 allowable mortgage limit

$40,000 is used in the formula as both are considered mortgage interest

Ratio: $750,000 ÷ $800,000 = 0.9375

Allowed interest and insurance premium deduction: 0.9375 × $40,000 = $37,500

NOTE: AGI limitations on mortgage insurance premiums apply before included.

MORTGAGE INTEREST + INSURANCE PREMIUMS

EXAMPLE: $1,000,000 Mortgage Limit

Jim and Nancy have an $1,200,000 average mortgage balance

Originated on October 4, 2016

- $54,000 of mortgage interest
- $6,000 of mortgage insurance premiums

They are $200,000 above $1,000,000 allowable mortgage limit

$60,000 is used in the formula as both are considered mortgage interest

Ratio: $1,000,000 ÷ $1,200,000 = 0.8333

Allowed interest and insurance premium deduction: 0.8333 × $60,000 = $50,000

NOTE: AGI limitations on mortgage insurance premiums apply before included.

MORTGAGE INSURANCE PREMIUMS PHASE-OUT

The deduction for mortgage insurance premiums is reduced (phased out)

- The phase-out begins when your Adjusted Gross Income (AGI) exceeds $100,000, and is completely eliminated if your AGI exceeds $109,000 (with lower thresholds for married filing separately).

- The deduction is reduced (but not below zero) by 10 percent for each $1,000 or fraction thereof by which the taxpayer's AGI for the year exceeds $100,000 ($500 and $50,000, respectively, for a married filing a separate return).

Therefore, in the prior two examples, most likely taxpayers with mortgages that high would have an AGI above the threshold, and therefore, none of the mortgage insurance premiums would be included or deducted.

NEW TAX LAW PROVISIONS:

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$1,000 (single) or $2,000 (MFJ) Charitable Contribution

- Only if the standard deduction is taken

$6,000 Additional Seniors 65+ Deduction

- Regardless of whether itemized deductions or the standard deduction is taken
- Per person. If married, $12,000 is allowed if both spouses qualify
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$10,000 Auto Loan Interest Deduction

- Regardless of whether itemized deductions or the standard deduction is taken
- Maximum deduction per return.

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$25,000 No Tax on Tips

- Maximum deduction per return.
- Regardless of whether itemized deductions or the standard deduction is taken
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$12,500 (single) $25,000 (MFJ) No Tax on Overtime

- Per person maximum of $12,500. If married, each spouse up to $12,500
- Regardless of whether itemized deductions or the standard deduction is taken
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: ITEMIZED DEDUCTIONS

SCHEDULE A:

- $40,000 SALT Deduction
- Mortgage Insurance Premiums Includable with Mortgage Interest
- Charitable Contributions Subject to New .05% AGI
- Gambling Losses
- Limitations on Disaster Losses to Federal and State (Approved by IRS)
- Miscellaneous Itemized Deductions Over 2% AGI Eliminated
  - Except for Teachers
- Limitations for the 37% Tax Bracket: Taxpayers to a 35% tax benefit
  - Pease limitation terminated permanently

SCHEDULE A (Form 1040)

Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

2025

Attachment Sequence No. **07**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

DRAFT — DO NOT FILE

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see instructions)	1	
	2	Enter amount from Form 1040 or 1040-SR, line 11a	2	
	3	Multiply line 2 by 7.5% (0.075)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local taxes (SALT).		
	a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐	5a	
	b	State and local real estate taxes (see instructions)	5b	
	c	State and local personal property taxes	5c	
	d	Add lines 5a through 5c	5d	
	e	Enter the smaller of line 5d or $10,000 ($5,000 if married filing separately)	5e	
	6	Other taxes. List type and amount:	6	
	7	Add lines 5e and 6		7
Interest You Paid	8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐		
Caution: Your mortgage interest deduction may be limited. See instructions.	a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	
	b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b	
	c	Points not reported to you on Form 1098. See instructions for special rules	8c	
	d	Reserved for future use	8d	
	e	Add lines 8a through 8c	8e	
	9	Investment interest. Attach Form 4952 if required. See instructions	9	
	10	Add lines 8e and 9		10
Gifts to Charity	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	
Caution: If you made a gift and got a benefit for it, see instructions.	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12	
	13	Carryover from prior year	13	
	14	Add lines 11 through 13		14
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		15
Other Itemized Deductions	16	Other—from list in instructions. List type and amount: EDUCATIONAL EXPENSES HERE		16
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12e		17
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2025** Created 3/24/25

OBBBA BUSINESS PROVISIONS

R & D

RESEARCH

& DEVELOPMENT

R&D EXPENSING RESTORED

The OBBBA reinstates the immediate deduction for domestic research and development (R&D) expenses under Section 174 incurred after December 31, 2024.

The 15-year amortization requirement for foreign R&D costs remains unchanged.

R&D EXPENSING: SMALL BUSINESS

The OBBBA allows small business taxpayers (with average annual gross receipts of $31 million or less) to

Claim a tax deduction for R&D retroactively to tax years beginning after December 31, 2021, and

May elect to accelerate amortization attributable to domestic research and experimental expenditures paid or incurred after December 31, 2021 and before January 1, 2025

- These businesses can amend prior tax returns
  - If the tax return is on extension, it does not need to be amended. File the changes with the original tax return.
- Elect to apply the unamortized amounts against current tax years (2025–2026)

R&D SMALL BUSINESS OPTIONS EXAMPLE

Company R&D Paid (Domestic only):

2022: $12,000
2023: $20,000
2024: $18,000
2025: $8,000

Amortization Method (pre-OBBBA): 5-year, mid-year convention

R&D SMALL BUSINESS OPTIONS EXAMPLE

Unamortized R&D Balances at 1/1/2025

Estimated unamortized (rounded):

- 2022: $6,000 remaining
- 2023: $14,000 remaining
- 2024: $16,200 remaining

Total unamortized: $36,200

R&D SMALL BUSINESS: OPTION 1

Amend 2022–2024 Returns to Expense R&D

– 2022: Expense full $12,000

– 2023: Expense full $20,000

– 2024: Expense full $18,000

Results in a tax refund/lower liability in those years

2025: Expense $8,000 for current year R&D

R&D SMALL BUSINESS: OPTION 2

Accelerate Remaining Amortization

Elect to deduct the remaining $36,200 over 2 years:

- 2025: Deduct $18,100
- 2026: Deduct $18,100

2025: Also, expense $8,000 in current-year R&D

No amendments needed for prior returns

R&D SMALL BUSINESS: OPTION 3

Continue 5-Year Amortization

Continue deducting R&D per the original amortization schedule

Remaining balances for 2022–2024 will be deducted gradually through 2029

2025: Expense $8,000 under OBBBA

R&D EXPENSING: LARGE BUSINESS

Larger businesses can elect to remain unamortized domestic R&D expenses from January 1, 2022, through December 31, 2024, to be deducted over a two-year period starting in 2025.

Retroactive elections must be made within one year of July 4, 2025.

Taxpayers still retain the option to elect five-year amortization.

Option 1 is not an option for large businesses

R&D SMALL BUSINESS: OPTION 2

Accelerate Remaining Amortization

Elect to deduct the remaining $36,200 over 2 years:

- 2025: Deduct $18,100
- 2026: Deduct $18,100

2025: Also, expense $8,000 in current-year R&D

No amendments needed for prior returns

R&D SMALL BUSINESS: OPTION 3

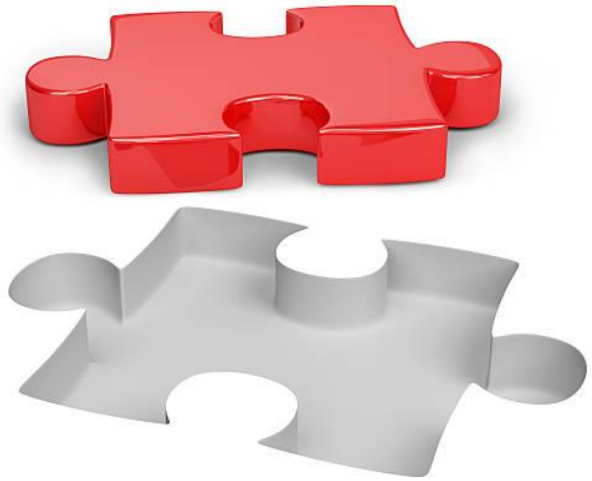
Continue 5-Year Amortization

Continue deducting R&D per the original amortization schedule

Remaining balances for 2022–2024 will be deducted gradually through 2029

2025: Expense $8,000 under OBBBA

BONUS DEPRECIATION



BONUS DEPRECIATION – 100% MADE PERMANENT

The One Big Beautiful Bill Act (OBBBA), signed into law July 4, 2025, permanently restores 100% bonus depreciation. The previous phaseout schedule is repealed.

- Effective Date: Acquired after January 19, 2025
- Bonus depreciation remains at 100% permanently
    - Bonus applies after Section 179 is elected
    - Can elect out of bonus depreciation
        - Election applies to all assets in each class life
        - You can select which class life will be elected out
- Applies to new and used qualified property
- MACRS property with a recovery period of 20 years or less
    - Includes qualified improvement property (QIP)

BONUS DEPRECIATION – 100% MADE PERMANENT

Bonus depreciation **does not apply** to:

- Class life over 20 years
- Property used outside the U.S.
- Property acquired from related parties
- Buildings and most structural components
- Intangibles (like goodwill)

BONUS DEPRECIATION VS. SECTION 179 EXPENSING

While two methods allow immediate expensing, key differences remain. Section 179 is capped and elective, while bonus depreciation is automatic.

- Bonus: 100% and automatic (unless opted out) on or after January 19, 2025
- 179: Must be elected and limited to taxable income
- Bonus applies to new and used property with no dollar cap
- 179 capped at $2.5M (2025), phases out at $4M
- 179 remains useful for qualifying property over 20-year class life

  Example: Roofs, HVAC, fire protection, security

  Eligible improvements carried from the The Protecting Americans from Tax Hikes (PATH) Act

BONUS DEPRECIATION EXAMPLES UNDER OBBBA

Asset	MACRS Class Life	Examples / Notes
Electronic Equipment	5 years	Copiers, printers, shredders, phones
Computers & Related	5 years	Laptops, desktops, monitors, servers
Automobiles (under 6,000 lbs. GVWR)	5 years	Sedans, small SUVs — subject to $10,000 maximum bonus depreciation on luxury auto limits

BONUS DEPRECIATION EXAMPLES UNDER OBBBA

Asset	MACRS Class Life	Examples / Notes
SUVs > 6,000 lbs. GVWR	5 years	Limited Sec. 179 ($31,300 in 2025); eligible for 100% bonus aft 1/19/25
Light Trucks & Vans	5 years	Used for delivery or mobile service operations
Restaurant Equipment	5 or 7 years	Ranges, fryers, refrigerators (depends on classification)
Trailers (utility or enclosed)	5 years	Used for transport, construction

BONUS DEPRECIATION EXAMPLES UNDER OBBBA

Asset	MACRS Class Life	Examples / Notes
Solar Panels (Nonresidential)	5 years	Energy property eligible for separate credits
Medical & Dental Equipment	5 or 7 years	X-ray machines, chairs, exam tables (depends)
Office Furniture & Fixtures	7 years	Desks, chairs, bookshelves, filing cabinets
Machinery & Equipment	7 years	Production machines, commercial ovens, CNC equipment
Tools & Workbenches	7 years	Power tools, workstations

BONUS DEPRECIATION EXAMPLES UNDER OBBBA

Asset	MACRS Class Life	Examples / Notes
Qualified Improvement Property (QIP)	15 years	Interior improvements to commercial buildings (QIP rules)
Fencing & Parking Lot Resurfacing	15 years	Land improvements not part of the building itself
Signage (detached)	15 years	Outdoor monument or pylon signs

BONUS DEPRECIATION EXAMPLE – RANGE ROVER

A 2025 Range Rover with a gross vehicle weight rating (GVWR) over 6,000 pounds may qualify for 100% bonus depreciation under OBBBA, if it is used more than 50% for business and acquired after January 19, 2025.

- Vehicle: 2025 Range Rover SE (GVWR ~7,100 lbs)
- Placed in service on March 1, 2025
- Cost: $120,000
- Business use: 85%
- Qualified for 100% bonus depreciation
- Depreciation = $102,000

Must retain substantiation of business use and GVWR (e.g., manufacturer certification, mileage logs)

LUXURY VEHICLES UNDER 6,000 or LESS LBS. GVWR

Vehicles with a gross vehicle weight rating (GVWR) 6,000 pounds or less are considered luxury automobiles and are subject to annual depreciation limits—even under OBBBA's 100% bonus depreciation rules.

- Applies to sedans, smaller SUVs, and passenger vehicles
- Bonus depreciation allowed only up to luxury auto cap of $10,000
- For 2025, maximum first-year depreciation limit (with bonus): $20,200
- Limits apply even if 100% business use
- Must check manufacturer GVWR and substantiate business use
- Cost otherwise must be depreciated over time (5-year MACRS, subject to annual limits)

SUV BONUS DEPRECIATION OVER 6,000 LBS. GVWR

Example 1 – Range Rover purchased on 7/12/25 (GVWR: 7,100 lbs.)

- Purchase Price: $120,000
- Business Use: 90%
- Deduction (100% bonus depreciation): $108,000 (90% of cost)
- Year 1 Deduction: $108,000

Note: Sec. 179 not elected

AUTO BONUS DEPRECIATION 6,000 & UNDER LBS. GVWR

Example 2 – BMW 5 Series (GVWR: 4,200 lbs.)

- Purchase Price: $70,000
- Business Use: 100%
- Subject to luxury auto limits
- Year 1 Deduction (2025): $20,200

Remaining basis $49,800

Depreciated over remaining years with annual luxury auto limits

FAQ – BONUS DEPRECIATION FOR VEHICLES

❓ Does bonus depreciation apply to used vehicles?

✅ Yes

❓ What if I use the vehicle 60% for business?

✅ Only 60% of the cost qualifies for bonus depreciation.

❓ Can I claim bonus depreciation if I finance the vehicle?

✅ Yes, if the vehicle is placed in service & meets all requirements.

❓ Is there a cap on deduction for vehicles over 6,000 lbs.?

✅ No cap if business use exceeds 50% & vehicle qualifies for bonus

SECTION 179 DEPRECIATION

SECTION 179 DEPRECIATION – OBBBA EXPANSIONS

The One Big Beautiful Bill Act (OBBBA) significantly expands Section 179 expensing limits starting in 2025, permanently increasing the dollar cap, phaseout threshold, and eligibility of property types.

- Dollar limit raised to $2,500,000 Phaseout threshold increased to $4,000,000
- Effective for property placed in service on or after January 1, 2025
- Reminder of eligible improvements carried from the The Protecting Americans from Tax Hikes (PATH) Act
  - Roofs, HVAC, fire protection, security
- Reminder: Includes qualified improvement property (QIP)
- Applies to new and used property

SECTION 179 VS. BONUS DEPRECIATION

Although both methods provide immediate deductions, reminder of key distinctions.

- 179 $2.5 million is effective January 1, 2025; 100% bonus January 20, 2025
- 179 is elective; bonus is automatic unless opted out
- 179 is limited to net taxable income (add back officer compensation); bonus is not limited
- 179 has dollar caps at $2.5M and phaseouts $4M; bonus has no cap
    - Phaseout decreases allowable 179 dollar-for-dollar above threshold
- 179 allows selective asset treatment; bonus applies to all qualifying asset in any class life
- 179 leads to immediate recapture of all prior depreciation in the year any asset drops to 50% or less business usage; bonus has no immediate recapture under the same circumstances

SEC. 179 – SUV LIMITS OVER & UNDER 6,000 LB GVWR

Section 179 applies differently to SUVs depending on their GVWR. For 2025, the following rules and examples apply:

- SUV, Truck or Van Over 6,000 lbs. GVWR (Under 14,000 lbs. GVWR)
  - Maximum 179 deduction in 2025: $31,300
  - Balance may qualify for 100% bonus depreciation if acquired after 1/19/25 (40% 1/1/25 - 1/19/25)

- SUV 6,000 lbs. GVWR of Less
  - 179 deduction now allowed
  - Subject to luxury auto limits
  - 2025 first-year depreciation cap: $20,200 (with bonus)

Must substantiate business use over 50% and confirm GVWR

EXAMPLE: SECTION 179

Example 1:
Elects 179 on this equipment purchase + does not elect out of bonus depreciation

Tech Build Co. purchases $100,000 of equipment
On July 3, 2025
Total purchase of all equipment in 2025 of $4,000,000

- Section 179 elected depreciation = $100,000 (no phase-out)
- Bonus depreciation $3,900,000 (100% of remainder)

EXAMPLE: SECTION 179

Example 2: FST, LLC purchases $4,200,000 of equipment on January 10, 2025:
Elects 179 + does not elect out of bonus depreciation

- Section 179 allowable depreciation = $2,300,000
  $2,500,000 179 max less $200,000 over $4,000,000 threshold

- 40% bonus depreciation of remaining basis = $760,000
  $4,200,000 less $2,300,000 = $1,900,000 remaining basis x 40%

- 7-year property = $162,906 regular depreciation
  $4,200,000 less $2,300,000 less $760,000 = $1,140,000 remainder x 14.29%
  MACRS (half-year conv.)

- 2025 combined depreciation $3,222,906
  $2,300,000 + $760,000 + $162,906

- Remaining depreciable basis for 2026 $977,094
  $4,200,000 less $3,222,906

EXAMPLE: SECTION 179

Example 3:
FST, LLC purchases $4,200,000 of equipment on June 17, 2025:
Elects 179 + does not elect out of bonus depreciation

- Section 179 allowable depreciation = $2,300,000
  $2,500,000 179 max less $200,000 over $4,000,000 threshold

- 100% bonus depreciation of remaining basis = $1,900,000
  $4,200,000 less $2,300,000 = $1,900,000 remaining basis x 100%

- 2025 combined depreciation $4,200,000
  $2,300,000 + $1,900,000

- 7-year property = NONE
  Remaining depreciable basis is NONE

If only use bonus depreciation: $4,200,000 x 100% = $4,200,000 depreciation 2025

SUV EXAMPLE – $100,000 COST, 100% BUSINESS USE

Example 4:
SUV acquired on 1/20/25. GVWR: 6,800 lbs. 100% business use.
Total cost: $100,000. Section 179 + Bonus:

- Section 179 deduction: $31,300 (2025 statutory SUV limit)
- Remaining basis: $68,700 ($100,000 – $31,300)
  - Bonus depreciation: $68,700 (100% allowed post-OBBBA)
- Total first-year deduction (2025): $100,000
- Business use substantiation required; GVWR must exceed 6,000 lbs.

If only use bonus depreciation: $100,000 x 100% = $100,000

SUV EXAMPLE – $100,000 COST, 80% BUSINESS USE

Example 5:
SUV placed in service 1/5/25. GVWR: 6,800 lbs. 80% business use.
Total cost: $100,000. Section 179 + Bonus:

- Depreciable cost basis: $80,000 (80% of $100,000)
- Section 179 limit (2025): $31,300 × 80% = $25,040 deduction
- Remaining basis: $54,960 ($80,000 – $25,040)
  Bonus depreciation on remaining: **$21,984** (40% allowed pre-OBBBA)
- 5-year property = **$6,595** regular depreciation
  $100,000 x 80% = $80,000 - $25,040 - **$21,984** = $32,976 of remaining basis x 20% MACRS
- Total depreciation deduction (2025): $25,040 + **$21,984** + **$6,595** = $53,619

SECTION 179 DENIED – SUV AT 50% BUSINESS USE

Example 6: SUV placed in service 7/1/25. GVWR: 6,800 lbs. 50% business use. Total cost: $100,000. Section 179 + Bonus:

❌ Not eligible for Section 179 – must exceed 50% business use

❌ Not eligible for Bonus Depreciation – must exceed 50% business use

May use MACRS depreciation over 5 years on business-use portion

- Depreciable basis: $50,000 (50% of $100,000)
- Year 1 deduction (2025): $10,000 (20% MACRS straight-line)

Keep detailed mileage logs and personal use substantiation

- Important to distinguish personal commuting vs. true business use

QBI

Qualified Business Income

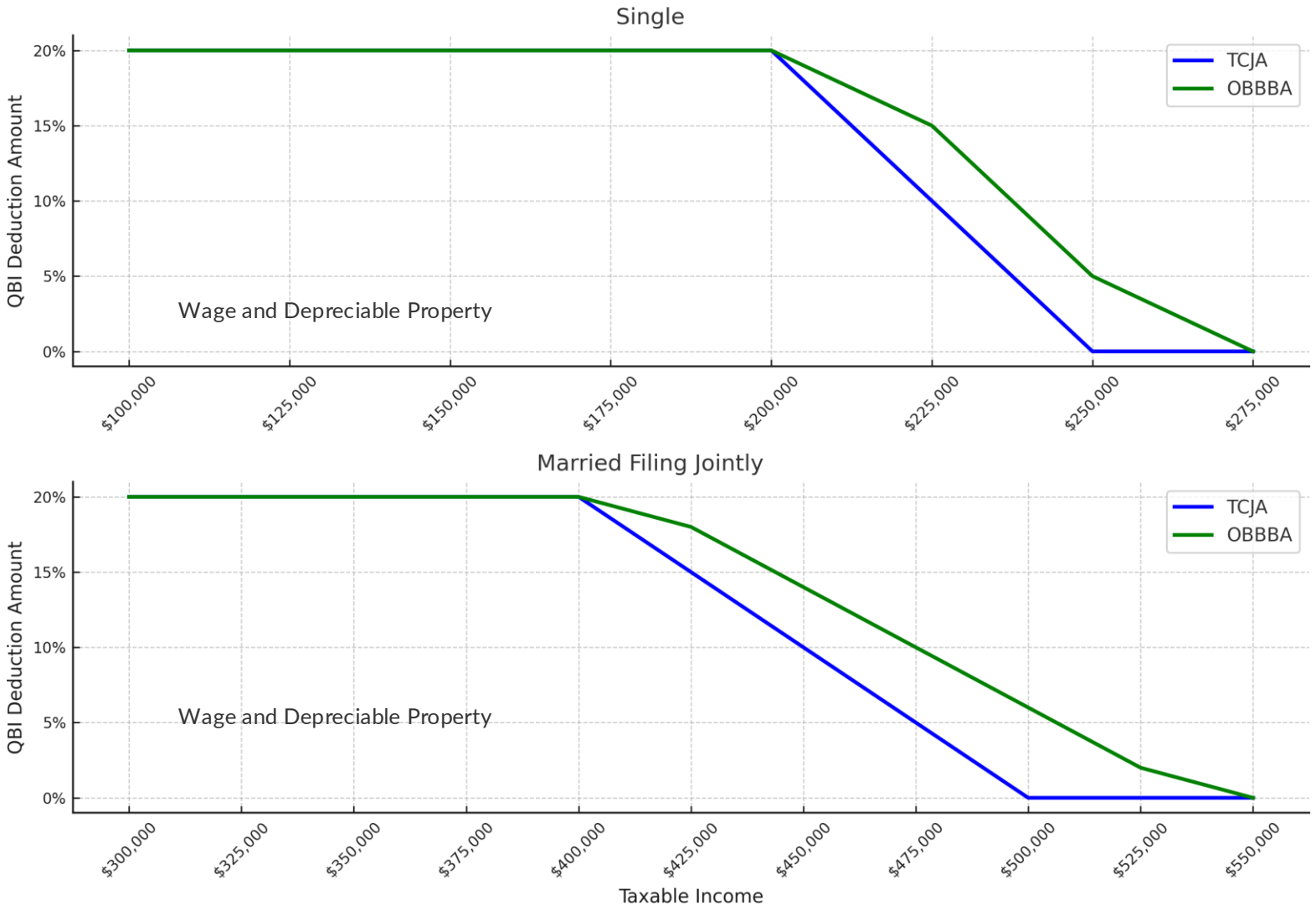
QBI DEDUCTION SURVIVES

The new law makes the Section 199A qualified business income (QBI) deduction permanent at 20%.

It expands the phase-in range for the deduction's wage and investment limitations, increasing the "window over the threshold" from $50,000 to $75,000 for single filers and from $100,000 to $150,000 for joint filers.

Additionally, the law introduces a new inflation-adjusted minimum deduction of $400 for taxpayers who have at least $1,000 of QBI from one or more active trades or businesses in which they materially participate.

QBI DEDUCTION PHASE-OUT/PHASE-IN LOOK



QBI DEDUCTION UNDER OBBBA

The OBBBA makes the Qualified Business Income (QBI) deduction under IRC Section 199A permanent with modifications starting in 2025:

- QBI deduction continues at 20% (It is NOT 23%)
- SSTB limitations remain, but higher phaseout thresholds apply
- Applies to partnerships, S corporations, sole proprietors, and some trusts
- Phase-in thresholds now indexed for inflation
- Indexed for inflation starting in 2026
- Wage and UBIA limits retained for high-income filers

QBI DEDUCTION SUMMARY

A Quick Recap on the QBI Deduction

The Qualified Business Income (QBI) deduction, created under the Tax Cuts and Jobs Act (TCJA), has been a valuable tax break for owners of pass-through entities such as sole proprietorships, partnerships, and S corporations. It allows eligible non-corporate taxpayers to deduct up to 20% of their qualified business income, though the benefit is subject to various limitations—including income thresholds, wage and asset tests, and restrictions for certain service-based businesses (like law, health, and consulting). Originally set to expire after 2025, the deduction left many business owners uncertain about the future. That changed with the 2025 One Big Beautiful Bill Act (OBBBA), which makes several important—and permanent—updates to the QBI deduction.

Link to IRS
https://www.irs.gov/newsroom/qualified-business-income-deduction

OBBBA INCREASES QBI PHASE-OUT WINDOWS

The phase-in range, which determines when certain wage and property limitations begin to apply, is increased

- $50,000 to $75,000 window for single filers
- $100,000 to $150,000 window for joint filers.

2025 QBI PHASE-OUT THRESHOLD BRACKETS

Existing for 2025 (New Increased Windows Begin in 2026)

Single filers:

- Full deduction generally available if taxable income is below $197,300.
- Deduction may be limited if taxable income is between $197,300 and $247,300, particularly for specified service trades or businesses (SSTBs).
- No deduction for SSTBs if taxable income exceeds $247,300.

Married filing jointly:

- Full deduction generally available if taxable income is below $394,600.
- Deduction may be limited if taxable income is between $394,600 and $494,600, particularly for specified service trades or businesses (SSTBs).
- No deduction for SSTBs if taxable income exceeds $494,600.

2026* QBI PHASE-OUT THRESHOLD SINGLE BRACKETS

***Projected in 2026 with increased "windows" without inflation**
The IRS has NOT released the 2026 QBI Brackets
This slide is ONLY included to provide an example of the new "windows"

Single filers projected in 2026 without inflation, not IRS released, example only:

- Full deduction generally available if taxable income is below $197,300.
- Deduction may be limited if taxable income is between $197,300 and $272,300, particularly for SSTBs.
- No deduction for SSTBs if taxable income exceeds $272,300.

Window $75,000 in 2026

2026* QBI PHASE-OUT THRESHOLD MFJ BRACKETS

***Projected in 2026 with increased "windows" without inflation**
The IRS has NOT released the 2026 QBI Brackets
This slide is ONLY included to provide an example of the new "windows"

Married filing jointly projected in 2026 without inflation, not IRS released, example only:

- Full deduction generally available if taxable income is below $394,600.
- Deduction may be limited if taxable income is between $394,600 and $544,600, particularly for SSTBs.
- No deduction for SSTBs if taxable income exceeds $544,600.

Window $150,000 in 2026

QBI: TECHNICAL HIGHLIGHTS UNDER OBBBA

New provisions of QBI starting after 2025

- Starting in 2026, the OBBBA introduces a minimum QBI deduction of $400 for taxpayers with at least $1,000 of qualified business income from one or more active businesses in which they materially participate.

- Both the $1,000 income threshold and the $400 minimum deduction are indexed for inflation, starting in 2027.

QBI: SSTB LIMITATION STILL APPLIES

- OBBBA retains exclusion rules for Specified Service Trades or Businesses (SSTBs)
- Professions affected: health, law, accounting, consulting, athletics, performing arts, investment management
- QBI deduction phases out for SSTBs beyond new income thresholds
- SSTBs below the threshold receive full deduction
- No changes to the definition of SSTB under §199A

QBI: WHAT DID NOT CHANGE UNDER OBBBA

- QBI remains a 20% deduction of qualified business income
- Aggregation rules for related businesses remain in place
- W-2 wage and UBIA thresholds still apply above income limits
- Trusts and estates can still utilize QBI planning strategies
- QBI does not apply to C corporations
- No change to definition of qualified REIT dividends or PTP income

CLEAN ENERGY PROVISIONS EXPIRING

CLEAN ENERGY CREDITS TERMINATING

Most of the clean energy credits are terminating early. Here are a few well-known ones expiring:

- Terminating after September 30, 2025:
  - $40,000 commercial EV credit
- EV charger station credits end after June 30, 2026
- Commercial solar and wind credits phase out after 2027
  - Unless construction begins within twelve months of July 4, 2025

CLEAN ENERGY CREDITS TERMINATING

A large number of clean energy tax incentives are terminating:

Sec. 179D energy-efficient commercial buildings deduction

- Terminates for property the construction of which begins after June 30, 2026

Sec. 45V clean hydrogen production credit

- Terminates after January 1, 2028

Sec. 6426(k) sustainable aviation fuel credit

- Terminates after September 30, 2025

CLEAN ENERGY CREDITS TERMINATING

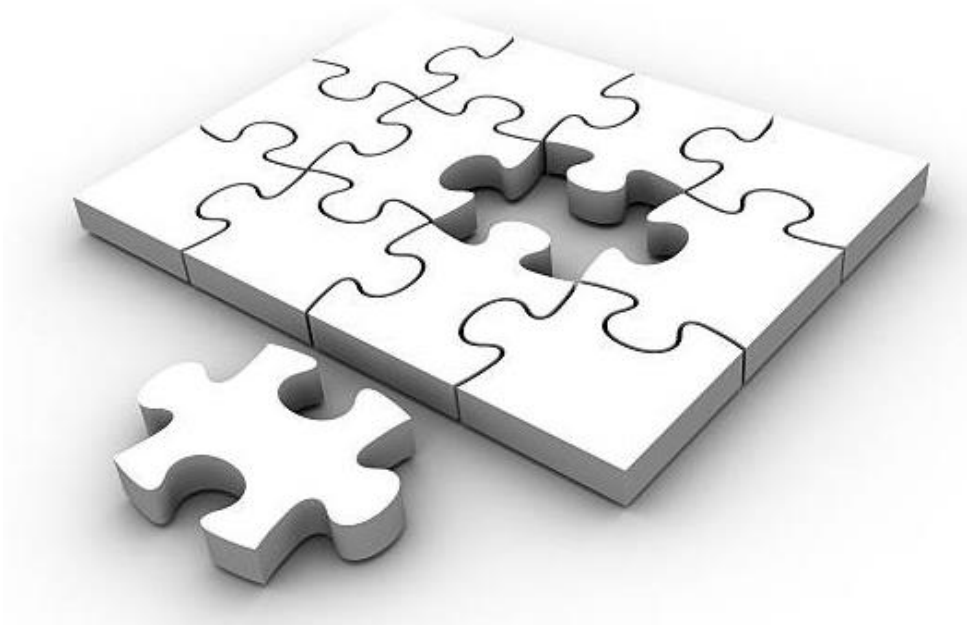
A large number of clean energy tax incentives are terminating:

Sec. 45Y clean electricity production credit

- Terminated for wind and solar facilities placed in service after December 31, 2027
- No credit will be allowed to facilities that are owned or controlled by certain foreign entities

Sec. 48E clean electricity investment credit

- Terminated for wind and solar facilities placed in service after December 31, 2027



VARIOUS BUSINESS PROVISIONS

FORM 1099 REPORTING

Form 1099-MISC and Form 1099-NEC

The OBBBA also changes the reporting threshold for Form 1099-MISC and Form 1099-NEC. Currently $600, the threshold will increase to $2,000 for the tax year 2026. For 2027 and subsequent years, the threshold for both forms will be adjusted for inflation.

Form 1099-K Reporting

Effective for 2025 and beyond, entities are only required to send a Form 1099-K if the total payments exceed $20,000 and the number of transactions with any one recipient exceeds 200.

BUSINESS INTEREST LIMITATION

Effective for taxable years after December 31, 2024, Section 163(j) permanently returns to an EBITDA-based limitation for business interest deductions to allow depreciation and amortization to be added back in determining the amount of deductible interest allowed for businesses subject to this provision.

EMPLOYER CONTRIBUTIONS TO STUDENT LOANS

The provision allowing employers to assist employees with student loan payments has been made permanent starting in 2026.

Employers may contribute up to $5,250 annually toward the principal and interest on an employee's qualified education loans.

This limit will be adjusted annually for inflation.

TAX CREDIT FOR PAID FAMILY & MEDICAL LEAVE

OBBBA permanently extends the tax credit for employers that provide paid family and medical leave. Beginning in 2026, eligible employers may claim a general business tax credit of up to 25% based on:

- Wages paid to qualifying employees while on family or medical leave, or
- Premiums paid or incurred for insurance policies that provide paid family and medical leave coverage.

OBBBA EMPLOYER CHILD CARE TAX CREDIT: EXPENSES

Effective tax year 2026, OBBBA expands the Employer-Provided Childcare Tax Credit.

- Employers may claim a:
  - 40% credit on up to $500,000 in qualified expenses (standard businesses)
  - 50% credit on up to $600,000 (eligible small businesses)

- Credit applies to a broad range of childcare-related expenses offered to employees.

QUALIFIES FOR THE EMPLOYER CHILD CARE TAX CREDIT

- On-Site Facility: Construction, staffing, operation
- Referral Services: Finding care for employees
- Center Sponsorship: Partnering with licensed care centers
- Workforce Training: Scholarships or certifications for care providers
- Must be nondiscriminatory and available to all eligible employees
- Credit claimed on IRS Form 8882

EMPLOYER PROVIDED MEALS

The OBBBA provides multiple exceptions to the limitation imposed on the tax deduction for employer-provided meals. Specifically, an employer generally may not deduct certain expenses paid or incurred after 2025 for (1) providing food or beverages to employees through an eating facility (operated by the employer for employees) that meets the de minimis requirements for fringe benefits (e.g., office snacks and coffee), or (2) meals provided by the employer for the convenience of the employer on the employer's premises to employees and their spouses and dependents. (As background, de minimis fringe benefits are benefits that are so small as to make accounting for them unreasonable or impractical.)

Summary of OBBBA per CRS – Congressional Research Service

CHARITABLE CONTRIBUTION LIMIT ON CORPORATIONS

(Sec. 70426) The OBBBA further limits the tax deduction for charitable contributions made by a corporation beginning in 2026. Under The OBBBA, a tax deduction for charitable contributions made by a corporation is allowed only to the extent that the corporation's aggregate charitable contributions exceed 1% of the corporation's taxable income. (This limitation is generally known as the 1% floor for the tax deduction for charitable contributions made by a corporation.)

As a result of the 1% floor imposed by The OBBBA and existing limitations, a corporation may deduct charitable contributions only to the extent that such contributions exceed 1% of the corporation's taxable income but do not exceed 10% of the corporation's taxable income (10% limit).

Finally, under The OBBBA, special rules and limitations also apply to corporate charitable contributions carried forward to subsequent tax years.

Summary of OBBBA per CRS – Congressional Research Service

CORPORATE AMT

The OBBBA allows corporations to reduce their adjusted financial statement income (for purposes of calculating the corporate alternative minimum tax) to account for certain intangible costs related to oil, gas, or geothermal well drilling and development.

This subchapter eliminates the de minimis exemption for certain imports into the United States and establishes a new civil penalty for using such exemption in a manner that violates U.S. customs laws.

Summary of OBBBA per CRS – Congressional Research Service

ERC
+
OBBBA

ERC CLAIMS DISALLOWED FOR 3RD & 4TH QTR 2021

OBBBA Retroactive Disallowance of ERC Claims:

- ERC claims for Q3 and Q4 of 2021 are disallowed if it was filed after January 31, 2024, and not yet paid.
- Even if the business was otherwise eligible, claims for Q3 and Q4 2021 are cancelled if it was filed after January 31, 2024, and not yet paid.
- If the claim has already been paid for Q3 or Q4, this provision does not apply, and the ERC does not need to be paid back.

WHY OBBBA § 70605 ONLY DISQUALIFIES Q3 AND Q4 2021 ERC CLAIMS

The OBBBA disqualifies certain Employee Retention Credit (ERC) claims under very specific circumstances. Section 70605(d) of the law states that no credit under section 3134 of the Internal Revenue Code shall be allowed—and no refund made—unless the claim was filed by January 31, 2024. This has caused confusion about which ERC quarters are affected by the disqualification.

To understand the scope, it's critical to examine what section 3134 actually covers. IRC Section 3134 was introduced under the American Rescue Plan Act (ARPA) and only applies to wages paid *after June 30, 2021*. This means it exclusively governs ERCs for Q3 and Q4 of 2021. Earlier ERC periods—2020 and Q1 and Q2 of 2021—were legislated under IRC Section 2301 as part of the CARES Act and its subsequent extensions, and therefore fall outside the reach of section 3134.

Therefore, when OBBBA refers to “no credit under section 3134,” it is explicitly referencing only Q3 and Q4 of 2021. Credits for earlier quarters are not disqualified by this section, though they may be untimely under standard IRS limitations. In short, OBBBA’s ERC disqualification provision is narrowly focused and only affects late-filed claims for Q3 and Q4 2021, not the entire ERC program.

OBBBA APPLIES TO WHICH QUARTERS

ERC Period	IRC Section	OBBBA §70605 Impact
All Q 2020	§2301 (CARES Act)	Not affected by §70605
Q1 & Q2 2021	§2301 (CAA & ARPA extensions)	Not affected by §70605
Q3 & Q4 2021	§3134 (ARPA)	Disqualified if filed after Jan 31, 2024

ERC: STATUTORY DEADLINES TO FILE FORM 941-X

The deadline for claiming the ERC (filing Form 941-X)

for 2020 was April 15, 2024

The deadline for claiming the ERC (filing Form 941-X)

for 2021 was April 15, 2025

ERC CLAIMS ALLOWED FOR 3RD & 4TH QTR 2021

What ERC Claims are Still Allowed?

- ERC claims for 2020 or Q1–Q2 of 2021 that were filed on or before the statutory deadlines (even if after January 31, 2024) are still allowed by statute under OBBBA — though they may still be scrutinized or denied on other eligibility grounds.

- All ERC claims filed on or before the applicable statutory deadlines, if before January 31, 2024 — regardless of quarter — remain valid and processable under OBBBA (subject to audit and enforcement).

- ERC claims that have already been paid.

ERC ALLOWED VS. DISALLOWED

Calendar Quarter	ERC Already Paid Form 941 or Form 941-X Filed for ERC By Normal Due Date Before or After January 31, 2024	ERC Claim NOT Paid: Form 941 or Form 941-X Filed for ERC *by Statutory Deadline* on or Before January 31, 2024	ERC Claim NOT Paid: Form 941 or Form 941-X Filed for ERC *by Statutory Deadline* Filed AFTER January 31, 2024
Q1 2020	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q2 2020	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q3 2020	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q4 2020	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q1 2021	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q2 2021	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	IRS Continues to Process Claim & ERC Paid if Properly Applied For
Q3 2021	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	ERC Claim Disqualified. IRS Will Not Process or Pay ERC
Q4 2021	Allowed: Employer Does NOT Repay	IRS Continues to Process Claim & ERC Paid if Properly Applied For	ERC Claim Disqualified. IRS Will Not Process or Pay ERC

OBBBA EXTENDS ERC STATUTE OF LIMITATIONS ON ASSESSMENT OF FORM 941-X TO 6 YEARS

Extended Statute of Limitations for Assessments:

To give the IRS more time to identify and address improper claims, the OBBBA extends the limitation period for assessing any amount related to ERC credits for Q3 or Q4 of 2021 to six years from the latest of:

- The date the original return, including the calendar quarter for which the credit is determined, was filed;
- The date the return is treated as filed; and
- The date a claim for credit or refund is made.

For all quarters in 2020 and Q1 and Q2 in 2021, the statute of limitations for ERC claims is unchanged at 3 years from the date of Filing Form 941-X.

3RD & 4TH QTR 2021: OBBBA EXTENDS ERC STATUTE OF LIMITATIONS ON ASSESSMENT OF FORM 941-X

Calendar Quarter	941-X ERC Claim Due Date	Statute of Limitations to Assess
Q1 2020	April 15, 2024	3 years from filing of Form 941/941-X
Q2 2020	April 15, 2024	3 years from filing of Form 941/941-X
Q3 2020	April 15, 2024	3 years from filing of Form 941/941-X
Q4 2020	April 15, 2024	3 years from filing of Form 941/941-X
Q1 2021	April 15, 2025	3 years from filing of Form 941/941-X
Q2 2021	April 15, 2025	3 years from filing of Form 941/941-X
Q3 2021	April 15, 2025	6 years from latest of: - Form 941/941-X filing - When return is treated as filed - When refund claim was made
Q4 2021	April 15, 2025	6 years from latest of: - Form 941/941-X filing - When return is treated as filed - When refund claim was made

OBBBA EXTENDS ERC STATUTE OF LIMITATIONS TO FILE INCOME TAX RETURN RELATED TO ERC

The legislation extends the statute of limitations for filing income tax refund claims that arise when employers did not deduct wages on their income tax return because those wages were used to claim the Employee Retention Credit (ERC) , and that ERC claim is later disallowed. Therefore, for Q3 and Q4 2021, employers will have until the end of the extended IRS assessment period for the disallowed ERC to file an amended income tax return and deduct those wages.

However, the legislation does not extend the assessment period for situations where an employer improperly deducted wages that should have been excluded due to an ERC claim. In such cases, the standard statute of limitations applies for the IRS to assess additional tax.

3RD & 4TH QTR 2021: OBBBA EXTENDS ERC STATUTE OF LIMITATIONS TO FILE INCOME TAX RETURN RELATED TO ERC

Calendar Quarter for ERC Claim on 941/ 941-X	Tax Year of Wage Reduction of ERC Credit	Statute of Limitations to File Amended Income Tax Return to Claim Proper Wage Deduction if ERC Disallowed
Q1 2020	2020	3 years from Filing of Income Tax Return
Q2 2020	2020	3 years from Filing of Income Tax Return
Q3 2020	2020	3 years from Filing of Income Tax Return
Q4 2020	2020	3 years from Filing of Income Tax Return
Q1 2021	2021	3 years from Filing of Income Tax Return
Q2 2021	2021	3 years from Filing of Income Tax Return
Q3 2021	2021	6 years from latest of: - Form 941/941-X filing - When return is treated as filed - When refund claim was made
Q4 2021	2021	6 years from latest of: - Form 941/941-X filing - When return is treated as filed - When refund claim was made

EXAMPLES: ERC CLAIMS ALLOWED & DISALLOWED

In all examples, it assumes that ERC claims are valid as filed on Form 941-X.

Example 1: ERC claim filed for Q4 2020 on April 1, 2024; refund not yet received

Allowed: OBBBA only disallows claims for Q3 and Q4 filed after January 31, 2024, and the claim was filed before the statutory deadline of April 15, 2024.

Example 2: ERC claim filed for Q3 2021 on May 15, 2024; refund not yet received

Disallowed: OBBBA retroactively disallows claims filed after January 31, 2024, for Q3 and Q4.

Example 3: ERC claim filed for Q4 2021 on March 27, 25; refund was paid

Allowed: OBBBA does not retroactively cancel claims that have already been paid, even though filed after January 31, 2024. Also, it was filed before the statutory deadline of April 15, 2025.

OBBBA DEFINES ERC PROMOTER

New Enforcement Provisions under the OBBBA. The OBBBA specifically defines a COVID-ERC Promoter as any person providing aid, assistance, or advice on COVID-ERC documents, and meeting one of these criteria:

- Their fee is based on the amount of the credit/refund, and COVID-ERC work constitutes more than 20% of their gross receipts in the current or prior year;
- COVID-ERC work makes up more than 50% of their gross receipts; or
- COVID-ERC work is more than 20% of gross receipts, and their aggregate gross receipts exceed $500,000.

NOTE: Certified Professional Employer Organizations (CPEOs) are exempt from being classified as COVID-ERTC Promoters. Additionally, persons treated as a single employer by the IRS are treated as a single employer for these provisions.

OBBBA ERC PENALTY PROVISIONS

Penalties for COVID-ERTC Promoters: The OBBBA imposes substantial penalties on any "COVID-ERTC promoter" who aids, assists, or advises on COVID-ERTC documents and fails to meet due diligence requirements. Increased Penalty under IRC §6701(a)(1) Applied to COVID-ERTC Promoters:

Penalty equals the greater of:

- $200,000 (or $10,000 for individuals), or
- 75% of gross income derived (or to be derived) from COVID-ERTC aid, assistance, or advice.

OBBBA ERC PENALTY PROVISIONS

Due Diligence Penalty (In addition to the above):

Each failure to comply with the due diligence standards adopted by the Secretary—pursuant to the legislation's directive to establish standards similar to those under Section 6695(g) of the Internal Revenue Code—is subject to an assessable penalty of $1,000.

Expanded Penalty for Erroneous Claims:

Finally, the OBBBA broadens the scope of the penalty for erroneous claims for refund or credit to specifically cover employment tax, not just income tax. This means that employers who incorrectly claim the ERC could face a 20% penalty on the excessive amount claimed, in addition to repayment of the credit and interest.

OBBBA MAKES ERC REPORTABLE TRANSACTION

Under the OBBBA, any COVID-related Employee Retention Credit (ERC) is designated as a listed transaction and a reportable transaction, regardless of whether the employer ultimately claims the credit.

This designation also classifies COVID-ERC promoters as material advisors with respect to such transactions. As a result, these promoters are now required to report to the IRS all relevant information concerning the ERC claims they advised on.

The legislation defines COVID-ERC Document to include any return, affidavit, claim, or other document related to any COVID-related employee retention tax credit, including any document related to eligibility for, or the calculation or determination of any amount directly related to any COVID-related employee retention tax credit.

ERC: H.R. 1 (OBBBA) SEC. 70605

(a) ASSESSABLE PENALTY FOR FAILURE TO COMPLY WITH DUE DILIGENCE REQUIREMENTS.—

(1) IN GENERAL.—Any COVID–ERTC promoter which provides aid, assistance, or advice with respect to any COVID–ERTC document and which fails to comply with due diligence requirements imposed by the Secretary with respect to determining eligibility for, or the amount of, any credit or advance payment of a credit under section 3134 of the Internal Revenue Code of 1986, shall pay a penalty of $1,000 for each such failure.

(2) DUE DILIGENCE REQUIREMENTS.—The due diligence requirements referred to in paragraph (1) shall be similar to the due diligence requirements imposed under section 6695(g) of the Internal Revenue Code of 1986.

(3) RESTRICTION TO DOCUMENTS USED IN CONNECTION WITH RETURNS OR CLAIMS FOR REFUND.—Paragraph (1) shall not apply with respect to any COVID–ERTC document unless such document constitutes, or relates to, a return or claim for refund.

(4) TREATMENT AS ASSESSABLE PENALTY, ETC.—For purposes of the Internal Revenue Code of 1986, the penalty imposed under paragraph (1) shall be treated as a penalty which is imposed under section 6695(g) of such Code and assessed under section 6201 of such Code.

(5) SECRETARY.—For purposes of this subsection, the term “Secretary” means the Secretary of the Treasury or the Secretary’s delegate.

ERC: H.R. 1 (OBBBA) SEC. 70605

(b) COVID–ERTC PROMOTER.—For purposes of this section—

(1) IN GENERAL.—The term ‘‘COVID–ERTC promoter’’ means, with respect to any COVID–ERTC document, any person which provides aid, assistance, or advice with respect to such document if—

(A) such person charges or receives a fee for such aid, assistance, or advice which is based on the amount of the refund or credit with respect to such document and, with respect to such person’s taxable year in which such person provided such assistance or the preceding taxable year, the aggregate of the gross receipts of such person for aid, assistance, and advice with respect to all COVID–ERTC documents exceeds 20 percent of the gross receipts of such person for such taxable year, or

(B) with respect to such person’s taxable year in which such person provided such assistance or the preceding taxable year—

(i) the aggregate of the gross receipts of such person for aid, assistance, and advice with respect to all COVID–ERTC documents exceeds 50 percent of the gross receipts of such person for such taxable year, or

(ii) both—

(I) such aggregate gross receipts exceed 20 percent of the gross receipts of such person for such taxable year, and

(II) the aggregate of the gross receipts of such person for aid, assistance, and advice with respect to all COVID–ERTC documents (determined after application of paragraph (3)) exceeds $500,000.

ERC: H.R. 1 (OBBBA) SEC. 70605

(2) EXCEPTION FOR CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.—The term "COVID–ERTC promoter" shall not include a certified professional employer organization (as defined in section 7705 of the Internal Revenue Code of 1986).

(3) AGGREGATION RULE.—For purposes of paragraph (1), all persons treated as a single employer under subsection (a) or (b) of section 52 of the Internal Revenue Code of 1986, or subsection (m) or (o) of section 414 of such Code, shall be treated as 1 person.

(4) SHORT TAXABLE YEARS.—In the case of any taxable year of less than 12 months, a person shall be treated as a COVID-ERTC promoter if such person is described in paragraph (1) either with respect to such taxable year or by treating any reference to such taxable year as a reference to the calendar year in which such taxable year begins.

(c) COVID–ERTC DOCUMENT.—For purposes of this section, the term "COVID–ERTC document" means any return, affidavit, claim, or other document related to any credit or advance payment of a credit under section 3134 of the Internal Revenue Code of 1986, including any document related to eligibility for, or the calculation or determination of any amount directly related to, any such credit or advance payment.

ERC: H.R. 1 (OBBBA) SEC. 70605

(d) LIMITATION ON CREDITS AND REFUNDS.—Notwithstanding section 6511 of the Internal Revenue Code of 1986, no credit under section 3134 of the Internal Revenue Code of 1986 shall be allowed, and no refund with respect to any such credit shall be made, after the date of the enactment of this Act, unless a claim for such credit or refund was filed by the taxpayer on or before January 31, 2024.

ERC: H.R. 1 (OBBBA) SEC. 70605

(e) EXTENSION OF LIMITATION ON ASSESSMENT.—Section 3134(l) is amended to read as follows:

"(l) EXTENSION OF LIMITATION ON ASSESSMENT.—

"(1) IN GENERAL.—Notwithstanding section 6501, the limitation on the time period for the assessment of any amount attributable to a credit claimed under this section shall not expire before the date that is 6 years after the latest of—

"(A) the date on which the original return which includes the calendar quarter with respect to which such credit is determined is filed,

"(B) the date on which such return is treated as filed under section 6501(b)(2), or

"(C) the date on which the claim for credit or refund with respect to such credit is made."

ERC: H.R. 1 (OBBBA) SEC. 70605

"(2) DEDUCTION FOR WAGES TAKEN INTO ACCOUNT IN DETERMINING IMPROPERLY CLAIMED CREDIT.—

"(A) IN GENERAL.—Notwithstanding section 6511, in the case of an assessment attributable to a credit claimed under this section, the limitation on the time period for credit or refund of any amount attributable to a deduction for improperly claimed ERTC wages shall not expire before the time period for such assessment expires under paragraph (1).

"(B) IMPROPERLY CLAIMED ERTC WAGES.—For purposes of this paragraph, the term 'improperly claimed ERTC wages' means, with respect to an assessment attributable to a credit claimed under this section, the wages with respect to which a deduction would not have been allowed if the portion of the credit to which such assessment relates had been properly claimed.".

(f) AMENDMENT TO PENALTY FOR ERRONEOUS CLAIM FOR REFUND OR CREDIT.—Section 6676(a) is amended by striking "income tax" and inserting "income or employment tax."

ERC: H.R. 1 (OBBBA) SEC. 70605

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—The provisions of this section shall apply to aid, assistance, and advice provided after the date of the enactment of this Act.

(2) LIMITATION ON CREDITS AND REFUNDS.—Subsection (d) shall apply to credits and refunds allowed or made after the date of the enactment of this Act.

(3) EXTENSION OF LIMITATION ON ASSESSMENT.—The amendment made by subsection (e) shall apply to assessments made after the date of the enactment of this Act.

(4) AMENDMENT TO PENALTY FOR ERRONEOUS CLAIM FOR REFUND OR CREDIT.—The amendment made by subsection (f) shall apply to claims for credit or refund after the date of the enactment of this Act.

(h) REGULATIONS.—The Secretary (as defined in subsection (a)(5)) shall issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section (and the amendments made by this section).

ERC DILEMMA: STATUTE OF LIMITATIONS

ERC RECEIVED, BUT WAGES NOT REDUCED

A growing dilemma for some employers who claimed the Employee Retention Credit (ERC) is that they received substantial refunds but never amended their income tax returns to reduce the wage expense deduction, as required under IRC §280C.

ERC RECEIVED, BUT WAGES NOT REDUCED

Now, the statute of limitations on those income tax years has expired, leaving the IRS unable to assess additional income tax to offset the overstated wage deductions. While this may appear like a windfall to the business, it creates a lingering compliance and ethical issue—tax professionals advising these clients must weigh the risk of future IRS scrutiny, potential penalties for improper deductions, and reputational harm, even though the formal assessment period has closed.

STATUTE OF LIMITATION REMINDER

For most federal income tax returns, the IRS has a **three-year statute of limitations** from the date the return was filed (or its due date, if later) to audit and assess additional tax. However, that period extends to **six years** if the IRS can show a "substantial omission of income," generally defined as omitting more than 25% of gross income reported on the return. In the ERC context, if an employer failed to reduce its wage deduction by the amount of the credit, the IRS could argue that the overstatement of deductions indirectly caused an understatement of income beyond the 25% threshold—triggering the six-year audit window instead of the standard three years. This means that even if a business believes the normal three-year statute has expired, the IRS may still have additional time to audit and assess, depending on how the disallowed wage deductions impact the gross income calculation.

IRS ERC FAQ'S #1 ADDED MARCH 20, 2025

Q1. Should I have reduced my wage expense on my income tax return when I filed for the Employee Retention Credit (ERC)? (added March 20, 2025)

A1. Yes. The amount of your ERC reduces the amount of your wage expense on your income tax return for the tax year in which you paid or incurred the qualified wages.

Generally, a taxpayer can't deduct an expense as an ordinary and necessary business expense if they have a right or reasonable expectation of reimbursement at the time they paid the expense.

IRS ERC FAQ'S #1 ADDED MARCH 20, 2025

Taxpayers who are eligible for the ERC have a right or reasonable expectation of reimbursement for qualified wage expense in the amount of the ERC. For additional information, see Notice 2021-20 (in particular section II.F and questions 60 and 61 in section III.L).

The subsequent questions in this section explain how to resolve issues with income tax returns if you:

Didn't reduce your wage expense and your ERC claim was allowed, or
Reduced your wage expense and your ERC claim was disallowed.

As further described in news release IR-2022-89, taxpayers may be eligible for penalty relief related to ERC claims

IRS ERC FAQ'S #2 ADDED MARCH 20, 2025

Q2. I claimed the ERC but didn't reduce my wage expenses on my income tax return. The ERC claim was paid in a subsequent year. What do I do? (added March 20, 2025)

A2. You should address your overstated wage expense. Under these facts, you're not required to file an amended return or, if applicable, an administrative adjustment request (AAR) to address the overstated wage expenses. Instead, you can include the overstated wage expense amount as gross income on your income tax return for the tax year when you received the ERC.

IRS ERC FAQ'S #2 ADDED MARCH 20, 2025

Example: Business A claimed an ERC of $700 based on $1,000 of qualified wages paid for tax year 2021 but did not reduce its wage expense on its income tax return for 2021. The IRS paid the claim to Business A in 2024, so Business A received the benefit of the ERC but hasn't resolved its overstated wage expense on its income tax return.

Business A does not need to amend its income tax return for tax year 2021. Instead, Business A should account for the overstated deduction by including the $700 in gross income on its 2024 income tax return.

IRS ERC FAQ'S #2 ADDED MARCH 20, 2025

If the taxpayer capitalized wages or did not otherwise experience a reduction in tax liability for the overstated wage expense, the taxpayer might not need to include the overstated wage expense amount in gross income on the income tax return for the tax year in which the taxpayer received the ERC. Instead, the taxpayer may need to make other adjustments such as a reduction in basis for capitalized wages.

IRS ERC FAQ'S #2 ADDED MARCH 20, 2025

Why you need to include this amount in gross income

Under the tax benefit rule, a taxpayer should include a previously deducted amount in income when a later event occurs that is fundamentally inconsistent with the premise on which the deduction is based. If you received the ERC and did not reduce your wage expense on your income tax return for the year the wage expense was paid or incurred, your ERC claim and income tax return are inconsistent and you may be claiming an unwarranted double benefit. Application of this rule corrects a taxpayer's excess wage expense on the income tax return for the year in which it received the ERC, rather than limiting corrections to income tax returns for the prior year in which the ERC was claimed.

IRS ERC FAQ'S #3 ADDED MARCH 20, 2025

Q3. What can I do if my ERC claim was disallowed and I'd already reduced my wage expense on my income tax return by the amount of ERC I expected? (added March 20, 2025)

A3. If your ERC was disallowed and you had reduced the wage expense on your income tax return for the year the ERC was claimed, you may, in the year your claim disallowance is final (meaning you are not contesting the disallowance or you have exhausted your remedies to argue against the disallowance), increase your wage expense on your income tax return by the same amount that it was reduced when you made your claim.

IRS ERC FAQ'S #3 ADDED MARCH 20, 2025

Alternatively, you may, but are not required to, file an amended return, AAR, or protective claim for refund to deduct your wage expense for the year in which the ERC was claimed.

IRS ERC FAQ'S #3 ADDED MARCH 20, 2025

Example: Business B claimed the ERC for tax year 2021 and reduced its wage expense on its income tax return for tax year 2021 because it expected the credit would be allowed and paid. In 2024, the IRS disallowed Business B's ERC claim. Business B does not challenge the denial of the ERC claim and, accordingly, the disallowance is final.

Business B does not need to amend its income tax return for tax year 2021. Instead, Business B can address this adjustment on its 2024 income tax return by increasing its wage expense by the amount of the previously reduced wage expense from its 2021 income tax return.

Because taxpayers have a limited amount of time to file amended returns or AARs, if applicable, this process prevents the need for taxpayers to file protective claims for years

WHAT DID THE IRS SAY?

Q1 – Wages are to be reduced by the ERC amount in the year the ERC stemmed from.

Q2 – If you did NOT reduce the wages by the ERC claim, claim the amount of ERC refund as “gross income” in the year received.

WHAT DID THE IRS SAY?

Q3 – If you reduced wages by the ERC claim, but didn't get the ERC refund, increase wage expenses by the ERC claim not received.

IRS confirms what we know: An amended tax return is not required.

WHAT SHOULD BE CONSIDERED

Consider the 6-year statute may apply!

Consider what the IRS has stated in the FAQs couple coupled with the income tax benefit rule as well as “cash basis” rules.

Note: Later in the OBBBA ERC section the statute of limitations is 6-years for 3rd and 4th quarter 2021.

SSTS No. 6 – "Knowledge of Error"

Practitioners have an **ethical duty to inform** clients when they discover an error on a previously filed return. This includes outlining the consequences and recommending corrective actions.

However, it remains the **client's decision** whether to file an amended return. The practitioner must consider ending the engagement if the client refuses to correct a material error.

PERSONAL OPINION

The taxpayer should account for the ERC properly and if the statute of limitations has ran, the taxpayer should do as the IRS suggested in the FAQs.

Stated another way, if the taxpayer is not going to amend the tax return, ERC should be accounted for tax purposes in the year the ERC refund was received, reported as gross income, or as an additional wage expense for an ERC claim not received.

NEW TAX LAW PROVISIONS:

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$1,000 (single) or $2,000 (MFJ) Charitable Contribution

- Only if the standard deduction is taken

$6,000 Additional Seniors 65+ Deduction

- Regardless of whether itemized deductions or the standard deduction is taken
- Per person. If married, $12,000 is allowed if both spouses qualify
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$10,000 Auto Loan Interest Deduction

- Regardless of whether itemized deductions or the standard deduction is taken
- Maximum deduction per return.

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$25,000 No Tax on Tips

- Maximum deduction per return.
- Regardless of whether itemized deductions or the standard deduction is taken
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

A deduction that is after AGI is calculated.

$12,500 (single) $25,000 (MFJ) No Tax on Overtime

- Per person maximum of $12,500. If married, each spouse up to $12,500
- Regardless of whether itemized deductions or the standard deduction is taken
- If married, only available if MFJ. Not allowed if MFS

OBBBA ROADMAP: ITEMIZED DEDUCTIONS

SCHEDULE A:

$40,000 SALT Deduction

Mortgage Insurance Premiums Includable with Mortgage Interest

Charitable Contributions Subject to New .05% AGI

Gambling Losses

Limitations on Disaster Losses to Federal and State (Approved by IRS)

Miscellaneous Itemized Deductions Over 2% AGI Eliminated

- Except for Teachers

Limitations for the 37% Tax Bracket: Taxpayers to a 35% tax benefit

- Pease limitation terminated permanently

SCHEDULE A (Form 1040)

Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

2025
Attachment Sequence No. **07**

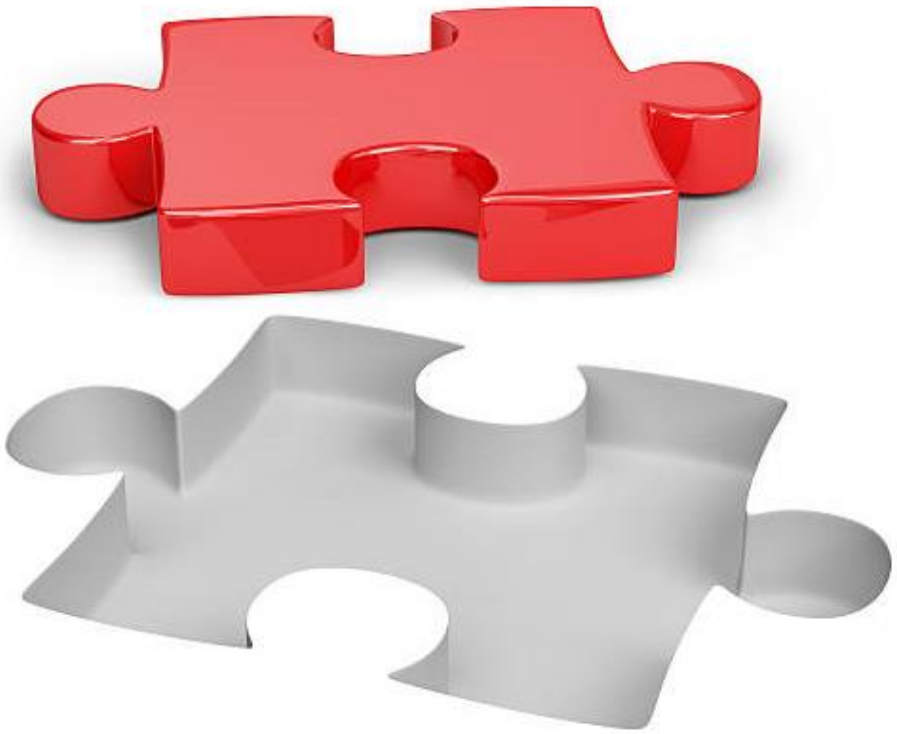
Name(s) shown on Form 1040 or 1040-SR | **Your social security number**

DRAFT — DO NOT FILE

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see instructions)	1	
	2	Enter amount from Form 1040 or 1040-SR, line 11a	2	
	3	Multiply line 2 by 7.5% (0.075)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local taxes (SALT).		
	a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐	5a	
	b	State and local real estate taxes (see instructions)	5b	
	c	State and local personal property taxes	5c	
	d	Add lines 5a through 5c	5d	
	e	Enter the smaller of line 5d or $10,000 ($5,000 if married filing separately)	5e	
	6	Other taxes. List type and amount:	6	
	7	Add lines 5e and 6		7
Interest You Paid	8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐		
Caution: Your mortgage interest deduction may be limited. See instructions.	a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	
	b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b	
	c	Points not reported to you on Form 1098. See instructions for special rules	8c	
	d	Reserved for future use	8d	
	e	Add lines 8a through 8c	8e	
	9	Investment interest. Attach Form 4952 if required. See instructions	9	
	10	Add lines 8e and 9		10
Gifts to Charity	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	
Caution: If you made a gift and got a benefit for it, see instructions.	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12	
	13	Carryover from prior year	13	
	14	Add lines 11 through 13		14
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		15
Other Itemized Deductions	16	Other—from list in instructions. List type and amount: EDUCATIONAL EXPENSES HERE		16
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12e		17
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2025** Created 3/24/25

BE AWARE OF THESE ADDITIONAL PROVISIONS



DUE TO TIME RESTRICTIONS THIS IS NOT EXPECTED TO BE COVERED

PREMIUM TAX CREDIT CHANGES

Starting in 2026, the OBBBA introduces several changes to premium tax credit rules and Marketplace eligibility, which may reduce the number of individuals obtaining health insurance through the Marketplace. Key changes include:

- Expanded repayment requirements (starting in 2026): More situations will require individuals to repay the full amount of any excess advance premium tax credits received during the year.
- Household income changes and eligibility (starting in 2026): Individuals who enroll in Marketplace coverage during a special enrollment period triggered solely by a change in household income will no longer qualify for the premium tax credit.
- Eligibility restrictions (starting in 2027): Reduces eligibility for certain lawfully present individuals, including those with household income below 100% of the federal poverty level (effective in 2026).
- Expanded documentation requirements (starting in 2028): Applicants will need to provide additional verification of household income, immigration status, and family size.

GAINS ON QUALIFIED FARM-LAND SALE

Gains On Qualified Farm-Land Sale

Gains from the sale of qualified farm-land are allowed to be spread over four annual installments if it is sold to a "qualified farmer" (not a developer).

EMPLOYER PROVIDED MEALS

The OBBBA provides multiple exceptions to the limitation imposed on the tax deduction for employer-provided meals. Specifically, an employer generally may not deduct certain expenses paid or incurred after 2025 for (1) providing food or beverages to employees through an eating facility (operated by the employer for employees) that meets the de minimis requirements for fringe benefits (e.g., office snacks and coffee), or (2) meals provided by the employer for the convenience of the employer on the employer's premises to employees and their spouses and dependents. (As background, de minimis fringe benefits are benefits that are so small as to make accounting for them unreasonable or impractical.)

Summary of OBBBA per CRS – Congressional Research Service

EMPLOYER PROVIDED MEALS

However, under The OBBBA, an employer may continue to deduct such expenses if
sold to customers (including employees) for adequate and full consideration,
required to be provided under federal law by the employer to the crew of a commercial vessel,
provided by the employer to the crew of a fishing vessel, or
provided to employees of certain fishing processing facilities in Alaska that are not located in a metropolitan area. (Sec. 70307) The OBBBA provides for an elective 100% depreciation allowance for nonresidential real property that is placed into service before January 1, 2031, and that meets certain other requirements. (Some limitations apply.)

Summary of OBBBA per CRS – Congressional Research Service

EMPLOYER REIMBURSEMENTS

Permanently eliminates the exclusion from gross income of reimbursements paid by an employer to an employee for expenses incurred to purchase, improve, repair, and store a bicycle that is regularly used to travel between the employee's residence and place of work (qualified bicycle expenses). (Prior to 2018, employees could exclude reimbursements of up to $20 per month paid by an employer for qualified bicycle expenses as a qualified transportation fringe benefit. The exclusion from gross income for qualified bicycle expenses was temporarily eliminated for 2018-2025 by the Tax Cuts and Jobs Act.)

Summary of OBBBA per CRS – Congressional Research Service

COMBAT ZONES

The OBBBA permanently treats a qualified hazardous duty area as a combat zone for purposes of determining eligibility for certain federal tax benefits available to members of the Armed Forces. (As background, multiple federal tax benefits are available to members of the Armed Forces serving in a combat zone, including an exclusion from gross income of certain military pay, an extension of time to file income tax returns, and special estate tax rules.) It also makes permanent the designation of the Sinai Peninsula as a hazardous duty area and expands such designation to include Kenya, Mali, Burkina Faso, and Chad.

Summary of OBBBA per CRS – Congressional Research Service

CHARITABLE CONTRIBUTION LIMIT ON CORPORATIONS

(Sec. 70426) The OBBBA further limits the tax deduction for charitable contributions made by a corporation beginning in 2026. Under The OBBBA, a tax deduction for charitable contributions made by a corporation is allowed only to the extent that the corporation's aggregate charitable contributions exceed 1% of the corporation's taxable income. (This limitation is generally known as the 1% floor for the tax deduction for charitable contributions made by a corporation.)

As a result of the 1% floor imposed by The OBBBA and existing limitations, a corporation may deduct charitable contributions only to the extent that such contributions exceed 1% of the corporation's taxable income but do not exceed 10% of the corporation's taxable income (10% limit).

Finally, under The OBBBA, special rules and limitations also apply to corporate charitable contributions carried forward to subsequent tax years.

Summary of OBBBA per CRS – Congressional Research Service

RESIDENTIAL CONSTRUCTION CONTRACTS ACCOUNTING METHOD

The OBBBA allows certain residential construction contracts entered into in tax years beginning after July 4, 2025, to use another permissible method of accounting (e.g., the uniform capitalization rules), rather than the percentage of completion method of accounting. (The percentage of completion method of accounting or the percentage of completion-capitalized cost accounting method of accounting is used for residential construction contracts that are not home construction contracts and that are entered into in tax years beginning on or before July 4, 2025.)

Summary of OBBBA per CRS – Congressional Research Service

DEDUCTIONS FOR FILM, TV & THEATRICAL PRODUCTION

(Sec. 70434) The OBBBA expands the federal tax deduction for certain film, television, and theatrical production costs to allow a deduction of up to $150,000 of qualified sound recording production costs in the tax year such costs are incurred. A qualified sound recording production is a sound recording that is produced and recorded in the United States. (Under current law, up to $20 million of film, television, and theatrical production costs incurred before 2026 may be deducted.)

The section also extends bonus depreciation to qualified sound recording production costs.

Summary of OBBBA per CRS – Congressional Research Service

CORPORATE AMT

The OBBBA allows corporations to reduce their adjusted financial statement income (for purposes of calculating the corporate alternative minimum tax) to account for certain intangible costs related to oil, gas, or geothermal well drilling and development.

This subchapter eliminates the de minimis exemption for certain imports into the United States and establishes a new civil penalty for using such exemption in a manner that violates U.S. customs laws.

Summary of OBBBA per CRS – Congressional Research Service

NEW MARKETS TAX CREDIT

New Markets Tax Credit

The new markets tax credit under Section 45D is now permanent.

LOW INCOME HOUSING TAX CREDIT

The OBBBA increases eligibility for the low-income housing tax credit (LIHTC) by increasing the amount that a state may allocate for the LIHTC and reducing the tax-exempt bond financing threshold.

As background, a taxpayer may claim the LIHTC for expenses incurred to rehabilitate or build rental housing for low-income tenants (1) if an allocation for the LIHTC is received from the state, or (2) a percentage of the project is financed by certain tax-exempt bonds. The amount a state may allocate for the LIHTC is calculated, in part, by multiplying a certain dollar amount (adjusted annually for inflation) by the state's population.

Summary of OBBBA per CRS – Congressional Research Service

LOW INCOME HOUSING TAX CREDIT

Under The OBBBA, beginning in 2026, the portion of the federal allocation to each state for the LIHTC that is based on the state's population is increased by 12%.

Further, The OBBBA lowers to 25% (from 50%) the tax-exempt bond threshold. Thus, under The OBBBA, if 25% or more of the aggregate basis (i.e., generally the costs) of the building and the land on which the building is located is financed with tax-exempt bonds, then the taxpayer is eligible for the LIHTC for the entire eligible basis of the project without a LIHTC allocation from the state. (If less than 25% of such basis is financed with tax-exempt bonds, then only the basis of the project that is financed with the tax-exempt bonds is eligible for the LIHTC.)

Summary of OBBBA per CRS – Congressional Research Service

MANUFACTURING CREDIT

The OBBBA increases the advance manufacturing tax credit to 35% (from 25%) for property placed into service after December 31, 2025.

EXCLUSION OF CERTAIN BOND INTEREST

The OBBBA expands the exclusion from gross income for interest on certain bonds issued by state or local governments (specifically tax-exempt facility bonds) to include interest on bonds for which at least 95% of the net proceeds are used to finance a spaceport. (Thus, spaceports are treated in the same manner as airports for purposed of the federal tax-exempt facility bond rules.)

Summary of OBBBA per CRS – Congressional Research Service

MANUFACTURING CREDIT

Under The OBBBA, a spaceport is defined as any facility located at or in close proximity to a launch site or reentry site used for

- manufacturing, assembling, or repairing spacecraft, space cargo;
- flight control operations;
- providing launch services and reentry services; or
- transferring crew, spaceflight participants, or space cargo to or from spacecraft.

Further, The OBBBA provides that a tax-exempt facility bond is not considered federally guaranteed because an agency of the U.S. government is paying rent, fees, or charges for the use of the spaceport. (As background, state and local bonds that are federally guaranteed are not tax-exempt unless an exception applies.)

Summary of OBBBA per CRS – Congressional Research Service

CLEAN FUEL CREDIT

The OBBBA extends the clean fuel production tax credit through 2029 and

- requires that clean fuels produced from feedstock use feedstock sourced from the Unites States, Canada, or Mexico;
- excludes emissions attributable to an indirect land use change from the calculation of lifecycle emissions estimates (used in part of the calculation of the clean fuel production tax credit); and
- requires the Department of the Treasury to provide distinct emission rates for specific feedstocks used to produce clean fuels, including dairy manure, swine manure, and poultry manure.

The OBBBA also disallows the clean fuel production tax credit for certain foreign entities and foreign-influenced entities (e.g., taxpayers that make certain types of payments to certain foreign entities).

Summary of OBBBA per CRS – Congressional Research Service

CARBON OXIDE SEQUESTRATION TAX CREDIT

The OBBBA increases the carbon oxide sequestration tax credit to $17 (from $12) per metric ton for qualified carbon dioxide used (1) as a tertiary injectant in a qualified oil or gas natural recovery project and then securely stored or (2) by fixing such carbon dioxide through photosynthesis or chemosynthesis, chemical conversion, or for some other commercial market purpose. (As a result, the same carbon oxide sequestration tax credit applies to carbon oxide captured and sequestered and carbon dioxide captured, used, and then sequestered.)

The OBBBA also disallows the carbon oxide sequestration tax credit for certain foreign entities and foreign-influenced entities (e.g., taxpayers that make certain types of payments to certain foreign entities).

Summary of OBBBA per CRS – Congressional Research Service

EXCISE TAX – UNIVERSITY & COLLEGE ENDOWMENTS

The OBBBA replaces the excise tax of 1.4% imposed on the net investment income of certain private university and college endowments with a new rate structure of 1.4%, 4%, or 8%, depending on several variables including the value of the endowment and the number of full-time students who meet certain other requirements.

The OBBBA expands the excise tax imposed on certain tax-exempt organizations for excess compensation paid to certain employees (an employee who is one of the top five highest compensated employees of such organization) to include excess compensation paid to any employee of such organization. (Thus, a tax-exempt organization is liable for an excise equal to the corporate tax rate [21%] multiplied by the sum of remuneration in excess of $1 million and excess parachute payment paid to any employee by the tax-exempt organization.)

Summary of OBBBA per CRS – Congressional Research Service

Foreign Provisions

1% EXCISE TAX. ON CERTAIN FOREIGN TRANSFERS

The OBBBA establishes a 1% excise tax on transfers of payments from one country to another (also known as remittance transfers). The excise tax is imposed on the sender of the remittance transfer and collected and remitted to the Department of the Treasury (quarterly) by the transfer provider.

Under The OBBBA, the excise tax applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or other similar physical instrument to the transfer provider. The excise tax does not apply to remittance transfers if (1) the funds are withdrawn from an account held at certain financial institutions, or (2) funded with a debit card or credit card issued in the United States.

Summary of OBBBA per CRS – Congressional Research Service

GLOBAL INTANGIBLE TAXABLE INCOME (GILTI)

The OBBBA limits the tax deductions a domestic corporate shareholder may allocate to net CFC tested income (formerly known as global intangible taxable income [GILTI] and renamed under Section 70323 of this act) for purposes of determining the limit on the foreign tax credit. (In this context, CFC refers to controlled foreign corporation.) Specifically, under The OBBBA, a domestic corporation may allocate to net CFC tested income (1) the tax deduction for 40% of the net CFC tested income amount included by such corporation in gross income and amounts treated as dividends attributable to such amounts, and (2) any other deduction directly allocable to such income. Further, under The OBBBA, interest expenses and research and development expenses paid by a domestic corporate shareholder may not be apportioned to net CFC tested income.

Summary of OBBBA per CRS – Congressional Research Service

FOREIGN TAX CREDIT

The OBBBA increases the tax credit allowed to a domestic corporation for income taxes paid by a controlled foreign corporation attributable to income included by the corporation as subpart F income and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act).

Under The OBBBA, for tax years beginning in 2026, a domestic corporation is allowed a foreign tax credit of up to 90% of the foreign income taxes that are paid or accrued by a controlled foreign corporation of which the domestic corporation is a shareholder and that are attributable to CFC tested income. (For tax years beginning before 2026, a domestic corporation generally is allowed a foreign tax credit of up to 80% of such foreign income taxes paid or accrued.)

Summary of OBBBA per CRS – Congressional Research Service

FOREIGN TAX CREDIT

As background, the allowance of a tax credit for only a percentage of the foreign taxes paid or accrued on net CFC tested income is also known as the foreign tax credit haircut. Thus, under The OBBBA, the foreign tax credit haircut is decreased to 10% (from 20%).

The OBBBA also applies the 10% foreign tax credit haircut to foreign income taxes paid or accrued on distributions of previously taxed net CFC tested income.

The OBBBA allows a percentage of the income from the sale of certain inventory to be treated as foreign-sourced income for purposes of calculating the foreign tax credit.

Specifically, under The OBBBA, a U.S. person may treat as foreign-sourced income up to 50% of the income from the sale of inventory produced in the United States (for use outside of the United States) that is attributable to a foreign office or fixed place of business outside of the United States.

Summary of OBBBA per CRS – Congressional Research Service

FOREIGN-DERIVED DEDUCTION

(Sec. 70321) The OBBBA increases the tax deduction allowed to a domestic corporation for foreign-derived deduction eligible income (formerly known as foreign-derived intangible income and renamed under Section 70323 of this act) and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act).

Under The OBBBA, for tax years beginning in 2026, a domestic corporation generally may claim a tax deduction equal to the sum of (1) 33.34% of such corporation's foreign-derived deduction eligible income, and (2) 40% of such corporation's net CFC tested income.

As background, for tax years beginning after 2017 and before 2026, a domestic corporation generally is allowed a tax deduction equal to the sum of (1) 37.5% of such corporation's foreign-derived intangible income, and (2) 50% of such corporation's GILTI. As enacted by the Tax Cuts and Jobs Act and prior to modification by The OBBBA, the deduction decreased starting in 2026, to the sum of (1) 21.875% of such corporation's foreign-derived intangible income, and (2) 37.5% of such corporation's GILTI and amounts treated as dividends attributable to such amounts.

Summary of OBBBA per CRS – Congressional Research Service

FOREIGN-DERIVED DEDUCTION

The OBBBA excludes gain from the sale or disposition of certain property from the calculation of the tax deduction for foreign-derived deduction eligible income.

Specifically, under The OBBBA, deduction eligible income (for purposes of the tax deduction for foreign-derived deduction eligible income) may not include gain from the sale or other disposition (including the deemed sale or other disposition) occurring after June 16, 2025, of (1) property of a type that gives rise to rents or royalties, and (2) any other property that is subject to depreciation, amortization, or depletion by the seller of such property.

Further, under The OBBBA, deduction eligible income must be reduced by expenses and deductions directly related to such income.

The OBBBA eliminates the use of a domestic corporation's deemed tangible income return in determining foreign-derived intangible income and such corporation's net deemed tangible income return in determining GILTI. As a result, under The OBBBA, the term foreign-derived intangible income is renamed foreign-derived deduction eligible income and the term GILTI is renamed net CFC tested income.

Summary of OBBBA per CRS – Congressional Research Service

THE BASE EROSION AND ANTI-ABUSE TAX (BEAT)

The OBBBA decreases the BEAT rate to 10.5% (from 12.5%) for tax years beginning after 2025. (Prior to amendment by The OBBBA, the BEAT rate wass 10% for 2025 and 12.5% for tax years after 2025.)

Part IV--Business Interest Limitation

This part makes changes to the calculation of the limitation on the tax deduction of business interest expenses. Under current law, the tax deduction for business interest expenses is limited to the sum of (1) business interest income for the tax year in which the tax deduction is being claimed, (2) 30% of the taxpayer's adjusted taxable income, and (3) the taxpayer's floor plan financing interest.

Summary of OBBBA per CRS – Congressional Research Service

FEDERAL TAX PROVISIONS THAT IMPACT FOREIGN CORPORATIONS

The OBBBA permanently extends the CFC look-through rule. (Under the CFC look-through rule, certain interest expenses, dividends, rents, and royalties received by one CFC from a related CFC are not treated as foreign personal holding company income [for purposes of calculating subpart F income] if certain other requirements are met.)

The OBBBA requires a specified foreign corporation (generally a CFC or any foreign corporation with respect to which one or more domestic corporations is a U.S. shareholder) to use the taxable year of their majority U.S. shareholder , effective for tax years beginning after November 30, 2025. (For tax years beginning on or before November 30, 2025, a specified foreign corporation may elect a tax year beginning one month earlier than the majority U.S. shareholder.)

Summary of OBBBA per CRS – Congressional Research Service

Setting Every Community Up for Retirement Enhancement Act 2.0

THE SECURE ACT 2.0

ISSUES FOR INDIVIDUALS

SECURE ACT 2.0: SOLE-PROPRIETORS (FILING SCHEDULE C)

401(k) plans for sole proprietors: extended deadline for retroactive elective contributions.

The Act extends the retroactive elective contribution deadline for sole proprietors for the first year of a new plan from the end of the first year of the plan, to the sole proprietor's tax return due date (determined without regard to any extensions) for the year the plan is adopted.

Under the SECURE 2.0, a sole proprietor (with no employees) is allowed to retroactively set up a 401(k) plan with a January 1, 2023 effective start date and contribute elective contributions up to the 2023 maximum annual limit. This can be done anytime before the due date of a sole proprietor's tax return (determined without regard to any extensions). NOTE: Schedule C is filed with Form 1040, therefore the due date is the same as Form 1040.

SECURE ACT 2.0: ROTH IRAs

Roth IRAs

- The tax-free compared to traditional individual retirement plans.
- Employers can adjust their plans to allow employees to choose that employer-matching and non-elective contributions be made as after-tax Roth contributions, not as pre-tax contributions (and taxable to the employee).
- Contributions to Roth are made with dollars already taxed and are invested.
- There is no deduction for contributions, but withdrawals of the compounded gains are tax-free once the person is at least age 59½ and has had the plan for at least five (5) years.

SECURE ACT 2.0: ROTH IRAs

Roth IRAs

- Required minimum distributions from a designated Roth account in a qualified plan are not needed prior to the participant's death, for distributions related to years after 2023.
- Owners of Roth IRAs don't have to make RMDs.
- Those with Roth 401(k)s do have to take a distribution in 2023, but that this is the last year.
- Starting in 2024, those with Roth 401(k)s can let that money grow tax free for as long as they're alive.

SECURE ACT 2.0: REQUIREMENT MINIMUM DISTRIBUTIONS (RMDs)

Required Minimum Distributions (RMDs are taxed at ordinary rates.)
IRS Notice 2023-54 provides a one year delay of the provisions from the SECURE Act 2.0, meaning it will not be applicable until 2024 at the earliest.

In 2023, savers with traditional retirement accounts, including individual retirement accounts, simplified employee pension (SEP) accounts, simple IRAs (for small businesses), 401(k)s and similar plans for teachers and for public-sector and nonprofit workers, must start taking required minimum distributions at age 73. (In 2033, the age rises to 75.)

SECURE ACT 2.0: REQUIREMENT MINIMUM DISTRIBUTIONS (RMDs) ONE YEAR DELAY FOR THOSE TURNING 73 IN 2023

IRS Notice 2023-54: The one-year delay is only for those turning 73 2023, as this one-year delay is not applicable to those turning 73 in 2024, or after.

BREAKDOWN:

- If someone turns 72 in 2023, they can delay their initial distribution until 2024 or 2025 as the law changes the RMD age to 73 in 2023.
- If someone turns 73 in 2023, they must take their first distribution by April 1, 2025 (previously April 1, 2024).
- However, for those turning 73 in 2023 they will still be required to take their 2025 RMD by December 31, 2025.
- For those turning 73 in 2023, it is only a delay of the first year RMD.
- Planning point: For those turning 73 in 2023, they have the option of taking their 2024 RMD in year 2024 so that the person doesn't take double distributions in 2025 thus creating a double the tax bill, in 2025.
- For those turning 73 in 2024 and after, the one-year delay has no affect, and normal RMD dates apply.

SECURE ACT 2.0: RMD Penalties

Required Minimum Distributions Penalties (Penalty for NOT Taking One)

Starting in 2023, the penalty for failing to make an RMD falls from 50% to 25%.

The penalty is reduced to 10% if the IRA owner withdraws the RMD amount previously not taken and submits a corrected tax return in a timely manner.

SECURE ACT 2.0: EARLY WITHDRAWAL PENALTIES

Early Withdrawal Penalties (Money Pulled Before Age 59 ½)

The penalty is 10% of the amount withdrawn (at ordinary tax rates). There are currently a number of exceptions, and the SECURE Act 2.0 adds some new ones:

- Those in Federally declared disaster areas can withdraw up to $22,000 from an IRA or workplace retirement plan with no penalty. The tax owed can be paid over three years.
- Penalty-free withdrawals if the person becomes terminally ill.

- Starting in 2024
  - $1,000 can be withdrawn to cover a financial emergency
  - $10,000 if they are a victim of domestic abuse
  - $2,500 if they have an emergency savings account that's tied to their retirement plan

- Starting in 2025, one can withdraw penalty-free up to $2,500 to cover long-term care expenses.

SECURE ACT 2.0: MANDATORY ROTH CATCH-UP CONTRIBUTIONS

Catch-up Contributions Requiring Roth Treatment

- The SECURE ACT 2.0 made 2023 the last year that savers making more than $145,000 a year can make contributions to a plan on a pre-tax basis.

- However, the IRS issued IRS Notice 2023-62 (August 25, 2023) providing a two-year delay in this provision, thus making 2025 the last year to make catch-up contributions to a plan on a pre-tax basis.

- Now, starting in 2026, all those catch-up contributions must be with after-tax dollars.

SECURE ACT 2.0: MANDATORY ROTH CATCH-UP CONTRIBUTIONS

Catch-up Contributions Requiring Roth Treatment

As background, a catch-up contribution is an additional contribution permitted to be made to a retirement plan by employees age 50 or older over the normal contribution limit. Employees over age 50 may contribute an additional ("catch-up") amount.

The SECURE Act 2.0 required that employees whose prior-year wages from their current employer that exceeded $145,000 (indexed) make any catch-up contributions as Roth (post-tax) beginning January 1, 2024.

Again, Notice 2023-62 provides a two-year "administrative transition period," during which the requirement that catch-up contributions for employees earning over $145,000 be treated as Roth will not apply until January 1, 2026.

SECURE ACT 2.0: MANDATORY ROTH CATCH-UP CONTRIBUTIONS

IRS Notice 2023-62 also provides initial guidance on other SECURE Act 2.0 provisions

- Workers who are not paid FICA wages (as defined under IRC Section 3121(a)), such as partners and self-employed persons, are not subject to the Roth requirement, because the $145,000 threshold relates to FICA wages. State and local government employees who are not paid wages subject to FICA are also excluded from the Roth catch-up requirement.

- The notice also provided that no separate election will be necessary for employees subject to the Roth catch-up contributions to authorize such catch-up contributions.

- Notice 2023-62 also confirmed that for employees who work for two or more unrelated employers in a multi-employer plan, the wages of each employer are considered separately to determine whether the $145,000 measure is met. The example provided in the notice follows:

SECURE ACT 2.0: MANDATORY ROTH CATCH-UP CONTRIBUTIONS

Notice 2023-62 state “If an eligible participant's wages for a calendar year were:

(1) $100,000 from one participating employer; and
(2) $125,0000 from another participating employer,

then the participant's catch-up contributions under the plan for the next year would not be subject to section 414(v)(7)(A) (even if the participant's ***aggregate*** wages from the participating employers for the prior calendar year exceed $145,000, as adjusted

The guidance clarified that even if an employee's wages from one employer in a multi-employer plan exceed $145,000, catch-up contributions made while working for another participating employer would not be required to be Roth, unless the participant's prior-year wages from that other employer also exceed that amount.

SECURE ACT 2.0: RETIREMENT PLANS

RETIREMENT PLANS

- Employer contribution limits for SIMPLE IRAs will rise in 2024 to 10% of the employee's compensation for employers with 25 or fewer workers; capped at $5,000 (2024, indexed for inflation). Employers with 26 to 100 workers will also have higher SIMPLE contribution limits if the employer meets certain criteria. Employers can also make up to $5,000 more in contributions to the plans.

- The SECURE Act 2.0 allows, but does not require, companies to automatically transfer a former employee's plan to their new employer.

- Starting 2025, employers must open up their retirement plans to part-time workers who perform at least 500 hours of service during two consecutive 12-month periods.

SIMPLE-IRA: MAX OUT WITHHOLDINGS

Year 2025:

$16,500

$17,600 if employer has 25 or less employees

$20,000 if age 50-59 & 64+

$21,450 if employer has 25 or less employees

$21,750 if ages 60-63

$22,850 if employer has 25 or less employees

SECURE ACT 2.0: 529 PLANS

529 Plans (Educational Savings Plans)

- This yields no Federal tax deduction.
- Grows tax-free.
- Withdrawn tax-free to the extent it is used to pay for qualified educational expenses.

- Starting in 2024, owners of 529 savings plans redirect up to $35,000 of any unused dollars to a Roth IRA.

  - The allows for 529 plan savings intended for a child's college (or K-12th grade) costs to be converted into retirement dollars
  - KEY: The 529 plan owner will need to have had the account for at least 15 years and is subject to the annual Roth contribution limits.

SECURE ACT 2.0: STUDENT LOAN REPAYMENTS

Starting in 2024, employers can offer matching contributions to a SIMPLE-IRA plan (as well as 401(k), 403(b), and 457(b) plans), based on the amount of a qualified student loan repayment made by a participant to a lender during the applicable period.

The loan repayment amount is treated as if the participant deferred the amount under the plan, even though no deferral amount is actually withheld from the participant's eligible compensation or contributed to the plan by the participant.

An employee's self-certification is acceptable as a minimum requirement, but employers should consider obtaining actual documentation of such payments actually made by the employee.

This is optional by the business.

THE SECURE ACT 2.0

ISSUES FOR BUSINESSES

Many SECURE 2.0 provisions apply specifically to small businesses with 100 or fewer employees (small employers).

SECURE ACT 2.0: SIMPLE 401(k) Plans and SIMPLE-IRAs

SIMPLE 401(k) plan or SIMPLE-IRA can only be done by small employers.

Businesses that sponsor SIMPLE 401(k) plans and SIMPLE-IRAs cannot sponsor other types of retirement plans. Neither plan is subject to nondiscrimination testing for elective contributions.

Starting in 2023, in SIMPLE 401(k) plans, eligible employees may make both pre-tax and/or Roth elective contributions to the plan by payroll deduction, up to an annual limit of $15,500 (2023, as indexed), as well as catch-up contributions starting at age 50 of $3,500 (2023, as indexed).

Starting in 2023, SECURE 2.0 allows employer after-tax Roth contributions in SIMPLE-IRAs to 3%.

SECURE ACT 2.0: SIMPLE 401(k) Plans and SIMPLE-IRAs

Currently for SIMPLE 401(k) plans and SIMPLE-IRAs, employers are required to make a fully vested employer contribution either as a 3% matching contribution or a 2% nonelective contribution.

Starting in 2024, SECURE 2.0 increases the maximum contribution limits for both plans.

- Allowing an employer with 25 or fewer employees to make nonelective employer contributions over and above the required 2% amount, capped at the lesser of 10% of the employee's compensation or $5,000 (2024, as indexed).

SECURE 2.0 provides the maximum amount an employee can elect to contribute to the plan is 110% of the annual limit established by the IRS ($15,500, 2023).

Employers with 26 or more employees can take advantage of this increase in the elective contribution limit only if they increase the required 3% matching contribution to 4% or increase the required 2% nonelective contribution to 3%.

SECURE ACT 2.0: SIMPLE 401(k) Plans and SIMPLE-IRAs

Starting in 2024, SIMPLE 401(k)'s or SIMPLE-IRA's are permitted to terminate the SIMPLE and replace it with a safe harbor 401(k) or 403(b) plan in the current year.

Allow additional nonelective contributions to SIMPLE IRA plans.

Current law requires employers with SIMPLE IRA plans to make employer contributions to employees of either 2% of compensation or 3% of employee elective deferral contributions.

SECURE 2.0 permits an employer to make additional contributions to each employee of the plan in a uniform manner, provided that the contribution may not exceed the lesser of up to 10% of compensation or $5,000 (indexed).

Planning point: A business with a SIMPLE 401(k) plan should consider a safe-harbor 401(k) plan as it has higher limits for elective contributions ($22,500 vs. $15,500 for 2023) and catch-up contributions ($7,500 vs. $3,500).

SECURE ACT 2.0: NEW PENSION PLAN START-UP COSTS CREDIT

Starting in 2023, the tax credit for new pension plan's start-up costs is increased. ($15,000 credit possible)

For employers with 50 or fewer employees, the tax credit increases from 50% up to 100% of the qualified costs incurred in the first three years of starting up a new plan. The credit is still limited to $5,000 per year.

Employers with 51 to 100 employees are still eligible for the credit of 50% of qualified start-up costs for the first three years, with a maximum credit of $5,000 annually.

In order to qualify, a business must have at least one employee who is a non-highly compensated employee (NHCE).

- 2023: A NHCE is a person who made less than $135,000 in the prior year (2022) with the business and is not the business owner.
- 2024: A NHCE is a person who made less than $150,000 in the prior year (2023) with the business and is not the business owner.

SECURE ACT 2.0: NEW PENSION PLAN START-UP COSTS CREDIT

What type of plans are eligible?

- Qualified plans EXCEPT Defined Benefit and Defined Contribution plans
- 401(k), SEPs and SIMPLE-IRAs

What expenses are included in the credit?

For this purpose, qualified start-up costs are generally defined as ordinary and necessary costs needed to set up and administer the plan or to educate employees about the plan. NOTE: The "deduction" of the such costs are reduce by the "credit" allowed.

If a plan converts from a SIMPLE-IRA to a 401(k) plan, will it qualify for the tax credit?

No. To qualify for the credit, the employer (or any employees of its controlled group) could not have maintained another plan (qualified plan, SEP or SIMPLE plan) covering substantially the same employees during the 3 years prior.

SECURE ACT 2.0: NEW PENSION PLAN START-UP COSTS CREDIT

CREDIT CALCULATION 1-50 employees

$250 times the number of non-highly compensated employees

- With a minimum of $500
- With a maximum of $5,000

The credit calculation is applied to 100% of the new pension plan's start up costs.

2 Examples:

New pension plan's start up costs at **$3,200** with 10 NHCE.

Tax credit possible of $2,500 ($250 x 10 NHCE's) towards the cost of the plan.

Tax credit realized is $2,500 (limited to $250 per NHCE)

New pension plan's start up costs at **$1,800** with 10 NHCE.

Tax credit possible of $2,500 ($250 x 10 NHCE's) towards the cost of the plan.

Tax credit realized is $1,800 (limited to actual plan costs).

SECURE ACT 2.0: NEW PENSION PLAN START-UP COSTS CREDIT

CREDIT CALCULATION 51-100 employees:

$250 times the number of non-highly compensated employees

- With a minimum of $500
- With a maximum of $5,000

The credit calculation is applied to 50% of the new pension plan's start up costs.

2 Examples:

New pension plan start up costs at **$3,000** with 10 NHCE (**$1,500** of costs count).
Tax credit possible $2,500 ($250 x 10 NHCE's) towards 50% of the plan cost.
Tax credit realized is $1,500 (limited to 50% of the plan costs).

New pension plan start up costs at **$6,000** with 10 NHCE (**$3,000** of costs count).
Tax credit possible of $2,500 ($250 x 10 NHCE's) towards 50% of the plan costs.
Tax credit realized is $2,500 (limited to $250 per NHCE).

SECURE ACT 2.0: ADDITIONAL TAX CREDIT FOR NEW PENSION PLAN START-UP BASED ON EMPLOYER CONTRIBUTIONS

Starting in 2023, the tax credit for new pension plan's also includes one based on the employer's retirement contributions.

For businesses sponsoring a new plan, the new legislation also offers a tax credit for employer matching or profit-sharing contributions for the first five (5) years of the plan.

The credit is for businesses with up to 100 employee's, and starts to phase out after the first two years.

The credit is reduced by 2% per employee over 50 employees earning less than 100,000/year.

The maximum credit is $1000 per year for each of those employees.

SECURE ACT 2.0: ADDITIONAL TAX CREDIT FOR NEW PENSION PLAN START-UP BASED ON EMPLOYER CONTRIBUTIONS

Starting in 2023, the tax credit for new pension plan's also includes one based on the employer's retirement contributions. For businesses sponsoring a new plan, it provides under Sec. 45E a credit for all or a portion of employer contributions to small employer pensions for the first five (5) employer tax years beginning with the one that includes the plan's start date.

- The amount of the small-employer pension credit would be increased by the applicable percentage of employer contributions on behalf of employees, up to a per-employee cap of $1,000.

- The applicable percentage is
  - 100% in the first and second tax years
  - 75% in the third year
  - 50% in the fourth year
  - 25% in the fifth year.
  - No credit is available in the sixth and subsequent years.

Employers with 50 or fewer employees are eligible for 100% of the credit.

- This phases out for employers with between 51 and 100 employees.
- No credit is allowed for employer contributions on behalf of an employee who makes more than $100,000.

SECURE ACT 2.0: ADDITIONAL TAX CREDIT FOR NEW PENSION PLAN START-UP BASED ON EMPLOYER CONTRIBUTIONS

Tax years beginning the year the plan is "established"	Applicable percentage of employer contributions (limited to $1,000 per participant)
1st	100%
2nd	100%
3rd	75%
4th	50%
5th	25%
Any tax year thereafter	0%

The credit is reduced by 2% per employee over 50 employees earning less than 100,000/year.

SECURE ACT 2.0: STARTER DEFERRAL ONLY PLANS

Effective in 2024, the SECURE Act 2.0 creates a new type of "starter plan" available to employers of any size that have not sponsored a retirement plan in the past three years.

The starter plan allows only employee elective contributions and catch-up contributions.

The annual contribution limit is $6,000 (effective 2024, as indexed), with a maximum of $1,000 (effective 2024, as indexed for IRAs) catch-up contribution.

A starter deferral-only plan must require automatic contributions starting at 3% of compensation, up to a maximum of 15%, and is not subject to nondiscrimination testing.

THE SECURE ACT 2.0: AUTOMATIC ENROLLMENT

Automatic enrollment in retirement plans expanded for plan years effective 1/1/2025 and after:

The act creates a new Section 414A, under which all Section 401(k) and 403(b) plans created after 2024 will have to provide for automatic enrollment of eligible employees Such plans must also meet three requirements:

1. Must allow permissible withdrawals within 90 days after the first elective contribution.
2. Must provide for automatic contributions, starting with a minimum contribution percentage of between 3% and 10% in the participant's first year of participation, unless the participant specifically elects out.
3. If the participant makes no investment decision, contributed amounts are automatically invested in accordance with the requirements of Labor Department regulation 29 C.F.R. Section 2550.404c-5.

Exempt from this provision:

- Plans established before the act's enactment date are exempt from the automatic enrollment provision; SIMPLE 401(k) plans, Sec. 414(d) governmental plans, and Sec. 414(e) church plans.
- Any plan maintained by an employer that has been in existence for less than three years and any plan maintained by an employer with 10 or fewer employees are also exempt.

NOTE: The employee can "opt out" of participating. Automatic enrollment does NOT mean the employee is required to participate.

SECURE ACT 2.0: INCLUSION OF PART-TIME EMPLOYEES

Currently, which is also new, those employees who are age 21 and over and have worked at least 1,000 hours in the prior year and required to be offered participation in a 401(k) plan.

Starting in 2024, for a 401(k) plan, it is further required to allow qualified part-time employees that are age 21 and over to have worked more than 500 hours of service in 3 consecutive 12-month periods, solely for making elective deferrals.

Starting in 2025, this is applied to 403(b) plans and the 3 consecutive 12-month time periods are reduced to 2 for both 401(k) plans and 403(b) plans.

This does not apply to SIMPLE-IRAs.

THE SECURE ACT 2.0: AUTOMATIC ESCALATION

Automatic Escalation, beginning in 2025:

For new retirement plans started after December 29, 2022, contribution percentages must automatically increase by one percent on the first day of each plan year following completion of a year of service until the contribution is at least 10 percent, but no more than 15 percent of eligible wages. Exceptions apply for governmental and church plans, businesses with 10 or fewer employees, and employers that have been in business for less than three years.

Short-Term Rentals

Air BnB

Subject to Self-Employment Taxes?

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM NUMBER: 202151005

Rentals from real estate generally are not considered “net earnings from self-employment” and thus, are not subject to self-employment taxes.

But, if services are provided to the occupants of the rented property, the rental activity will not be a rental from real estate. This is where the analysis begins.

This section focuses on the Office of Chief Counsel Internal Revenue Service Memorandum, Number: 202151005.

The following is directly from this memo.

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM NUMBER: 202151005

Office of Chief Counsel Internal Revenue Service Memorandum, Number: 202151005.

Application of I.R.C. §§ 469(c) and 1402(a)(1) to Short-Term Rentals from Real Estate

This Chief Counsel Advice (CCA) responds to your request for assistance. This advice may not be used or cited as precedent.

ISSUES

1) Whether the characterization of an activity as a "rental activity" under § 469(c)(2) determines whether the activity is "rentals from real estate" excluded from net earnings from self-employment ("NESE") under § 1402(a)(1) for Self-Employment Contributions Act ("SECA") tax purposes.

2) In situations not involving a real estate dealer, when are rentals of living quarters considered "rentals from real estate" excluded from NESE under § 1402(a)(1).

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM NUMBER: 202151005

Office of Chief Counsel Internal Revenue Service Memorandum, Number: 202151005.

CONCLUSIONS

1) No, whether an activity is a "rental activity" under § 469(c)(2) is not determinative of whether the exclusion in § 1402(a)(1) applies.

2) In situations not involving a real estate dealer, net rental income from the rental of living quarters is considered "rentals from real estate" excluded from NESE when no services are rendered for the occupants. However, if services are rendered for the occupants and the services rendered (1) are not clearly required to maintain the space in a condition for occupancy, and (2) are of such a substantial nature that the compensation for these services can be said to constitute a material portion of the rent, then the net rental income received is not excluded under § 1402(a)(1) and is included in NESE.

THE FOLLOWING SLIDES NOT PART OF THE MEMO

CONCLUSIONS IN PLAIN ENGLISH

1) The tax code defining what income is subject to (and not subject to) self-employment taxes does NOT determine if an activity is a "rental activity."

2) If someone is a "real estate dealer," their income is typically subject to self-employment taxes. So, this memo covers the "NON-real estate dealer" which means this applies to the average Air BnB investor/owner.

   If nothing is provided for the direct benefit of the occupant (the tenant or the one renting the place), it is rental income from a real estate activity.

   If no services are rendered to the occupants, it is rental income from a real estate activity.

CONCLUSIONS IN PLAIN ENGLISH (Continuation of #2)

2) If services are rendered for the occupants and the services rendered are beyond what is required to maintain the property and are of substantial nature, the rental income is subject to self-employment taxes.

When reviewing the details of the memo leading to the conclusions, the IRS may consider minor services as substantial and beyond required maintenance.

The memo used two (2) examples or fact patterns to provide how the answers were concluded.

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM TWO EXAMPLES

In the first example, the individual taxpayer provided various services and accommodations with respect to a vacation property rented via an online rental marketplace. The taxpayer provided the following services:

- Linens, kitchen utensils, all items making the property fully habitable,
- daily maid services,
- delivery of individual-use toiletries and other sundries (not described),
- Wi-Fi service,
- beach access,
- recreational equipment, and
- prepaid ride-share vouchers between the property and the nearest business district.

In the second example, the individual landlord rented a fully furnished room and bathroom without access to most common household areas such as the kitchen or laundry room. Cleaning was only provided between each occupant's stay, and the example included no discussion of any other items furnished to the occupants.

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM TWO EXAMPLES

In both examples, the individual taxpayer was not a real estate dealer.

Both examples also stated that the rental activity occurred in the course of a trade or business. Because average customer use was less than eight days, both activities were not considered a rental activity for IRC section 469 purposes.

The examples also included a statement that taxpayers materially participated in the activity for purposes of the passive activity rules, but they did not describe how the required tests were met.

The CCA concluded that the determination of whether the activity constitutes a rental activity under the passive activity rules is not determinative for self-employment tax purposes.

CHIEF COUNSEL INTERNAL REVENUE SERVICE MEMORANDUM TWO EXAMPLES

However, IRC section 1402(a)(1) excludes net rental income from NESE unless the amounts are received in the course of a trade or business as a real estate dealer.

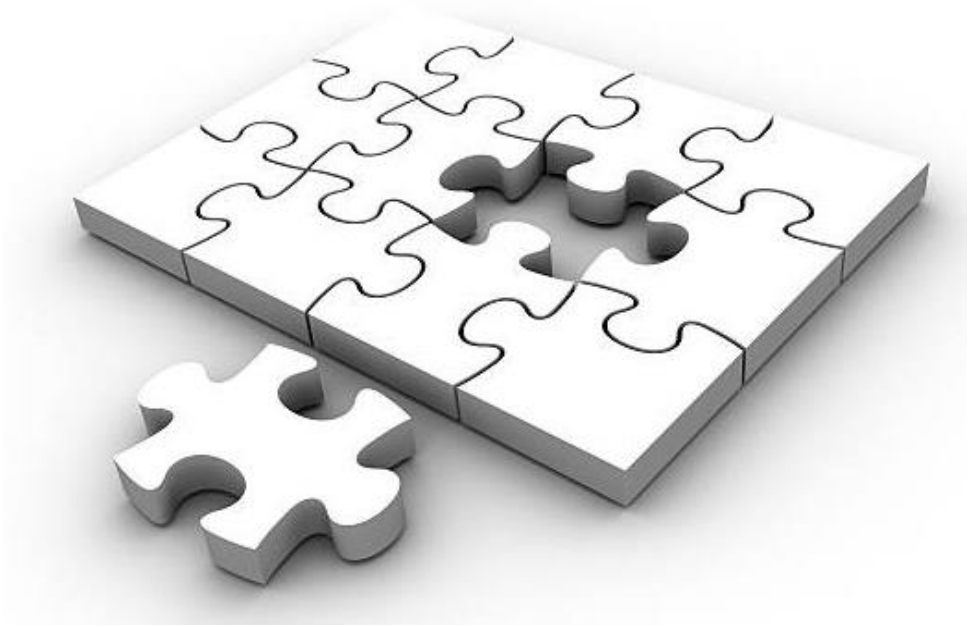
In both fact patterns, the taxpayer provided short-term residential rentals and was not a real estate dealer. Treasury regulations provide that rentals from living quarters are not considered NESE and are considered rentals from real estate when no services are rendered for the occupants.

With respect to the services rendered to occupants, the two fact patterns present major differences. In the first situation, net rental income was not excluded from NESE due to the substantial services provided; in the second, the income was excluded from NESE as residential rental income. These were fairly predictable outcomes.

WHAT ABOUT YOUR OR YOUR CLIENT'S CIRCUMSTANCES?

What about situations not as vast as the first example, but not as scarce as the second example?

In describing services, the CCA states that "services are considered rendered to the occupant if they are primarily for their convenience and are other than those usually or customarily rendered in connection with rental of rooms or other space for occupancy only." Therefore, one could conclude that services and items provided by a hotel would be a factor in determining if the activity is subject to self-employment taxes.



SCHEDULE K-1

S-CORP:

NO CHANGES NOTED

671124

Schedule K-1 (Form 1120-S) 2025

Department of the Treasury
Internal Revenue Service

For calendar year 2025, or tax year beginning / / 2025 ending / /

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0123

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code

C IRS Center where corporation filed return

D Corporation's total number of shares
Beginning of tax year . . . . . .
End of tax year . . . . . .

Part II Information About the Shareholder

E Shareholder's identifying number

F1 Shareholder's name, address, city, state, and ZIP code

F2 If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting:
TIN Name

F3 What type of entity is this shareholder?

G Current year allocation percentage . . . %

H Shareholder's number of shares
Beginning of tax year . . . . . .
End of tax year . . . . . .

I Loans from shareholder
Beginning of tax year . . . . . $
End of tax year . . . . . $

For IRS Use Only

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked . . . . . ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

18 ☐ More than one activity for at-risk purposes*
19 ☐ More than one activity for passive activity purposes*

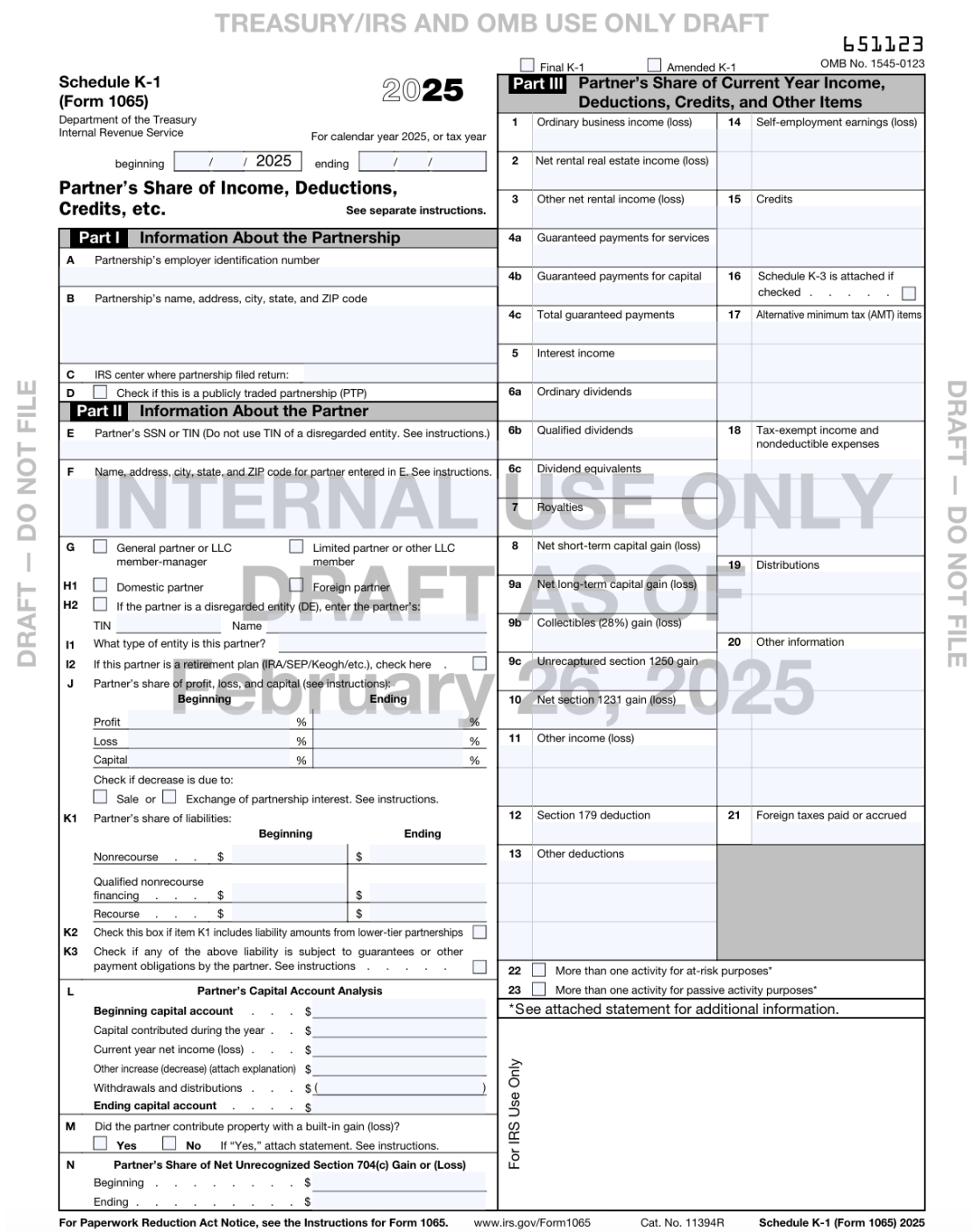
* See attached statement for additional information.

DRAFT — DO NOT FILE

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 11520D Schedule K-1 (Form 1120-S) 2025 Created 4/9/25

PARTNERSHIP:

NO CHANGES NOTED



TREASURY/IRS AND OMB USE ONLY DRAFT

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Schedule K-1 (Form 1065) 2025

Department of the Treasury
Internal Revenue Service

For calendar year 2025, or tax year beginning / / 2025 ending / /

Final K-1 Amended K-1 OMB No. 1545-0123

Partner's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS center where partnership filed return:

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G ☐ General partner or LLC member-manager ☐ Limited partner or other LLC member

H1 ☐ Domestic partner ☐ Foreign partner

H2 ☐ If the partner is a disregarded entity (DE), enter the partner's: TIN Name

I1 What type of entity is this partner?

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to: ☐ Sale or ☐ Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	$	$
Qualified nonrecourse financing	$	$
Recourse	$	$

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships ☐

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions ☐

L Partner's Capital Account Analysis

Beginning capital account	$
Capital contributed during the year	$
Current year net income (loss)	$
Other increase (decrease) (attach explanation)	$
Withdrawals and distributions	$ ( )
Ending capital account	$

M Did the partner contribute property with a built-in gain (loss)? ☐ Yes ☐ No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	$
Ending	$

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	19	Distributions
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain	20	Other information
10	Net section 1231 gain (loss)		
11	Other income (loss)		
12	Section 179 deduction	21	Foreign taxes paid or accrued
13	Other deductions		

22 ☐ More than one activity for at-risk purposes*

23 ☐ More than one activity for passive activity purposes*

*See attached statement for additional information.

For IRS Use Only

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INTERNAL USE ONLY

DRAFT AS OF February 26, 2025

DRAFT — DO NOT FILE


S CORPS

S-Corp Compensation

S-CORP IRS 2553 LETTER

Dear Taxpayer:

Thank you for your Forms 2553, Election by a Small Business Corporation, and 1120-S, U.S. Income Tax Return for an S Corporation.

We accepted your election to be treated as an S corporation with an accounting period ending Dec. 31, 2023, as of Jan. 01, 2023. Please keep this letter in your permanent records as proof of acceptance of your election. If we examine your return, we will verify this election is appropriate for your situation.

We'd also like to take this opportunity to remind you of your tax obligations for the payment of compensation to shareholder-employees of S corporations.

When a shareholder-employee of an S corporation provides services to the S corporation, the S corporation must reasonably compensate the shareholder-employee. This compensation is subject to employment taxes.

The IRS may re-characterize distributions as salary. This position has been supported by Revenue Ruling 74-44 and in numerous court decisions.

S corporation shareholders must also know their stock and debt basis. The S corporation should notify each individual of the basis in his/her S corporation stock and debt when:

S-CORPORATION: OWNER WAGES VS. DISTRIBUTIONS FACTORS TO CONSIDER

1. Owners vs. Officers
2. Profitability (Losses)
3. Cash flow (affordability)
4. What does the owner want/need of the available cash flow
5. Timing of payroll (routine and consistent)
6. Timing of distributions (not routine, not consistent, not as often
7. Does the business make money from services or products
8. Are there other employees
9. Effort and time by the owners (broken down into roles)
10. Owner's efforts and time vs. employees
11. What does the businesses industry pay employees for time and effort similar to the owner
12. Troubles with the 60/40 (70/30) rule of thumb

S-CORPORATION: OWNER WAGES VS. DISTRIBUTIONS FACTORS TO CONSIDER

Start-up vs. long-standing business

Start-up factors

1. Schedule C vs. S-Corp
2. Affordability
3. Borrowed funds (Do NOT borrow money to pay owners)
4. Growth and volatility of profitability
5. Strategy: Owners only pay themselves payroll until certain profitability is reached, then start a mixture of wages and distributions
   - Example: First $50,000 of annual funds paid out as W-2 wages on a semi-monthly or bi-weekly, then start introducing distributions, not paid more than monthly

S-CORPORATION: OWNER WAGES VS. DISTRIBUTIONS FACTORS TO CONSIDER

Start-up vs. long-standing business

Long-standing business

1. Profits and cash flow predictable
2. Owners needs and wants of profits better defined
3. Consider salary to cover owner's personal monthly needs, and distributions for anything above that, with distributions paid quarterly.
4. Define the max salary to be paid, with amounts above that paid as distributions, quarterly
   - Example: First $160,200 paid as wages to max out wages subject to social security taxes, with distributions paid above that ($264,000 to max out retirement contributions)

S-CORPORATION: OWNER WAGES VS. DISTRIBUTIONS

IRS has no hard and fast rules, and every business is different, however, the IRS expects "reasonable" W-2 wages to be paid to "officers" per line 7 of the Form 1120-S.

Form **1120-S** — **U.S. Income Tax Return for an S Corporation** — OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
Go to *www.irs.gov/Form1120S* for instructions and the latest information.

For calendar year or tax year beginning , ending , 20

A S election effective date	**TYPE OR PRINT**	Name	**D** Employer identification number
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	**E** Date incorporated
C Check if Sch. M-3 attached ☐		City or town, state or province, country, and ZIP or foreign postal code	**F** Total assets (see instructions) $

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. ☐ Yes ☐ No

H Check if: **(1)** ☐ Final return **(2)** ☐ Name change **(3)** ☐ Address change **(4)** ☐ Amended return **(5)** ☐ S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year . . . . . .

J Check if corporation: **(1)** ☐ Aggregated activities for section 465 at-risk purposes **(2)** ☐ Grouped activities for section 469 passive activity purposes

Caution: Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1a	Gross receipts or sales	1a		
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a		1c	
	2	Cost of goods sold (attach Form 1125-A)		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)		4	
	5	Other income (loss) (see instructions—attach statement)		5	
	6	**Total income (loss).** Add lines 3 through 5		6	
ns)	7	Compensation of officers (see instructions—attach Form 1125-E)		7	

Form **1125-E** — **Compensation of Officers** — OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

▶ **Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S.**
▶ **Information about Form 1125-E and its separate instructions is at *www.irs.gov/form1125e*.**

Name — **Employer identification number**

Note: Complete Form 1125-E only if total receipts are $500,000 or more. See instructions for definition of total receipts.

	(a) Name of officer	(b) Social security number (see instructions)	(c) Percent of time devoted to business	Percent of stock owned (d) Common	Percent of stock owned (e) Preferred	(f) Amount of compensation
1			%	%	%	
			%	%	%	

S-CORPORATION: OWNER WAGES VS. DISTRIBUTIONS

Form **1120-S** — **U.S. Income Tax Return for an S Corporation**

Department of the Treasury
Internal Revenue Service

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
▶ Go to *www.irs.gov/Form1120S* for instructions and the latest information.

OMB No. 1545-0123

For calendar year , or tax year beginning , , ending , 20

A S election effective date	TYPE OR PRINT — Name	D Employer identification number
B Business activity code number (see instructions)	Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
C Check if Sch. M-3 attached ☐	City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions) $

G Is the corporation electing to be an S corporation beginning with this tax year? ☐ Yes ☐ No If "Yes," attach Form 2553 if not already filed

H Check if: (1) ☐ Final return (2) ☐ Name change (3) ☐ Address change (4) ☐ Amended return (5) ☐ S election termination or revocation

I Enter the number of shareholders who were shareholders during any part of the tax year . . . . . ▶

J Check if corporation: (1) ☐ Aggregated activities for section 465 at-risk purposes (2) ☐ Grouped activities for section 469 passive activity purposes

Caution: Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1a	Gross receipts or sales	1a	
	b	Returns and allowances	1b	
	c	Balance. Subtract line 1b from line 1a		1c
	2	Cost of goods sold (attach Form 1125-A)		2
	3	Gross profit. Subtract line 2 from line 1c		3
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)		4
	5	Other income (loss) (see instructions—attach statement)		5
	6	**Total income (loss).** Add lines 3 through 5		6
Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)		7
	8	Salaries and wages (less employment credits)		8
	9	Repairs and maintenance		9
	10	Bad debts		10
	11	Rents		11
	12	Taxes and licenses		12
	13	Interest (see instructions)		13
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		14
	15	Depletion **(Do not deduct oil and gas depletion.)**		15
	16	Advertising		16
	17	Pension, profit-sharing, etc., plans		17
	18	Employee benefit programs		18
	19	Other deductions (attach statement)		19
	20	**Total deductions.** Add lines 7 through 19		20
	21	**Ordinary business income (loss).** Subtract line 20 from line 6		21

1

2

3

Form 1120-S (20) Page **4**

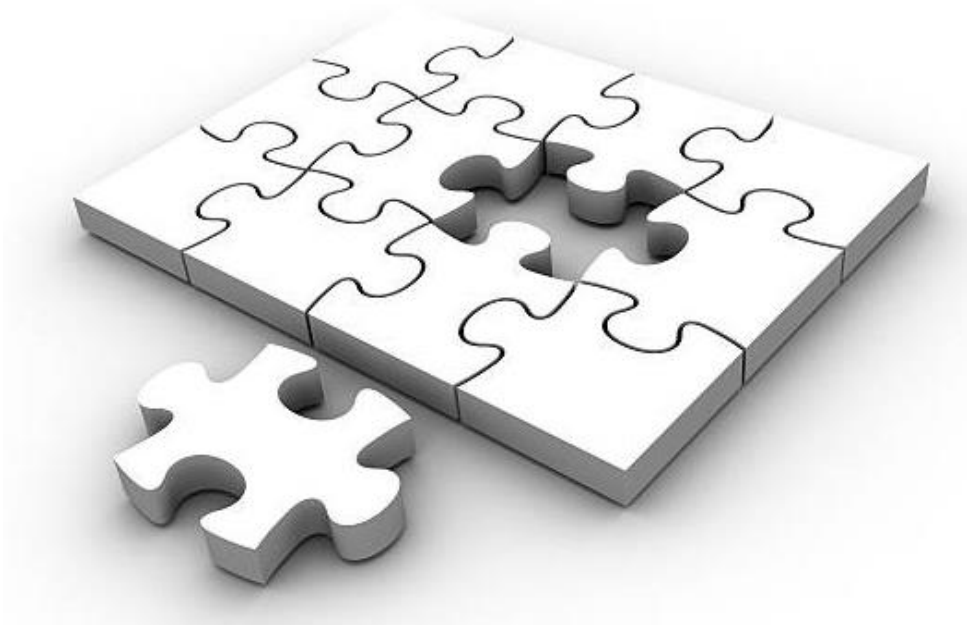
Schedule K **Shareholders' Pro Rata Share Items** *(continued)* — **Total amount**

Alternative Minimum Tax (AMT) Items	15a	Post-1986 depreciation adjustment	15a	
	b	Adjusted gain or loss	15b	
	c	Depletion (other than oil and gas)	15c	
	d	Oil, gas, and geothermal properties—gross income	15d	
	e	Oil, gas, and geothermal properties—deductions	15e	
	f	Other AMT items (attach statement)	15f	
Items Affecting Shareholder Basis	16a	Tax-exempt interest income	16a	
	b	Other tax-exempt income	16b	
	c	Nondeductible expenses	16c	
	d	Distributions (attach statement if required) (see instructions)	16d	
	e	Repayment of loans from shareholders	16e	
Other Information	17a	Investment income	17a	
	b	Investment expenses	17b	
	c	Dividend distributions paid from accumulated earnings and profits	17c	
	d	Other items and amounts (attach statement)		
Reconciliation	18	**Income (loss) reconciliation.** Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14p	18	

Previously Taxed, Accumulated Earnings and Profits, and Other Adjustments Account (see instructions)

		(a) Accumulated adjustments account	(b) Shareholders' undistributed taxable income previously taxed	(c) Accumulated earnings and profits	(d) Other adjustments account
1	Balance at beginning of tax year				
2	Ordinary income from page 1, line 21				
3	Other additions				
4	Loss from page 1, line 21	( )			
5	Other reductions	( )			( )
6	Combine lines 1 through 5				
7	Distributions				
8	Balance at end of tax year. Subtract line 7 from line 6				

Triangular Relationship



Distributions to the Shareholder

S-CORP: DISTRIBUTIONS

Distributions (payments) of excess profits made to shareholders are not considered wages or subject to self-employment taxes. Therefore, it is tempting to consider making distributions versus paying wages. However, the temptation must be overcome, and distributions need to resemble distributions… of profits.

Distributions are one-time payments made from profits as investment income to shareholders as a return for investing in the company.

S-CORP: DISTRIBUTIONS

Distributions characteristics:

- Should be based on profits
- Not be the same amounts each time
- Not be routinely paid like payroll
- Not personal expenses (those should be considered wages)
- Paid less frequently than payroll
- Paid quarterly

A comparison would be distributions paid similar to how a C-Corporation would pay dividends. However, these are NOT considered dividends and are NOT taxed as dividends to the shareholder.

S-CORP: DISTRIBUTIONS

Distributions in a S-Corp are typically considered as a return of the member's previously taxed income.

However, if distributions exceed the shareholder’s basis, the distribution is treated as taxable income to the shareholder taxed as a capital gain.

When this occurs it is added to the shareholder’s basis in the following year, treated as increase to the shareholder’s basis (a restoration to basis).

Over 2% Shareholder Health, Dental, Vision & Long-Term Care Insurance

HEALTH, DENTAL, VISION & LONG-TERM CARE INSURANCE PAID BY S-CORPORATION FOR MORE THAN 2% SHAREHOLDER

IRC Section 1372 – More than 2% shareholder of S-corporation treated as a "partner" under partnership law.

Health, dental, vision & long-term care insurance paid by an S-corporation for a more than 2% shareholder, is not tax deductible to the S-corporation.

This is a taxable fringe benefit and must be picked up as wages in Box 1 (only) of the more than 2% shareholders Form W-2. This is NOT subject to Social Security or Medicare payroll taxes. This is subject to withholdings.

The wages that include this fringe benefit are tax deductible to the S-corporation.

The health, dental, vision and long-term care insurance amount picked up as income is considered "self-employment health insurance" and is tax deducted on the individual tax return as an "Adjustment to Income" on Schedule 1.

HEALTH, DENTAL, VISION & LONG-TERM CARE INSURANCE PAID BY S-CORPORATION FOR MORE THAN 2% SHAREHOLDER

Example of the result is:

($10,000)	S-corporation deducts the wages on Form 1120s (line 7)
$10,000	More than 2% shareholder reports Box 1 wages as income on Form 1040
($10,000)	More than 2% shareholder tax deducts as "self-employed health insurance" on Schedule 1 of Form 1040 DO NOT MISS THIS LOOK AT BOX 14 ON THE W-2 TO KNOW THE AMOUNT TO DEDUCT
($10,000)	Net result is still a tax deduction

During IRS audit, they are checking this (it appears 100% of the time).

MAXIMUM DEDUCTION LIMITS
LONG-TERM CARE INSURANCE

The amount of long-term care premiums paid by the S-corporation needs to be included in Box 1 of Form W-2. However, on Schedule 1, only the "allowable" amount is can be included (deducted).

The following are the 2025 & 2024 deductible limits per-individual:

Attained Age Before Close of Taxable Year	2025 Limit	2024 Limit
40 or less	$480	$470
More than 40 but not more than 50	$900	$870
More than 50 but not more than 60	$1,800	$1,7,60
More than 60 but not more than 70	$4,810	$4,710
More than 70	$6,020	$5,880

Personal Expenses Paid by the S-Corp


1040
20

PERSONAL EXPENSES PAID FOR ANY EMPLOYEE

If any business pays personal expenses on behalf of an employee, such expenses are considered wages to the employee, subject to employment taxes.

The wages are deductible.

Shareholder-employees are NOT a different class of employee and are NOT treated differently.

PERSONAL OWNER'S EXPENSES PAID BY S-CORP

How would that be treated for a non-owner?

- WAGES!
- Wages are of course subject to payroll taxes

What about classifying as a "distribution?"

- IRS S-Corporation Acceptance Letter: Reclassify to Wages!
- Distributions are "DISTRIBUTIONS OF PROFITS"
- Distributions are NOT "I was lazy but I am an owner, so it's ok"
- Distributions are NOT "I just made an AJE to non-deduct it"

If not classified as wages, then the owner needs to reimburse!

- Create a suspense account. Repay from next actual distributions.

If multiple shareholders, uneven distributions can create a 2nd class of stock, thus collapsing the S-Corporation. Oops!

PERSONAL OWNER'S EXPENSES PAID BY S-CORP

IRS crack down

- These are w-2 wages.
- Not distributions.
- Not M-1 adjustments.
- Not a shareholder loan

PERSONAL OWNER'S EXPENSES PAID BY S-CORP

IRS website– "paying yourself" Shareholder loan or officer's compensation?

A loan by a corporation to a corporate officer should include the characteristics of a loan made at arm's length. That is, there should be a contract with a stated interest rate, a specified length of time for repayment, and a consequence for failure to repay the loan. Collateral would also be an indication of a loan. A below-market loan is a loan which provides for no interest or interest at a rate below the federal rate that applies. If a corporation issues you, as a shareholder or an employee, a below-market loan, then depending on the substance of the transaction the lender's payment to the borrower is treated as a gift, dividend, contribution to capital, payment of wages, or other payment.

See "below-market interest rate loans" under employees' pay / kinds of pay / loans or advances in publication 535, business expenses for more information.

PERSONAL OWNER'S EXPENSES PAID BY S-CORP

IRS PUBLICATION 15-A: Interest-free and below-market-interest-rate loans

In general, if an employer lends an employee more than $10,000 at an interest rate less than the current applicable federal rate (AFR), the difference between the interest paid and the interest that would be paid under the AFR is considered additional compensation to the employee. This rule applies to a loan of $10,000 or less if one of its principal purposes is the avoidance of federal tax.

This additional compensation to the employee is subject to social security, Medicare, and FUTA taxes, but not to federal income tax withholding. Include it in compensation on form W-2 .

SCHEDULE M-1

- Reconcile business expenses per books and per tax return
- Personal expenses are not business expenses

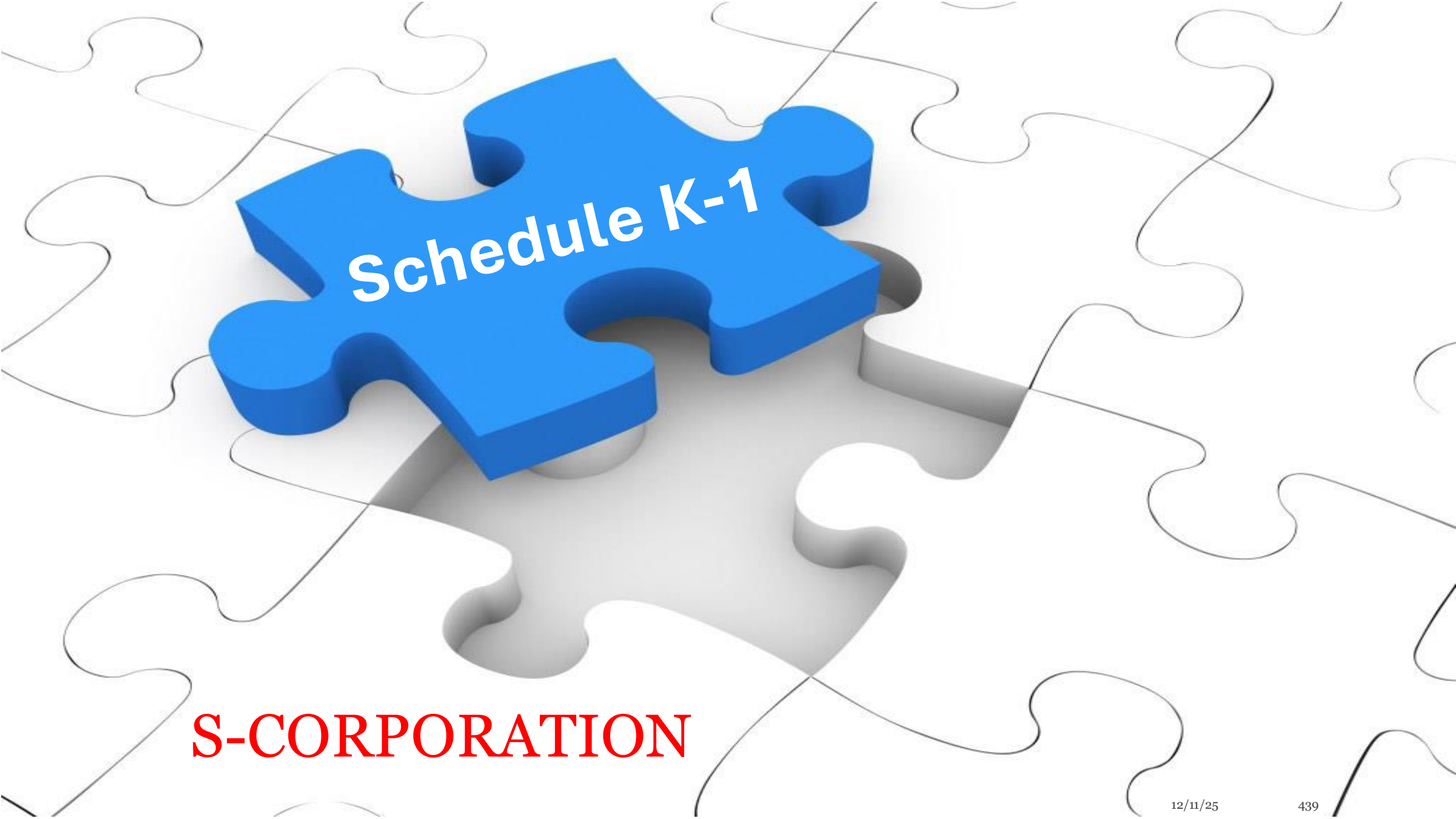
PERSONAL OWNER'S EXPENSES PAID BY S-CORP

2ND CLASS OF STOCK CREATED ???

- If more than one shareholder, unequal distributions without intent of equaling within a reasonable amount of time, would create a 2nd class of stock, thus collapsing the s-corporation.
  - Deeming personal expenses as distributions is problematic in these circumstances

THE SHAREHOLDER IS AN EMPLOYEE. NOT A SPECIAL EMPLOYEE.

- The IRS will treat this the same as any employee
- Such expenses not reported as compensation will be subject to payroll taxes, plus penalties & interest



S-CORPORATION

S-CORPORATION SCHEDULE K-1 HOT SPOTS

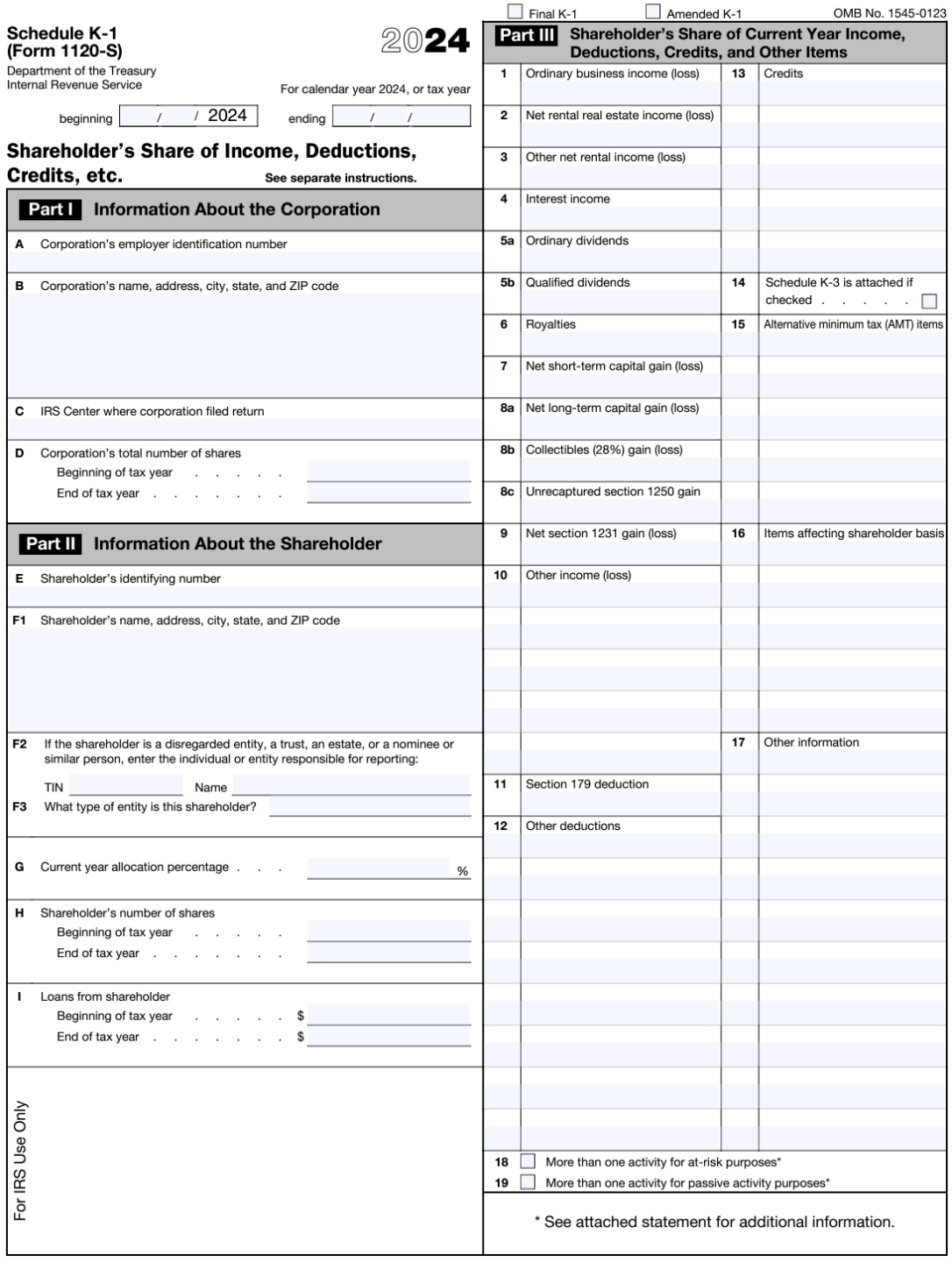
Total Number of Shares

NEW (Next Slide)

Allocation Percentage

Shareholder Shares

Loans from Shareholder



Schedule K-1 (Form 1120-S) 2024

Department of the Treasury
Internal Revenue Service

For calendar year 2024, or tax year beginning / / 2024 ending / /

Final K-1 ☐ Amended K-1 ☐ OMB No. 1545-0123

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code

C IRS Center where corporation filed return

D Corporation's total number of shares
Beginning of tax year
End of tax year

Part II Information About the Shareholder

E Shareholder's identifying number

F1 Shareholder's name, address, city, state, and ZIP code

F2 If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting:
TIN Name

F3 What type of entity is this shareholder?

G Current year allocation percentage %

H Shareholder's number of shares
Beginning of tax year
End of tax year

I Loans from shareholder
Beginning of tax year $
End of tax year $

For IRS Use Only

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

18 ☐ More than one activity for at-risk purposes*
19 ☐ More than one activity for passive activity purposes*

* See attached statement for additional information.

Schedule K-3 Foreign Reporting

More than one activity "at-risk"

More than one activity "passive"

S-CORPORATION SCHEDULE K-1 HOT SPOTS

NEW

F2 If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting:

TIN _____ Name _____

F3 What type of entity is this shareholder? _____

Form 7203

Tax Basis & At-Risk Basis

FORM 7203 –FOR S-CORP SHAREHOLDERS

Purpose of Form: Use Form 7203 to figure potential limitations of your share of the S corporation's deductions, credits, and other items that can be deducted on your return. This is NOT filed with Form 1120S. It is filed with Form 1040.

Who Must File: Form 7203 is filed by S corporation shareholders who:

- Are claiming a deduction for their share of an aggregate loss from an S corporation (including an aggregate loss not allowed last year because of basis limitations),
- Received a non-dividend distribution from an S corporation,
- Disposed of stock in an S corporation (whether or not gain is recognized), or
- Received a loan repayment from an S corporation.

PLANNING POINT: It may be beneficial for shareholders to complete and retain Form 7203 even for years it is not required to be filed, as this will ensure their bases are consistently maintained year after year.

FORM 7203

Form **7203**

Department of the Treasury
Internal Revenue Service

S Corporation Shareholder Stock and Debt Basis Limitations

Attach to your tax return.
Go to *www.irs.gov/Form7203* for instructions and the latest information.

OMB No. 1545-2302

Attachment Sequence No. **203**

Name of shareholder | Identifying number

A Name of S corporation | B Employer identification number

C Stock block (see instructions):

D Check applicable box(es) to indicate how stock was acquired:
(1) ☐ Original shareholder (2) ☐ Purchased (3) ☐ Inherited (4) ☐ Gift (5) ☐ Other:

E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation ☐

Part I Shareholder Stock Basis

1	Stock basis at the beginning of the corporation's tax year			1
2	Basis from any capital contributions made or additional stock acquired during the tax year			2
3a	Ordinary business income (enter losses in Part III)	3a		
b	Net rental real estate income (enter losses in Part III)	3b		
c	Other net rental income (enter losses in Part III)	3c		
d	Interest income	3d		
e	Ordinary dividends	3e		
f	Royalties	3f		
g	Net capital gains (enter losses in Part III)	3g		
h	Net section 1231 gain (enter losses in Part III)	3h		
i	Other income (enter losses in Part III)	3i		
j	Excess depletion adjustment	3j		
k	Tax-exempt income	3k		
l	Recapture of business credits	3l		
m	Other items that increase stock basis	3m		
4	Add lines 3a through 3m			4
5	Stock basis before distributions. Add lines 1, 2, and 4			5
6	Distributions (excluding dividend distributions)			6
	Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.			
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15			7
8a	Nondeductible expenses	8a		
b	Depletion for oil and gas	8b		
c	Business credits (sections 50(c)(1) and (5))	8c		
9	Add lines 8a through 8c			9
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15			10
11	Allowable loss and deduction items. Enter the amount from line 47, column (c)			11
12	Debt basis restoration (see net increase in instructions for line 23)			12
13	Other items that decrease stock basis			13
14	Add lines 11, 12, and 13			14
15	**Stock basis at the end of the corporation's tax year.** Subtract line 14 from line 10. If the result is zero or less, enter -0-			15

Part II Shareholder Debt Basis

Section A—Amount of Debt (If more than three debts, see instructions.)

Description	(a) Debt 1 ☐ Formal note ☐ Open account	(b) Debt 2 ☐ Formal note ☐ Open account	(c) Debt 3 ☐ Formal note ☐ Open account	(d) Total
16 Loan balance at the beginning of the corporation's tax year				
17 Additional loans (see instructions)				
18 Loan balance before repayment. Add lines 16 and 17				
19 Principal portion of debt repayment (this line doesn't include interest)				
20 Loan balance at the end of the corporation's tax year. Subtract line 19 from line 18				

Part II Shareholder Debt Basis *(continued)*

Section B—Adjustments to Debt Basis

Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
21 [illegible]sis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17				
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Add lines 21, 22, and 23				
25 Divide line 24 by line 18				
26 Nontaxable debt repayment. Multiply line 25 by line 19				
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24				
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-				
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31 **Debt basis at the end of the corporation's tax year.** Subtract line 30 from line 29. If the result is zero or less, enter -0-				

Section C—Gain on Loan Repayment

32	Repayment. Enter the amount from line 19			
33	Nontaxable repayments. Enter the amount from line 26			
34	**Reportable gain.** Subtract line 33 from line 32			

Part III Shareholder Allowable Loss and Deduction Items

Description	(a) Current year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35 Ordinary business loss					
36 Net rental real estate loss					
37 Other net rental loss					
38 Net capital loss					
39 Net section 1231 loss					
40 Other loss					
41 Section 179 deductions					
42 Charitable contributions					
43 Investment interest expense					
44 Section 59(e)(2) expenditures					
45 Other deductions					
46 Foreign taxes paid or accrued					
47 **Total loss.** Add lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30					

FORM 7203

Form **7203**
(Rev. December 2022)
Department of the Treasury
Internal Revenue Service

S Corporation Shareholder Stock and Debt Basis Limitations

Attach to your tax return.
Go to *www.irs.gov/Form7203* for instructions and the latest information.

OMB No. 1545-2302

Attachment Sequence No. **203**

Name of shareholder	**Identifying number**
A Name of S corporation	**B** Employer identification number

C Stock block (see instructions):

D Check applicable box(es) to indicate how stock was acquired:

(1) ☐ Original shareholder **(2)** ☐ Purchased **(3)** ☐ Inherited **(4)** ☐ Gift **(5)** ☐ Other:

E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation . . . . . ☐

1.1367-1(g) elections allows the for these adjustments to the basis of a shareholder's stock in an S Corporation. This code section applies to shareholder basis, not at-risk basis. IRC Section 1367 allows a shareholder to elect to reduce the shareholder basis by items of loss or deduction before nondeductible noncapital expenses

Aggregation & Grouped Activities:

S-Corp

AGGREGATION

- If you have a client that owns an entity that owns another entity, this applies
- Client's individual K-1 includes multiple activities for QBI, this applies
- K-1 that includes lower-tiered entities requires analysis

Form **1120-S**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
Go to *www.irs.gov/Form1120S* for instructions and the latest information.

OMB No. 1545-0123

2024

For calendar year 2024 or tax year beginning , 2024, ending , 20

A S election effective date	**TYPE OR PRINT**	Name	**D Employer identification number**
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	**E** Date incorporated
		City or town, state or province, country, and ZIP or foreign postal code	**F** Total assets (see instructions) $
C Check if Sch. M-3 attached ☐			

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. ☐ Yes ☐ No

H Check if: **(1)** ☐ Final return **(2)** ☐ Name change **(3)** ☐ Address change **(4)** ☐ Amended return **(5)** ☐ S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year . . . . . .

J Check if corporation: **(1)** ☐ Aggregated activities for section 465 at-risk purposes **(2)** ☐ Grouped activities for section 469 passive activity purposes

S-Corporation: Instructions to Form 1120S

Aggregation of Activities

Activities that constitute a trade or business are treated as one activity if:

- You actively participate in the management of the trade or business, or
- The trade or business is carried on by a partnership or S corporation and 65% or more of its losses for the tax year are allocable to persons who actively participate in the management of the trade or business.

For more information, see Pub. 925.

If you aggregate your activities under these rules for section 465 purposes, check the appropriate box in item J.

WHAT ACTIVITIES CAN BE AGGREGATED?

Sec. 469 does not define the term "activity" and a separation of activities based on separate legal entities is not required. Regs. Sec. 1.469-4(c)(1) provides for a grouping of legal entities if their activities constitute an appropriate economic unit for the measurement of gain or loss.

Regs. Sec. 1.469-4(c)(2) provides a facts-and-circumstances test for determining whether a grouping of activities results in an appropriate economic unit. Therefore, whether activities constitute an appropriate economic unit under this test and may be treated as a single activity depends on all the relevant facts and circumstances.

Regs. Sec. 1.469-4(e) provides that once a taxpayer has grouped activities, the taxpayer cannot regroup those activities unless "it is determined that a taxpayer's original grouping was clearly inappropriate or a material change in the facts and circumstances has occurred that renders the original grouping clearly inappropriate."

METHOD OF AGGREGATING ACTIVITIES

A taxpayer may use any reasonable method of applying the relevant facts and circumstances in grouping activities. The factors given the greatest weight in the regulation are

(1) Similarities and differences in types of trades or businesses;
(2) The extent of common control;
(3) The extent of common ownership;
(4) Geographical location; or
(5) Interdependencies between or among the activities.

IRS AUDIT TECHNIQUE GUIDE: PASSIVE ACTIVITY LOSS

https://www.irs.gov/pub/irs-mssp/pal.pdf

Great resource covering:

- Rental activities
- Passive activities
- Material participation
- Real estate professionals
- Dispositions
- Entity issues
- Grouping rules for multiple activities
- Credits

LLC's TAXED AS S-CORPORATIONS

REVIEW ALL LLC/S-CORPS

- Standard operating agreements typically or easily can create a second class of stock, which terminates the S election

- Easy to fix before IRS discovery, and IRS allows for the easy fix

REVIEW ALL LLC/S-CORPS

- If S election is terminated, the entity is treated as a C-corp with exposure to double taxation and taxation of distributions as dividends
- IRS doesn't look at the economics of an audit adjustment, as they just have to follow the tax law

REVENUE PROCEDURE 2022-19: ONE CLASS OF STOCK RULES

An S corporation is allowed to only have a single class of stock, as it relates to distributions and rights of owners to proceeds in liquidation of the entity. However, voting rights do not need to be identical per share.

This rule can create issues for unincorporated entities which elect to be S corporations using the "association," or "check the box" election to be treated as S corporations for federal income tax purposes. Many times, these entities use default language that base members' relative liquidation rights on capital account balances which can be incorrect in following the single class of stock rule.

Rev. Proc. 2022-19 states how to retroactively correct operating agreements inconsistent with the single class of stock rule. It also states when the IRS will not rule, where a ruling is unnecessary and where a ruling is the appropriate relief provision.

REVENUE PROCEDURE 2022-19: ONE CLASS OF STOCK RULES

State law requires equal distributions:

If the articles of incorporation (or operating agreement), bylaws and binding shareholder agreements follow state law and require equal distributions, the entity's distribution history is not determinative. Revenue Procedure 2022-19 defines such a corporation as one with "identical" governing provisions.

The corporation is an S corporation.

REVENUE PROCEDURE 2022-19: ONE CLASS OF STOCK RULES

State law does NOT require equal distributions:

If the articles of incorporation (or operating agreement), bylaws and binding shareholder agreements follow state law and require equal distributions, the entity's distribution history is determinative. If the distributions have always been proportional per share, the corporation may be able to self-correct the defect. However, the corporation must satisfy two additional conditions:

1. The corporation must have filed all of its returns, during the period the non-identical governing provisions were in effect, as an S corporation on Form 1120-S. Moreover, the corporation must have filed all of the returns within six months of the due date, including extensions; and,

2. The IRS must not have discovered the defect.

REVIEW ALL LLC/S-CORPS

- State law requires equal distributions, the entity's distribution history is not determinative of S status

- State law does NOT require equal distributions, the entity's distribution history is determinative of S status

REVENUE PROCEDURE 2022-19: ONE CLASS OF STOCK RULES

Self-correction if the corporation has non-identical governing provisions, it can correct this default without filing any request with the IRS.

The corporation prepares a statement, signed by a corporate officer, which details the non-identical governing provision and states the corrective action.

- Describe the new identical governing provision.
- Include a list of all persons who have been shareholders since the non-identical governing provision took effect until the corporation adopted the new identical governing provision.
- Each of these shareholders must attach a statement, signed under penalties of perjury.
- The corporation retains this documentation in its permanent records.

See Rev. Proc. 2022-19, Appendix A for samples of the statements.

REVENUE PROCEDURE 2022-19: ONE CLASS OF STOCK RULES

Rev. Proc. 2022-19 states, "an S election that is invalid or terminated solely as the result of one or more non-identical governing provisions" may qualify for relief without requesting a ruling. Therefore, it appears that any other violation will disqualify a corporation from the self-correction rule.

It is suggested you get proactive with your clients, right now. If the entity has otherwise been in compliance with the S corporation rules, all that needs to be done is to modify the operating agreement or other applicable document, obtain the signatures and statements of current and prior owners, and add the modification to the corporation's records.

Right now it is possible this can be corrected with a simple statement. If it is not corrected and later discovered it could be a long process to fix the situation that leads to more costs and possible malpractice claims.

ONE CLASS STOCK: PLC 202215003 ONE OPERATING AGREEMENT INCORRECT

PLR 202215003: The taxpayers had an agreement had provisions for partnerships but not permissible for S corporations. The agreement required the company to

- Maintain capital accounts and stipulated that these accounts would control the division of assets on liquidation.
- Required that distributions be made first to each person owning a transferable interest that reflects contributions made and not previously returned in an amount equal to the unreturned contributions, and thereafter to members in the proportions in which they shared in distributions before dissolution.

These provisions were not consistent with the single class of stock requirement.

The company revised its operating agreement and made compensatory true-up distributions to its members, aligning the cumulative distributions with a single class of stock.

PARTNERSHIPS

PARTNERSHIP: EQUIVALENT TO FORM 7217

Form 7217, *Partner's Report of Property Distributed by a Partnership*, is used only in specific circumstances when a partner receives a property distribution and needs to report the basis of that distributed property. This is not a general basis tracking form.

Form 7217 is filed by any partner receiving a distribution of property from a partnership in a non-liquidating or liquidating distribution to report the basis of the distributed property, including any basis adjustment to such property as required by section 732(a)(2) or (b).

PARTNERSHIP: EQUIVALENT TO FORM 7217

When To File?

File Form 7217 by attaching it to your tax return for the tax year in which you received distributed property subject to section 732. Form 7217 is due at the time your tax return is due, including any extensions.

PARTNERSHIP: EQUIVALENT TO FORM 7217

Who Must File?

File with your annual tax return a separate Form 7217 for each date during the tax year that you received distributed property subject to section 732. If you received distributed properties subject to section 732 on different days during the tax year, even if part of the same transaction, file a separate Form 7217 for each date that you received the properties. Do not file Form 7217 if the distribution consisted only of money or marketable securities treated as money under section 731(c). Also, do not file Form 7217 for payments to you for services other than in your capacity as a partner under section 707(a)(1) or for transfers that are treated as disguised sales under section 707(a)(2)(B).

FORM 7217

File with the individual tax return (Form 1040)

Form **7217**
(December 2024)
Department of the Treasury
Internal Revenue Service

Partner's Report of Property Distributed by a Partnership

Attach to your tax return.
Go to *www.irs.gov/Form7217* for instructions and the latest information.

OMB No. 1545-0123

Attachment Sequence No. **217**

Partner's name	Partner's TIN
Distributing partnership's name	**Distributing partnership's EIN**
Date property was distributed to partner	

Part I **Aggregate Basis of Distributed Property on Distribution Date.** File a separate form for each date a partner received distributed property.

1	Was this distribution in complete liquidation of the partner's interest in the partnership?	☐ Yes ☐ No
2	Was any part of the distribution treated as a sale or exchange under section 751(b)?	☐ Yes ☐ No
3	Partnership's aggregate basis in distributed property (taking into account any basis adjustments under section 732(d), 734(b), or 743(b)) immediately before the distribution. This line should equal the total of Part II, line B, column (b)	$
4	Adjusted basis of the partner's interest in the partnership immediately before the distribution	$
5a	Cash received in the distribution $	
b	Fair market value of marketable securities (as defined in section 731(c)) received in the distribution $	
c	Add lines 5a and 5b	$
6	Enter the smaller of line 4 or line 5c	$
7	Gain recognized. Subtract line 6 from line 5c. If zero, enter -0- and go to line 9	$
8	Is U.S. tax required to be paid on the gain entered on line 7?	☐ Yes ☐ No
9	Partner's basis in partnership interest reduced by cash received in the distribution. Subtract line 5a from line 4. If zero or less, enter -0-. See instructions if you recognized gain under section 737 as a result of the distribution	$
10	Aggregate basis to be allocated to the distributed property. For a non-liquidating distribution, enter the smaller of line 3 or line 9. For a liquidating distribution, enter the amount from line 9. Line 10 should equal the total of Part II, line B, column (e)	$

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. Cat. No. 94479B Form **7217** (12-2024)

FORM 7217

Partner's Report: Property Distributed by Partnership

- Filed with partner's individual tax return
- For liquidating or non-liquidating distributions of property to report basis of the property distributed
- Separate form filed for each date during the year of actual (not constructive) property distribution
- Not required for money or marketable securities

EXPANDED FORM 8308

Report of a Sale or Exchange of Certain Partnership Interests

Form 8308 is now a two-page form with Part III, Transfer of Partnership Interest, expanded to include checkboxes for the type of partnership interest transferred (Capital, Preferred, Profits, Other).

New Part IV, Partner's Share of Gain (Loss) Required by Sections 751(a), 1(h)(5), and (6), includes reporting of any gains for hot assets (§751), collectibles, and unrecaptured §1250 gain. For each of these types of gain (loss), the partnership will report:

- Partnership-level deemed sale gain (loss)
- Percentage interest in the partnership transferred
- Number of units in the partnership transferred, and
- Partner-level deemed sale gain (loss)

Corresponding K-1 box 20 codes are provided on the form for each type of gain (loss).
Relief From Penalties from Failure to Complete Form 8308, Part IV (Notice 2024-19)

EXPANDED FORM 8985

Purpose of Form Form 8985 is used to summarize and transmit Forms 8986, Partner's Share of Adjustment(s) to Partnership-Related Item(s), by an audited partnership, administrative adjustment request (AAR) partnership, or pass-through partner. Form 8985 is also used to report payment made and related calculations by a pass-through partner. Form 8985-V is used by a pass-through partner to submit a tax payment related to a BBA exam or BBA AAR.

Form **8985-V**
(December 2019)
Department of the Treasury
Internal Revenue Service

Tax Payment by a Pass-Through Partner

OMB No. 1545-0123

Print or type

Check the box for type of payment
- ☐ BBA exam push out
- ☐ BBA AAR push out

File only if you are making a payment by check or money order. Mail this voucher with your check or money order payable to **"United States Treasury."** Write your taxpayer identification number (TIN) and "Form 8985" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Amount you are paying by check or money order. $

Payment due date (MM/DD/YYYY) / /

This payment amount is for the following:
An imputed underpayment ____ Penalties ____ Interest ____

Audit control number (if applicable)	Partner's applicable tax year ending date (MM/DD/YYYY)	Partner's TIN
Type of tax return filed by the Partner ☐ Form 1065 ☐ Form 1120-S ☐ Form 1041 ☐ Other (enter form number) ____	Name of Pass-Through Partner Address (number, street, and apt. no.)	
Partner's Representative Name ____ Phone ____	City / State / ZIP code	
	Foreign country name / Foreign province/county / Foreign postal code	

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 71711W

Form **8985**
(December 2019)
Department of the Treasury
Internal Revenue Service

Pass-Through Statement — Transmittal/Partnership Adjustment Tracking Report
(Required Under Sections 6226 and 6227)

▸ Go to www.irs.gov/Form8985 for instructions and the latest information.

OMB No. 1545-0123

Check if this form is: ☐ 1. Original ☐ 2. Corrected ☐ 3. Reserved

Incoming Tracking Number	Outgoing Tracking Number	Audit Control Number

Part I Information About Entity Submitting This Form

A Check the box to indicate which entity is submitting this form.
- ☐ 1. Audited BBA partnership
- ☐ 2. Pass-through partner (direct or indirect) of an audited BBA partnership
- ☐ 3. BBA partnership that filed an administrative adjustment request (AAR)
- ☐ 4. Pass-through partner (direct or indirect) of a BBA partnership that filed an AAR

B Type of return filed by the entity that submitted this form: ☐ 1. Form 1065 ☐ 2. Form 1120-S ☐ 3. Form 1041 ☐ 4. Other (enter form number) ____

C Number of Forms 8986 submitted with this Form 8985

D Check if this form is the summary of all Forms 8985 for this outgoing tracking number ▸ ☐

E This Form 8985 is number ____ of ____ for this outgoing tracking number.

Part II Information About the Audited Partnership or Partnership That Filed an Administrative Adjustment Request

A 1. Partnership's name
2. Street address
3. City or town
4. State or province
5. Country code
6. ZIP or foreign postal code

C Partnership's tax identification number (TIN)

D Review year of the partnership is for tax year ended (MM/DD/YYYY)

B If the partnership representative (PR) is an individual, enter information about the PR. Otherwise, enter information about the designated individual (DI). Check appropriate box. ☐ PR ☐ DI
1. First name
2. Last name
3. Street address
4. City or town
5. State
6. ZIP code
7. Area code and phone number

E Adjustment year of the partnership is for tax year ended (MM/DD/YYYY)

F Extended due date of the partnership's adjustment year return (MM/DD/YYYY)

G Date the partnership furnished the Form 8986 statements to its partners (MM/DD/YYYY)

Part III Information About the Pass-Through Partner (Only fill out this section if this statement is being submitted by a pass-through partner.)

A 1. Pass-through entity's name
2. Street address
3. City or town
4. State or province
5. Country code
6. ZIP or foreign postal code

B Pass-through partner's tax identification number (TIN)

C Pass-through partner's tax year end to which the adjustments relate (MM/DD/YYYY)

D Name of the entity that issued the statement to the pass-through partner (if different from the partnership in Part II)

E TIN of the entity that issued the statement to the pass-through partner (if different from the partnership in Part II)

F Check if the pass-through partner is:
- ☐ 1. Making a payment at the pass-through partner level
- ☐ 2. Issuing Forms 8986 to its partners

Additional tax	Penalties	Interest
$	$	$

If making a payment, use Part V to show how the payment was figured, and enter the additional tax, penalties, and interest . . . .

Check if:
- ☐ 3. An electronic payment was made to the IRS. Enter the electronic confirmation number here: ▸ ____
- ☐ 4. Paying by check or money order. Enter the check number here: ▸ ____ See instructions for Form 8985-V.

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature of individual partnership representative or designated individual (see instructions)	Date	Telephone number
Title	Name of the person signing the form	Name of entity partnership representative (if applicable)

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37809J Form **8985** (12-2019)

FORM 8986 SEE IF IT IS AVAILABLE NOW?

This is to report: Partner's Share of Adjustment(s) to Partnership-Related Item(s) (Required Under Sections 6226 and 6227)

Form 8986 is used by BBA partnerships to furnish and transmit each partner's share of adjustments to partnership-related items.

The Bipartisan Budget Act of 2015 (BBA) created a centralized partnership audit regime that replaced the partnership audit procedures under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Form 8986 was created for partnerships to show each partner's share of adjustments to partnership-related items as a result of a BBA audit or BBA administrative adjustment request (AAR).

SCHEDULE K-2 & K-3 (PARTNERSHIP)

Part I, box 7, reserved. Box 7 requiring attachment of Form 8858 has been reserved. Instead, box 13 now requires, in certain instances, information that a partner (whether direct or indirect) needs to complete Form 8858 with respect to a foreign branch or foreign disregarded entity owned by the partnership. NOTE: Form 8858 is the *Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs).*

Part 1, box 11. Certain partnerships are now required to report information concerning dual consolidated losses with Schedules K-2 and K-3.

Part I, box 13. The new qualified intermediary agreement in Rev. Proc. 2022-43 (the QIA), 2022-52 I.R.B. 570, applies beginning January 1, 2023, including to qualified intermediaries that are qualified derivatives dealers (QDDs) as defined under the QIA.

NEW ON SCHEDULE K-1

Box 13. Other deductions.

Updated information related to qualified conservation contributions has been provided under code C.

Box 15. Credits.

If the partnership has made an election under section 6418 to transfer a portion or all of the section 48, 48C, or 48E credits, see Code ZZ. Other under Box 15. Credits, later.

SCHEDULE K-2 & K-3 (PARTNERSHIP)

IRS issues a frequently asked question for pass-through entities to report negative amounts to the IRS on Part II of Schedules K-2 and K-3.

Question:

For the 2022 tax year, a pass-through entity receives information (for example, a Schedule K-3 from a lower-tier pass-through entity) that certain gross income amounts to be reported on the Schedules K-2 and K-3 are negative. However, the current schema for electronic filing of the Schedules K-2 and K-3 does not permit negative values for certain line items in Part II, Section 1 of Schedules K-2 and K-3. How should these negative amounts be reported on Schedules K-2 and K-3 to the IRS and to the partners or members? (added September 5, 2023).

SCHEDULE K-2 & K-3 (PARTNERSHIP)

Answer:

A pass-through entity electronically filing the Schedules K-2 and K-3 for the 2022 tax year should enter zero on the line items in Schedules K-2 and K-3, Part II, Section 1 for which the schema does not permit negative values. A pass-through entity must attach a General Dependency (XML) schema to the Schedule K-2 identifying the line items and the negative values for which the pass-through entity reported zero on Part II, Section 1. Additionally, a pass-through entity should attach a list of the impacted line items and the negative numbers, partner by partner. A pass-through entity should report to its partners or members any changes to the amounts reported on the original Schedules K-3 issued to the partners or members. The IRS has not opined on whether it is legally appropriate to use negative values.

PARTNERSHIP: TAX FACTORS TO CONSIDER

LLC Operating Agreement (OA)

- BIGGEST Indicator of Guaranteed Payment Classification

General Partner (Schedule K-1 Box G)

- OA States the General Partner (Not Required to be One)

Payments for Services (Guaranteed Payments)

- Compensation (Schedule K-1 Box 4a)
- Subject to Self-Employment Taxes (Schedule K-1 Box 14a)

Guaranteed Capital Payments (Schedule K-1 Box 4b)

- NOT Subject to Self-Employment Taxes (Not in Box 14)

Non-Passive

- Possibly Subject to Self-Employment Taxes (Box 14)

Passive Profitability

- Not Subject to Self-Employment Taxes

PARTNERSHIP BASICS OF TAX BASIS & AT-RISK BASIS

Tax basis: We all know the basics

Capital contributed
Less: capital distributions
Plus: income
Less: losses
Equals: tax basis

At-risk basis: We all know the basics

- Partners get basis for applicable share of liabilities
- At-risk basis for partner loans to the entity (net of repayments)

Partnerships Self-Employment Taxes

IRS FUNDING TO PURSUE COMPLEX PARTNERSHIPS

IRS announced their plans and reported some success related to their expanded enforcement efforts of high-income individuals, large corporations and complex partnerships.

At the end of 2023, the IRS had begun examinations of 76 of the largest partnerships in the US, using artificial intelligence to identify potential compliance risk areas on tax returns. These partnerships, on average, have more than $10 billion in assets.

These new compliance efforts are to ensure that Self-Employment Contributions Act (SECA) taxes are being properly reported and paid by partners who provide services and have inappropriately claimed to qualify as "limited partners" in state law limited partnerships.

PARTNERSHIP: SELF-EMPLOYMENT EARNINGS

The activities in a partnership that are considered a “trade or business” are considering self-employment earnings REGARDLESS of the involvement of the partners. This is also regardless of QBI under IRC Sec. 199 classifications.

PARTNERSHIP: SELF-EMPLOYMENT EARNINGS

Non-Passive Partner (General Partner)

- Subject to Self-Employment Taxes
- Partners that Provide Services
- Partners with Management Authority
- Characteristics Inconsistent with “Limited Partners”

Passive Partner (Limited Partner)

- Not Subject to Self-Employment Taxes
- Partners Involvement as an Investor
- Does NOT Provide Services
- Does NOT have Significant Management Authority

SELF-EMPLOYMENT TAX

- If the K-1 includes guaranteed payments for services, the ordinary income in Box 1 will be subject to self-employment taxes
- If the partnership is a trade or business, the ordinary income in Box 1 is easily, automatically subject to self-employment tax

SELF-EMPLOYMENT TAX

- A “Limited Partner” is no longer automatically exempt from self-employment tax
- The “Limited Partners” involvement with the partnership determines if the income is subject to self-employment tax

PARTNERSHIP SCHEDULE K-1
THE MECHANICS

Schedule K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

For calendar year : tax year

beginning / / ending / /

Partner's Share of Income, Deductions, Credits, etc.

See separate instructions.

G	☐ General partner or LLC member-manager	☐ Limited partner or other LLC member	
H1	☐ Domestic partner	☐ Foreign partner	
H2	☐ If the partner is a disregarded entity (DE), enter the partner's:		
	TIN	Name	

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	19	Distributions
9b	Collectibles (28%) gain (loss)		

Subject to S/E Tax

Subject to S/E Tax

NOT Subject to S/E Tax

NOT Taxable* to Partner &
NOT Subject to S/E Tax

*Assuming enough tax basis

REMINDER: FINAL REGS BAR PARTNERSHIP FROM TREATING PARTNERS WHO WORK FOR DISREGARDED ENTITY AS EMPLOYEES (TD 9869)

The IRS issued final regulations that prohibit a partnership that owns an SMLLC from treating partners working for it as employees. Treas. Reg. 301.7701-2(c)(2)(iv)(C)(2) provides:

- If a partnership is the owner of a disregarded entity, the partners in the partnership are subject to the same self-employment tax rules as partners in a partnership that does not own a disregarded entity.
- Thus, taxpayers that are partners in a partnership that owns a disregarded entity cannot participate in certain tax-favored employee benefit plans of the disregarded entity. T.D. 9869.

SELF-EMPLOYMENT TAX FOR PARTNERS

- A partner's net earnings from self-employment include both the distributive share of the income of the partnership and any guaranteed payment for services rendered to the partnership.

- If the partnership is engaged in a trade or business, the distributive share of income is subject self-employment tax. An exception is provided for real estate rentals.

- If the partnership is not engaged in a trade or business, the partner's distributive share of the income of the partnership is not subject to self-employment tax.

PARTNERSHIP: GUARANTEED PAYMENTS

- A guaranteed payment is a term in the Internal Revenue Code that refers to payments to a partner for services or the use of capital if that payment was determined without regard for the income of the partnership.

- The court has stated that a partner is acting as a partner in capacity when they are performing services which are ongoing and vital to the business of that partnership.

- Guaranteed payments of revenue made to owners of an LLC, can have tax benefits attached that are not applicable to other types of payments.

- Any payment that's scheduled regularly to a member of the LLC for any services rendered that are NOT predicated on the income of the LLC, such as salary, should be treated like a guaranteed payment.

- Guaranteed payments to any class of partners is treated the same as any other guaranteed payment. Meaning, being a general partner or limited partner (or otherwise) does not change the tax affects of guaranteed payments

PARTNERSHIP: DISTRIBUTIONS

- Distributions (payments) of excess profits made to members of an LLC, are constrained by the company's status as a pass-through entity.
- Distributions are one-time payments made from profits as investment income for members as a return for investing in the company.
- The IRS treats payments differently from guaranteed payments and allows cash distributions to be made to members without incurring self-employment taxes.
- Distributions are typically provided relative to previous or current earnings for that year, or in liquidation of the LLC or a member's interest. In contrast, guaranteed payments are made irrespective of earning considerations.
- Cash distributions are typically considered as a return of the member's previously taxed income or capital.

FUNDAMENTAL TAX CHANGE TO ACTIVE LIMITED PARTNERS & ACTIVE MEMBERS OF AN LLC TAXED AS A PARTNERSHIP

Partnerships have perceived flexibility on it's ordinary net income (page 1 of Form 1065) being subject to self-employment taxes, or possibly not.

Ordinary net income is classified as self-employment income and is allocated to materially participating and general partners.

Self-employment is subject to self-employment taxes.

Courtncases have definitively changed the definition of ordinary net income being considered self-employment income for limited partners and/of partners of an LLC taxed as a partnership.

SELF-EMPLOYMENT TAXES: PARTNERHSIP

The ordinary net income of the business (typically only box 1 of Schedule K-1) is considered self-employment income (reported in box 14 of Schedule K-1) and is subject to self employment taxes on the partners individual tax return (Form 1040).

Self-employment taxes are

- Social security tax
  12.4% up to self-employment income 168,600 2024 ($176,100 in 2025)

- Medicare tax
  2.9% of self-employment income; unlimited
- Additional Medicare tax
  .9% of self-employment income that exceeds
  - $250,000 for married filing jointly;
  - $125,000 for married filing separately; and
  - $200,000 for all other taxpayers.

Effectively 3.8%

LIMITED PARTNERS SUBJECT TO SELF-EMPLOYMENT TAXES

LIMITED PARTNER SUBJECT TO SELF-EMPLOYMENT TAX

The U.S. Tax Court ruled on *Soroban Capital Partners LP v. Commissioner* (T.C. Memo 2025-52), holding that all income allocated to the partnership's limited partners is subject to self-employment taxes; not just amounts reported as guaranteed payments.

The Court applied the "functional analysis" test it established in its 2023 ruling in the same case (161 T.C. No. 12).

The Court found that Soroban's limited partners were "limited" in name only.

Evidence showed that the partners were actively engaged in the fund's operations, meaning they did not qualify for the statutory limited partner exception to self-employment tax.

LIMITED PARTNER SUBJECT TO SELF-EMPLOYMENT TAX

This conclusion aligns with the Tax Court's 2024 decision in *Denham Capital Management LP v. Commissioner* (T.C. Memo 2024-114), where the "functional analysis" was applied leading to the denial of the limited partner exception.

The Court is making it clear that the legal label of "limited partner" is not determinative in itself of whether the income is exempt from self-employment tax.

The partner's actual role, responsibilities, and level of involvement drive whether the exception applies. Where partners play a significant role in day-to-day business operations, the Court has consistently found them subject to self-employment tax on all allocable income.

LLC
At-risk basis:
Protection of Loss

SHARE OF LIABILITIES

- If a partner can be held responsible for the debt of the LLC, LP, etc. but is allowed to recover their loss from other partners, the debt is not considered recourse for at-risk basis purposes.
- Possibly a fraction of their ownership after possible recovery can be included

PARTNER AT-RISK BASIS

Partnership Liability Basis Under IRS Section 465:

A partner's tax basis in a partnership is increased by the amount of the partner's allocable share of partnership liabilities. Partnership liabilities can either be (i) recourse, to the extent a partner bears an economic risk of loss in the event of a partnership default; or (ii) nonrecourse, to the extent that no partner bears a risk of loss, for example, a liability that is secured by a pledged asset with no ability of the lender to collect any deficiencies from the partnership or its partners. Recourse liabilities are allocated to the partners that bear the economic risk of loss; nonrecourse liabilities are allocated to all partners, generally based on how they share profits.

Recourse and nonrecourse liability basis permits a partner to receive cash distributions in excess of their investment in the partnership (up to the amount of the liability basis) without triggering taxable gain. In addition, recourse (but only certain nonrecourse) liability basis is considered "at-risk" basis that a partner may use to deduct allocated partnership taxable losses. Traditionally, bottom-dollar guarantees were used to create additional recourse liability basis for the guarantor partner.

LLC AT-RISK BASIS: PROTECTION OF LOSS

LLC members are not considered to be at risk for borrowed amounts to the extent that they are protected against loss by agreement among the members or by operation of law.

To the extent a member has the legal right to sue other members for reimbursement of amounts expended to pay LLC creditors, the member is considered to be protected against loss, and therefore the liability very well may NOT be available to increase the partner's at-risk basis.

An LLC member is almost always protected against loss by operation of the state LLC statute. Consequently, LLC members can seldom include the LLC's debt in their amount at risk.

LLC AT-RISK BASIS: PROTECTION OF LOSS

Abramson, 86 T.C. 360 (1986)
Gefen, 87 T.C. 1471 (1986)
Bennion, 88 T.C. 684 (1987)

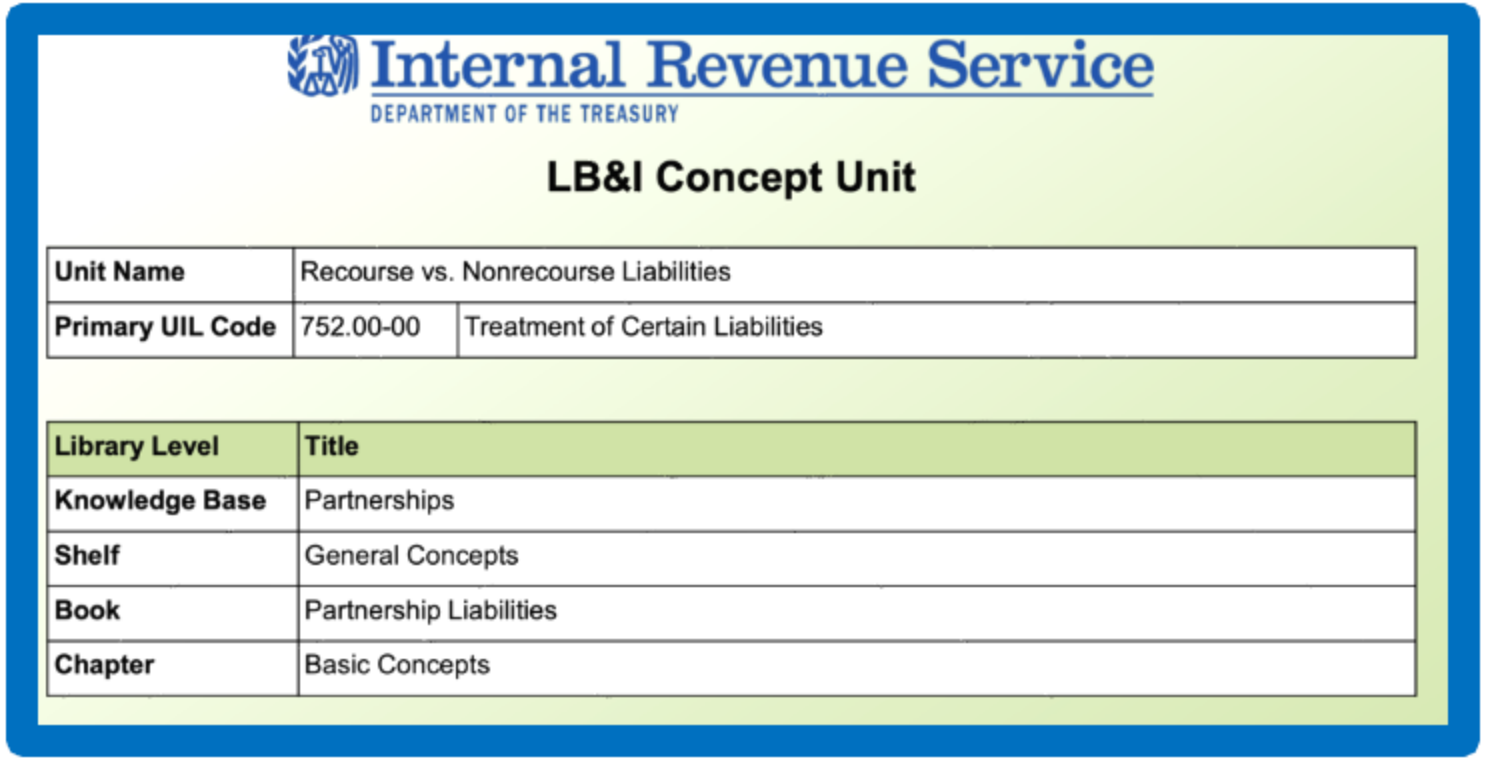
In this Tax Court cases, the partner was allowed to have an increase in at-risk amounts for guarantees by partners or members in LLCs classified as partnerships because of the three factors:

1. The guarantee is absolute and unconditional;

2. There is no right of subrogation, contribution, or reimbursement from the entity or any other owner; and

3. The guarantor bears the ultimate responsibility for the debt, or a portion of the debt, if the entity defaults in a worst-case scenario

SHARE OF LIABILITIES: DEFINED BY THE IRS



Internal Revenue Service
DEPARTMENT OF THE TREASURY

LB&I Concept Unit

Unit Name	Recourse vs. Nonrecourse Liabilities	
Primary UIL Code	752.00-00	Treatment of Certain Liabilities

Library Level	**Title**
Knowledge Base	Partnerships
Shelf	General Concepts
Book	Partnership Liabilities
Chapter	Basic Concepts

EXCELLENT RESOURCE FROM THE SOURCE (IRS):

https://www.IRS.gov/pub/IRSutl/recourse_nonrecourse.pdf

SHARE OF LIABILITIES: RECOURSE VS. NON-RECOURSE

https://www.IRS.gov/pub/IRS-utl/recourse_nonrecourse.pdf

RECOURSE LIABILITIES

A partnership liability is a recourse liability to the extent a partner or related person bears the economic risk of loss for the liability. In other words, if the partnership were unable to pay the creditor, the extent to which a partner would be obligated to pay the debt from personal funds, with no right of reimbursement from another partner, indicates the partner's economic risk of loss.

NONRECOURSE LIABILITIES

A partnership liability is nonrecourse if no partner, or person related to a partner, bears the economic risk of loss. In the partnership context, a nonrecourse liability is only paid in full out of the partnership's profits. There are generally two types of nonrecourse liabilities: 1. Unsecured liabilities. 2. Secured Liabilities, such as automobile loans, that are secured by property. Unsecured liabilities are not backed by any collateral. In this situation, the lender has limited protection against any default. While the lender may sell the debt on the secondary market and report the default to credit agencies, the lender may not enforce payment against the partners. However, if the nonrecourse debt is collateralized by property, the lender may foreclose on the property. Nonrecourse debt in the context of real estate partnership is typically secured by the underlying property.

SHARE OF LIABILITIES: PARTNERSHIP "AT-RISK" BASIS

Using the share of liabilities at the individual level can allow losses, as it creates "at-risk" basis.

As shown previously, the IRS is very interested in the following, as it can limit allowed losses at the individual level (Form 1040, Schedule E, Page 2):

- Share of liabilities from lower tiered partnerships
- Multiple activities with "at-risk" basis

The key is to ensure that the partner, at the individual level, is actually personally at risk.

It is not always good enough to simply rely on what is reported on the Schedule K-1, as the partnership is reporting this at the partner level, but the individual has to ensure they meet the qualifications.

NOTE: If losses were allowed in a prior year due to at-risk basis, and later those loans are repaid, it may result in a recapture of previously taken losses.

SHARE OF LIABILITIES: OPERATING AGREEMENTS

If the operating agreement (partnership agreement) is silent to what happens if an individual partner is held responsible for the partnership's debt (including LLCs), the IRS can easily argue (and win in Tax Court) that the partner is only responsible for the share of liabilities listed multiplied further by their partner ownership.

The IRS has argued in Tax Court, and won each time, that if ultimately a partner is held responsible for the partnership debt but has the option to be made whole by suing other partners, then the partner is only responsible for what they could not recover from other partners.

Therefore, if the operating agreement (partnership agreement) does not preclude a partner from suing another partner related to this matter, the IRS will successfully limit the at-risk basis.

The IRS has won even when a bank note has been executed limiting the partners liability to only a percentage of the loan, matching the Schedule K-1; if the the operating agreement does not address it.

Therefore, you cannot solely rely on the reporting of the Schedule K-1 on the issue of share of liabilities creating at-risk basis.

Partnership Bottom Dollar Guarantees

Disallowed

Final Regulations

in Full Affect

October 4, 2023

TAX BASIS IN THE PARTNERSHIP

To the extent of a partner's tax basis in a partnership, the partner is allowed to take tax-free distributions and recognize losses. Beyond tax basis, a partner can have at-risk basis further allowing for the partner to recognize losses and possibly taking distributions, up to the partner's at-risk basis.

A partner's tax basis in a partnership determines, among other tax consequences, the amount of partnership losses the partner may deduct as well as the amount of partnership distributions the partner may receive without triggering taxable gain. A partner's tax basis includes not only the amount of the partner's investment (which is adjusted for partnership income and loss allocations and other items as required under the tax code), a partner's basis also includes the partner's share of partnership liabilities.

PARTNER AT-RISK BASIS

Partnership Liability Basis Under IRS Section 465:

A partner's tax basis in a partnership is increased by the amount of the partner's allocable share of partnership liabilities. Partnership liabilities can either be (i) recourse, to the extent a partner bears an economic risk of loss in the event of a partnership default; or (ii) nonrecourse, to the extent that no partner bears a risk of loss, for example, a liability that is secured by a pledged asset with no ability of the lender to collect any deficiencies from the partnership or its partners. Recourse liabilities are allocated to the partners that bear the economic risk of loss; nonrecourse liabilities are allocated to all partners, generally based on how they share profits.

Recourse and nonrecourse liability basis permits a partner to receive cash distributions in excess of their investment in the partnership (up to the amount of the liability basis) without triggering taxable gain. In addition, recourse (but only certain nonrecourse) liability basis is considered "at-risk" basis that a partner may use to deduct allocated partnership taxable losses. Traditionally, bottom-dollar guarantees were used to create additional recourse liability basis for the guarantor partner.

BOTTOM DOLLAR GUARANTEES ON PARTNERSHIP LOANS

Treasury Regs. Sec. 1.752-2(a) under IRC Section 752

Bottom Dollar Guarantees are a payment guarantee by a partner to repay a portion of the partnership debt only if the creditor is unable to collect the full amount of the debt from the partnership, i.e., a guarantee of the last dollars of a liability. This can effectively convert nonrecourse liability to recourse liability, increasing at-risk basis in partnership interest.

However, final regulations published in October 2019 generally put an end to the use of bottom-dollar guarantees as a means of bolstering tax basis in a partnership interest on debt incurred after October 5, 2016, unless special transition rules applied.

The transition rules lasted 7 years.

The special transition rules have expired and the final regulations are fully effective as of October 4, 2023.

FINAL REGULATIONS ON BOTTOM DOLLAR GUARANTEES NOT ALLOWED

The final regulations require a partnership to disclose a bottom dollar payment obligation with respect to a partnership liability on a completed Form 8275 (Disclosure Statement) attached to the return of the partnership for the taxable year in which the bottom dollar payment obligation is undertaken or modified.

The final regulations make it clear that partner guarantees will only be respected if they establish a genuine commercial payment obligation. Therefore, a review of the terms of partner guarantees is suggested. In addition, partnership agreements should be reviewed to confirm that the language concerning capital contribution and deficit restoration obligations is consistent with the final regulations.

In short, if the partner is only obligated to pay the debt if the partnership can't, that is considered a bottom dollar guarantee.

BOTTOM DOLLAR GUARANTEE EXAMPLE

Alona, Brett and Chandler are equal partners of a partnership that borrows $100,000. Alona guarantees payment of up to $30,000 of partnership debt if any amount of the $100,000 debt is not recovered by the lender. Brett guarantees payment of up to $20,000, but only if the lender recovers less than $20,000 of the $100,000 debt. Chandler provides no guarantee.

Because Alona is obligated to pay up to $30,000 if any amount of the $100,000 debt is not recovered by the lender, Alona's guarantee is not a Bottom Dollar Payment Obligation, which means it is recognized for tax purposes. The $30,000 of the $100,000 partnership debt will be treated as recourse debt to Alona.

Because Brett is obligated to pay up to $20,000 only if the lender recovers less than $20,000 of the $100,000 debt, Brett's guarantee is a Bottom Dollar Payment Obligation, which means it is not recognized for tax purposes. Thus, none of the $100,000 debt will be treated as recourse debt to Brett.

Thus, of the $100,000 partnership debt, $30,000 will be allocated to Alona as recourse debt and the remaining $70,000 will be allocated to Alona, Brett, and Chandler as nonrecourse debt.

$100,000 Loan

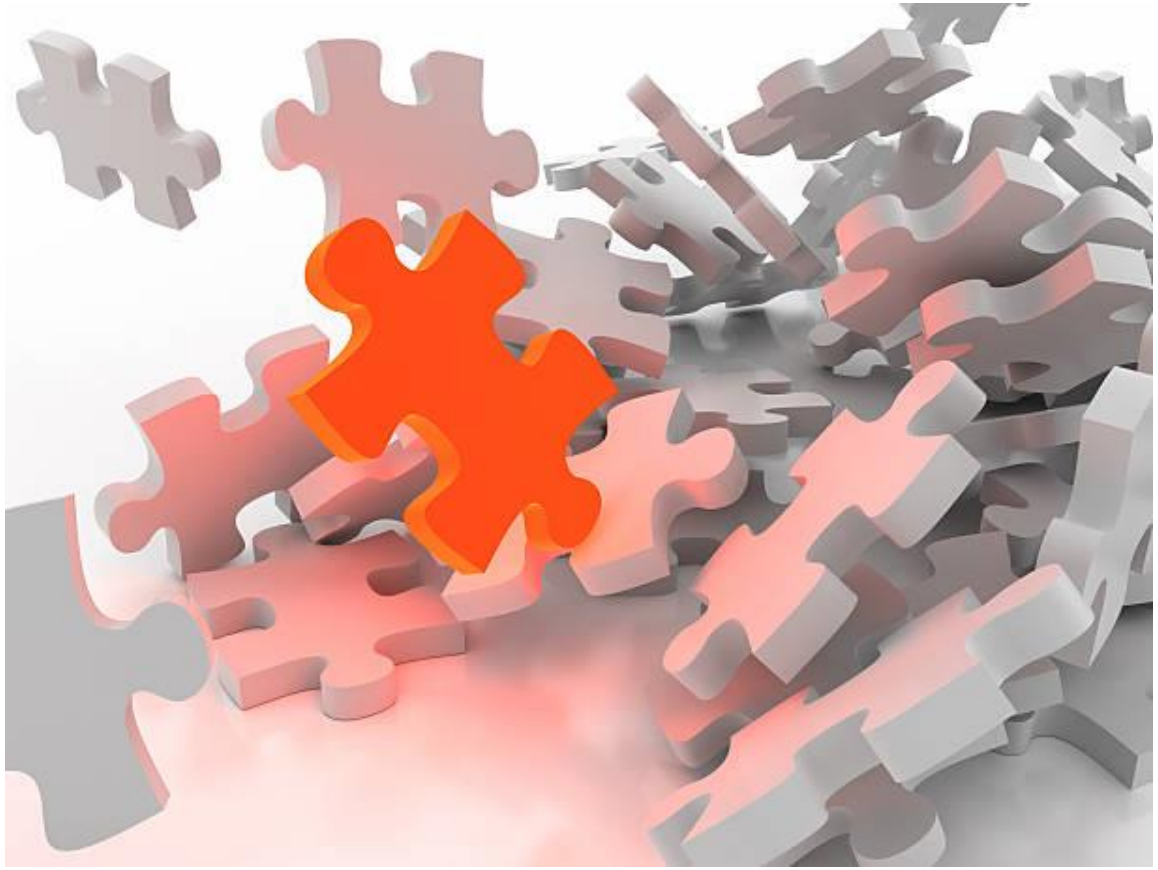
- **Alona** guarantees $30,000
  - **$30,000 Recourse Debt**
  - $23,334 Non-Recourse Debt
- **Brett** guarantees $20,000 Only to the extent the bank recovers less than $20,000
  - Zero Recourse Debt
  - $23,333 Non-Recourse Debt
- **Chandler** provides no guarantee
  - Zero Recourse Debt
  - $23,333 Non-Recourse Debt

PARTNER OPTIONS TO OBTAIN AT-RISK BASIS

Other options may be available for partners to achieve desired tax results, such as:

•Using “vertical slice guarantees,” under which a partner guarantees a percentage of each dollar of debt, and

•Intelligently managing recourse and non-recourse liability allocations.



PAYMENTS TO PARTNERS

PARTNERSHIP: W-2 WAGES NOT ALLOWED TO PARTNERS

Rev. Rul. 69-184
Partners are considered self-employed individuals (NOT employees)

Cannot be treated as an employee

- Partners cannot pay themselves W-2 Wages
- IRS could argue it's a non-deductible expense

HOW DOES A PARTNER GET MONEY FROM THE PARTNERSHIP?

Guaranteed Payments

- For Services
- For Capital

Distributions

PARTNERSHIP: GUARANTEED PAYMENTS

- A guaranteed payment is a term in the Internal Revenue Code that refers to payments to a partner for services or the use of capital if that payment was determined without regard for the income of the partnership.

- The court has stated that a partner is acting as a partner in capacity when they are performing services which are ongoing and vital to the business of that partnership.

- Guaranteed payments of revenue made to owners of an LLC, can have tax benefits attached that are not applicable to other types of payments.

- Any payment that's scheduled regularly to a member of the LLC for any services rendered that are NOT predicated on the income of the LLC, such as salary, should be treated like a guaranteed payment.

- Guaranteed payments to any class of partners is treated the same as any other guaranteed payment. Meaning, being a general partner or limited partner (or otherwise) does not change the tax affects of guaranteed payments

PARTNERSHIP: DISTRIBUTIONS

- Distributions (payments) of excess profits made to members of an LLC, are constrained by the company's status as a pass-through entity.
- Distributions are one-time payments made from profits as investment income for members as a return for investing in the company.
- The IRS treats payments differently from guaranteed payments and allows cash distributions to be made to members without incurring self-employment taxes.
- Distributions are typically provided relative to previous or current earnings for that year, or in liquidation of the LLC or a member's interest. In contrast, guaranteed payments are made irrespective of earning considerations.
- Cash distributions are typically considered as a return of the member's previously taxed income or capital.

PARTNERSHIP TAX RETURN

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

OMB No. 1545-0123

For calendar year tax year beginning , ding , 20 .

Go to *www.irs.gov/Form1065* for instructions and the latest information.

A Principal business activity	Type or Print	Name of partnership	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see instructions.	E Date business started
C Business code number		City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return

H Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify):

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year:

J Check if Schedules C and M-3 are attached ☐

K Check if partnership: (1) ☐ Aggregated activities for section 465 at-risk purposes (2) ☐ Grouped activities for section 469 passive activity purposes

Caution: Include **only** trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

Income	1a	Gross receipts or sales	1a	
	b	Returns and allowances	1b	
	c	Balance. Subtract line 1b from line 1a		1c
	2	Cost of goods sold (attach Form 1125-A)		2
	3	Gross profit. Subtract line 2 from line 1c		3
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)		4
	5	Net farm profit (loss) (attach Schedule F (Form 1040))		5
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6
	7	Other income (loss) (attach statement)		7
	8	**Total income (loss).** Combine lines 3 through 7		8
Deductions (see instructions for limitations)	9	Salaries and wages (other than to partners) (less employment credits)		9
	10	Guaranteed payments to partners		10
	11	Repairs and maintenance		11
	12	Bad debts		12
	13	Rent		13
	14	Taxes and licenses		14
	15	Interest (see instructions)		15
	16a	Depreciation (if required, attach Form 4562)	16a	
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b	16c
	17	Depletion **(Do not deduct oil and gas depletion.)**		17
	18	Retirement plans, etc.		18
	19	Employee benefit programs		19
	20	Other deductions (attach statement)		20
	21	**Total deductions.** Add the amounts shown in the far right column for lines 9 through 20		21
	22	**Ordinary business income (loss).** Subtract line 21 from line 8		22

Deductible to Partnership

Schedule K	Partners' Distributive Share Items	Total amount
4	Guaranteed payments: a Services 4a	b Capital 4b
	c Total. Add lines 4a and 4b	4c
Self-Employment	14a Net earnings (loss) from self-employment	14a
	b Gross farming or fishing income	14b
	c Gross nonfarm income	14c
19a	Distributions of cash and marketable securities	19a
b	Distributions of other property	19b

NOT Deductible to Partnership

PARTNERSHIP TAX RETURN

PARTNERSHIP: GET IT RIGHT!
GUARANTEED PAYMENTS VS. DISTRIBUTIONS

- Using cash distributions in order to pay a salary risks the company of the IRS reclassifying the distribution as a guaranteed payment and subjecting the payments to self-employment taxes, interests, and penalties.

- Although the IRS relieves the LLC of much of the tax burden associated with guaranteed payments, the partners pick this up.

PASSIVE?

NON-PASSIVE?

To Be Considered

Each Year

PASSIVE OR NON-PASSIVE

- Each year the taxpayer's activities need to be considered

- Multiple layered ownership leads very easy to lower-tiered entities activities being treated as passive

NON-PASSIVE OR NOT?

Non-Passive Partners

If a partner is either treated as “non-passive” or elects to treat themselves as “non-passive” at the individual level (Form 1040), the IRS can easily use that as an argument the income reported by the partner (per box 1 of the Schedule K-1) should also be subject to self-employment taxes (15.3% applied at the individual, Form 1040 level).

- This is anticipated to be an area of IRS review as the argument that a partner can selectively choose what income is subject to self-employment taxes (and what is not) will be hard to stand in audit, as the IRS could easily see that partner’s income treated as ”non-passive” (materially participating) should also be subject to self-employment taxes.

Passive Partners

If a partner is either treated as “passive” or elects to treat themselves as “passive” at the individual level (Form 1040), remember this is income is subject to the Net Investment Income Tax (3.8%) as previously mentioned.

PASSIVE ACTIVITY

- Passive activity loss rules prevent investors from using losses incurred from income-producing activities in which they are not materially involved.
- Being materially involved with earned or ordinary income-producing activities means the income is active income and may not be reduced by passive losses. Passive losses can be used only to offset passive income.
- The key issue with passive activity loss rules is material participation. According to IRS Topic No. 425, "material participation" is involvement in the operation of a trade or business activity on a "regular, continuous, and substantial basis." There are seven tests that can define material participation, but the most common one is working at least 500 hours in the business in the course of a year.
- If the taxpayer does not materially participate in the activity that is producing the passive losses, those losses can be matched only against passive income. If there is no passive income, no loss can be deducted.
- Passive losses in the final year are treated as non-passive. Basis rules still apply.
- BENEFIT: Passive losses cannot create Excess Business Losses and/or Net Operating Losses

Non-Passive Partners

If a partner is either treated as “non-passive” or elects to treat themselves as “non-passive” at the individual level (Form 1040), the IRS can easily use that as an argument the income reported by the partner (per box 1 of the Schedule K-1) should also be subject to self-employment taxes (15.3% applied at the individual, Form 1040 level).

- This is anticipated to be an area of IRS review as the argument that a partner can selectively choose what income is subject to self-employment taxes (and what is not) will be hard to stand in audit, as the IRS could easily see that partner’s income treated as ”non-passive” (materially participating) should also be subject to self-employment taxes.

Passive Partners

If a partner is either treated as “passive” or elects to treat themselves as “passive” at the individual level (Form 1040), remember this is income is subject to the Net Investment Income Tax (3.8%) as previously mentioned.

Material Participation

Deep Dive

MATERIAL PARTICIPATION

- Determines if passive or non-passive
- Does NOT determine if the activity is a trade or business
- Does NOT determine is income is considered self-employment or not

REPORTING S-CORP SCHEDULE K-1 ON THE INDIVIDUAL TAX RETURN

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return**

Schedule E (Form 1040) Attachment Sequence No. **13** Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side.	**Your social security number**

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column **(e)** on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column **(f)** on line 28 and attach **Form 6198**. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section . . . . . ☐ **Yes** ☐ **No**

28	**(a)** Name	**(b)** Enter **P** for partnership; **S** for S corporation	**(c)** Check if foreign partnership	**(d)** Employer identification number	**(e)** Check if basis computation is required	**(f)** Check if any amount is not at risk
A			☐		☐	☐
B			☐		☐	☐
C			☐		☐	☐
D			☐		☐	☐

	Passive Income and Loss		**Nonpassive Income and Loss**		
	(g) Passive loss allowed (attach **Form 8582** if required)	**(h)** Passive income from **Schedule K-1**	**(i)** Nonpassive loss allowed (see **Schedule K-1**)	**(j)** Section 179 expense deduction from **Form 4562**	**(k)** Nonpassive income from **Schedule K-1**
A					
B					
C					
D					
29a Totals					
b Totals					

30	Add columns (h) and (k) of line 29a	**30**	
31	Add columns (g), (i), and (j) of line 29b.	**31**	( )
32	**Total partnership and S corporation income or (loss).** Combine lines 30 and 31	**32**	

MATERIAL PARTICIPATION = NON-PASSIVE

Publication 925

If you materially participate in your business, the net income is considered non-passive.

If you don’t materially participate, the net income is considered passive.

Beyond that important distinction, the IRS has devised a seven-step test for material participation in a business. If you meet **any** of seven requirements, you have materially participated for the year. This means you should check the "yes" box in answer to the question on Schedule C, or treat the income or loss items as nonpassive if your business is a partnership, LLC, or S corporation.

MATERIAL PARTICIPATION: THE 7 TESTS

These seven (7) tests or requirements are:

1. You participated in the activity for more than 500 hours during the tax year.

2. You were substantially the only participant in the activity during the tax year.

3. You participated in the activity for more than 100 hours in the tax year, which was at least as much as any other participant, including employees and independent contractors.

4. The activity involves the conduct of a trade or business, you participated in the activity for more than 100 hours, none of the other six tests apply, and you participated in all such significant participation activities for more than 500 hours during the year.

MATERIAL PARTICIPATION: THE 7 TESTS

These seven (7) tests or requirements continued are:

5. You materially participated in the activity for any five of the preceding 10 tax years.

6. The activity is a personal service activity in which you materially participated for any three prior tax years. A personal service activity is one that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material-income producing factor.

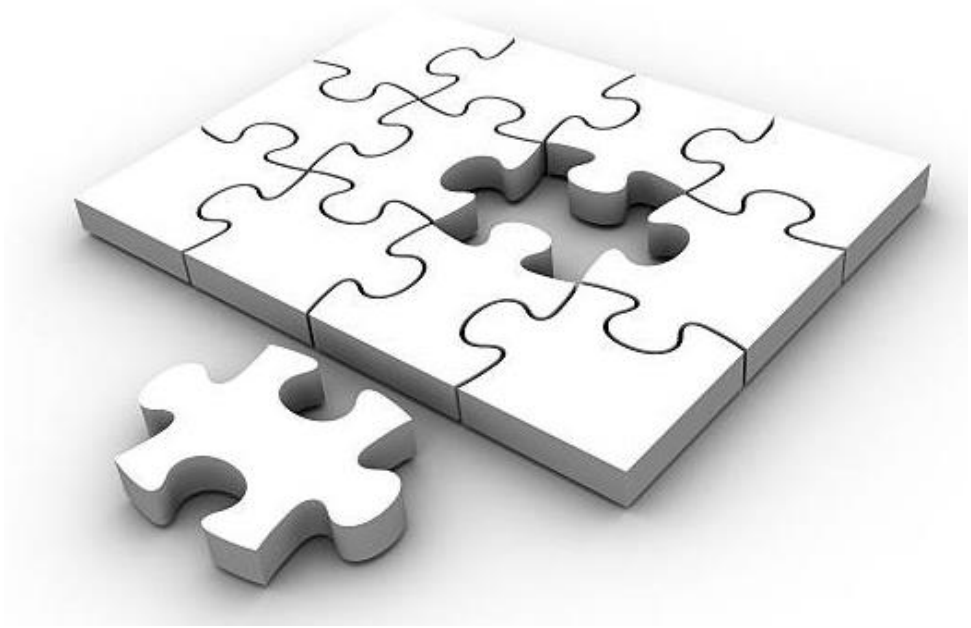
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous basis during the year, and you participated for more than 100 hours. Your participation in management will not count toward this test if anyone else was a paid manager or spent more hours than you in managing the business.

MATERIAL PARTICIPATION = ONE OF THE TESTS MET

If you do not meet any of these tests, you must treat the activity as a passive activity, and if you have a loss, you may have to complete Form 8582, *Passive Activity Loss Limitations*.

There is an exception for those who own working interests in oil or gas wells as they are treated as non-passive regardless if they meet any of the seven tests.

The seven-part test does not apply to C corporations.



Time!

The Analysis with Material Participation


ROLEX
OYSTER PERPETUAL

TIME: MATERIAL PARTICIPATION

- Determined each year
- IRS requiring time logs when not obvious
- Time integral to the activity is included
- Spouse's work can be considered

TIME: MATERIAL PARTICIPATION

- Travel time may only be counted toward material participation, if the travel is "integral, to the activity"
- Speculation time typically excluded
- Reviewing finances typically excluded

WHAT "TIME" IS INCLUDED IN THE DETERMINATION OF MATERIAL PARTICIPATION

In general, material participation is determined each year.

Any work you conduct in connection with an activity in which you hold interest can be viewed as involvement in the activity, but not all time is automatically included.

Material participation in an income-producing activity and generally an activity that is regular, continuous, and substantial. Time included to meet the material participation test is time integral to the activity.

Requires written logs of time, in existence before the tax return is filed.

Example related to real estate: Collecting rent, bookkeeping, advertising, maintaining legal compliance, safety reviews, inspections, decorating, tenant approval, contractor supervision, procuring insurance, paying taxes, and actual hands-on maintenance are all tasks that count toward your hourly requirements.

WHAT "TIME" IS INCLUDED IN THE DETERMINATION OF MATERIAL PARTICIPATION

If you are married, your spouse's work in the business can be counted toward your own participation hours whether or not you file a joint tax return, and whether or not your spouse is a co-owner of the business.

Investor: Unless the owner is involved in the day-to-day operations of the business, work done primarily as an investor in the business (such as reviewing or analyzing financial statements, or monitoring the finances or operations in a nonmanagerial capacity) does **not** count toward these tests.

Research: Many investors claim to be research other investments and properties to fill in the gaps left by their hourly obligations and day-to-day engagement. While this appears to be possible, the IRS and the Tax Court have rejected it as research and investor activities and NOT related to operations of the business.

IRS PUBLICATION 925: WHAT "TIME" IS INCLUDED IN THE DETERMINATION OF MATERIAL PARTICIPATION

IRS Publication 925 states:

Material Participation

In general, any work you do in connection with an activity in which you own an interest is treated as participation in the activity.

Work not usually performed by owners.

You don't treat the work you do in connection with an activity as participation in the activity if both of the following are true.

- The work isn't work that's customarily done by the owner of that type of activity.

- One of your main reasons for doing the work is to avoid the disallowance of any loss or credit from the activity under the passive activity rules.

IRS AUDIT TECHNIQUE GUIDE: WHAT "TIME" IS INCLUDED FOR DETERMINATION OF MATERIAL PARTICIPATION

The IRS states: A taxpayer materially participates in an activity if he or she works on a regular, continuous and substantial basis in operations (IRC § 469(h)(1)). If a taxpayer does not materially participate, losses are passive, which means they generally are not deductible in the absence of passive income. Material participation is time sensitive. A taxpayer materially participates in an activity only if he or she meets any one of the seven material participation tests in Reg. § 1.469-5T(a).

A taxpayer is required to identify the amount of his or her participation in a trade or business activity for each year. The type and quantity of time documented determines whether an activity should be treated by the taxpayer as passive or non-passive. A taxpayer can have a significant financial interest in a business, and yet not materially participate.

Material participation is a year by year determination. Consequently, it is conceivable that a taxpayer could be passive in one year and non-passive (in other words, materially participating) in the subsequent year.

TRAVEL "TIME" INCLUDED IN MATERIAL PARTICIPATION TESTS?

Travel time may only be counted toward material participation, if the travel is "integral, to the activity."

Travel time for the purpose of only racking up hours of participation do not count, and thus, if the travel time is unnecessary, it is not included.

Travel time to "speculate" on other investments or real estate properties would only be included if the activity of the business routinely invested in new businesses or real estate properties, and speculation was integral to the business. Meaning, just because someone owns a piece of real estate, does not mean they automatically get to count their travel time to "speculate" on other properties if they do not actively act on such "speculation."

TRAVEL "TIME" INCLUDED IN MATERIAL PARTICIPATION TESTS?

While you can deduct mileage and expenses for travel to and from your rentals, the time spent traveling can easily be considered commuting and does not count against your hourly thresholds.

The IRS' position stated in **Tax Court Memo 2012-83 (Trzeciak)**: If you are also claiming a home office that is used frequently and exclusively for your real estate business, you can consider the time spent traveling.

There is also some precedent that says no. Unless a taxpayer can prove day-to-day managerial engagement, travel time is considered commuting, which is personal in nature, and so does not qualify, according to **Tax Court Summary 2003-130 (Truskowsky)**.

NOTE: If you did not claim a home office on your tax returns, you should do so immediately. Travel time can be successfully contested if the home office is used on a regular and exclusive basis and if proof and day-to-day involvement are provided.

TAX COURT EXCLUDES TRAVEL "TIME" FOR MATERIAL PARTICIPATION TEST

Ronald J. Lucero and Mary L. LUCERO v. Commissioner
T.C. Memo. 2020-136 Docket No. 588-18

The taxpayer lived in Minnesota and purchased a rental property in Florida.

The Tax Court determined that a taxpayer's travel time related to managing their rentals counted towards the material participation requirements related to landscaping, cleaning, and making and/or overseeing any necessary repairs.

The Tax Court disallowed travel time that resulted in none of the above activities and considered other travel time to the property as personal or a commute.

It should also be noted the taxpayers did not maintain a written time log.

TAX COURT INCLUDES TRAVEL "TIME" FOR MATERIAL PARTICIPATION TEST

Richard S. Leyh and Ellen P. O'Neill, TC Summary Op. 2015-27

The Tax Court determined that a taxpayer's travel time related to managing her rentals counted towards the material participation requirements related to claiming the rental loss as active.

Taxpayers lived approximately 26–30 miles from the city where their 12 rental properties were located. The wife regularly drove into the city, which took approximately 42–55 minutes depending on the route, to resolve problems, perform maintenance, and administer and operate the rental properties. She contemporaneously maintained a log detailing the type of rental property activity she engaged in that day and the number of hours spent in the activity. The original log did not include time spent traveling to the properties and reflected 632.5 hours, which is less than the 750 hours required to be considered a real estate professional (and deemed to materially participate) under IRC Sec. 469(c)(7)(B). During an examination of the 2010 tax return, the petitioners revised and resubmitted the log to reflect the 1.5 travel hours per trip. The IRS refused to accept the additional hours. Based on the petitioner's revised log (which reflected a total of 846 hours) and her testimony, the Tax Court determined she met the 750-hour test and was entitled to apply the rental losses against their non-passive income.

Aggregation & Grouped Activities:

S-Corp & Partnerships

AGGREGATION

- If you have a client that owns an entity that owns another entity, this applies
- Client's individual K-1 includes multiple activities for QBI, this applies
- K-1 that includes lower-tiered entities requires analysis

PARTNERSHIP AGGREGATING ACTIVITIES IN THE DETERMINATION OF MATERIAL PARTICIPATION

Partnership: Instructions to Form 1065

Aggregation of activities.

Activities that constitute a trade or business are treated as one activity if:

- You actively participate in the management of the trade or business, or
- The trade or business is carried on by a partnership or S corporation and 65% or more of its losses for the tax year are allocable to persons who actively participate in the management of the trade or business.

For more information, see Pub. 925.

If you aggregate your activities under these rules for section 465 purposes, check the appropriate box in item K below the name and address block on page 1 of Form 1065.

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year or tax year beginning , ending , 20 .

Go to *www.irs.gov/Form1065* for instructions and the latest information.

OMB No. 1545-0123

20

A Principal business activity	**Type or Print**	Name of partnership	**D** Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see instructions.	**E** Date business started
C Business code number		City or town, state or province, country, and ZIP or foreign postal code	**F** Total assets (see instructions) $

G Check applicable boxes: **(1)** ☐ Initial return **(2)** ☐ Final return **(3)** ☐ Name change **(4)** ☐ Address change **(5)** ☐ Amended return

H Check accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify):

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year:

J Check if Schedules C and M-3 are attached . . . . . ☐

K Check if partnership: **(1)** ☐ Aggregated activities for section 465 at-risk purposes **(2)** ☐ Grouped activities for section 469 passive activity purposes

Form **1120-S**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.

Go to *www.irs.gov/Form1120S* for instructions and the latest information.

OMB No. 1545-0123

20

For calendar year or tax year beginning , , ending , 20

A S election effective date	**TYPE OR PRINT**	Name	**D** Employer identification number
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	**E** Date incorporated
C Check if Sch. M-3 attached ☐		City or town, state or province, country, and ZIP or foreign postal code	**F** Total assets (see instructions) $

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. ☐ Yes ☐ No

H Check if: **(1)** ☐ Final return **(2)** ☐ Name change **(3)** ☐ Address change **(4)** ☐ Amended return **(5)** ☐ S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year . . . . . .

J Check if corporation: **(1)** ☐ Aggregated activities for section 465 at-risk purposes **(2)** ☐ Grouped activities for section 469 passive activity purposes

WHAT ACTIVITIES CAN BE AGGREGATED?

Sec. 469 does not define the term "activity" and a separation of activities based on separate legal entities is not required. Regs. Sec. 1.469-4(c)(1) provides for a grouping of legal entities if their activities constitute an appropriate economic unit for the measurement of gain or loss.

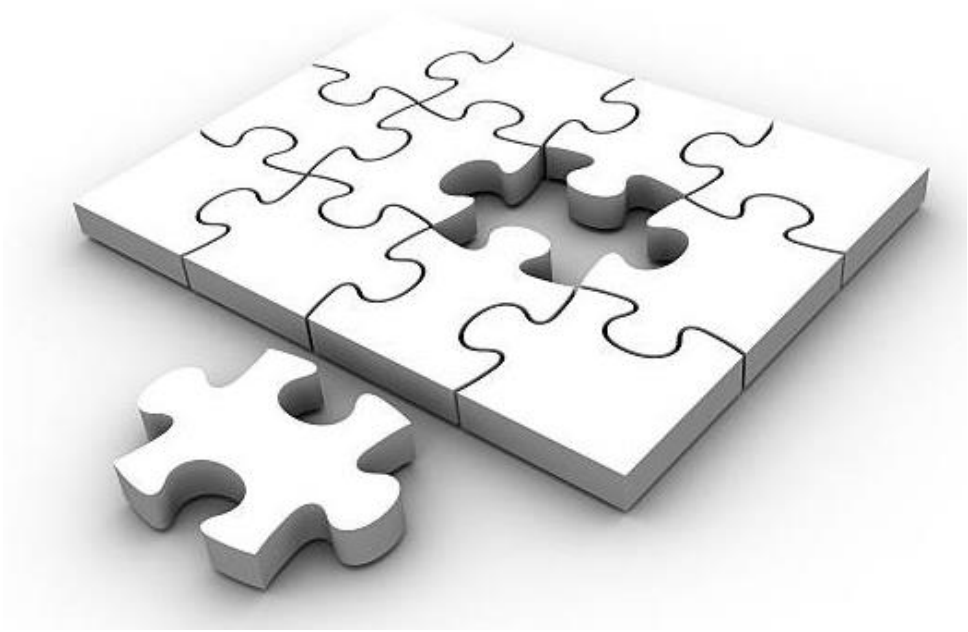
Regs. Sec. 1.469-4(c)(2) provides a facts-and-circumstances test for determining whether a grouping of activities results in an appropriate economic unit. Therefore, whether activities constitute an appropriate economic unit under this test and may be treated as a single activity depends on all the relevant facts and circumstances.

Regs. Sec. 1.469-4(e) provides that once a taxpayer has grouped activities, the taxpayer cannot regroup those activities unless "it is determined that a taxpayer's original grouping was clearly inappropriate or a material change in the facts and circumstances has occurred that renders the original grouping clearly inappropriate."

METHOD OF AGGREGATING ACTIVITIES

A taxpayer may use any reasonable method of applying the relevant facts and circumstances in grouping activities. The factors given the greatest weight in the regulation are

(1) Similarities and differences in types of trades or businesses;
(2) The extent of common control;
(3) The extent of common ownership;
(4) Geographical location; or
(5) Interdependencies between or among the activities.



Partnership Representative

Are You Sure it Should be "that" Partner

PARTNERSHIP REPRESENTATIVE

- This person is in ultimate control with matters with the IRS
- Need to ensure EACH year the name partnership representative is best
- Need to update operating agreements to protect other partners

ALL PARTNERSHIPS MUST CONSIDER AMENDING THEIR PARTNERSHIP AGREEMENT

Clients should discuss with their attorney a modification to the partnership agreement so the partnership representative can discuss these issues with their partners and require partners to agree.

The partners no longer have notice or appeal rights. Thus, the partnership representative may have legal challenges regarding his or her decisions without partner discussion and agreement.

- Provisions should be included in the partnership agreement dealing with the appointment and replacement of the Partnership Representative. The Partnership Representative has vast new powers over the other partners, such as:
  - Not notifying partners of the partnership audit developments and
  - Influencing audit concessions.

ALL PARTNERSHIPS MUST CONSIDER AMENDING THEIR PARTNERSHIP AGREEMENT

- If the partners choose, partnership agreements should be modified to include a covenant that the Partnership Representative will make the opt-out election, if qualified, without the consent of the partners.

- The transfer of a partnership interest to an ineligible partner should be restricted.

- Partnerships who are not eligible to opt out because they have ineligible partners (such as an single member LLCs) should consider restructuring alternatives.

- The current-year partners pay, directly or indirectly, the prior year tax adjustments, not the partners in the audit year, the risk prior to purchase, and the push-out option should be addressed in the partnership agreement.

ALL PARTNERSHIPS MUST CONSIDER AMENDING THEIR PARTNERSHIP AGREEMENT

- All partnership clients should be contacted immediately and advised to contact their attorney on amending existing partnership agreements.

- All partnership tax client engagement letters should contain verbiage that the tax preparer advised the client of these partnership audit issues and should establish content to protect the tax preparer from exposure in this area.

- All attorneys who modify, or draw up, partnership agreements must include provisions responding to the new partnership audit rules.

- The partnership's financial reporting and disclosure requirements may be impacted by the new partnership audit rules. A disclosure related to the partnership's policy to pay or push out any tax underpayment should be considered.

REVIEW THE DESIGNATION OF A PARTNERSHIP REPRESENTATIVE

A partnership must designate a partnership representative on its tax return for each taxable year unless it makes a valid election out of the centralized partnership audit regime. The designation of a partnership representative for one taxable year is effective only for that taxable year.
The partnership representative must have a substantial presence in the United States.

Authority of the Partnership Representative

The partnership representative has the sole authority to act on behalf of the partnership for purposes of Bipartisan Budget Act (BBA) partnership audit procedures. The partnership and the partners are bound by the actions of the partnership representative under the BBA. The partnership representative is comparable to the Tax Matters Partner under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) but has more authority.

ACTIONS OF THE PARTNERSHIP REPRESENTATIVE

Actions of the Partnership Representative

The actions of the partnership representative on behalf of the partnership and the partners under subchapter C of chapter 63 of the Internal Revenue Code include but are not limited to:

- Entering into a settlement agreement
- Agreeing to a notice of final partnership adjustment (FPA)
- Requesting modification of an imputed underpayment
- Extending the modification period by agreement
- Waiving the modification period
- Agreeing to adjustments and waiving the FPA
- Extending the statutory periods for making adjustments by agreement
- Making a push out election

WHO CAN BE A PARTNERSHIP REPRESENTATIVE

Who is Eligible?

A partnership may designate any person, an entity or itself as a PR, but they are required to have a substantial presence in the United States.

If an entity is designated as a PR: the partnership must also appoint a designated individual to act on the entity's behalf. The designated individual must also have a substantial presence in the U.S. In this guidance, any reference to the partnership representative includes the designated individual.

How to Designate a Partnership Representative

A partnership representative must be designated for each respective year on the partnership's return. Enter the partnership representative name, U.S. address and phone number on:

- Form 1065, U.S. Return of Partnership Income, 'Designation of partnership representative' section after Schedule B or
- Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, 'Designation of partnership representative' section after Schedule M

There can only be one partnership representative at any time during the tax year. The designated partnership representative remains in effect until the designation is terminated by a valid revocation, a valid resignation, or a determination by the IRS that the designation is not in effect.

HOW TO DESIGNATE A PARTNERSHIP REPRESENTATIVE

How to Change the Partnership Representative

The PR is year by year, and thus, it can simply be changed to another PR on the next tax return. The PR listed on the tax return is the PR for that tax year, even if a different PR is listed in the future.

How to Revoke or Change Previously Reported Partnership Representative

Use Form 8979, Partnership Representative Revocation, Designation and Resignation to make changes to a partnership representative or designated individual.

The partnership may alert the IRS that it has revoked the partnership representative at certain times using Form 8979 or a partnership representative or designated individual can resign using Form 8979. Never mail separately or fax (by itself, as a stand-alone filing) to the IRS — Form 8979, Partnership Representative Revocation, Designation, and Resignation. Caution: Form 8979 should only be filed per its Form instructions.

Inherited IRAs

ACT FAST to Know What Laws Apply

INHERITED IRA'S

- Must distribute within 10 years (exceptions apply)

- The clock starts the year after the original owner dies, and the time runs out on December 31 of the 10th year following the year of the owner's death

INHERITED IRA'S

- If deceased owner of the IRA has an RMD
  - The adult child beneficiary must first take the balance of his parent's RMD by year's end
  - Then take annual distributions based on the child's life expectancy for the next nine years.

IRS 10-YEAR RULE ON INHERITED IRAs

No more ‘stretch IRA’ strategy for many beneficiaries

Before the SECURE Act 2019, beneficiaries could use a "stretch" strategy with inherited IRA distributions, potentially allowing for tax-deferred growth over a more extended period. However, a "10-year rule" now applies to many beneficiaries of inherited IRAs.

Due to the SECURE Act 2019, most beneficiaries can no longer “stretch” distributions over their lifetimes (i.e., delay distributions until retirement). Instead, many non-spouse beneficiaries who inherited IRAs on or after January 1, 2020, must empty the account within 10 years of the account owner’s death. The inherited IRA “10-year rule” can create the need for annual RMDs for beneficiaries.

The 10-year rule doesn’t always lead to the ability to wait until the tenth year to meet the requirement of distributing the IRA within ten years. The IRS has delayed some rules and penalties for certain inherited IRAs.

WHAT IRA BENEFICIARIES SHOULD KNOW

Inherited IRA tax rules have changed

With inherited IRA distributions for most adult children, grandchildren, and other non-spouse heirs who inherit a traditional IRA on or after January 1, 2020, have two options:

1. Take a lump sum and pay taxes on the entire amount, or
2. transfer the money to an inherited IRA that must be depleted within 10 years after the original owner's death.

The clock starts the year after the original owner dies, and the time runs out on December 31 of the 10th year following the year of the owner’s death, so you have a little more than a decade to empty the account. For example, if you inherited an IRA in 2024, year one is 2025, and the account needs to be cleaned out by December 31, 2034.

WHAT ROTH IRA BENEFICIARIES SHOULD KNOW

Inherited Roth IRA tax rules have changed

The 10-year rule also applies to inherited Roth IRAs, but with an important difference:

You are not required to pay taxes on the withdrawals, and you don't have to take required minimum distributions (RMDs) because the original owner didn't have to take them, either. That gives you plenty of flexibility for withdrawals, but if you can wait until year 10 to deplete the account, you'll enjoy more than a decade of tax-free growth.

BENEFICIARIES OF AN IRA WITH RMDs

Guidance issued by the IRS in February 2022 clarified that if your parent died before being required to take minimum distributions, you can withdraw the money at any time, in any amount you choose, as long as the account is depleted in year 10.

NOTE: The IRS also clarified that age 21 is of distinction for the rules related to minor children.

Under the IRS interpretation of the SECURE Act, if your parent died on or after the date he or she was required to take minimum distributions, you must take RMDs based on your life expectancy in years one through nine and deplete the balance in years 10. Once the original owner has started taking RMDs, you can't turn them off, although the IRS doesn't require you to withdraw the same amount as your parent would have been required to withdraw.

INHERITED IRA RULES WITH RMDs

The proposed regulations require that with many inherited IRAs the beneficiary must draw down the funds annually.

In general, if the deceased owner of the IRA has an RMD, the adult child beneficiary must first take the balance of his parent's required minimum distribution by year's end, then take annual distributions based on the child's life expectancy for the next nine years, then withdraw 100% of the remaining account by the end of year 10.

In other situations, beneficiaries may need to account for both their own life expectancy *and* the decedent's life expectancy (sometimes called the "ghost life expectancy").

INHERITED IRA RMD RULES

Inherited IRA RMD Rules Were Delayed to 2024

• Inherited IRAs are generally subject to required minimum distributions. Rules vary when the beneficiary qualifies as an "eligible designated beneficiary" (e.g., surviving spouses, minor children, disabled individuals, and individuals who are chronically ill).

• RMD rules, including timing and amounts, for inherited IRAs are largely tied to the original account holder's death date.

• The IRS delayed the final rules governing inherited IRA RMDs to 2024 (IRS Notice 2023-54). This does NOT delay the 10-year rule in general.

• The IRS will waive penalties for RMDs missed in 2023 from IRAs inherited in 2022 when the deceased owner was already subject to RMDs. (With previous IRS relief, penalties are waived for missed RMDs from specific IRAs inherited in 2020, 2021, and 2022.)

Form 1099's

FORM 1099-K: RECEIVED IN ERROR?

Changes to reporting amounts from Form 1099-K. Beginning in 2024, if you received a Form(s) 1099-K that shows payments that were included in error or for personal items sold at a loss, you will now enter these amounts in the entry space at the top of Schedule 1. See Form(s) 1099-K, in the Schedule 1 instructions.

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

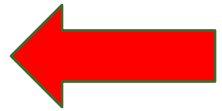
2024

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . . . .



Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I **Additional Income**

NEW ELECTRONIC FILING REQUIREMENTS FOR FORMS W-2 & FORM 1099S

Regulations section 301.6011-2 was amended by Treasury Decision 9972, which lowers the threshold to 10 for which employers must file certain information returns electronically, including Forms W-2, W-2AS, W-2GU, W-2VI, and Form 499R-2/W-2PR (collectively Forms W-2), but not Form W-2CM.

To determine whether they must file information returns electronically, employers must add together the number of information returns (see the list below) and the number of Forms W-2 they must file in a calendar year. If the total is at least 10 returns, they must file them all electronically.

The new threshold is effective for information returns required to be filed in calendar years beginning with 2024 (filed in 2025).

The following information return forms must be added together for this purpose: Form 1042-S, the Form 1094 series, Form 1095-B, Form 1095-C, Form 1097-BTC, Form 1098, Form 1098-C, Form 1098-E, Form 1098-Q, Form 1098-T, the Form 1099 series, Form 3921, Form 3922, the Form 5498 series, Form 8027, and Form W-2G.

FORM 1099-NEC

Form 1099-NEC, Non-Employee Compensation

File Form 1099-NEC for each person to whom you have paid during the year:

•Report payments made of at least $600 in the course of a trade or business to a person who's not an employee for services, payments to an attorney, or any amount of federal income tax withheld under the backup withholding rules.

CAUTION: The IRS has stepped up it's determination of classifications of employees vs. independent contractors, as discussed further in this seminar in the "Employer" section.

NOTE: A W-2 employee of a business cannot receive a Form W-2 and separately a Form 1099-NEC.

NOTE 2: The is no such thing as a 1099-Employee.

FORM 1099-NEC & 1099-MISC

Exceptions to Filing Form 1099-MISC or Form 1099-NEC for each to whom you have paid during the year:

Exceptions: Some payments do not have to be reported on Form 1099-MISC, although they may be taxable to the recipient. Payments for which a Form 1099-MISC is not required include all of the following:

- Generally, payments to a corporation (including a limited liability company (LLC) that is treated as a C or S corporation). However, see Reportable payments to corporations, later.
- Payments for merchandise, telegrams, telephone, freight, storage, and similar items.
- Payments of rent to real estate agents or property managers. However, the real estate agent or property manager must use Form 1099-MISC to report the rent paid over to the property owner. See Regulations sections 1.6041-3(d), 1.6041-1(e)(5), Example 5, and the instructions for box 1.
- Wages paid to employees (report on Form W-2, Wage and Tax Statement).
- Military differential wage payments made to employees while they are on active duty in the Armed Forces or other uniformed services (report on Form W-2).

FORM 1099-NEC & 1099-MISC

Exceptions (continued) to Filing Form 1099-MISC or Form 1099-NEC for each to whom you have paid during the year:

- Business travel allowances paid to employees (may be reportable on Form W-2).
- Cost of current life insurance protection (report on Form W-2 or Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).
- Payments to a tax-exempt organization including tax-exempt trusts (IRAs, HSAs, Archer MSAs, Coverdell ESAs, and ABLE (529A) accounts), the United States, a state, the District of Columbia, a U.S. possession, or a foreign government.
- Payments made to or for homeowners from the HFA Hardest Hit Fund or similar state program (report on Form 1098-MA).
- Compensation for injuries or sickness by the Department of Justice as a public safety officer disability or survivor's benefit, or under a state program that provides benefits for surviving dependents of a public safety officer who has died as the direct and proximate result of a personal injury sustained in the line of duty.

SETUP & HAVE AN IRS INDIVIDUAL TAX ACCOUNT, AND TAX PRO'S HAVE AN ACCOUNT AS WELL

The Internal Revenue Service offers online Individual tax accounts and Tax Pro Accounts that individual and tax practitioners can use for submitting an authorization request to an individual client's own taxes online with the IRS.

The accounts can be used for submitting a power of attorney request and a tax authorization request. The IRS plans to expand the features available to tax professionals through the Tax Pro Accounts in the future. The IRS also said that it's adding more features to the online taxpayer accounts that it has been providing to taxpayers.

Taxpayers can now view the amount they owe, updated for the current calendar day; their balance details by year; their payment history and any scheduled or pending payments; key information from their most recent tax return; payment plan details; digital copies of select notices from the IRS; and their address on file with the IRS.

SETUP IS EASY

IRS Digital Authorizations

How to Submit Authorizations Using Tax Pro Account and Online Account

1. Steps for the Tax Professional

- Log in to Tax Pro Account at **www.irs.gov/taxproaccount** after validating identity.
- Initiate request for either a power of attorney (POA) or tax information authorization (TIA).
- Enter tax professional's information – name, address, and Centralized Authorization File (CAF) number.
- Enter taxpayer's information – name, address, and tax identification number (TIN).
- Select tax matter(s) and tax period(s).
- Check box as electronic signature (for POA only) and submit authorization for IRS validation and routing to taxpayer's Online Account.
- Inform taxpayer that an authorization request should be pending in their Online Account for their review and approval.

2. Steps for the Taxpayer

- Log in to Online Account at **www.irs.gov/account** after validating identity.
- Select the "Authorizations" tab.
- Review request from tax professional for accuracy.
- Check box as digital signature and approve the request; taxpayer also has the option to reject the request.

3. Most requests record immediately to the CAF database; will show as approved in Online Account and Tax Pro Account.

Tips

- Tax professional and taxpayer names and addresses must match IRS records exactly.
- Tax professional must already have a CAF number and be in good standing with the IRS.
- Tax Pro Account is available to tax professionals and taxpayers with addresses in the United States.
- Prior authorization revoked when new request is recorded for same request type, tax matter and period.
- Taxpayers maintain control over who can represent them before IRS or see their IRS tax records.

Publication 5533-A (7-2021) Catalog Number 40967U Department of the Treasury **Internal Revenue Service** www.irs.gov

SETUP IS EASY

IRS Online Account
www.irs.gov/account

Why You Should Create an IRS Online Account

New Feature

- Use the "authorization" option in Online Account to control who can represent you before the IRS or view your tax records.
- Approve and electronically sign Power of Attorney and Tax Information Authorization requests made by your tax professional.

Access Tax Records

- View key data from your most recent tax return.
- Access additional records via Get Transcript.
- View your Economic Impact Payment amounts.

View Balance and Notices

- View amount owed.
- Access digital versions of select correspondence from the IRS.

Payment Plans

- Learn about payment plan options.
- View payment plan details.

Make and View Payments

- Make a payment from your bank account or by debit/credit card.
- View five years of payment history and any pending or scheduled payments.

Upcoming Feature

Update Profile

- View and update address on file.
- Manage preferences such as email notifications.

Upcoming Feature

Opt-Out of Paper Notices

- Go paperless for certain correspondence from the IRS.

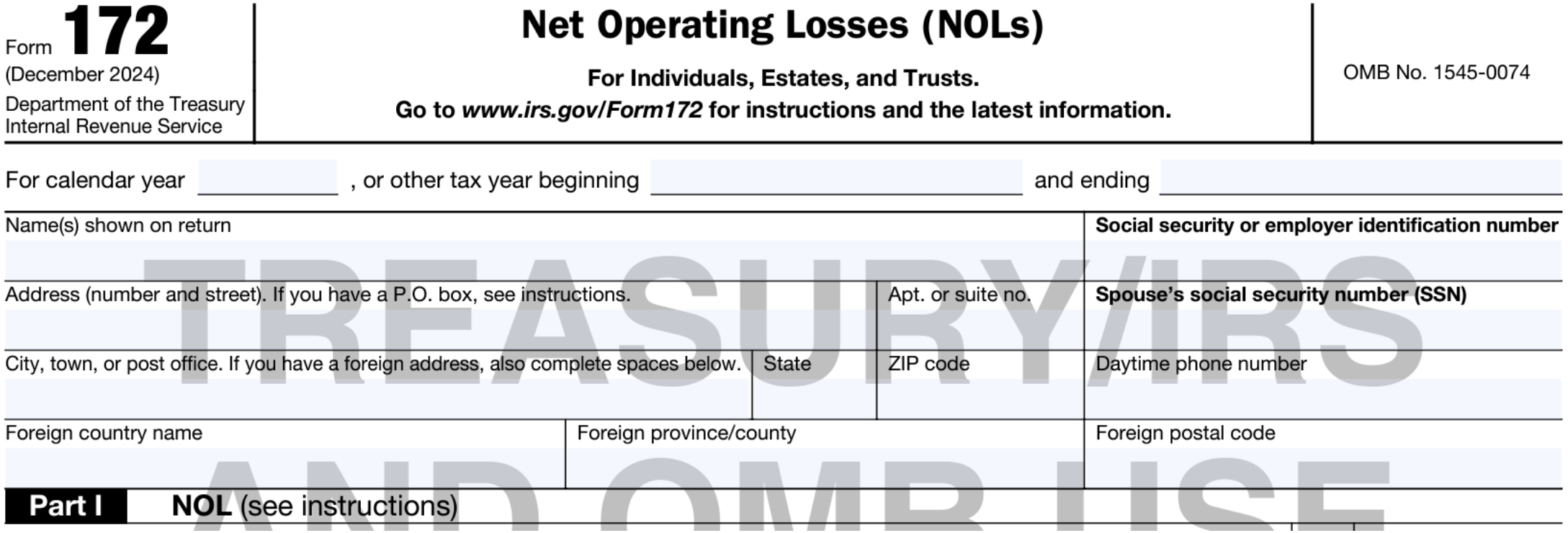
Create or access your account at www.irs.gov/account.

Publication 5533 (7-2021) Catalog Number 38311A Department of the Treasury **Internal Revenue Service** www.irs.gov

NEW FORM 172: NET OPERATING LOSSES 1040

Net Operating Losses (NOLs) for Individuals, Estates, and Trusts

Publication 536 will no longer be revised after tax year 2023. Instead, information for net operating losses is now included in the Instructions for Form 172



Form **172**
(December 2024)
Department of the Treasury
Internal Revenue Service

Net Operating Losses (NOLs)

For Individuals, Estates, and Trusts.
Go to *www.irs.gov/Form172* for instructions and the latest information.

OMB No. 1545-0074

For calendar year _____ , or other tax year beginning _____ and ending _____

Name(s) shown on return			**Social security or employer identification number**
Address (number and street). If you have a P.O. box, see instructions.		Apt. or suite no.	**Spouse's social security number (SSN)**
City, town, or post office. If you have a foreign address, also complete spaces below.	State	ZIP code	Daytime phone number
Foreign country name	Foreign province/county		Foreign postal code

Part I **NOL** (see instructions)

NEW FORM 172: NET OPERATING LOSSES 1040

This form was created for taxpayers (other than corporations) to figure the amount of net operating loss that is available to carry back or carry forward.

NOL carryback eliminated. Generally, you can only carry NOLs arising in tax years after 2020 to a later year. An exception applies to certain farming losses, which may be carried back 2 years. See section 172(b) and Pub. 225, Farmer's Tax Guide. Individuals, estates, and trusts that carry NOLs back to years in which they have a section 965(a) inclusion ("965 year") may not use this form. You must use an amended return to carry back to such years. December 23, 2024 NOL deduction limitation. In general, your NOL deduction for tax years beginning after December 31, 2020, cannot exceed the sum of: (1) the NOLs carried to the year from tax years beginning before January 1, 2018; plus, (2) the lesser of: (a) the NOLs carried to the year from tax years beginning after December 31, 2017, or (b) 80% of the excess (if any) of taxable income computed without regard to deductions for NOLs, or Qualified Business Income (QBI), or section 250 deductions, over the NOLs carried to the year from tax years beginning before January 1, 2018.

FORM 8889: NEW FOR HEALTH SAVINGS ACCOUNTS (HSA)

Preventive care for purposes of qualifying as a high deductible health plan under section 223. Notice 2024-75 expands the list of preventive care benefits permitted to be provided by a high deductible health plan (HDHP) without a deductible, or with a deductible below the applicable minimum deductible for the HDHP, to include over-the-counter oral contraceptives (including emergency contraceptives) and male condoms. Notice 2024-75 also clarifies that (1) all types of breast cancer screening for individuals who have not been diagnosed with breast cancer are treated as preventive care, (2) continuous glucose monitors for individuals diagnosed with diabetes are generally treated as preventive care, and (3) the safe harbor for absence of a deductible for certain insulin products applies without regard to whether the insulin product is prescribed to treat an individual diagnosed with diabetes or prescribed for the purpose of preventing the exacerbation of diabetes or the development of a secondary condition.

FORM 8889: NEW FOR HEALTH SAVINGS ACCOUNTS (HSA)

Expenses treated as amounts paid for medical care. Notice 2024-71 provides a safe harbor under section 213 of the Internal Revenue Code for amounts paid for condoms. The Treasury Department and the IRS will treat amounts paid for condoms as amounts paid for medical care under section 213(d). Because amounts paid for condoms are treated as expenses for medical care under section 213(d), if the other requirements of section 213(a) are met (for example, if a taxpayer's total medical expenses exceed the 7.5% adjusted gross income limitation and are not compensated for by insurance or otherwise), then amounts paid by the taxpayer for condoms for the taxpayer, the taxpayer's spouse, or the taxpayer's dependent are deductible as expenses for medical care under section 213. Additionally, because amounts paid for condoms are treated as expenses for medical care under section 213(d), the amounts are also eligible to be paid or reimbursed under a health FSA, Archer MSA, HRA, or HSA. However, if an amount paid for condoms is paid or reimbursed under a health FSA, Archer MSA, HRA, HSA, or any other health plan or otherwise, it is not a deductible expense under section 213.

BUSINESS TAX CREDITS

BUSINESS TAX CREDITS

WORK OPPORTUNITY TAX CREDIT (FORM 5884)

The federal government created the Work Opportunity Tax Credit (WOTC) to encourage businesses to hire people from certain marginalized groups, including: Ex-felons, Veterans, long-term recipients of unemployment benefits, etc.

If you are eligible for this credit, your business can qualify for one of the following:

- $2,400 tax credit (40% off the first $6,000 of the employee's wages)
- $9,600 tax credit for certain qualified veterans (40% off the first $24,000 of the Veteran employee's wages)

The WOTC is extended for five years through 2025 by the Consolidated Appropriations Act.

To satisfy the requirement to pre-screen a job applicant, on or before the day a job offer is made, a pre-screening notice (Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit) must be completed by the job applicant and the employer. After pre-screening a job applicant, the IRS said the employer must then request certification by submitting Form 8850 to the appropriate state workforce agency no later than 28 days after the employee begins work. Other requirements and further details can be found in the instructions to Form 8850.

BUSINESS TAX CREDITS

WORK OPPORTUNITY TAX CREDIT: TARGETED GROUPS

WOTC targeted groups include:

1) Qualified IV-A recipient
2) Qualified Veteran
3) Qualified Ex-Felon
4) Designated Community Resident
5) Vocational Rehabilitation Referral
6) Summer Youth Employee
7) Supplemental Nutrition Assistance Program (SNAP "food stamps") recipient
8) Supplemental Security Income (SSI) recipient
9) Long-term Family Assistance recipient
10) Qualified Long-term Unemployment recipient

Qualified Long-term Unemployment recipient:
A member of this target group is an individual who has been unemployed for at least 27 consecutive weeks and received unemployment compensation under state or federal law at some point during this period.

BUSINESS TAX CREDITS

EMPOWERMENT ZONE EMPLOYER CREDIT (FORM 8844)

The empowerment zone employer credit is a federal tax credit available to businesses located in designated "empowerment zones," which are economically distressed areas that the government has identified as needing help stimulating the economy and job growth.

The credit is equal to 20% of the first $15,000 in wages paid to each employee who lives and works in a designated empowerment zone. This means that the maximum credit per employee is $3,000.

You can find a list of designated empowerment zones in the U.S. at this link
(copy and paste from your pdf):
https://www.cmswotc.com/empowerment-zones-enterprise-zones-rural-renewal-counties-map/

BUSINESS TAX CREDITS

FAMILY LEAVE TAX CREDIT (FORM 8994)

The family leave tax credit incentivizes employers to provide their employees paid time off to take care of a new baby, adopted child, or sick family member. This credit can help offset the costs of lost income or hiring temporary help while the employee is on leave. The credit rate depends on how much employers provide for paid FML relative to wages normally paid.

- If paid leave is 50% of wages normally paid to an employee, the tax credit is 12.5% of wages paid.
- If paid leave is 100% of wages normally paid to an employee, the tax credit is 25% of wages paid.
- The credit rate increases from 12.5% to 25% ratably as leave wages increase from 50% to 100% of wages normally paid.
- No credit can be claimed for paid FML that is less than 50% of wages normally paid.
- No credit can be claimed for wages paid on leave that exceed an employee's normal wage rate

It's important to note that this credit does not apply if the FMLA leave is mandated by local or state law.

2025 & 2026 NUMBERS


UNITED STATES
COURT HOUSE

HEALTH SAVINGS ACCOUNT (HSA)

Year 2025:

$8,550 Family or $4,300 Single.

If age 55+ $9,550 Family or $5,300 Single

Year 2026:

$8,750 Family or $4,400 Single.

If age 55+ $9,750 Family or $5,400 Single

MAXING OUT TRADITIONAL IRA

Year 2025:

Traditional IRA: $7,000

Catch-up $1,000 or $8,000 if age 50+

Year 2026:

Traditional IRA: $7,500

Catch-up $1,100 or $8,100 if age 50+

Anyone 18 or older with earned income can contribute to a traditional IRA. However, for contributions to be tax-deductible, specific income limits apply.

MAXING OUT ROTH IRA

Year 2025:

Roth IRA: $7,000

Catch-up $1,000 or $8,000 if age 50+

Year 2026:

Roth IRA: $7,500

Catch-up $1,100 or $8,100 if age 50+

Anyone 18 or older who has earned income within specific IRS income limits can contribute to a Roth IRA.

SIMPLE-IRA: MAX OUT WITHHOLDINGS

Year 2025:

$16,500

$17,600 if employer has 25 or less employees

$20,000 if age 50-59 & 64+

$21,450 if employer has 25 or less employees

$21,750 if ages 60-63

$22,850 if employer has 25 or less employees

SIMPLE-IRA: MAX OUT WITHHOLDINGS

Year 2026:

$17,000

$18,100 if employer has 25 or less employees

$21,000 if age 50-59 & 64+

$21,950 if employer has 25 or less employees

$21,750 if ages 60-63

$23,350 if employer has 25 or less employees

401(K): MAX OUT WITHHOLDINGS

Year 2025:

401K: $23,500
Catch up $7,500 or $31,000 if ages 50-59 and 64+

NEW: Catch up $11,250 or $34,750
for ages 60, 61, 62 & 63
This is total catch-up

401(K): MAX OUT WITHHOLDINGS

Year 2026:

401K: $24,500
Catch up $8,000 or $32,500 if ages 50-59 and 64+

NEW: Catch up remains $11,250 or $35,750
for ages 60, 61, 62 & 63
This is total catch-up

MAX SEP RETIREMENT
25% BASED ON W-2 WAGES

Year 2025: (IRS Notice 2024-80)

$70,000 Max (Requires $280,000 in W-2 wages)

No Catch up

MAX SEP RETIREMENT
25% OF SELF-EMPLOYMENT EARNINGS

Year 2025: (IRS Notice 2024-80)

$70,000 Max (Requires $280,000 in S/E earnings)

No Catch up

MAX SEP RETIREMENT
25% BASED ON W-2 WAGES

Year 2026:

$72,000 Max (Requires $288,000 in W-2 wages)
No Catch up

MAX SEP RETIREMENT
25% OF SELF-EMPLOYMENT EARNINGS

Year 2026:

$72,000 Max (Requires $288,000 in S/E earnings)
No Catch up

MAXIMUM DEDUCTION LIMITS
LONG-TERM CARE INSURANCE

The following are the 2025 & 2024 deductible limits per-individual:

Attained Age Before Close of Taxable Year	2025 Limit	2024 Limit
40 or less	$480	$470
More than 40 but not more than 50	$900	$870
More than 50 but not more than 60	$1,800	$1,7,60
More than 60 but not more than 70	$4,810	$4,710
More than 70	$6,020	$5,880

INTEREST ON EDUCATION LOANS

Interest on Education Loans: The $2,500 maximum deduction for interest paid on qualified education loans under § 221.

In 2025 it begins to phase out under § 221(b)(2)(B) for taxpayers with modified adjusted gross income in excess of $85,000 ($170,000 for joint returns), and is completely phased out for taxpayers with modified adjusted gross income of $100,000 or more ($200,000 or more for joint returns)

CASH BASIS: INFLATION ADJUSTMENTS

Limitation on Use of Cash Method of Accounting. A corporation or partnership meets the gross receipts test of § 448(c) for any taxable year if the average annual gross receipts of such entity for the 3-taxable-year period ending with the taxable year which precedes such taxable year does not exceed:

2025: $31,000,000

WAGES SOCIAL SECURITY TAX BASE

Individual taxable wages are annually subject to Social Security tax :

- $147,000 in 2022
- $160,200 in 2023
- $168,600 in 2024
- $176,100 in 2025

- The wage base limit that applies to earnings subject to the old age, survivors, and disability insurance (OASDI) tax. The employee and the employer each will pay in tax at the OASDI tax rate of 6.2%.

The Medicare hospital insurance tax of 1.45% each for employees and employers has no wage limit.

Individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly and $125,000 for married taxpayers filing separately) pay an additional 0.9% of wages with respect to employment (also unchanged).

SOCIAL SECURITY TAX BASE: SELF-EMPLOYED

Self-employed individuals pay self-employment tax equal to the combined OASDI and Medicare taxes for both employees and employers, i.e., 12.4% of net self-employment income up to the OASDI wage base plus 2.9% in Medicare taxes on any amount of net self-employment income, with an offsetting above-the-line income tax deduction of half of the self-employment tax.

Annually will be subject to Social Security tax

- $147,000 in 2022
- $160,200 in 2023
- $168,600 in 2024
- $176,100 in 2025

The Medicare hospital insurance tax of 1.45% each for employees and employers has no limit; it is unchanged.

IRS MILEAGE RATES

Standard business mileage rate

70 cents (per mile) 2025

Standard charitable mileage rate

14 cents (per mile) 2025

Standard medical mileage rate

21 cents (per mile) 2025

QBI BRACKETS

Qualified Business Income Deduction Allows Based on Taxable Income:

In 2025:

$197,300 – $247,300 for single filers

$394,600 – $494,600 for joint filers

Specified service trade or business (SSTB) owners won't qualify if they hit the top threshold above. If the business is not an SSTB, the QBI deduction is dependent on qualified wages and UBIA.

NET INVESTMENT INCOME TAX: NO CHANGE

Separate tax that applies to the lesser of your net investment income or the amount by which your modified adjusted gross income (MAGI) surpasses the filing status-based thresholds the IRS imposes. The NIIT is set at 3.8%.

3.8% Net Investment Income Tax No Change	
Applies to individuals with net investment income & modified adjusted gross income over the following filing thresholds:	
Single	$200,000
Head of Household	$200,000
Married filing jointly or qualifying widow(er)	$250,000
Married filing separately	$125,000

Net Investment Income (NII) Inclusions and Exclusions	
Included as NII	– Interest – Capital gains – Dividends – Income from passive investment activities – Non-qualified annuity distributions – Rental and royalty income
Excluded from NII	– Wages – Unemployment payments – Self-employment income – Social Security benefits – Distributions from some qualified retirement plans – Alimony – Tax-exempt interest – Operating income from non-passive businesses – Excluded capital gains earned from the sale of your primary residence

THE INVESTOR
TAX DEDUCTIONS NOT TO MISS

Interest Paid

- Deduct “investment interest” on schedule A (itemized deductions) for loans you took to then invest
- Deduct any interest paid personally as well on Form 8960 line 9a which reduces the income subject to the net investment income tax of 3.8%

Investment Fees

- Also deduct any investment fees paid on Form 8960 line 9c which reduces the income subject to the net investment income tax of 3.8%
- Always look at the final pages of your brokerage “annual tax statement” for these expenses

COLLEGE TAX CREDITS

American Opportunity Tax Credit (AOTC):

The maximum $2,500 American Opportunity Tax Credit (AOTC) is available for qualified expenses such as tuition, room and board, books, computers and supplies for up to four years of study for every student in the family. Per eligible student: Tax credit can be received for 100% of the first $2,000, plus 25% of the next $2,000 that has been paid during the taxable year. Refundability: 40% of the credit (up to $1,000) is refundable. This means you can get a refund even if you owe no tax.

Lifetime Learning Credit (LLC):

You may claim a maximum credit of $2,000 (20% of up to $10,000 in qualifying education expenses), but this applies on a per-taxpayer basis, Previously, the LLC was phased out at lower levels than the AOTC, but the CAA increases the ranges to the same as those for the AOTC, beginning in 2021.

COLLEGE TAX CREDITS

Lifetime Learning Credit vs. American Opportunity Credit:

- You do not need to be pursuing a degree to be eligible to claim the Lifetime Learning Credit.
- You can claim the American Opportunity Credit for the same student for no more than 4 tax years. There is no limit on the number of years for which you can claim a Lifetime Learning credit based on the same student's expenses.
- The Lifetime Learning credit is also non-refundable, whereas the American Opportunity Credit is partially refundable.
- LLC has a $2,000 annual maximum vs. $2,500 for the AOC.
- Full phase out of the credit is the same for each; $90,000 single and $180,000 married filing jointly

IRS PER DIEM STANDARD RATES FOR BUSINESS TRAVEL

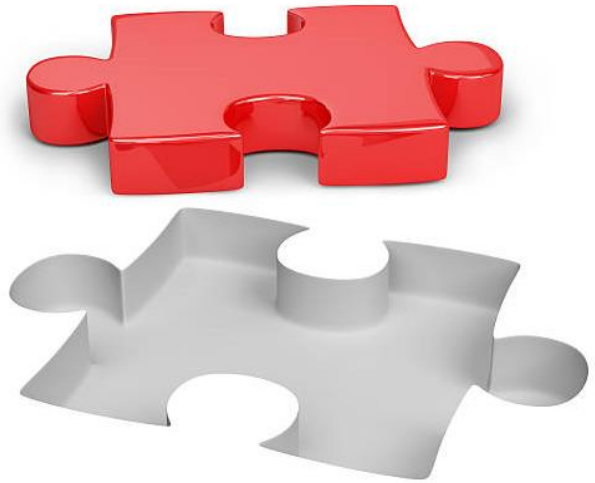
The special per diem rates by which taxpayers may substantiate ordinary and necessary business expenses of travel away from home will be slightly higher starting October 1, 2024 through September 30, 2025, the IRS provided Notice 2024-68.

Annual high-low rates

- $5 per day for travel incidentals (no change)
- $225 per day for non-high-cost localities
  - $74 is allocated to meals
- $319 per day for high-cost localities
  - $86 is allocated to meals

DUE TO TIME RESTRICTIONS

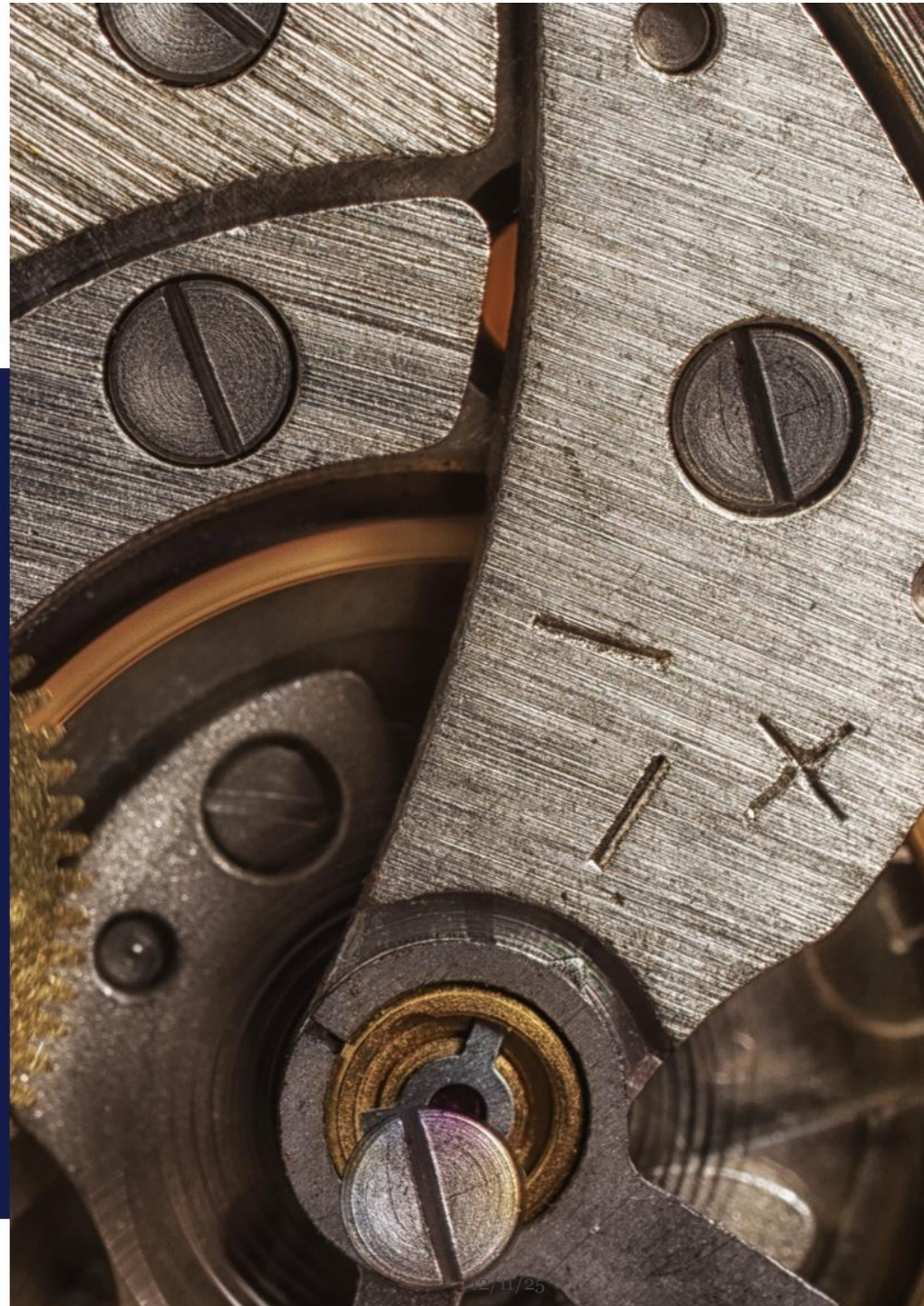
THE FOLLOWING MAY NOT BE COVERED

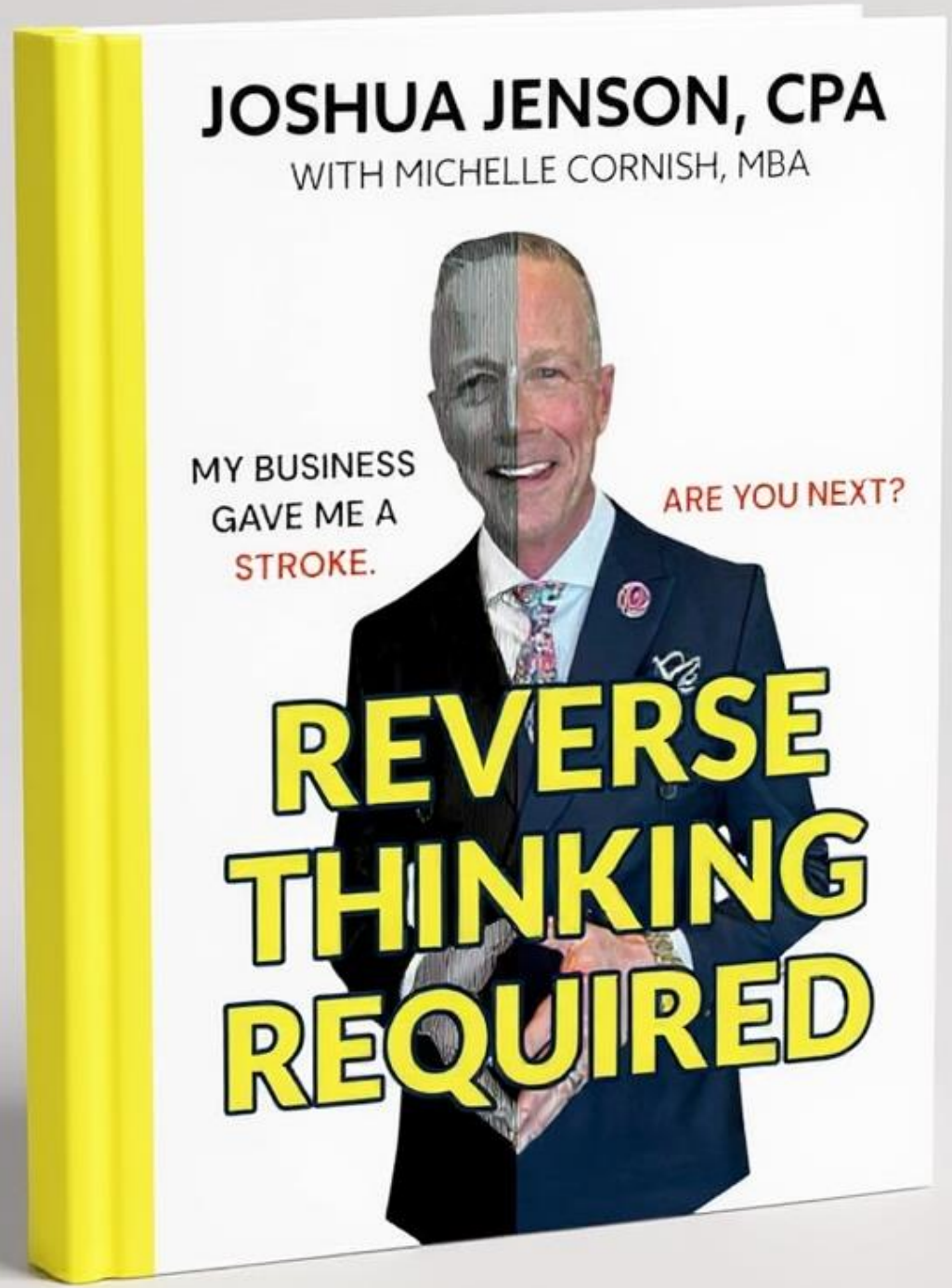


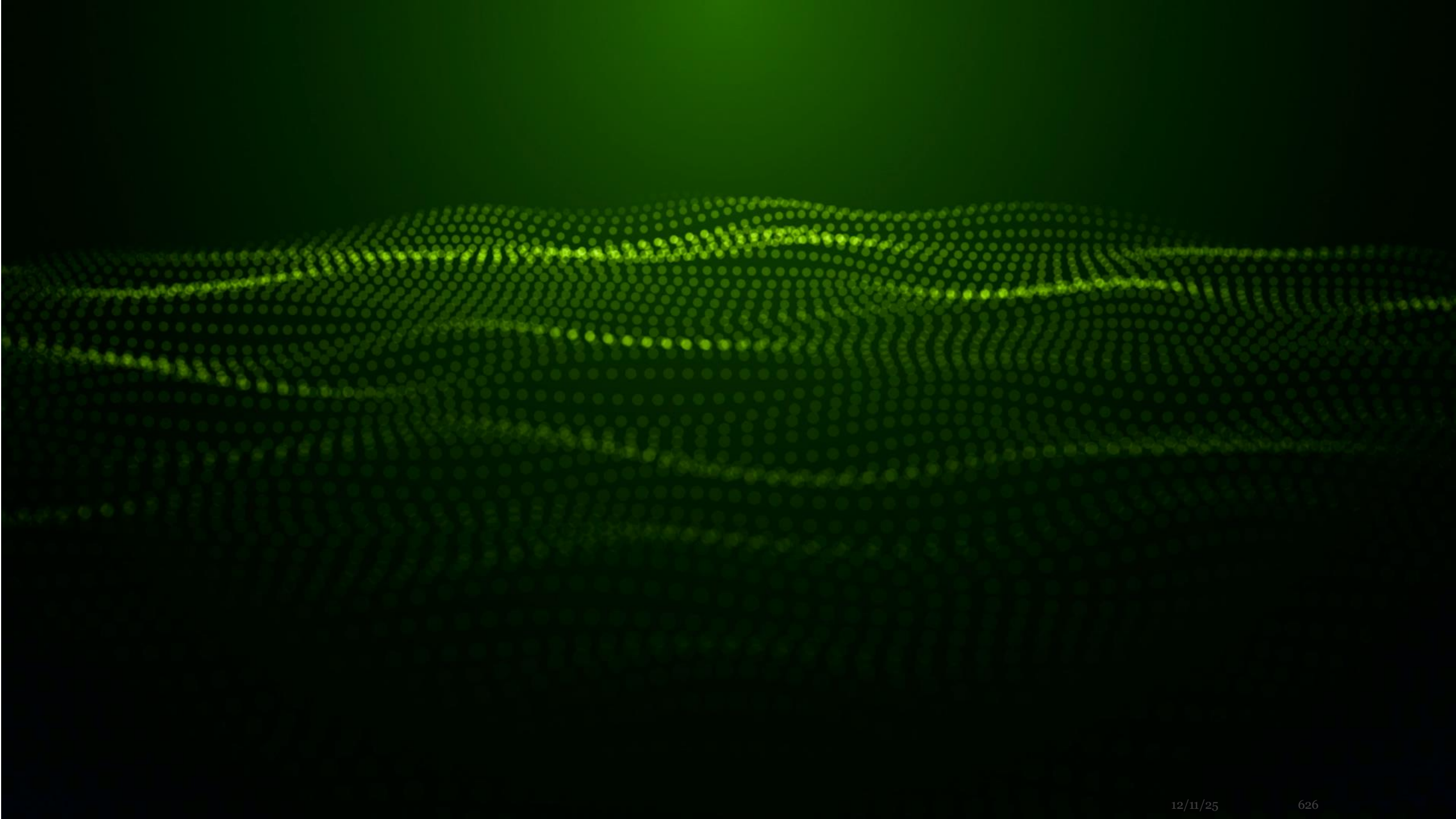
JJ THE CPA®

Reverse Engineer Your Tax Practice and Reclaim Your Life

Joshua Jenson, CPA aka JJ the CPA




JOSHUA JENSON, CPA
WITH MICHELLE CORNISH, MBA
MY BUSINESS GAVE ME A STROKE.
ARE YOU NEXT?
REVERSE THINKING REQUIRED



My Story

On October 13, 2021, I suffered a stroke. While in the hospital a nurse asked me to say ”54” backwards. I couldn’t figure it out.


ROLEX
OYSTER PERPETUAL

My story

I lost all memory of the three months prior.

I could not coordinate a fork to put food in my mouth.

I weighed 272 pounds.

I found myself asking:

- How do I continue practicing as a CPA?
- How will I make a living to care for my family?
- How will I serve my clients?
- How will I be ready for tax season in 79 days?


49552.90084
5106.37166
45858.04528
5106.37166
35441.27364
65290.83050
73852.52113

My story

My answer was to reverse engineer my tax practice and reclaim my life. I had to transform my practice from one that *ran me* into one *I run*.

The result of this transformation is what I experience with my tax practice now:

- No overtime worked at any time during the year.
- 90% of all tax returns are completed *without* extension.
- Increase in profitability by 24%.
- Took a two-week vacation in February (during tax season).
- I have lost 117 pounds.

I am Your Advocate

The role of an advocate is to offer independent support to those who feel they are not being heard, to ensure they are taken seriously and that their rights are respected, and to assist people in accessing and understanding appropriate information and services.

My neurologist looked me straight in the eye and asked, “How long do you want to live?”

Do we wait until we face such circumstances to make a change?

Or do we change now, when it is on our terms?

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How many clients can you serve? = How many hours can you work?

37% Cut in Clients

648 tax returns cut down to 408

43% Cut in Hours

1,050 hours worked during tax season cut down to 600 hours

Removal of hours available

Removal of non-profitable services.

Removal of services that did not require a CPA.

Removal of tasks others are capable of performing.

Automate client communications.

Syncing services to specific periods of time.

Maintain excellence

Practice in the areas of expertise.

Deliver services with integrity.

Prepare tax returns with due care.

Make decisions based on objectivity.

Clients retained based on

Who will meet my expectations?

Who can fulfill my practice's needs?

Who will require no boundaries?

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Confidence

Where can we find the confidence to put ourselves first and make these hard decisions, especially with our clients? We look to the authority we are required to follow.

IRS Circular 230

§ 10.22 Diligence as to accuracy.

(a) *In general.* A practitioner must exercise due diligence —

(1) In preparing or assisting in the preparation of, approving, and filing tax returns, documents, affidavits, and other papers relating to Internal Revenue Service matters;

(2) In determining the correctness of oral or written representations made by the practitioner to the Department of the Treasury; and

(3) In determining the correctness of oral or written representations made by the practitioner to clients with reference to any matter administered by the Internal Revenue Service.

AICPA CODE OF CONDUCT: Integrity

0.300.040 Integrity

.01 Integrity principle. To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

.02 Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

.03 Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle.

.04 Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance or in the face of conflicting opinions, a member should test decisions and deeds by asking: "Am I doing what a person of integrity would do? Have I retained my integrity?" Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

.05 Integrity also requires a member to observe the principles of objectivity and independence and of due care.

AICPA CODE OF CONDUCT: Objectivity and Independence

0.300.050 Objectivity and Independence

.01 Objectivity and independence principle. A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

.02 Objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services.

.03 Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare financial statements in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.

AICPA CODE OF CONDUCT: Objectivity and Independence

0.300.050 Objectivity and Independence

.04 For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.

.05 Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.

AICPA CODE OF CONDUCT: Due Care

0.300.060 Due Care

.01 Due care principle. A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

.02 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession's responsibility to the public.

.03 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

AICPA CODE OF CONDUCT: Due Care

0.300.060 Due Care

.04 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.

.05 Members should be diligent in discharging responsibilities to clients, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.

.06 Due care requires a member to plan and supervise adequately any professional activity for which he or she is responsible.

What if you asked, *what clients meet my expectations* instead of *what are my client's expectations?*

Would this allow you to reverse engineer your tax practice?

Would this lead to reclaiming your life?

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Independence

Before you think about any specific client, only consider what you are best at, what kind of client makes you happy, and what you are truly capable of. This is to separate your needs from your clients wants.


1040

Define 3 Key Areas of Input to Determine Your Output

Efficiency

=

Output

÷

Input

1. Define your area of expertise.

What is your chosen area of expertise where you have command of the tax law that allows you to specialize and brings you enjoyment when strategizing with a client?

2. Define your ideal client.

What clients bring a smile to your face when you see their name on your to-do list? Consider your client's attitudes, price sensitivity, and responsiveness. What industry are they in? What's their size? Do they have a business? What is their complexity and scope of services? What geographical area are they in? What's their stability? All the considerations you find important.

3. Define your time capacity.

How much time does your practice have to provide its services, regardless of the services? How much time does each team member have available? Is there availability for essential services?

Example Based on the Analysis of My Tax Practice

Expertise

- Small Businesses
  - Federal and Oklahoma income tax matters only
  - Pass Thru Entity - LLC structure
    - S-Corp for active businesses
    - Partnerships for passive business
  - Individuals who own a business

Ideal Client

- Service business in Oklahoma with one to two owners, grossing less than $2 million and less than ten employees
- Scope of services
  - Income tax returns only
  - No bookkeeping services (Client prepares their own books)
  - No payroll services (Client only uses ADP for payroll)
- Immediate responsiveness to requests for documents and payment with no extension required except caused by third-party
- No boundaries are necessary to serve the client's needs

Time Capacity

- **Input:** January 1 – April 15 (15 weeks)
  - 4 Employees (2 full-time, 2 part-time)
  - Per week: 90 hours for tax prep
  - Per week: 50 hours for admin
    - 1,350 hours for tax prep
    - 750 hours for admin
  - Average time per tax return
    - 3.25 hours for tax prep
    - 2.00 hour for admin
- **Output:** 408 tax returns (with margin)

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Example to Determine Capacity and Identify Efficiencies

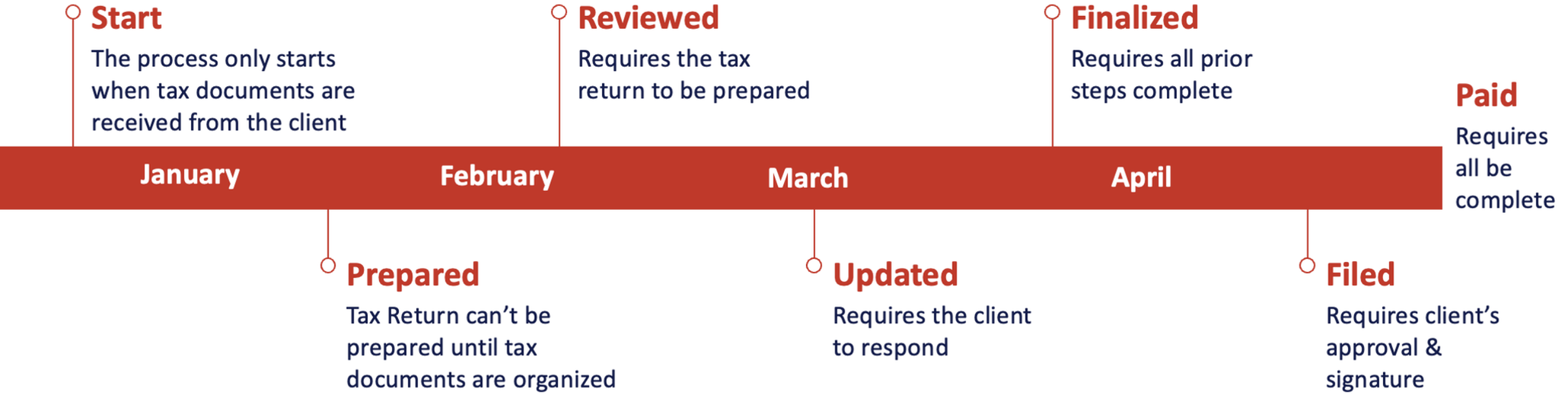
	Management Priorities: Role & Duties	Needs & Obligations: Ownership Requires All	Client Needs & Obligations
Administrative Professional	Organize tax documents received & set up tax files. (1.00 hour per return)	Needs tax documents from client. Obligated to starting and follow the tax return process.	Obligated to provide tax documents used to prepare tax return.
Tax Preparer Staff	Enter tax information & determine questions. (2.00 hours per return)	Needs tax documents organized and reviewed. Obligated to finalize tax returns for review.	Obligated to provide missing or additional tax documents to complete tax return.
Tax Reviewer Staff	Review tax information & resolve questions with client. (1.25 hours per return)	Needs tax return prepared and answers from clients. Obligated to finalize the tax return.	Obligated to provide answers to questions related to finalizing tax return.
Para-Tax Professional	Send tax returns to clients and file tax returns with government. (1.00 hour per return)	Needs tax returns finalized and signed by client. Obligated to file with IRS & collect payment.	Needs tax return filed timely. Obligated to sign and pay fee.

Compare the needs and obligations of the tax professional to the needs and obligations of the client. The capacity of the tax practice is determined by the client's one critical need.

Stress Reducing Technology

The key to choosing and implementing the right technology is for it to reduce workload and stress as well as automate routine tasks. Technology should NOT first be considered because it would allow for more clients and work to be added.

Tax Return Assembly Line: Implement a model in which the assembly line is NOT per the client's tax return and variations. Instead, align an entire tax practice into an assembly line based on the timing of the tax practice's needs to meet its obligations to the client related to filing the tax return timely.



Client Relationship Management (CRM) + Automated & AI Communications

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Client Relationship Management (CRM) + Automated & AI Communications

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Automatic Client List Refinement

Move clients through your defined funnel

- Expertise match required first
  - If it is not a match, the client is dismissed
- The ideal client consideration is required second
  - If it is not a match, the client is dismissed
- Capacity determined last
  - If there is a lack of time, the client is dismissed

Which clients match your expertise?

Are you exercising due care if you retain a client you do not have the expertise to serve?

Of those clients, which clients are your ideal clients?

Can you genuinely provide service with integrity if the client is not your ideal client?

Of those clients, which clients do you have the capacity to serve?

Can you objectively service a client you do not have time to serve?


Lyles

Overcoming Your Own Objections to Client Refinement

How do you handle your disbelief in the funnel you created to ensure that every client matches your needs?

Can you use the excuse of saying, "But I can't do that to my client?"

Where do you get your haircut?

Do you go to a relative you trust to watch your own children or pet and say, "Because I know I can count on you to care for my loved ones, I need you to cut my hair?"

Do you go to your dentist and say, "Because you have such a steady hand in caring for my teeth, I know I can count on you to give me a great haircut?"

Or would you only go to a professional with expertise who knows your style and fits your budget with something as precious as your hair?

Are you offering barber services to your tax clients?

Which surgeon would you choose to perform a knee surgery on you?

A surgeon that performs knee, foot, hand, elbow, and heart surgeries eighteen hours a day, seven days a week for the first one hundred days of the year, and if there is time, will also do these same surgeries on cats and dogs.

Or a surgeon who only performs knee surgeries during regular office hours?

Are you offering to perform knee surgeries on your tax clients?

Your last day
April 16, 2025

Your choice.

You spent as much time as you could with your loved ones?

You completed as many tax returns as possible?

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TAX SEASON MASTERMIND

Membership Now Open

THIS IS YOUR ADVISORY GROUP

Strategic Prep
November & December

The War Room
January - April 15th

Combining routine live Q&A, 6 exclusive tax strategy workshops, and a private circle of tax pros with real-time insight preparing for & during the busiest months of the year.

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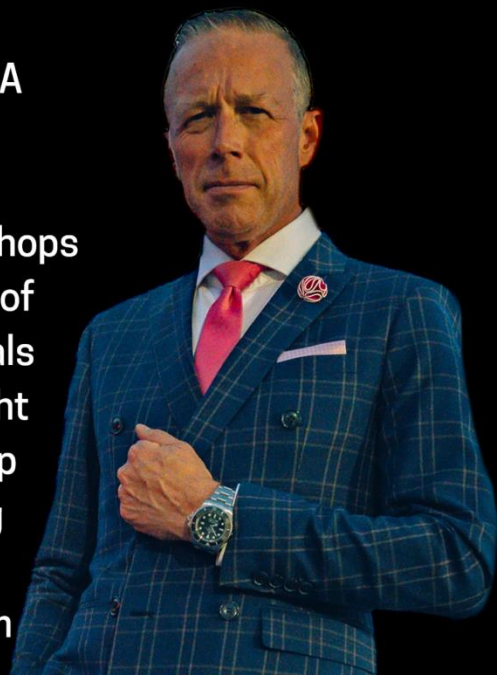
- Advisory during busy season
- Support system



Join us!

- *Meet every 10 days!*
- *Community platform!*
- *4 tax workshops!*

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Pre + Tax Season Mastermind

MEMBERSHIP

is through April 15, 2026

After 1/31/26 ~~$2,497~~

After 1/15/26 ~~$1,997~~

After 12/31/25 ~~$1,497~~

Join Now $997

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THANK YOU!