

THE ONE BIG BEAUTIFUL BILL ACT

JJ

THE CPA

®

JOSHUA JENSON, CPA

You Tube

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



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 OSCPA. 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.

DISCLAIMER OF THE OBVIOUS OF THIS WEBINAR, MATERIALS & DOCUMENTS PROVIDED

ANY INFORMATION IN THIS SEMINAR OR WEBINAR IS INTENDED FOR INFORMATIONAL PURPOSES ONLY

DISCLAIMER APPLICABLE TO ALL INFORMATION CONTAINED IN THIS WEBINAR, APPLICABLE TO ALL MATERIALS AND ANYTHING STATED.

I AM A CPA, BUT I AM NOT YOUR CPA UNLESS YOU'VE SIGNED A WRITTEN ENGAGEMENT LETTER WITH MY PRACTICE THAT I HAVE ALSO ACCEPTED AND SIGNED, AND YOU HAVE PAID MY PRACTICE A FEE THAT HAS BEEN ACCEPTED AS A FEE FOR WRITTEN ENGAGED SERVICES. YOUR VIEW OF THIS INFORMATION AND ANY INTERACTION WE MAY HAVE DOES NOT CONSTITUTE A PROFESSIONAL RELATIONSHIP IN ANY MANNER OR CAUSE ME TO BE CONSIDERED YOUR CPA OR ANY TYPE OF ADVISER. YOU HAVE NOT RETAINED ME OR MY CPA FIRM'S SERVICES AND ANY FEE PAID ORIGINALLY IS ONLY TO ATTEND THE SEMINAR OR WEBINAR AND RECEIVE THE APPLICABLE MATERIALS. **YOU MUST CONSULT WITH YOUR OWN TAX ADVISER AND LEGAL COUNSEL BEFORE YOU ACT.** I AM SPECIFICALLY TELLING YOU, DO NOT RELY ON ANY ADVICE YOU BELIEVE I HAVE PROVIDED, BUT USE IT AS A GUIDE ON HOW TO FOLLOW UP AND INTERACT WITH YOUR OWN QUALIFIED ADVISERS AS I AM SIMPLY PROVIDING INFORMATION TO POINT YOU IN A DIRECTION THAT ONLY LEADS YOU TO SEEK ADVICE FROM YOUR QUALIFIED ADVISER(S) BEFORE IMPLEMENTING ANYTHING OR ACTING. **ANY INFORMATION IN THIS SEMINAR OR WEBINAR IS INTENDED FOR INFORMATIONAL PURPOSES ONLY** AND MUST NEVER BE CONSIDERED A SUBSTITUTE FOR ADVICE PROVIDED BY YOUR TAX ADVISER, ATTORNEY OR OTHER APPLICABLE ADVISERS AS THE INFORMATION IN THIS SEMINAR OR WEBINAR DOES NOT CONSTITUTE ADVICE WHATSOEVER, WHETHER TAX, LEGAL, FINANCIAL OR OTHERWISE. UNDER NO CIRCUMSTANCES WILL I BE RESPONSIBLE FOR OR LIABLE IN ANY WAY FOR ANY CONTENT, INCLUDING BUT NOT LIMITED TO, ANY ERRORS, ACCURACY, MISUNDERSTANDINGS OR OMISSIONS IN ANY CONTENT, MATERIALS OR DOCUMENTS PROVIDED. THIS SEMINAR OR WEBINAR IS ONLY EFFECTIVE AS OF THE DATE LISTED BELOW, EVEN IF YOU ASSUMED A LATER DATE. I WILL NOT BE ABLE TO INFORM YOU OF ANY CHANGES TO ANY OF THE INFORMATION AFTER THE DATE LISTED BELOW. I ACCEPT NO RESPONSIBILITY TO DELETE, UPDATE, CHANGE OR OTHERWISE CORRECT ANY INFORMATION PROVIDED IN THIS SEMINAR OR WEBINAR, WHETHER, PAST, PRESENT OR FUTURE, OR PROVIDE SUCH NOTICES OF THESE ACTIONS. THERE ARE NO REPRESENTATIONS OF ANY KIND CONCERNING THE ACCURACY OR SUITABILITY OF THE INFORMATION CONTAINED IN THIS WEBINAR. THE IRS DICTATES THAT UNDER CIRCULAR 230 YOU CANNOT RELY ON THE INFORMATION IN THE WEBINAR OR INCLUDED IN ANY MATERIALS, DOCUMENTS OR LINKS PROVIDED TO REDUCE DOWN YOUR PENALTIES. **THIS IS NOT ADVICE. THIS IS FOR INFORMATIONAL PURPOSES ONLY.** I SHALL NOT BE LIABLE FOR ANY DIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL, INDIRECT, PUNITIVE, ANY LOSS OF PROFITS OR REVENUES, ASSESSMENT OR COST OF TAX, PENALTIES, INTEREST WHETHER INCURRED DIRECTLY OR INDIRECTLY, AND ANY OTHER DAMAGES ARISING OUT OF ACCESS TO OR USE OF ANY INFORMATION AND CONTENT AVAILABLE ON THIS WEBINAR OR LINKS, REGARDLESS OF YOUR UNDERSTANDING, SUITABILITY, THE ACCURACY OR COMPLETENESS OF ANY SUCH CONTENT. I DISCLAIM ANY CONTROL OVER, RELATIONSHIP WITH, OR ENDORSEMENT OF VIEWS EXPRESSED BY ANYTHING PROVIDED BY A LINK, IT'S ADVERTISERS AND/OR OTHER USERS, AS LINKED ARE PROVIDED ONLY AS A CONVENIENCE. AND I SHALL NOT BE RESPONSIBLE FOR ANYTHING PROVIDED BY SUCH PERSONS OR ENTITIES IN OR BY ANY LINK.

OVERVIEW

The One Big Beautiful Bill Act (OBBBA) is the most significant tax legislation in years, permanently changing and introducing key tax code provisions. This course covers updates impacting individuals and businesses, from no tax on tips and overtime to SALT cap changes, PTET, no tax on tips or overtime, and so much more. We will cover examples, planning strategies, and client checklists to apply immediately. This session focuses on real-world impacts, avoiding political commentary or speculation. Get the details you need in a clear, practical format.

LEARNING OBJECTIVES

- Learn what laws have changed with the enactment of OBBBA.
- Identify key tax provisions enacted under OBBBA affecting individuals and businesses.
- Apply updated deduction limits and planning strategies in client advisory work.
- 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 to better 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

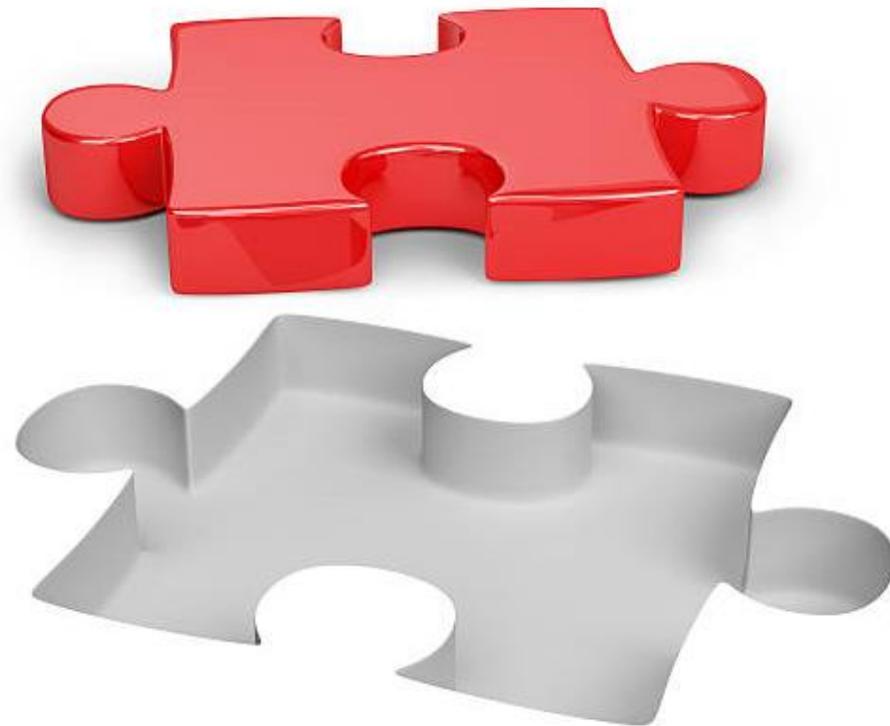
MAJOR TOPICS

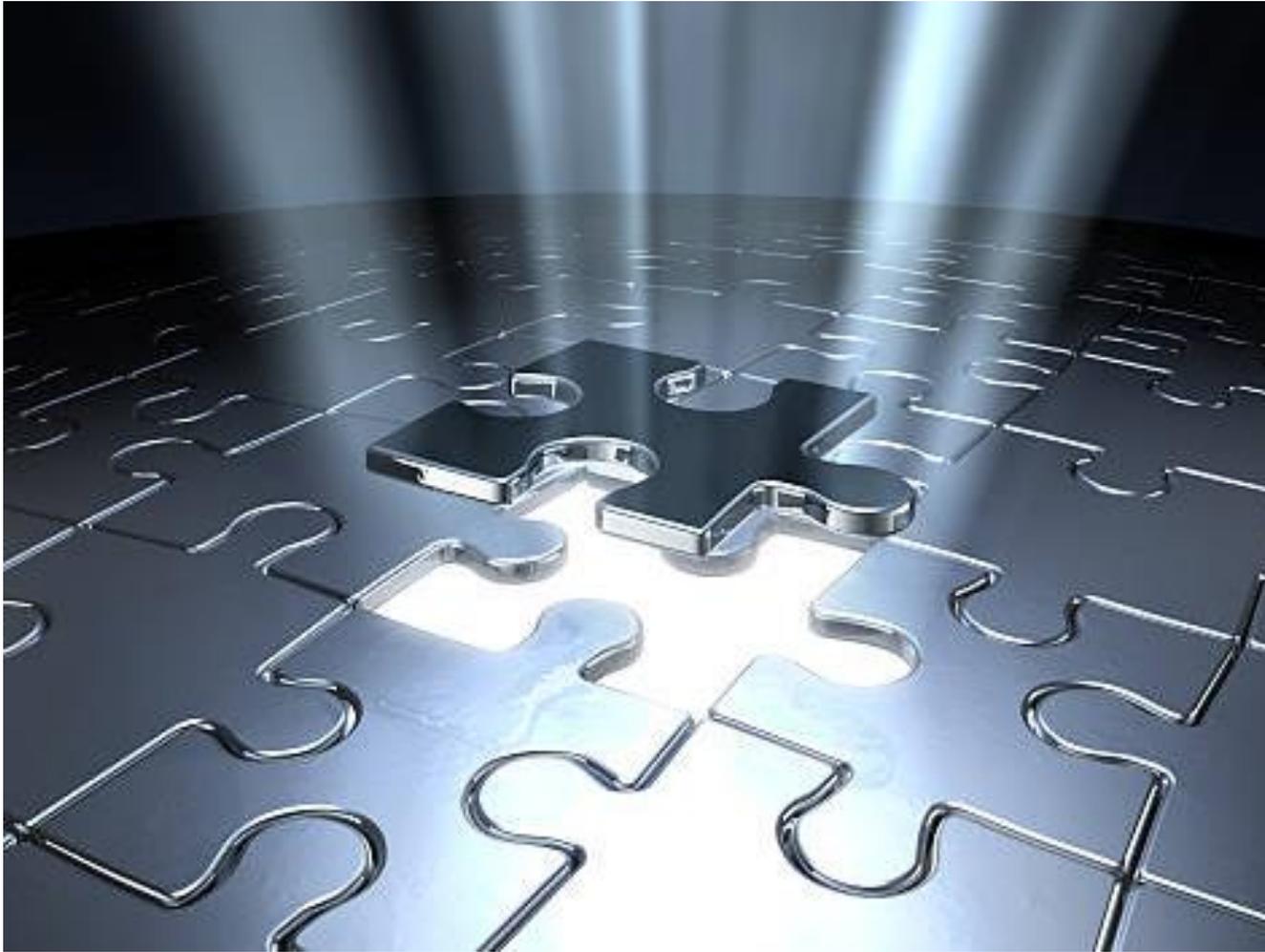
- OBBBA Timeline of Effective Dates
- Permanent vs. Temporary Provisions Summary
- OBBBA Form 1040 Road Map
- Individual Provisions
- Clean Energy Expiring Provisions
- Car Loan Interest
- No Tax on Tips
- No Tax on Overtime
- Business Provisions
- Employee Retention Credit
- Qualified Business Income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



JJ THE CPA[®]

One Big Beautiful Bill Act: Tax Law Changes





OBBBA Timeline



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: 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: 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 ABLER 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: 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

- 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

Timeline of key tax provisions and changes

- 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
- 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

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

July 4, 2025

- 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.
 - If you experienced a federally declared disaster during that timeframe and seek to claim a deduction for qualified disaster losses, the losses do not have to exceed 10% of Adjusted Gross Income (AGI), and you may claim a disaster loss as an additional standard deduction instead of as an itemized deduction.

OBBBA Timeline: Specific Effective Dates

September 30, 2025

- Clean vehicle credits end
 - \$40,000 Commercial clean vehicle
 - \$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)
 - Terminates this credit for property placed in service after December 31, 2025
- 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
 - Terminates this credit for expenditures made after December 31, 2025, regardless of when the property is placed in service

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: 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
 - New energy-efficient home credits
 - Energy-efficient commercial buildings deduction
 - Expenditures to be made by June 30, 2026, for all the above

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

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.



TEMPORARY
VS.
PERMANENT



OBBBA New, But Temporary Key Provisions

Additional Senior Deduction Age 65+

→ \$6,000 deduction applicable until 12/31/**2028**; phase-out requirement starting for income above \$75,000 (\$150,000 for joint filers)

Auto Loan Interest Deduction

→ \$10,000 deduction for new vehicles under 14,000 lbs., car, minivan, van, SUV, pick-up truck, or motorcycle, with final assembly in the United States before 12/31/**2028**; phase-out provision for income above \$100,000 (\$200,000 for joint filers)

OBBBA New, But Temporary Key Provisions

No Tax on Tips

→ Applicable for all qualifying tips received before 12/31/**2028**; maximum deduction of \$25,000, with a phase-out starting at income of \$150,000 (\$300,000 married joint filers)

No Tax on Overtime

→ Applicable premium portion of overtime pay earned before 12/31/**2028**; deduction cap of \$12,500 (\$25,000 for joint filers); phase-out starting at income of \$150,000 (\$300,000 for joint filers)

OBBBA Temporary Key Provisions

SALT Deduction Cap

→ Temporary SALT cap of \$40,000 from 2025–**2029** that phases down starting at \$500,000 of income; cap and threshold increase by 1% annually; **reverts to permanent \$10,000 SALT cap starting in 2030**

Full Expensing for Qualified Production Property

→ Applicable for qualifying structures for which the construction begins **before 12/31/2029** and are placed into service before **1/1/2031**

OBBBA Temporary Key Provisions

Saver's Credit for ABLE Account Contributions

→ Applicable Extends the Saver's Credit to ABLE account contributions starting in 2026 and limits the Saver's Credit exclusively to ABLE account contributions starting in 2027

OBBBA Individual Permanent Provisions

TCJA Individual Tax Rate Reductions

→ Permanent, with extra inflation indexing for 10%, 12%, and 22% brackets

Extension of TCJA Standard Deduction

→ Permanent increase to \$15,750 for single filer, \$23,625 for head of household, \$31,500 for married filing jointly starting in 2025

Extension of TCJA Child Tax Credit

→ Permanent increase to \$2,200 and inflation-adjusted thereafter

OBBBA Individual Permanent Provisions

\$500 other dependent credit allowed

→ Permanent

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

→ Permanent

Termination of Personal Exemptions

→ Permanent

OBBBA Individual Permanent Provisions

Limitation on the Deduction for Home Mortgage Interest

→ Permanent

Deduction for Mortgage Insurance Premiums

→ Permanent

OBBBA Individual Permanent Provisions

Eliminate Miscellaneous Itemized Deductions

→ Permanent, **except for Educator Expenses**

Expiration of Itemized Deductions Subject to Pease Limitation

→ Permanent

Higher Lifetime Estate Tax Exemption

→ Permanent

OBBBA Individual Permanent Provisions

Moving Expenses Paid by Employer are Taxable to Employee

→ Permanent

Moving Expenses Not Deductible

(Except Active Members of the Military & Certain U.S. Intelligence Community)

→ Permanent

OBBBA Individual Permanent Provisions

Exclusion of Student Loan Debt Discharged Due to Death or Disability

→ Permanent

Alternative Minimum Tax

→ Makes the increase in the AMT exemption permanent; resets AMT exemption phaseout thresholds to 2018 levels; increases the phaseout rate from 25% to 50%

OBBBA Individual Permanent Provisions

Section 199A Deduction (QBI Deduction)

→ Permanent 20% deduction; adds a minimum deduction of \$400 for taxpayers with at least \$1,000 of qualified business income, adjusted for inflation

Excess Business Loss Limitations

→ Permanent

529A Able Account Contributions Allowed to Current Gift Tax Exclusion, Eligible for Saver's Tax Credit & Allowing Tax-Free Rollovers from 529 Plans

→ Permanent

OBBBA Business Permanent Provisions

100% Bonus Depreciation

→ Permanent

Higher Section 179 Depreciation \$2.5 Million

(\$4 Million Threshold) Both are Indexed for Inflation

→ Permanent

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

→ Permanent

OBBBA Business Permanent Provisions

Business Net Interest Deduction based on EBITDA

→ Permanent

R&D Expensing Allowed (Domestic Only)

→ Permanent

Disqualifying ERC Claims for 3rd & 4th 2021 Not Paid, Filed After January 31, 2024

→ Permanent

Student Loan Payments Under Employer-Provided Borrower Assistance Excluded From Income Up to \$5,250

→ Permanent

NEW TAX LAW PROVISIONS: WHERE ON FORM 1040?





OBBBA ROADMAP: BELOW THE LINE DEDUCTIONS

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
- \$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

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
- \$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
- Limitations on Disaster Losses to Federal and State (Approved by IRS)
- Miscellaneous Itemized Deductions Eliminated
 - Except for Teachers
- Limitations for the 37% Tax Bracket: Taxpayers to a 35% tax benefit
 - Pease limitation terminated permanently



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 $1.3 \times 35\% = 45.5\%$.
- 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 = $30\% \times \$50,000 = \$15,000$
- SALT Deduction = $\$40,000 - \$15,000 = \$25,000$

Charitable Contribution Adjustment

- Floor = $0.5\% \times \$550,000 = \$2,750$
- 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

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: $\$750,000 \div \$800,000 = 0.9375$
- Allowed interest and insurance premium deduction: $0.9375 \times \$40,000 = \$37,500$

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: $\$1,000,000 \div \$1,200,000 = 0.8333$
- Allowed interest and insurance premium deduction: $0.8333 \times \$60,000 = \$50,000$

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.

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

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.

OBBA 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.

OBBA LANGUAGE: WAGERING LOSS LIMITATION

Summary of OBBA 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

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

- 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 $\frac{2}{37}$ 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 $\frac{2}{37}$, 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 $\$200,000 \times 37\% = \$74,000$ 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 $2/37 \times \$200,000 = \$10,811$.
- 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 $\$189,189 \times 37\% = \$70,000$, 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.

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

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 1/2)
- 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 $26\% \times 1.5 = 42\%$.
- 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 (OBBA, 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:

- Residential solar credits expire after 2025.
- Terminating after September 30, 2025:
 - \$7,500 new electric vehicle (EV) credit
 - \$4,000 used EV credit
 - \$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. 30C alternative fuel vehicle refueling credit
 - Terminates after June 30, 2026
- Sec. 25C energy-efficient home improvement credit
 - Terminates after December 31, 2025
- Sec. 25D residential clean energy credit
 - Terminates for expenditures made after December 31, 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. 45L new energy-efficient home credit
 - Terminates 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

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	



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

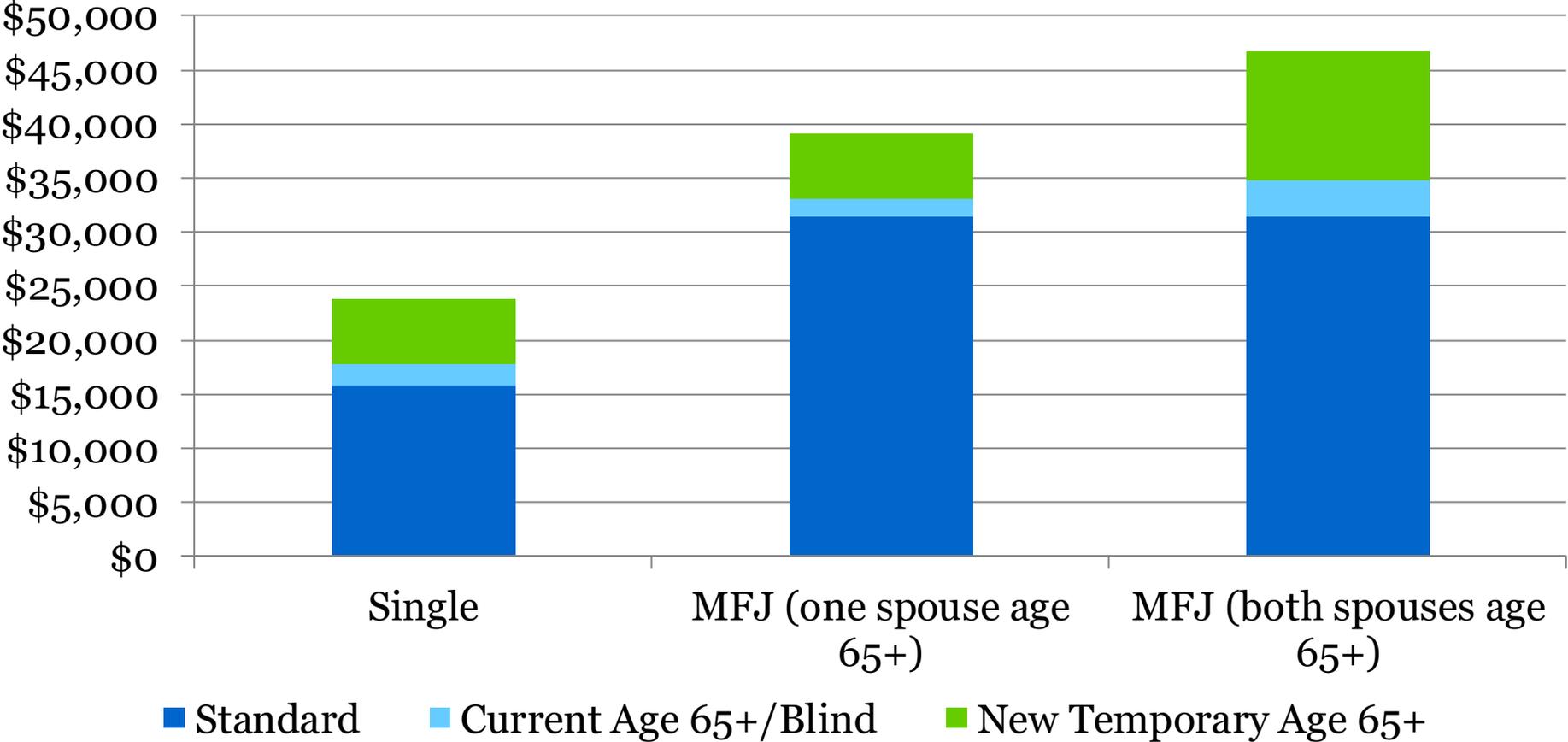
Up to \$6,000 Deduction for Individuals Aged 65 and Older

- 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

Deductions For Seniors Age 65+ Under OBBBA



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 = $6\% \times (\text{MAGI} - \text{Threshold})$

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

Example:

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

MAGI exceeds threshold by \$50,000 →

$6\% \times 50,000 = 3,000$ reduction **per person**

Spouse 1: $6\% \times 50,000 = 3,000$ Reduction

Spouse 2: $6\% \times 50,000 = 3,000$ 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

Form 1040 U.S. Individual Income Tax Return
Department of the Treasury - Internal Revenue Service

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)

If you checked the MFS, person is a child but not one box.

Your first name and middle initial _____
Your last name, spouse's first name _____
Home address, number and street _____
City, town, or post office, if you have _____
Foreign country name _____

OMB No. 1545-0074 2020
RIS Link Only - Do not write or staple in this space.

Married filing separately (MFS) If you checked the HOH or QW box, enter the child's name if the qualifying spouse's social security number _____
 Head of household (HOH) Qualifying widow(er) (QW) Your social security number _____
 Presidential Election Campaign Check here if you, or your spouse, want \$3 if filing jointly, want \$3 if filing separately, and checking a mode _____

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



**NO TAX
ON TIPS**



1/22/26

148

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 – 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 – 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

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)

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 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

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



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 overtime” 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?

- Single — \$12,500 deduction
 - Head of Household — \$12,500 deduction
 - Married Filing Jointly (MFJ) — \$25,000 combined (not \$25K per spouse)
 - **Still limited to \$12,500 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).

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 $1.5\times$ 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 $1.5\times$ 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 1 (Hourly employee): Alex works 1,040 hours of overtime for the year in 2026 at \$30/hr (\$45/hour 1.5× rate). \$15/hr is the overtime compensation included. He earns \$15,600 in qualified overtime. He deducts \$12,500 on his federal return.
- Example 2 (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 3 (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 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	Exempt Employee
	 Eligible for OBBBA Deduction	 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.

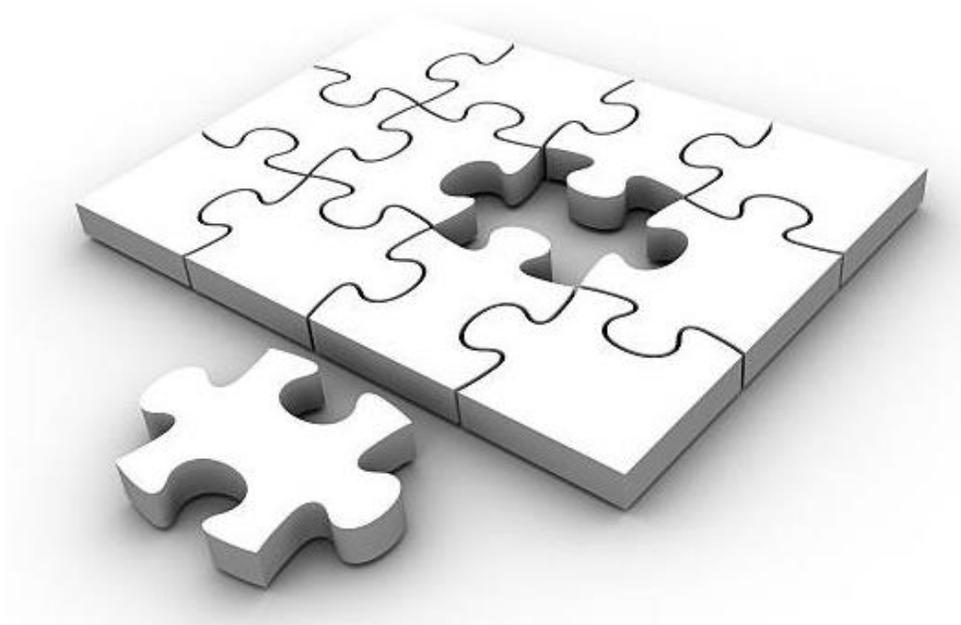
Be mindful that these final decisions could require legal analysis. Avoid being an attorney.

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)



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.

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-OBDDA): 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 LARGE 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 LARGE 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

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 TAX CREDIT: QUALIFYING EXPENSES

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

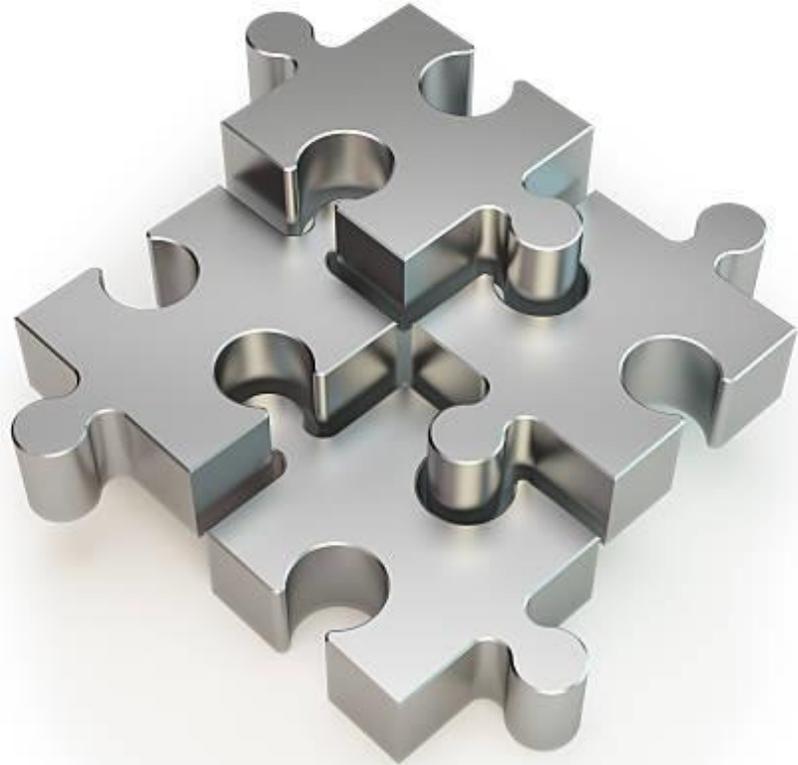
- Employers may claim a:
 - 40% credit on up to \$500,000 in qualified expenses
(standard businesses)
 - 50% credit on up to \$600,000
(eligible small businesses)
- Credit applies to a broad range of childcare-related expenses offered to employees.

EXAMPLES OF QUALIFYING EMPLOYER EXPENSES

- On-site childcare facilities:
 - Construction, renovation, or expansion
 - Staffing and operations (wages, training, maintenance)
- Childcare referral services:
 - Third-party vendor fees to help employees locate care
- Off-site childcare partnerships:
 - Contracts or sponsorships with local daycare centers
- Training & scholarships:
 - For childcare workers or caregivers employed by the business

WHAT QUALIFIES FOR THE EMPLOYER 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



ERC



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

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 <i>by Statutory Deadline</i> on or Before January 31, 2024	ERC Claim NOT Paid: Form 941 or Form 941-X Filed for ERC <i>by Statutory Deadline</i> 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
<hr/>		
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

OBBA 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 2021 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 2021.

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.

IRS ERC FAQ'S 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 or incurred the expense.
- 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 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.

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.

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.

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 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. 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.

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

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).



Qualified Business Income (QBI)

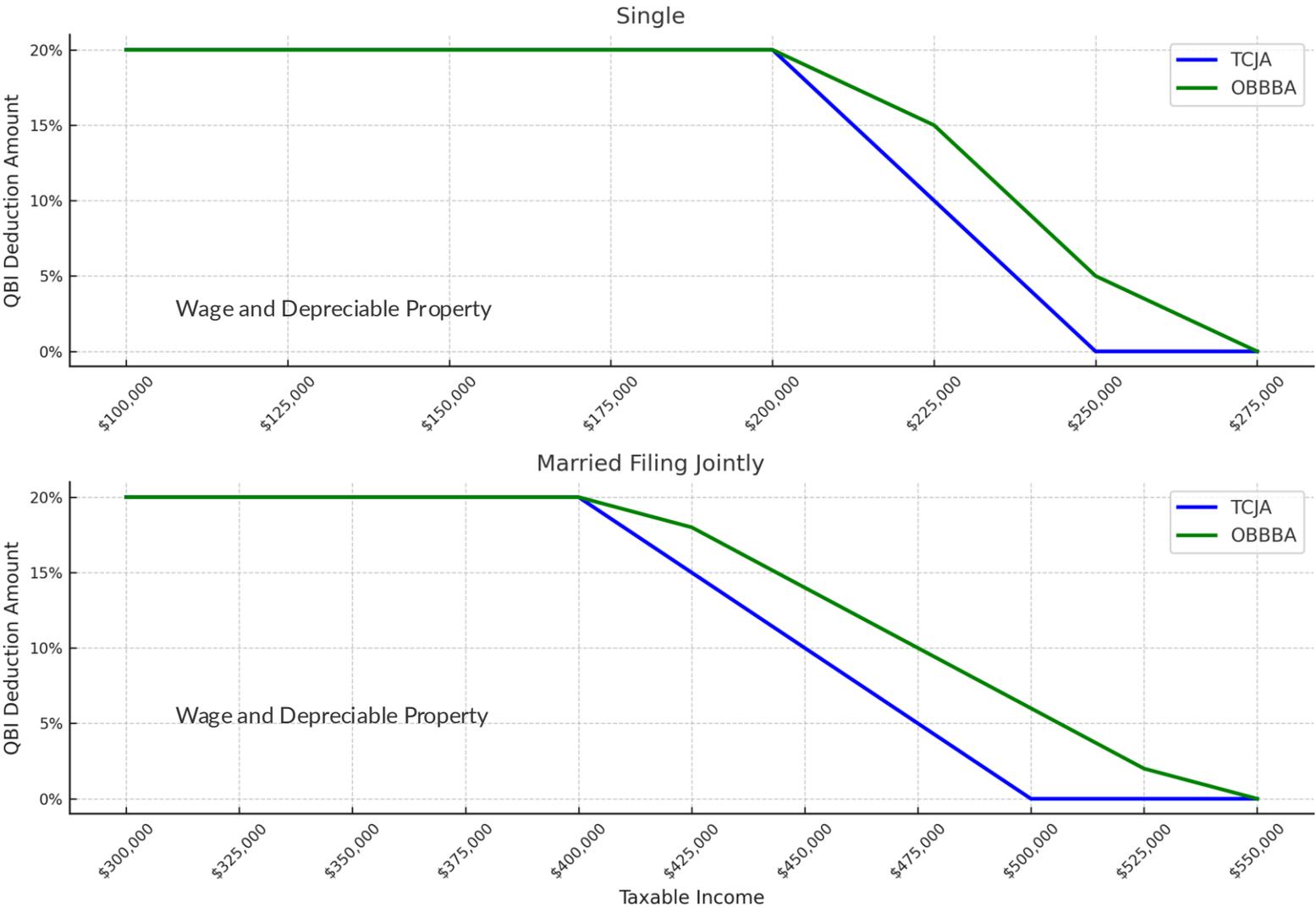
QBI DEDUCTION SURVIVES

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 UBI 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

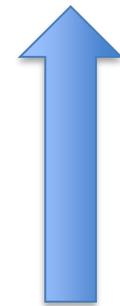
***Projected in 2026 with increased “windows” without inflation**

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

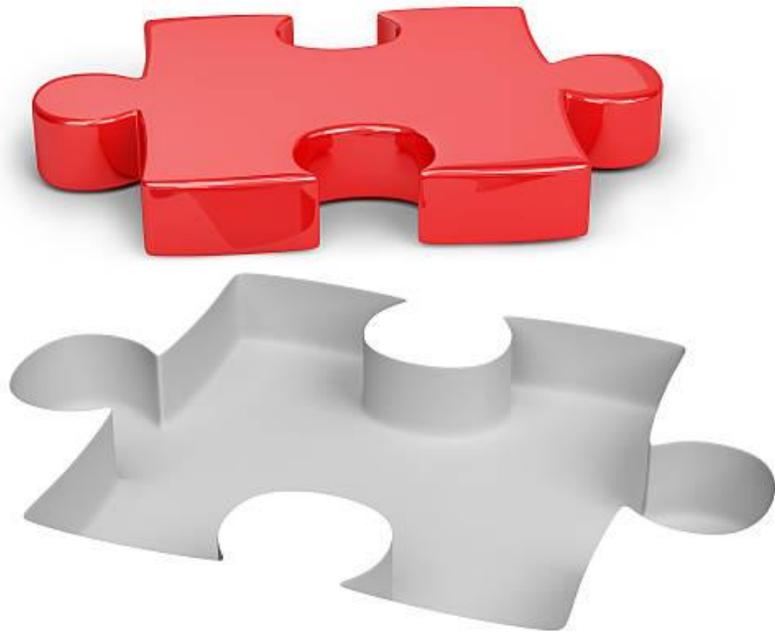
- Starting in 2026, the OBBBA introduces a minimum QBI deduction of \$400 for taxpayers with at least \$1,000 of qualified business income from one or more active businesses in which they materially participate.
- Both the \$1,000 income threshold and the \$400 minimum deduction are indexed for inflation, starting in 2027.

QBI: SSTB LIMITATION STILL APPLIES

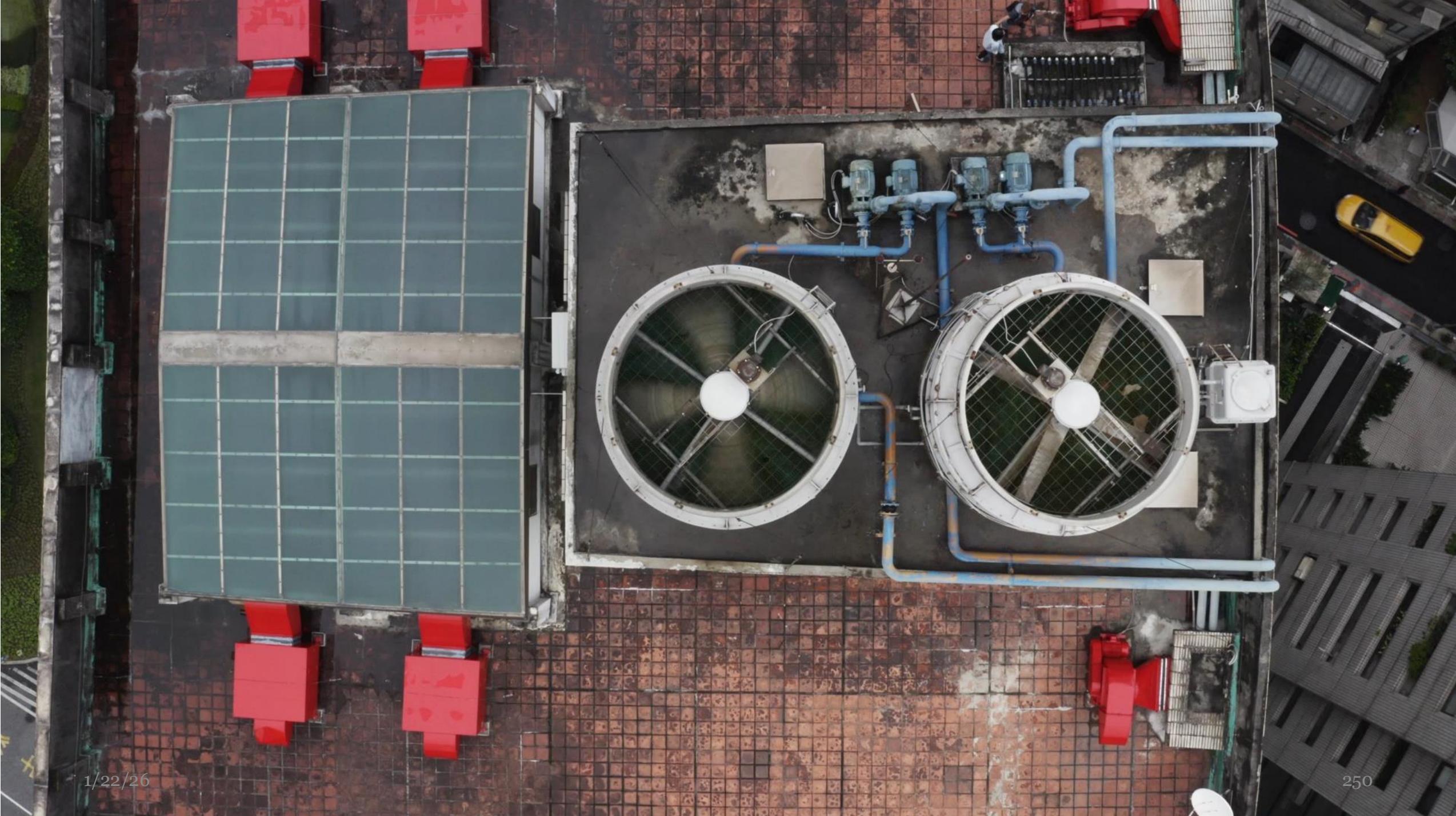
- OBBBA retains exclusion rules for Specified Service Trades or Businesses (SSTBs)
- Professions affected: health, law, accounting, consulting, athletics, performing arts, investment management
- QBI deduction phases out for SSTBs beyond new income thresholds
- SSTBs below the threshold receive full 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 UBLA 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



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: Property 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) 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 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: $\$100,000 \times 100\% = \$100,000$

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): $\$31,300 \times 80\% = \$25,040$ deduction
- Remaining basis: $\$80,000 - \$25,040 = \$54,960$
Bonus depreciation on remaining: \$21,984 (40% allowed pre-OBBBA)
- 5-year property = \$6,595 regular depreciation
 $\$100,000 \times 80\% = \$80,000 - \$25,040 - \$21,984 = \$32,976$ 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

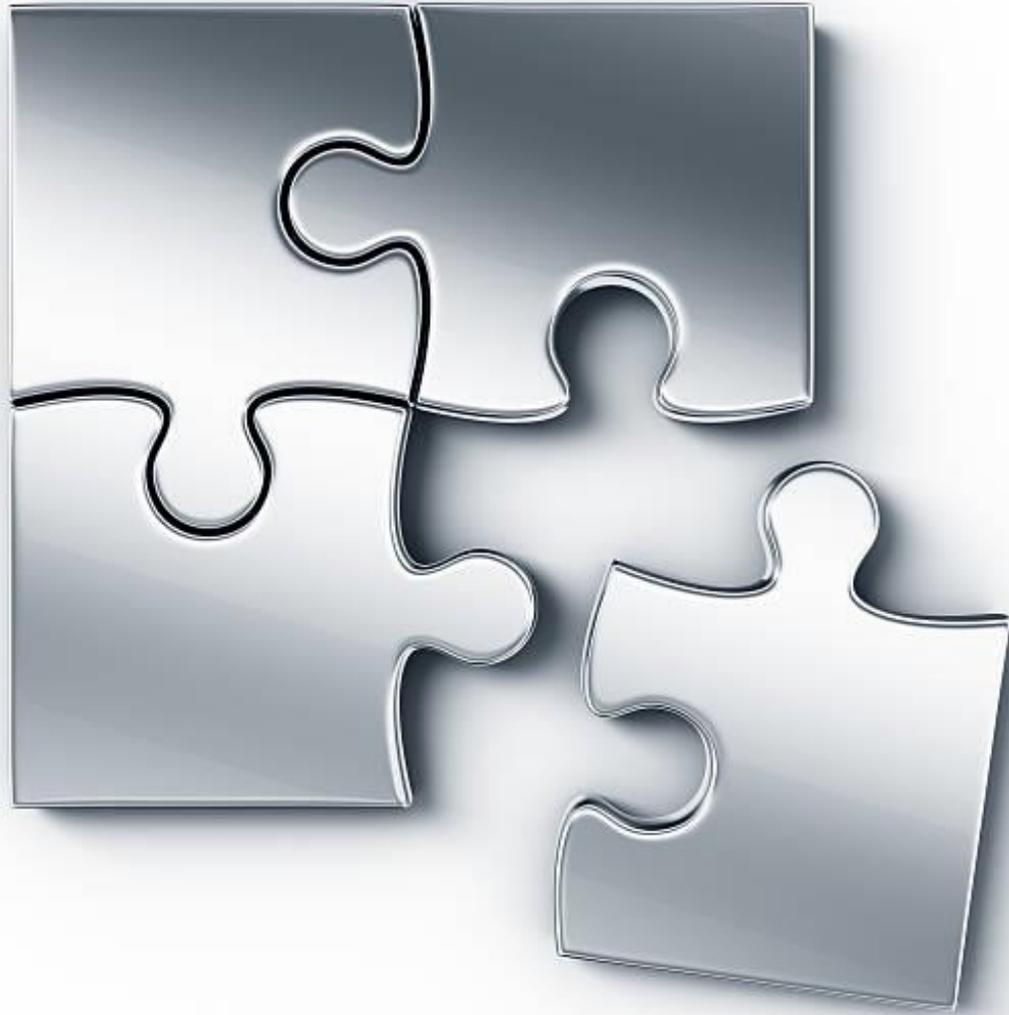
✘ Not eligible for Bonus Depreciation – must exceed 50% business use

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



**Wait!
There's
More!**

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 purposes 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.)

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 United 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 was 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



CHECK OUT MY CHANNEL

[@JJtheCPAusa](https://www.youtube.com/@JJtheCPAusa)

JJ THE CPA[®]

THANK
YOU!

JJ THE CPA[®]

