One Big Beautiful Breakdown

How the One Big Beautiful Bill May Impact You

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Overview of the One Big Beautiful Bill Act

- Signed into law on July 4, 2025, the One Big Beautiful Bill Act (OBBBA) is a major tax overhaul affecting individuals, businesses, and international taxpayers.

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Individual Taxpayer Provisions

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Permanent tax brackets

TAX BRACKET / RATE	SINGLE FILER	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
10%	$0-$11,925	$0-$23,850	$0-$17,000
12%	$11,926-$48,475	$23,851-$96,950	$17,001-$64,850
22%	$48,476-$103,350	$95,951-$206,700	$64,851-$103,350
24%	$103,351-$197,300	$206,701-$394,600	$103,351-197,300
32%	$197,301-$250,525	$394,601-$501,050	$197,301-250,500
35%	$250,526-$626,350	$501,051-$751,600	$250,501-$626,350
37%	$626,351+	$751,601+	$626,351+

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Standard Deduction

Standard Deduction Amount	
Filing Status	**2025**
Single	$15,750
Married Filing Jointly	$31,500
Head of Household	$23,625

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Charitable Deduction for Non-Itemizers

- **New Above-the-Line Deduction**: Non-itemizers can now deduct up to **$2,000 (MFJ)** or **$1,000 (Single/HoH)** for cash donations to qualified charities made after December 31, 2025.
- **Monetary Contributions Only**
- **Qualified Organizations Only**: Donations must be made to recognized 501(c)(3) public charities (not donor-advised funds or private foundations).
- **Documentation Required**: Taxpayers must retain a receipt or written acknowledgment from the charity.
- **No Double Dipping**: This deduction is only for taxpayers who *don't* itemize—itemizers still deduct under Schedule A.

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Temporary Deductions

Available from January 1, 2025 (retroactively) until December 31, 2028.

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Tip Deduction

- Employers must **track and report all tips** received by employees.
  - They are responsible for ensuring **accurate withholding of taxes** (income tax, Social Security, Medicare) on reported tips.
  - Available to both **itemizers and non-itemizers**; it's an "above-the-line" deduction.
  - Begins to phase out at **$150,000** modified AGI for single filers, and **$300,000** for joint filers. If taxpayer is married, they must file as joint.
  - Only available on reported "voluntary" tips.
  - Self-employed individuals deduct tips only to the extent of the net income from that trade (before the deduction)
  - **Maximum deduction is $25,000.**
  - Impacts qualifying jobs where "tipping is customary". The IRS will publish a list of qualifying occupations by **October 2, 2025**

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Overtime Deduction

- Workers who earn overtime may deduct up to $12,500 ($25,000 if married filing jointly).
- It's a Deduction, Not an Exclusion: The amount reduces taxable income but does not avoid income inclusion like a tax-free benefit would.
- Available Whether You Itemize or Not: You can claim this deduction even if you take the standard deduction.
- Only the Overtime Portion Counts: The deduction applies to the amount paid above your regular rate—essentially the "extra half" in "time-and-a-half."
- Applies to Reported Overtime Only: Must be reported on a W-2, 1099, or other specified statement.
- Phaseout Based on Income: Deduction begins phasing out at $150,000 MAGI ($300,000 for joint filers) and disappears completely at $275,000 (single).Joint Return Requirement: Married taxpayers must file jointly to claim the deduction.

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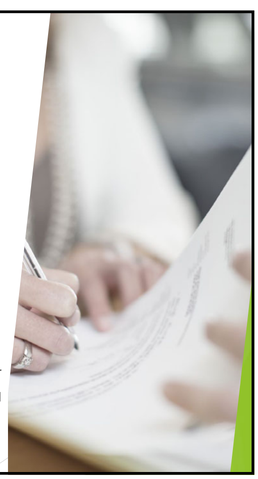
Car Loan Interest Deduction

- New Vehicles Only
- U.S.-Assembled
- Personal Use Only
- Qualified Interest: The interest must be paid on a loan originated after December 31, 2024, used to purchase the vehicle, and secured by a lien on the vehicle.
- Refinancing: Interest paid on a refinanced loan may also qualify under certain conditions, according to the IRS.
- You can deduct up to $10,000 in qualified passenger vehicle loan interest annually.
- Above-the-Line Deduction: This deduction can be claimed even if you take the standard deduction.
- The full deduction is available for single filers with a modified adjusted gross income (MAGI) of $100,000 or less, or married couples with a MAGI of $200,000 or less. The deduction is reduced for higher incomes and phased out for single filers earning above $150,000 and married couples with incomes above $250,000.



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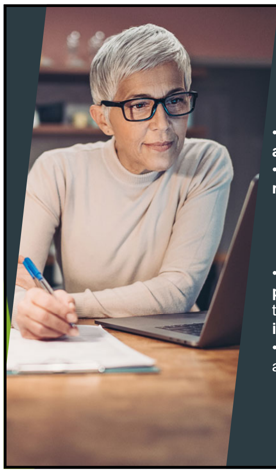

Senior Deduction

- Up to **$6,000** for taxpayers **age 65 and older**.
- It is structured as a **deduction**, not a **refundable credit**, so:
    - **Seniors who owe no income tax** will not benefit from it.
    - Reduces **taxable income** for those who qualify.
- This functions like a **special personal exemption** aimed at easing tax burdens for **lower- to middle-income seniors**.
- The deduction begins to **phase out** at:
    - **$75,000 modified adjusted gross income (MAGI)** for **single filers**.
    - **$150,000 MAGI** for **married joint filers**.

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Credits for Families and Donors

Effective for tax years beginning after December 31, 2024.

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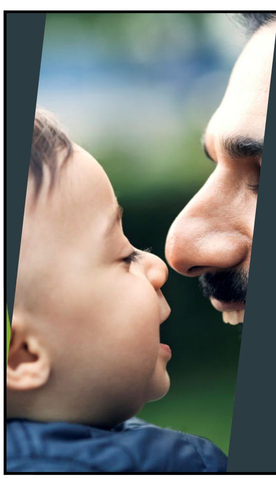

Child Tax Credit

- **Increased Credit Amount**: Now $2,200 per qualifying child under age 17 (up from $2,000)
- **Indexed for Inflation**: Credit amount will increase annually with cost of living
- **Refundable: $1,700 for 2025.**
- **Phaseout:** Starts at $400,000 filing joint.

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Child and Dependent Care Credit

- The OBBB Act permanently increased the amount of the child and dependent care tax credit from 35% to 50% of qualifying expenses.
- The credit rate phases down for taxpayers with AGI over $15,000. It will be reduced by 1 percentage point (but not below 35%) for each $2,000 that the taxpayer's AGI exceeds $15,000.
- It is then further reduced by (but not below 20%) 1 percentage point for each $2,000 ($4,000 for joint returns) that their AGI exceeds $75,000 ($150,000 for joint returns)
- The amendment made by this section applies to taxable years beginning after December 31, 2025.

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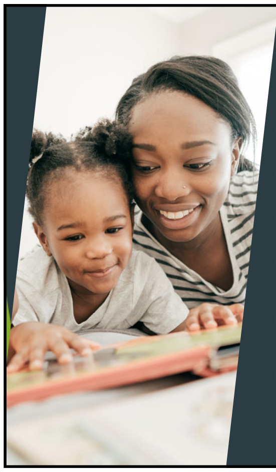

Refundable Adoption Credit

- **Now Refundable**: Families can receive the full credit even if they don't owe any federal income tax.
- **$17,280 Per Child** for 2025, adjusted for inflation in future years, with a refundable amount of $5,000.
- **Covers All Types of Adoptions**: Includes domestic, international, and special needs adoptions.
- **Income Limit Applies**: Begins to phase out at $259,190 modified AGI and phases out completely at $299,190.
- **Timing of Credit**: Usually claimed in the year the adoption is finalized. Certain expenses can be claimed earlier.
- **Applies Starting in 2025**: Effective for tax years beginning after December 31, 2024.

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Savings, Healthcare, Child Care and Student Loans

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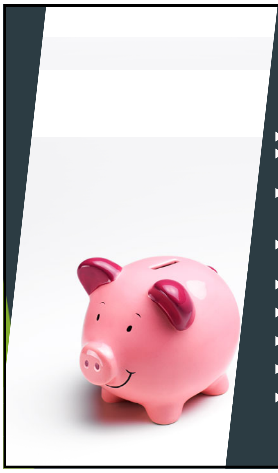

Trump Accounts for Kids (TAKs)

- Savings account for kids under age 18
- Federal government will contribute $1,000 for babies born 1/1/2025-12/31/2028.
- Parents, guardians, or relatives can contribute up to **$5,000/year** per child. Employers may contribute up to $2,500 of that total starting in 2026.
- Funds grow **tax-free** if used for qualified expenses (like education, health care, or starting a business).
- Withdrawals for non-qualified use get hit with **taxes + 10% penalty.**
- Contributions are **not tax-deductible**, but the **growth is not taxable.**
- Kids gain full control of the account at **age 18.**
- Excluded from employees' taxable income.
- Indexed for inflation starting in 2027.

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Expanded 529 Plan Uses

- Starting **July 5, 2025**, 529 account funds can now be used **tax-free** for *elementary and secondary education expenses*, including **public, private, and religious settings**.
- These expenses are now officially considered **"qualified higher education expenses"** under the tax code.
- Beginning in tax year **2026**, the **annual limit per beneficiary doubles** from **$10,000 to $20,000** for these types of distributions.
- This expansion gives families **more flexibility** to invest in K-12 education without triggering taxes or penalties.

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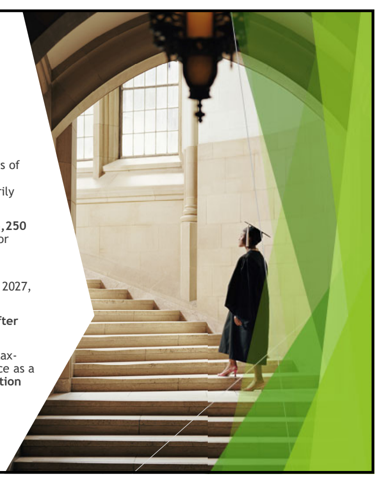
Employer Payments of Student Loans

- Through 2025: Employer payments of student loans under educational assistance programs are temporarily excluded from employee income.
- Starting in 2026: A **permanent $5,250 annual exclusion** is established for employer-provided student loan payments.
- Indexed for inflation beginning in 2027, so the benefit grows over time.
- Applies only to payments made **after December 31, 2025.**
- Employers can continue to offer tax-advantaged student loan assistance as a **powerful recruitment and retention tool.**



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Dependent Care Assistance Program

- Starting in **2026**, the **tax-free limit** on dependent care benefits from employers **increases.**
- **New maximum exclusion:**
  - **$7,500** per year (up from $5,000)
  - **$3,750** for **Married Filing Separately**
- Applies to **qualified Dependent Care Assistance Programs** (DCAPs).
- Covers **employer-paid or reimbursed childcare expenses**—tax-free to the employee.
- Employers should **review and update plan limits** before the **2026 plan year**.
- **Benefit:** Employees can exclude more from income, reducing taxable wages and payroll taxes.

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Expanded HSA Use & Dependent FSA Increase

- **HSAs can now cover more**: You can use your HSA to pay for fitness programs, over-the-counter vitamins, and even some nutrition counseling.
- **More people qualify**: i.e. Bronze and Catastrophic plans.
- **Dependent Care FSA limit increased**: You can now set aside **up to $7,500 per household** (up from $5,000) pre-tax to pay for childcare, after-school programs, or adult day care.

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Estate & Gift Tax Exclusion

- Starting in **2026**, the **estate and gift tax exclusion** increases to **$15 million per person**
- That means a **married couple can exclude up to $30 million** from federal estate and gift tax
- The amount will be **adjusted annually for inflation**
- This is a **permanent change** under the One Big Beautiful Bill
- Allows more wealth to be passed on **tax-free**

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Itemized Deductions

- **State and Local Tax (SALT) Deduction Cap**
  - The SALT deduction cap increases to **$40,000** ($20,000 for married filing separately) for 2025.
  - The cap is indexed for inflation beginning in 2026.
  - For taxpayers with **modified AGI above $500,000** ($250,000 MFS), the cap is **phased down by 30%** of the excess income, but never below $10,000.
  - Beginning in 2030, the cap reverts to $10,000.
- **High-Income Phaseout**
  - Itemized deduction **reduced** for taxpayers in the **top 37% tax bracket**
- Limitation on Itemized Deductions
  - A revised limitation reduces itemized deductions for high-income earners.
  - Deductions are reduced by **2/37** of the lesser of: Total itemized deductions, or the amount by which income exceeds the threshold for the 37% tax bracket.
  - This replaces the previous 3% reduction with an 80% maximum cap.
- **Charitable Deduction Floor Introduced**
  - To deduct charitable donations, you must give at least **0.5% of your income**
  - Example: If you make $200,000, you need to donate at least $1,000 to start deducting

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How the Itemized Deductions Limitation is Calculated

- Assuming:
  - Tax Year 2026
  - Filing Status: Single
  - 37% Bracket Threshold: $626,350 (2025 value, subject to inflation)
  - Taxpayer's Taxable Income: $700,000
  - Itemized Deductions: $60,000

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How the Itemized Deductions Limitation is Calculated

- Assuming:
  - Tax Year 2026
  - Filing Status: Single
  - 37% Bracket Threshold: $626,350 (2025 value, subject to inflation)
  - Taxpayer's Taxable Income: $700,000
  - Itemized Deductions: $60,000

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Calculation

- Compute the excess of taxable income over the 37% threshold.
  - Determine the lesser of:
    - Itemized deductions: $60,000
    - Excess taxable income: $73,650
  - Calculate the reduction:
    - Reduction =2/37 x $60,000 = 3,243.24
  - Subtract the reduction from the original itemized deductions:
    - Allowed itemized deductions = $60,000-$3,243.24 = $56,756.76

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Other Notable Changes

- Miscellaneous Itemized Deductions – permanently disallowed.
- Educator Expenses
  - Still deductible; $300 for single filers, $600 for filing joint.
  - 2026 Educator Expense is allowed as an Itemized Deduction.
- **Mortgage Interest Deduction:** The cap on acquisition indebtedness remains at **$750,000** and is now **permanent**.
  - **Mortgage insurance premiums** are now treated as deductible interest.
- Personal Casualty Loss Deduction: The deduction is now **permanently limited** to losses from **federally and state-declared disasters**.
- **Qualified Transportation Fringe Benefits:** Certain exclusions for employer-provided transportation benefits are **repealed or modified**, and coordination with disallowed expenses is clarified.
- **Moving Expense Deduction**
  - The suspension of the moving expense deduction is permanently extended.
  - An exception is now provided for members of the **intelligence community**.
- **Wagering Losses:** Deductions for gambling losses are now limited to 90% of losses, and only to the extent of wagering gains.

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Investments and Real Estate

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Qualified Small Business Stock (QSBS):

- **Tax-Free Gains (If You Wait): Exclude 50% to 100%** of capital gains from **Qualified Small Business Stock (QSBS)** if held long enough.
- **Holding Period Matters:**
  - **Before Feb. 17, 2009** → 50% exclusion (5+ years)
  - **Feb. 17, 2009 - Sept. 27, 2010** → 75% exclusion (5+ years)
  - **After Sept. 27, 2010 - July 4, 2025** → **100% exclusion** (5+ years)
  - **After July 4, 2025:** 50% if held 3+ years, 75% if held 4+ years, 100% if held 5+ years
- **Cap on Exclusion (Per Issuer):**
  - **$10 million** for QSBS acquired **on or before July 4, 2025**
  - **$15 million** for QSBS acquired **after July 4, 2025 (Inflation-adjusted after 2026)**
- **Company Size Limits:**
  - Gross assets must be under **$50 million** at issuance (pre-July 4, 2025)
  - Raised to **$75 million** for stock issued **after** that date (Also inflation-adjusted after 2026)

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Capital Gains on Farmland Sales to Farmers

- Beginning in tax years **after July 4, 2025**, sellers of **qualified farmland** to a **qualified farmer** may elect a special tax treatment.
- Instead of paying all capital gains tax in one year, sellers can **elect to pay it in four equal annual installments.**
- The first payment is due with the **tax return for the year of the sale or exchange.**
- Applies **only when there is recognized gain** on the sale or exchange of the farmland.
- Designed to ease the immediate tax burden and **encourage farmland transitions to working farmers.**

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Business Impact

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Qualified Business Income (QBI) Deduction

- 20% tax break for owners of pass-through businesses (sole props, partnerships, S corps)
- Applies to most small business owners, freelancers, and independent contractors
- Made permanent by the One Big Beautiful Bill — no expiration
- Deduct up to 20% of qualified business income from your taxable income
- High earners in fields like law, health, or consulting may have limits based on income
- Can significantly reduce taxes for eligible business owners

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100% Bonus Depreciation

- Businesses can once again deduct **100% of the cost** of qualified assets **in the year they buy them**
- **Applies to new and used equipment**, machinery, certain vehicles, and more placed in-service January 19, 2025 or later.
- Must be **used in the business** and have a useful life of **20 years or less**
- Includes things like computers, furniture, farm equipment, and HVAC systems
- Great **for lowering taxes quickly** and improving cash flow
- **Permanent**

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Section 179

- Let's businesses immediately deduct the full cost of qualifying equipment or software instead of spreading it out over years.
- The maximum deduction is **$2.5 million** per year (indexed for inflation).
- Applies to things like **machinery, computers, office furniture, and vehicles** used for business.
- Full deduction allowed **as long as total equipment purchases don't exceed $4 million** (also indexed).
- Helps small and mid-sized businesses invest and grow faster by reducing tax bills now—not later.
- Must be **used more than 50% for business** and placed in service during the tax year.
- This is a cash flow booster, not a loophole. Spend smart, write it off fast.

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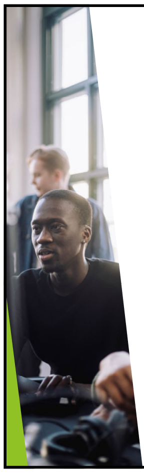

R&D Now Fully Deductible

- Businesses can now deduct *all* of their U.S.-based research and development (R&D) costs in the year they're incurred
- This reverses a 2022 rule that forced businesses to spread those deductions over 5 years
- Applies to wages, supplies, and R&D-related overhead in the U.S.
- Makes it less expensive to invest in innovation, tech, and product development
- Effective for qualified small business taxpayers with average annual gross receipts of $31M or less for tax years **2022 through 2025** (retroactive fix)
- **Foreign R&D** still gets slower treatment. Research done outside the U.S. must still be spread out (amortized) over 15 years.

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Excess Business Loss Rules

- Limits how much business loss you can use to offset other income (like wages or investment income).
- For 2025, capped at **$626,000** (married) or **$313,000** (single).
- Any "excess" loss? It rolls forward as a **net operating loss (NOL).**
- Now permanent.

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Excess Business Loss Limitation Calculation

- A married couple (MFJ) has the following tax scenario for 2025:
  - Aggregate deductions attributable to their businesses: $1,200,000
  - Aggregate gross income and gains attributable to their businesses: $400,000
- **Calculate the excess business loss:**
- Excess business loss is defined as the excess of:
- (i) aggregate deductions attributable to trades or businesses, over
- (ii) the sum of (I) aggregate gross income or gain attributable to such trades or businesses, plus (II) the threshold amount ($626,000 for joint filers in 2025).
- So:
  - Aggregate deductions: $1,200,000
  - Aggregate gross income/gain: $400,000
  - Threshold amount: $626,000
- Sum of gross income/gain and threshold: $400,000 + $626,000 = $1,026,000
- Excess business loss: $1,200,000 - $1,026,000 = $174,000

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Excess Business Loss Limitation Calculation (cont.)

- **Step 2: Apply the limitation.**
  - The couple may deduct up to $1,026,000 of their business deductions in 2025.
  - The $174,000 excess business loss is not deductible in 2025. Instead, it is treated as a net operating loss (NOL) carryover to subsequent years under IRC § 172(b) [2].
- **Key Points:**
  - The limitation applies after the application of the passive activity loss rules under section 469.
  - The threshold amounts for 2025 are $313,000 (single) and $626,000 (joint).
  - Any disallowed excess business loss is treated as an NOL carryover to the next year
- **Conclusion:** For 2025, a joint filer with $1,200,000 in business deductions and $400,000 in business income/gain would have an excess business loss of $174,000, which is not currently deductible but is carried forward as an NOL. The correct threshold amounts under OBBB for 2025 are $313,000 (single) and $626,000 (joint)

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Business Interest Deduction – Back to EBITDA

- Businesses can now deduct interest expenses based on **EBITDA** (Earnings *before* interest, taxes, depreciation, and amortization).
- This replaces the more restrictive rule based on **EBIT** (which excluded depreciation/amortization).
- **More interest is deductible**, especially helpful for capital-heavy industries like manufacturing, real estate, and transportation.
- Applies to tax years starting **after December 31, 2024.**
- Limits still apply (generally 30% of EBITDA), but this change **loosens the cap.**
- A big win for businesses with lots of equipment or debt.

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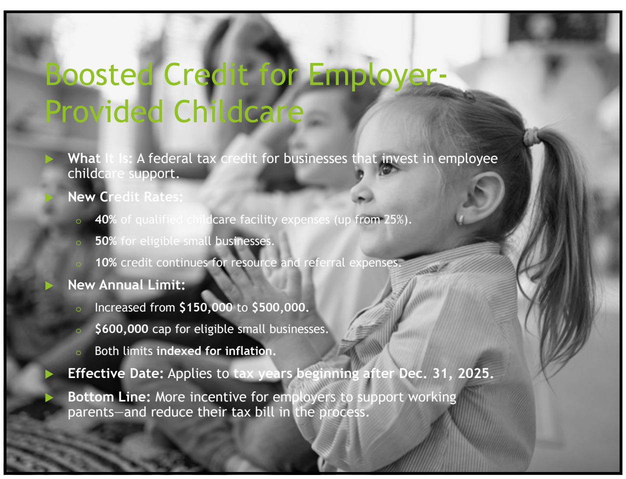

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Qualified Opportunity Zone (QOZ)

- **Permanent Program & Decennial Redesignation:** QOZ designations revisited every 10 years, allowing updates to eligible areas.
- **Extended Tax Benefits:** No sunset for deferral elections; deferred gain recognized at sale or after 5 years. Step-up in basis: 10% after 5 years (30% for rural funds), full FMV after 10 years.
- **Rural Opportunity Funds:** Enhanced benefits and relaxed improvement requirements for rural investments.
- **Expanded Reporting:** Stricter annual reporting for funds and businesses, with significant penalties for noncompliance; increased public transparency.
- **Effective Dates:** Most changes apply to investments/property after 12/31/2026.

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Simplified Reporting

- • 1099-K threshold restored to $20K/200 transactions
- • 1099-NEC & MISC now start at $2,000 (from $600) in 2026

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Clean Energy Changes

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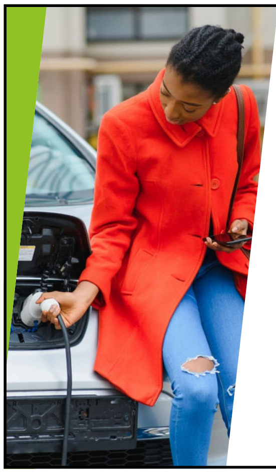

- **Energy Efficient Home Improvement Credit:** Ends after December 31, 2025. Previously offered up to a 30% credit (typically capped at $1,200 annually) for upgrades like insulation, windows, doors, HVAC systems, and home energy audits on a primary residence.
- **Residential Clean Energy Credit:** Ends after December 31, 2025. Previously allowed a 30% credit for solar panels, geothermal systems, battery storage, and other clean energy installations, with no general dollar cap.
- **New Clean Vehicle Credit:** Ends for vehicles acquired after September 30, 2025. Previously provided up to a $7,500 credit for new electric or certain plug-in hybrid vehicles.
- **Previously-Owned Clean Vehicle Credit:** Ends for vehicles acquired after September 30, 2025. Previously offered a credit for used qualifying electric or clean vehicles.
- **Alternative Fuel Vehicle Refueling Property Credit:** Ends for property placed in service after June 30, 2026. Previously offered a credit for installing EV charging stations and similar refueling infrastructure.

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- **Energy Efficient Home Credit for New Homes:** Ends for homes acquired after June 30, 2026. Previously gave builders (and some self-builders) a credit for constructing qualifying energy-efficient homes.
- **Energy Efficient Commercial Buildings Deduction:** Not available for construction starting after June 30, 2026. While primarily a business deduction, some individuals (like rental property owners) previously benefited for installing qualifying energy-saving features.
- **Other Clean Energy Credit Restrictions**
  - *Clean Hydrogen Production Credit:* Ends for hydrogen produced after January 1, 2028.
  - *Clean Electricity Production and Investment Credits:* End for wind and solar projects placed in service after December 31, 2027; additional limits for foreign materials and ownership.
  - *Carbon Capture Credit:* Now includes restrictions on foreign ownership, which may impact individual investors in applicable projects.

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What You Should Do

- Review your tax strategy annually
- Act fast on deductions expiring in 2028
- Leverage permanent provisions for long-term planning
- Reach out to Faw Casson for updates, advice, and guidance

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Questions?

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