2025 Year-End Tax and Business Planning Webinar

Presented by

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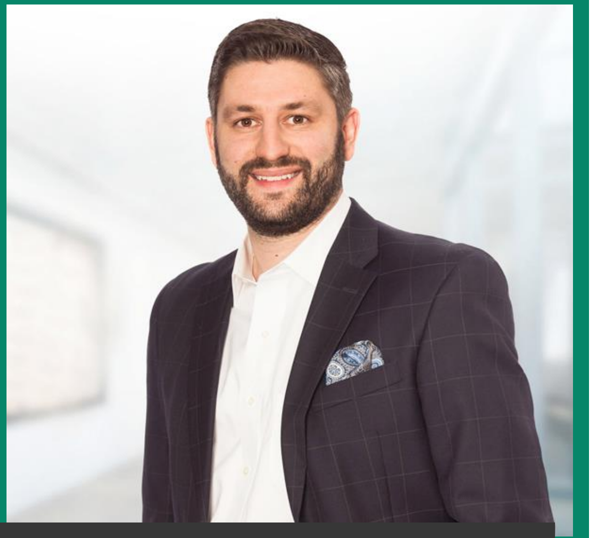

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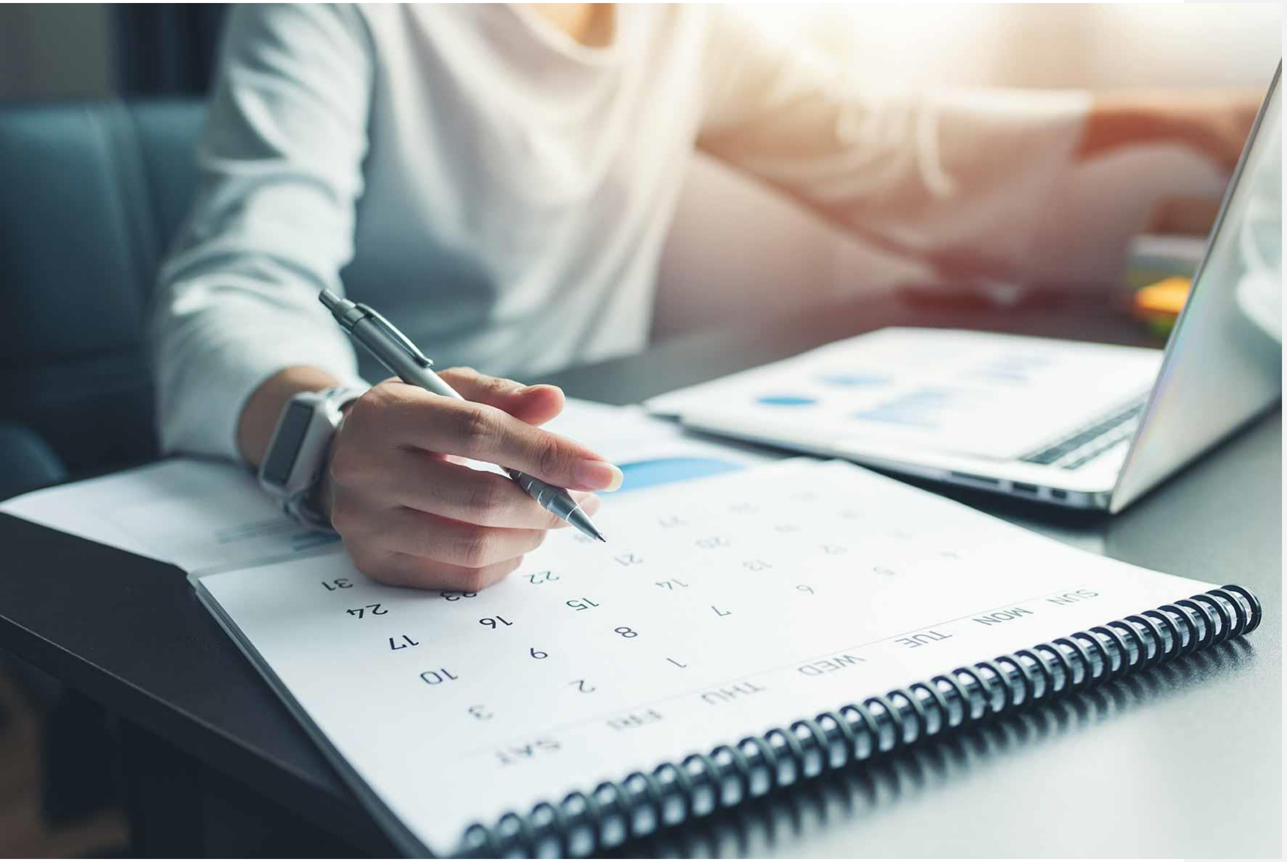
Agenda



- OBBBA provisions:
  - What's included in the new law
  - Key tax changes for individuals and businesses
  - Immediate year-end planning considerations
- Opportunity Zone updates
- SECURE Act 2.0 updates
- IRS enforcement and compliance
- Economic landscape
- General tax planning suggestions

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One Big Beautiful Bill Act (OBBBA) Tax Implications for Individuals & Businesses

Overview of OBBBA

- Signed into Law July 4, 2025
- Permanently extends most Tax Cuts and Jobs Act (TCJA) provisions for businesses and individuals as well as for estate and gift tax
- Provides temporary new deductions for seniors, qualified tip income, overtime pay and car loan interest (2025 – 2028)
- Temporarily increases SALT deduction to $40,000 for some
- Cuts back on many Inflation Reduction Act energy tax credits

For Individuals

Permanent Extensions of TCJA provisions

- Higher standard deduction & tax brackets remain, with inflation adjustments. Top tax bracket remains at 37%
- Child Tax Credit - $2,200, indexed for inflation starting in 2026
- Mortgage Interest – permanently capped at $750,000 debt level
- Estate and gift tax exemption permanently increased to $15M per individual in 2026, indexed for inflation each year

For Individuals

Temporary OBBBA Provisions

Enhanced SALT Deduction

- In 2025, cap raised from $10K to $40K (joint filers up to $500K MAGI), inflation-indexed through 2029
- Reverts to $10K in 2030

Car Loan Interest

- Up to $10,000 on **new**, US-assembled passenger vehicle loans. (2025 – 2028)
- Personal use vehicles
- Leases do not qualify
- Phaseout starts for MAGI over $100k ($200k for MFJ)

For Individuals

<u>Temporary OBBBA Provisions</u>

Seniors, Tips & Overtime (2025 – 2028)

- Extra standard deduction for 65+: $6,000. MAGI phaseout starts at $75k ($150k MFJ)

- Above-the-line deductions:
  - **Tips:** up to $25K per return; phases out at MAGI $150K ($300k MFJ)
  - **Overtime:** up to $12.5K single / $25K joint; same MAGI phase-out

For Individuals

<u>Charitable Contribution Changes</u>

- Above the line deduction for non-itemizers - $1k ($2k for MFJ) starting in 2026 (excludes donations to DAFs and private non-operating foundations)

- Limitations for itemizers starting in 2026
  - Deduction for amounts that exceed .5% of AGI floor – similar to 7.5% medical deduction limitation
  - New cap on deduction for high earners – benefit is capped at 35% for those in 37% bracket

For Individuals

<u>Credits & Reporting Changes</u>

Child Tax Credit - $2,200 per child (2025); inflation-indexed; ACTC = $1,400 refundable

Green Energy Credits

- EV credits expired September 30, 2025
- Home energy improvements credits expire December 31, 2025

1099 Thresholds increase -

- For payments starting in 2026
- Form 1099-NEC/MISC: $600 -> $2,000
- Form 1099-K: Reverts to over $20K AND 200 transactions (retro to 2022)

For Businesses

For Businesses

QBI (Section 199A) Deduction

- 20% deduction made permanent
- SSTB phase-out thresholds raised to $75K (single) / $150K (joint)
- New minimum deduction starting in 2026 - $400 if QBI is at least $1,000

Bonus Depreciation & Section 179

- 100% bonus depreciation fully restored & permanent for property placed in service after January 19, 2025
- Section 179 expensing cap: increased to $2.5M (phase-out $4M), inflation-indexed

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For Businesses

Qualified Production Property – Key Points

- New Section 168(n) - 100% write-off instead of depreciating over 39 years.
- Property must be used as integral part of Qualified Production Activity (QPA), such as manufacturing, producing or refining tangible property (non-residential).
- Production must result in "substantial transformation" of product.
- Property cannot be leased by taxpayer to another party.
- Property must be placed in service between 1/19/2025-12/31/2030 to be eligible.

For Businesses

R&D / Research & Experimental Expense

- New Section 174A:
  - Immediate expensing of domestic R&D expenses (post-2024)
  - Election to amortize over >=60 months
  - Small business (<$31M receipts): retroactive refunds/amendments for 2022-2024
  - Check states – Some states may de-couple from OBBBA (RI has issued advisory that it will de-couple / MA has "rolling conformity" for corporations – no communication to indicate otherwise on this issue)

For Businesses

Business Interest Limitation & PTET

- TCJA's 30% interest limitation restored EBITDA based calculation – starting in 2025. This is a permanent change.
- Capitalized interest loophole election is eliminated. (this does not apply to interest that is required to be capitalized)
- SALT workaround for pass-through entities preserved (earlier versions proposed to eliminate PTET for SSTBs – that did not make the final cut)

Opportunity Zone Updates

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Enhancements Under OBBBA

Program Permanence:

- The OZ program is now permanent; previous sunset of 12/31/2026 removed.

New Designation Process:

- Governors can propose new zones every 10 years; first redesignation starts 1/1/2027.

Focus on Rural Investments:

- Emphasis on rural areas through Rural Qualified Opportunity Funds (RQOFs).

Enhanced Investor Benefits

- **5-Year Rolling Deferral Period:** Gains invested in QOFs after 1/1/2027 deferred for 5 years.
- **Step-Up in Basis Benefit Restored:** 10% step-up after 5-year rolling period.
- **Exclusion of Gains:** Long-term QOF investments held for at least 10 years can permanently exclude appreciation gains.
- **Timing Matters:** Review 2025 capital gains for deferral opportunities. Include gains expected from pass-through investments.
- **Coordinate Planning:** Align OZ investments with year-end tax strategies.

Planning for 2026 Recognition Event

- **All gains recognized:** All gains deferred under OZ Program 1.0 will have a mandatory recognition date of 12/31/2026. Associated taxes will be due 4/15/2027.

- **Planning Tip:** Now is an ideal time to harvest capital losses for carryforward use and assess the impact of other real estate investments on your 2026 tax outlook.
    - Including increased bonus depreciation and interest expense limitations, etc.

- **Amounts Recognized:** The taxable gain will be the **lesser of** the original deferred gain or the QOF investment's FMV on December 31, 2026.

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Update on SECURE 2.0

SECURE 2.0 Tax Changes – 2025 Impact

- RMD age increases to 73 in 2025
  - Increases to 75 after 2032
- SIMPLE IRAs and SEPs can now have Roth IRA contributions.
- Penalty for failing to take RMDs drops from 50% to 25%.
- Amounts held in a 529 can be rolled over to a Roth IRA – but a lot of limitations / restrictions apply.
- 401(k) catch-up contributions for participants earning > $145k annually must be Roth contributions starting in 2026.
- 10-year rule for non-spouse beneficiaries of inherited IRAs starting to be enforced by IRS.

SECURE 2.0 Tax Changes – 2025 Impact

- Part-time employees will be eligible to participate in 401(k)/403(b) after 2 years of service.

- Catch-up limit is increased for participants aged 60-63 (Higher of $10k or 150% of regular catch-up amount for 401k / $5k for SIMPLE).

- Mandatory auto enrollment is in place for most newly established 401(k) and salary reduction 403(b) plans.

- Employers have until 12/31/2026 to formally amend their plans for SECURE 2.0 compliance.

IRS Enforcement and Compliance Updates

Employee Retention Credit

- If you receive communication from IRS regarding an ERC claim, contact your tax advisor immediately.
- Formal Appeal Requests must be filed within 30 days to strengthen appeal and refund claim's protection.
- Response must contain support for eligibility and detailed calculation for ERC amount claimed.
- IRS has intensified examinations of claims in 2025. OBBBA extends the statute of limitations to allow IRS up to 6 years to audit refund claims related to ERC.

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Electronic Payment Mandate

- Signed by President Trump in March 2025, with an effective date of 9/30/2025
- For payments made *TO* the government and payments made *BY* the government
- Exceptions for those without access to electronic banking services, including those living overseas or in remote areas
- Tax refunds – set up for direct deposit
- Tax payment options:
  - EFTPS (requires set-up in advance)
  - EFT Withdrawal from bank account
  - IRS Direct Pay website

IRS impact of Government Shutdown

- Tax filing and payment deadlines remain in effect, under normal schedule.
- IRS will continue processing payments received during shutdown.
- Refunds will only be processed for Form 1040 e-filed, error-free returns that have direct deposit instructions.
- Limited Live IRS telephone customer service
- IRS walk-in centers are closed.
- Taxpayer Advocate Service and Independent Office of Appeals appointments cancelled
- Responses to paper correspondence is on hold.
- Tax-Exempt status or Pension Plan applications will not be processed.

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Economic Landscape

Key Economic Updates

- Impact of inflation on deductions, credits, and taxable income
- Effects of interest rate changes on financing, investments, and retirement planning
- Trends in corporate tax strategy and business structuring
- Considerations for investment income, capital gains, and losses

Tax Planning Strategies to Consider

Items for Consideration

- Business succession / Gift strategies
- Retirement plan contributions
- Timing of FF&E expenditures
- R&D Expenditures – consider pros and cons of amending prior years, if eligible
- Harvest capital losses to offset cap gains
- Charitable donations -
  - QCD / DAF
  - "Bunching" in 2025 before limits in 2026

Your Questions Answered

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Questions

- What are some strategies for lowering corporate taxes?
- We have a big spike in taxable income in 2025 (house sale). Are we better off making charitable contributions in '25 or '26?
- How do you see the increase in the SALT cap impacting PTE tax strategies over the next few years?
- Can you review the Section 174 Update and how the OBBA changes R&E expenses?
- Can you review ERTC Tax Credit Status as it relates to OBBBA? There is conflicting information on refunds already processed versus those disallowed.
- What individuals qualify for no tax on overtime?

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Integrity | Client-centric | Community | Collaboration | Innovation

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We're Here to Help

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