



FEDERAL TAX UPDATE

The One Big Beautiful Bill

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LUNCH & LEARN • NOVEMBER 18, 2025

Agenda

- Business Provisions
- Individual Provisions
- IRA Credits
- Other Provisions
- Louisiana Update



How Did We Get Here



The 2025 Tax Legislation, H. Rept. 119-106 [Providing for Reconciliation Pursuant to H. Con.Res.14, the Concurrent Resolution on the Budget for Fiscal Year 2025]:



Passed full House (by a vote of 215-214-1 on 5/22/25)



Passed full Senate (by a vote of 51-50 on 7/1/25)



House approved Senate version in full (by a vote of 218-214 on 7/3/25)



Signed by the President (signed into law on 7/4/25)





Business Provisions

IRC Sec. 199A Qualified Business Income (QBI) Deduction Extension/Enhancement

OBBA Changes:

- IRC 199A QBI deduction is made permanent, retaining the 20% deduction for non-specified service trade or business (“SSTB”) income above certain thresholds.
 - **SSTB** – where the principal asset is the skill or reputation of one or more owners or employees (such as in the fields of law, accounting, healthcare, consulting, financial services, and performing arts).
- Retains current structure for W-2 wage, capital investment, and SSTB limitations.
- Expands the phase-in range for these limitations from \$50,000 (\$100,000 MFJ) to \$75,000 (\$150,000 MFJ) (indexed for inflation), allowing for a more gradual reduction of the deduction compared to current law.
- New \$400 minimum deduction if taxpayers have at least \$1,000 in QBI (indexed for inflation).
- REIT qualified dividends continue to benefit from the 20% QBI deduction.



IRC Sec. 174A – Domestic Research and Experimental Expenditures

- Beginning for tax years after December 31, 2024, the new Section 174A rolls back the mandatory capitalization which was enacted by the TCJA for tax years after December 31, 2022, only for **domestic** research and experimental (“R&E”) expenditures.
- Taxpayers may select one of the following options with respect to domestic R&E expenditures:
 - Fully deduct the expenditures when incurred under Section 174A(a).
 - Elect to amortize the expenditures under Section 174A(c) over at least 60 months.
 - Take the optional 10-year write-off under Section 59(e)(2)(B).
- These changes will be treated as a change in accounting method applied on a cut-off basis for any domestic R&E expenditures paid or incurred in taxable years beginning after December 31, 2024.



IRC 174A – Prior to OB BB

- ABC Partnership formed in 2023. During the first 3 years of operations the partnership incurs \$500,000 of domestic R&E expenses per year
- Prior to the One Big Beautiful Bill, taxpayers were required to capitalize and amortize domestic R&E expenses over a 5 year period

	2023	2024
R&E Expenses	500,000.00	500,000.00
Amortization Expense		
2023	50,000.00	
2024	100,000.00	50,000.00
2025	100,000.00	100,000.00
2026	100,000.00	100,000.00
2027	100,000.00	100,000.00
2028	50,000.00	100,000.00
2029	-	50,000.00



IRC Sec. 174A – Domestic Research and Experimental Expenditures (Continued)

- R&E expenses related to research conducted *outside* the U.S. must continue to be capitalized over 15 years under IRC Sec. 174.

Other Changes Related to Sec. 174A:

- Taxpayers with average annual gross receipts of \$31M or less for the first taxable year beginning after December 31, 2024, will be eligible to make election to apply the change retroactively for tax years beginning after December 31, 2021. Taxpayers will be required to file amended returns for each taxable year affected by the election, which will be treated as a change in accounting method. This election must be made on an amended return no later than July 4, 2026.
- All taxpayers, regardless of size, will be eligible to deduct the remaining unamortized domestic R&E costs from taxable years beginning after December 31, 2021, and before January 1, 2025, over a 1- or 2-taxable year period.

□ ***Takeaway:*** *Sec. 174A is very beneficial for domestic businesses, allowing immediate deductions for qualifying R&E costs and providing businesses with greater control over cash flow, tax planning, and investment decisions. Smaller businesses should benefit from the accelerating amortization expenses. Clients should be wary of the available elections and the required accounting method changes, as amending may result in a less favorable outcome.*



IRC Sec. 174A – Domestic Research and Experimental Expenditures

Rev. Proc. 2025-28 (Continued)

Issued on August 28, 2025, this guidance:

- Provides procedures for making elections under Section 174A.
- Clarifies accounting method changes and when Form 3115 is required.
- Establishes transition rules for domestic R&E expenditures incurred in 2022–2024:
 - Small Business Retroactive Method: Allows eligible small businesses (under \$31M average gross receipts) to amend prior returns and apply full expensing retroactively.
 - Recovery of Unamortized Amount Method: Permits deduction of remaining unamortized domestic R&E either fully in 2025 or ratably over 2025–2026.

Election Mechanics:

- Elections must be made by attaching a statement to the tax return.
- For 2025 and beyond, taxpayers must choose between:
 - Immediate deduction under 174A(a).
 - Capitalization and amortization under 174A(c).
 - Optional 10-year amortization under Section 59(e).

Once made, the election applies to all subsequent years unless IRS consent is obtained to change.



Example – 174A in 2025

- ABC Partnership provides you with the following information for its 2025 tax return:
 - Revenue \$1,000,000
 - Operating Expenses of \$700,000
 - Interest Expense of \$50,000
 - R&D Expenses of \$500,000 for 2025.

	Pre-OBBB	Post OBBB
Revenue	1,000,000.00	1,000,000.00
Operating Expenses	700,000.00	700,000.00
Amortization of Prior Year R&D	200,000.00	800,000.00
R&D Expenses	50,000.00	500,000.00
Interest Expense	<u>50,000.00</u>	<u>50,000.00</u>
Net Income	-	(1,050,000.00)



IRC Sec. 163(j) – Business Interest Expense Deduction Limit

- The OBBB contains TWO provisions regarding Sec. 163(j), which limits the amount of business interest expense a taxpayer can deduct in a given year:
 - ❑ Revives the use of EBITDA (instead of EBIT) for purposes of determining the business interest expense deduction limitation under IRC Sec. 163(j) retroactive to taxable years beginning on or after January 1, 2025.
 - ❑ Disallows the use of interest capitalization (i.e., IRC Secs. 266, 263A, and 263(a)) as a way to deduct the interest expense for tax years beginning on or after January 1, 2026.

Note: (This does **not** impact the 2024/2025 tax years).
 - ❑ **Takeaway:** *Changing from EBIT to EBITDA is taxpayer-friendly and may reduce the after-tax cost of debt by increasing allowable interest deductions. This could have a particular impact on capital-intensive industries, such as manufacturing.*



Bonus Depreciation

Law Prior to OBBB

- Current expensing is 40% for 2025, 20% for 2026, 0% thereafter.

OBBB

- Permanent restoration of 100% first year bonus depreciation, effective for property acquired on or after 1/19/2025.
- Taxpayer may still elect to use the 40% bonus depreciation rate (or 60% for certain long production period property).
- Creates a new category of asset that qualifies for bonus depreciation called “qualified production property”.
- Be careful of transition rules (may need guidance).
- “Property acquired on or after 1/19/2025”.



Bonus Depreciation (Example)

- Taxpayer is a calendar year C corporation and enters into a binding contract to acquire a piece of equipment on December 1, 2024 (before January 19, 2025). The equipment is delivered and placed in service on March 1, 2025 (after January 19, 2025). The cost of the equipment is \$1,000,000.
- OBBB permanently restores 100% bonus depreciation for qualified property placed in service after January 19, 2025.
- However, there is a transition rule: if property is acquired (or, for self-constructed property, if construction begins) before January 19, 2025, and placed in service after that date, the property is subject to the phase-down percentage in effect under prior law, not the new 100% rate.
- The acquisition date is determined when the taxpayer is contractually obligated to acquire the property (i.e., the date of the binding contract), not the placed-in-service date.



Bonus Depreciation - Qualified Production Property

- “Qualified Production Property” is defined as:
 - any portion of nonresidential real property that:
 - Is subject to depreciation under section 168;
 - Is used by the taxpayer as an integral part of a qualified production activity that results in a substantial transformation of the property;
 - Is placed in service in the US or any US possession;
 - The original use commences with the taxpayer;
 - Construction begins after January 19, 2025 and before January 1, 2029,
 - Is designated by taxpayer’s election;
 - Is placed in service by January 1, 2031.
 - Excluded from this definition is nonresidential real property used for functions unrelated to manufacturing, production or refining of qualified products (office space, administrative services, lodging, parking, sales, research, software development and engineering areas are not eligible).
 - For lessors, property used by a lessee does not count as use by the taxpayer for this purpose.



Bonus Depreciation - Qualified Production Activity and Special Rules

- “Qualified Production Activity” means the manufacturing, production, or refining of a “qualified product”.
- The term “qualified product” means any tangible personal property if such property is not a food or beverage prepared in the same building as a retail establishment in which such property is sold.
- Recapture rule:
 - If, within 10 years of being placed in service, the property ceases to be used in a qualified production activity and is instead used in a non-qualifying productive use, the taxpayer must recapture the bonus depreciation as ordinary income under section 1245.
- Treasury is authorized to issue regulations to clarify what constitutes “substantial transformation” for production activities and to address recapture in the event of a change in use after a tax-free transfer.



Example – Bonus Depreciation and 163(j)

- ABC Partnership provides you with the following information for its 2025 tax return:
 - Revenue \$1,000,000
 - Operating Expenses of \$700,000
 - Interest Expense of \$50,000
 - Purchases of machinery and equipment totaling \$700,000. The client did not calculate depreciation expense in its financials.

	Pre-OBBB	Post OBBB
Revenue	1,000,000.00	1,000,000.00
Operating Expenses	700,000.00	700,000.00
Bonus Depreciation Expense	280,000.00	700,000.00
Interest Expense	<u>50,000.00</u>	<u>50,000.00</u>
Net Income	(30,000.00)	(450,000.00)
EBIT(DA)	20,000.00	300,000.00
30% Limitation	6,000.00	90,000.00
2025 Interest Limitation	6,000.00	-
2025 Taxable Income	<u>26,000.00</u>	<u>(400,000.00)</u>



Section 179

Law Prior to OBBB

- Current expensing of up to \$1.16M of qualifying property with phase-outs beginning at \$2.89M, both indexed for inflation.

OBBB

- Increases current expensing up to \$2.5M of qualifying property with phase-outs beginning at \$4M.
- Effective for property placed in service after 12/31/24.



Section 461(l) – Excess Business Loss Deduction

Law Prior to OBBB

- Excess business loss limitation expires after 2028.
- Any excess business loss is treated as an NOL carryforward to next year.

OBBB

- Permanent limitation on excess business losses, effective for taxable year beginning after 12/31/26.
- Any excess business loss is treated as an NOL carryforward to next year, effective for taxable years beginning after 12/31/2025.
- Thresholds seem to have been reduced back to 2018 levels (\$250,000 – single, \$500,000 MFJ) for tax years beginning after 12/31/25.



Meals Expense

Law Prior to OBBB

- Disallowed all expenses paid or incurred after 2025 for an employer-operated eating facility, including the cost of the food and beverages, are disallowed.
- Disallowed the cost of providing meals excluded from an employee's income under section 119(a).

OBBB

- Provides an exception from the disallowance of expenses of employer-operated eating facilities for meals provided at employer's convenience or expenses for goods or services (including the use of facilities) sold by the taxpayer in a bona fide transaction for adequate and full consideration.
- Excludes meals provided on certain fishing boats and at certain fish processing facilities from the 50% deduction limitation.
- Effective for taxable period beginning after 12/31/25.



Percent Completion Method of Accounting for Residential Construction Contracts

Law Prior to OBBB

- Limited general exception from percentage of completion method of accounting to “home” construction contracts.
- Imposed a special rule for residential construction contracts that were not home construction contracts.

OBBB

- Changes the general exception for “home construction contracts” to exception for “residential construction contracts.”
- Requires the substitution of 3 years for the 2-year completion period used in determining whether a residential construction contract that is not a home construction contract has been met for purposes of the exception when determining if section 263A applies.
- Effective for contracts entered in taxable years beginning after July 4, 2025.



IRC Sec. 1202 Qualified Small Business Stock Changes

- Increases the gain exclusion amount to \$15 million (currently, \$10 million)
- Increases the gross assets test to \$75 million (currently, \$50 million)
- Both the gain exclusion and gross assets test amounts would be adjusted annual for inflation starting in 2027
- Creates a new holding period schedule allowing taxpayers to exclude gain as follows:

Holding Period	Excluded Gain
3 years	50% of gain
4 years	75% of gain
5 years	100% of gain

- The changes would be effective for stock issued **after** the date of enactment

□ **Takeaway:** Corporations that once surpassed \$50M of gross assets but had less than \$75M may be able to issue QSBS again. Corporations will likely qualify to issue QSBS for a longer period of time since the corporation's assets tax basis will typically decrease. Additionally, the phased-in exclusion for investors who have held their stock for just three years plus the increased gross asset limit of \$75M will make it easier for investors in later rounds to qualify for QSBS.



QSBS Investment Timeline

Acquisition Date	Required Holding Period	Exclusion Percentage	Maximum QSBS Rate*	Maximum QSBS AMT Rate
Aug. 11, 1993 – Feb. 17, 2009	>5 years	50%	15.90%	16.88%
Feb. 18, 2009 – Sep. 27, 2010	>5 years	75%	7.95%	9.42%
Sep. 28, 2010 – Jul. 4, 2025 (Date of Enactment)	>5 years	100%	0.00%	0.00%
Acquisition After Date of Enactment				
Jul. 5, 2025 - 3 years	≥3 years	50%	15.90%	15.90% (No AMT)
Jul. 5, 2025 - 4 years	≥4 years	75%	7.95%	7.95% (No AMT)
Jul. 5, 2025 - 5 years	≥5 years	100%	0.00%	0.00%

***IRC § 1(h)(1)(F):** *so much of the gain as is not excluded from gross income under section 1202 shall be treated as gain from the sale of a collectible (as defined in paragraph (5)) for purposes of this subsection.*

Thus, the **non-excluded portion of QSBS gain is treated as collectibles gain**, and taxed at: **28% maximum federal rate**, regardless of the taxpayer's regular capital gains rate.



Corporate Charitable Deduction

Law Prior to OBDD

- Corporations can deduct charitable contributions up to 10% of taxable income.
- Contributions over 10% may be carried forward to the next 5 taxable years, subject to the same 10% limit each year.



OBDD

- Corporations can deduct charitable contributions up to 10% of taxable income.
- Creates a 1% floor of taxable income.
- Contributions over 10% ceiling may be carried forward to the next 5 taxable years and amounts disallowed under the 1% floor may be carried forward if contributions > 10% ceiling.
- Effective for tax years beginning after 12/31/2025.



Qualified Opportunity Fund (“QOF”) under the OBBB

Original QOF Program Preserved

- The OBBB preserves the original QOF program. Qualified Opportunity Funds (“QOF”) are corporations or partnerships that hold at least 90% of their assets in IRS designated qualified opportunity zones (“QOZ”) with the goal of rebuilding low-income communities. Gains deferred through QOFs made prior to January 1, 2027, are taxable the earlier of the sale date or December 31, 2026.

New Program for QOFs

- The OBBB establishes a new program for QOFs made after December 31, 2026, as follows:
 - Taxpayers who reinvest capital gains into QOFs within the prescribed period may defer recognition of the gain the earlier of the QOF sale date or 5 years from the investment date.
 - For QOFs held for 5 years, taxpayers may permanently exclude 10% (30% for Qualified Rural Opportunity Funds) of the deferred gain through a basis increase.
 - The QOF basis is stepped up to Fair Market Value (“FMV”) if held for 10 years. The date to determine FMV varies based on whether the QOF is sold before or after 30 years, resulting in potential tax after the 30th anniversary.
 - Additional informational reporting requirements are required. Failure to comply may result in penalties.
 - Narrower definitions of QOZ designations apply.
 - Every 10 years the states will identify new QOZs beginning July 1, 2026.
- **Takeway:** *Clients still invested in QOFs can plan (harvesting losses, charitable donations, etc.) to reduce the OBBB and minimize cash flow issues for the gain they must recognize on December 31, 2026. Clients should consult with their investment advisors to seek profitable QOFs to benefit from the new QOF program. If held for 5 years only 90% (or 70% if exception applies) of the deferred gain will be taxable in year 5. Deferring short-term capital gains may create more valuable tax results than deferring long-term capital gains.*



Extension and Modification of the QOZ Program

QOZ Gain Deferral / Inclusion under OBBB

- ❑ Deferred gains invested into a QOF prior to January 1, 2027, are recognized in taxable income on the earlier of (1) the date that such investment is sold or exchanged, or (2) December 31, 2026.

- ❑ For deferred gains invested into a QOF after December 31, 2026, the year of taxable inclusion is the earlier of (1) the date that such investment is sold or exchanged, or (2) the date which is **five years after the date the investment into the QOF** was made.

Deferred Gain Basis Step-up under the OBBB

- ❑ Replacement of 10% and 5% basis step-ups with one 10% basis step-up.
 - Applicable where investments held for at least 5 years.

- ❑ Exception to this general rule for investments in Qualified Rural Opportunity Funds.
 - Basis-step up is 30% for these investments.



Extension and Modification of the QOZ Program

Enhanced QOZ Benefits for Investments in Rural Areas under OBBB

- ❑ 30% total step-up in basis rather than 10% for investments in Qualified Rural Opportunity Funds (QROF).
 - A QROF is a QOF that holds at least 90% of its assets in QOZ property which is:
 - (1) QOZ business property, substantially all of the use of which, during substantially all of the QOF's holding period for such property, was in a QOZ comprised entirely of a rural area, or
 - (2) QOZ stock or QOZ partnership interest in a QOZ business in which substantially all of the tangible property owned or leased is QOZ business property and substantially all the use of which is in a QOZ comprised entirely of a rural area.

- ❑ Substantial improvement requirement **only 50%** in the case of property in a QOZ comprised entirely of a rural area.

- ❑ Term “rural area” for these purposes is defined as any area other than:
 - (1) A city or town that has a population of greater than 50,000 inhabitants, and
 - (2) Any urbanized area contiguous and adjacent to such a city or town.



Extension and Modification of the QOZ Program

Determination of Qualified Opportunity Zone Property under the OBBB

- ❑ Original QOZ tax law stated that QOZ business property needs to be acquired for purchase by a QOZ fund, QOZ partnership, or QOZ corporation after December 31, 2017.

- ❑ Under the new QOZ tax law for property acquired *after* December 31, 2026, QOZ business property needs to be acquired for purchase by a QOZ fund, QOZ partnership, or QOZ corporation after the Applicable Start Date with respect to the QOZ (i.e., after January 1 of the year in which the QOZ designation is effective).

10-Year Basis to FMV Step-Up Benefit under the OBBB

- ❑ Basis to FMV step-up after an investment is held for at least 10 years uses FMV that is based on when investment is sold:
 - If investment is sold **before** the 30th anniversary of the date of the investment, the FMV of the investment on the date of sale is used.
 - If investment is sold **on or after** the 30th anniversary of the date of the investment, the FMV of the investment on the 30th anniversary is used.



Extension and Modification of the QOZ Program

Reporting Requirements and Penalties under the OBBB

□ QOZ fund reporting - key items:

- With respect to each investment held by the QOZ fund in QOZ stock or a QOZ partnership interest:
 - Value of property owned and value of property leased by such corporation or partnership,
 - Approximate number of residential units (if any) for any real property held by such corporation or partnership, and
 - Approximate average monthly number of full-time equivalent employees of such corporation or partnership for the year or such other indication of the employment impact of such corporation or partnership as determined appropriate by the Secretary.
- With respect to items of QOZ business property held by the QOZ fund:
 - Whether the property is owned or leased, and
 - In the case of real property, number of residential units (if any),
 - Average employee number (or other employment impact indication) for the trades or businesses of the QOZ fund in which QOZ business property is held.

➤ QOZ business reporting - key items:

- QOZ business required to report to a QOZ fund information needed for the QOZ fund to comply with its reporting requirements.



Low-Income Housing Tax Credit

OBBB Changes:

- Permanently increases the 9% Low-Income Housing Tax Credit (“LIHTC”) allocation for each state by 12%, effective for calendar years after December 31, 2025.
- The 50% bond financing threshold test for the 4% housing credit will be lowered to 25% permanently. This change is effective for properties placed in service *after* December 31, 2025, if bond levels are at least 5% of the basis in land and building with an issue date *after* December 31, 2025.
- The New Markets Tax Credit (NMTC) is made permanent, eliminating the need for reauthorization in future years
 - Funding remains limited to \$5 billion in credits per year

□ ***Takeaway:*** *The permanent changes to both the LIHTC and the NMTC could provide opportunities for investors and developers, but the rules disallowing projects from claiming both credits means they will need to carefully consider which credit will be more beneficial*



Employee Retention Credit

Law Prior to OBBA

- Employers could file 2020 claims through 4/15/24 and 2021 claims through 4/15/25.
- IRS has 3-year statute of limitations, except 5 years for Q3 and Q4 2021 claims.



OBBA

- No payment of Q3 & Q4 ERC claims filed after 1/31/2024.
- Defines COVID-ERTC promoter and increases penalties on them.
- Extends statute of limitations to 6 years for IRS and taxpayers.



Childcare Credits

Law Prior to OBBB

- Allowed an employer-provided childcare credit of 25% of qualified child care facility costs and 10% of qualified child care resource and referral expenses, with a max credit of \$150k per year.

OBBB

- Increases the employer-provider childcare credit from 25% to 40% (50% for certain eligible small businesses) and increases yearly cap from \$150k to \$500k (\$600k for eligible small businesses), both indexed for inflation.
- Effective for tax years after 12/31/25.



Paid Family Medical Leave Credit

Law Prior to OBBB

- Allowed an employer credit of between 12.5% and 25% of wages paid to employees on family and medical leave through 2025.

OBBB

- Makes permanent the employer credit for wages paid to qualifying employees on FML.
- Allows the employer to elect a credit amount of either: (i) the percentage of wages paid to qualifying employees on FML; or (ii) the percentage of premiums paid or incurred for FML insurance.
- Effective for tax years after 12/31/25.



Form 1099 Changes

Law Prior to OBBB

- 1099-K
 - Reporting threshold of \$20k or 200 transactions before 2024, \$5,000 in 2024, \$2,500 in 2025, \$600 thereafter.
- 1099-NEC and MISC
 - Reporting threshold of \$600.

OBBB

- 1099-K
 - Increases reporting threshold from \$600 to \$20k or over 200 transactions.
 - Effective 2025. Reverts to pre-American Rescue Plan of 2021 (ARPA).
- 1099-NEC and MISC
 - Increases reporting threshold to \$2k for payments made after 12/31/25.
 - Indexed for inflation beginning in 2027.





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Individual Provisions

State and Local Tax Deduction

Law Prior to OBBB

- SALT deduction limited to \$10k expires after 2025

OBBB

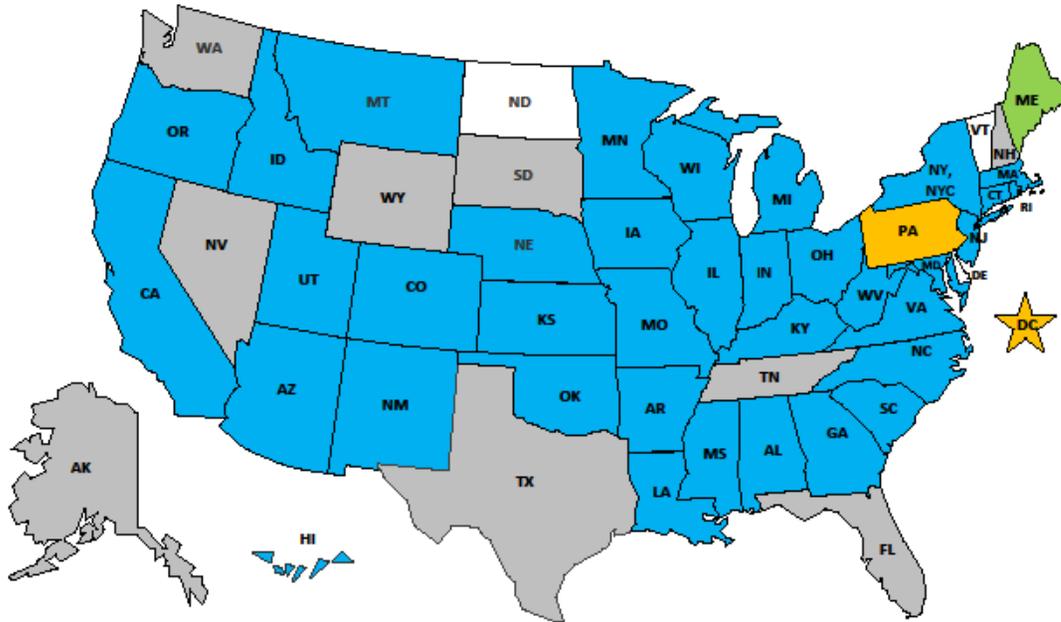
- SALT deduction limited to \$40,000 in 2025, \$40,400 in 2026, 1% increases in 2027-2029 and back down to \$10,000 (\$5,000 for MFS) in 2030.
- SALT deduction phases out for MAGI greater than \$500k, \$505k in 2026, and 1% increases for 2027-2029, but will not phase out below \$10k. The deduction is reduced by 30% of the amount by which the taxpayer's AGI exceeds the thresholds, but not below \$10k.
- PTET workarounds still work.
- Effective for taxable years beginning after **12/31/24**.



State and Local Tax Deduction

States with Enacted or Proposed Pass-Through Entity (PTE) Level Tax

As of July 29, 2025



- 36 states (& 1 locality) that enacted a PTE tax since TCJA SALT deduction limitation, effective for 2024 (or earlier) unless noted: [AL](#), [AR](#), [AZ](#), [CA](#)⁵, [CO](#)³, [CT](#)¹, [HI](#), [GA](#), [IA](#)³, [ID](#), [IL](#)², [IN](#), [KS](#), [KY](#) (& [KY](#)), [LA](#), [MA](#)³, [MI](#)³, [MD](#), [MN](#)³, [MO](#), [MS](#), [MT](#), [NC](#), [NE](#), [NJ](#), [NM](#), [NY](#), [OH](#), [OK](#), [OR](#)², [RI](#), [SC](#), [UT](#)², [VA](#)⁴, [WI](#), [WV](#), and [NYC](#)
- 2 states with active proposed PTE tax bills (PA - [SB 396](#), [HB 1610](#), DC - [B26-0324](#))
- 1 state with pending proposed PTE tax bill for 2026 (ME - [LD 191](#), [HP 124](#))
- 9 states with no owner-level personal income tax on PTE income: AK, FL, NH, NV, SD, TN, TX, WA, WY
- 3 states with an owner-level personal income tax on PTE income that have not yet enacted or & do not have an active proposed bill on PTE taxes: DE, ND, and VT

¹ Mandatory 2018-2023, elective starting 2024

² State PTET expires on Dec. 31, 2025 and no longer in session, and likely will reintroduce PTET extension bills in 2026 (IL, OR, UT)

³ State PTET expires when the federal cap expires or is otherwise not in effect (CO, IA, MA, MI, MN)

⁴ State PTET expires Dec. 31, 2026

⁵ State PTET expires Dec. 31, 2030



No Tax on Overtime

Law Prior to OBBB

- Overtime pay included in taxable income



OBBB

- Temporary deduction capped at \$12.5K (single) and \$25K (married filing joint).
- Phase out if MAGI > \$300K (married filing joint) and \$150k for all others. For every \$1,000 over the threshold, the deduction is reduced by \$100.
- Not eligible if married filing separate.
- Effective for taxable years beginning after **12/31/24** and before 1/1/2029 (2025-2028).



No Tax on Overtime (Cont)



“Qualified overtime compensation” is defined as overtime pay required under Section 7 of the Fair Labor Standards Act of 1938 (FLSA) in excess of the regular rate at which the individual is employed.



Section 7 of FLSA requires overtime pay (at least 1.5 times the regular rate) for hours worked over 40 in a workweek, but only for **non-exempt** employees. Exempt employees are not entitled to overtime under the FLSA.



Example: Employee A works 55 hours in a week. Employee’s regular rate is \$40 an hour. Assume that overtime pay is equal to 1.5 times the regular rate as required by FLSA. For this particular week, Employee A is paid \$2,500



(40 hours X 40/hour + 15 hours X 60/hour).

Overtime deduction is \$300 (15 hours X 20/hour). The amount in excess of regular rate is \$20 per hour and Employee A was paid 15 hours of that excess rate.



No Tax on Overtime (Cont)

- Reporting
 - W-2 Reporting – Employers are required to report the total amount of qualified overtime compensation on Form W-2.
 - Social Security Number is required.
 - Overtime reported on a 1099 or other specified statement.
 - Individual may be entitled to overtime pay under federal labor law and yet be classified as an independent contractor for federal income.

TREASURY/IRS AND OMB USE ONLY DRAFT

a Employee's social security number		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
OMB No. 1545-0029					
Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld		
Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld		
Box 12, code TT — "Qualified overtime compensation" (the FLSA overtime premium that qualifies for the deduction).		5 Medicare wages and tips	6 Medicare tax withheld		
		7 Social security tips	8 Allocated tips		
Control number		9	10 Dependent care benefits		
Employee's first name and initial	Last name	Suff.	11 Nonqualified plans	12a See instructions for box 12 TT 2563.90	
Employee's address and ZIP code		13 Statutory employee Retirement plan Third party sick pay		12b	
		14a Other		12c	
		14b Treasury tipped occupation code		12d	
State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

W-2 Wage and Tax Statement
 Copy C — For EMPLOYEE'S RECORDS
 (Notice to Employee on the back of Copy B.)

2026

Department of the Treasury—Internal Revenue Service

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No Tax on Tips

Law Prior to OBBB

- Tips included in taxable income, subject to FICA and income tax



OBBB

- Temporary deduction for "cash" tips.
- Limited to \$25k and subject to phase outs if MAGI > \$300k and \$150k for all others. For every \$1,000 over the threshold, the deduction is reduced by \$100.
- Adjusted for inflation beginning in 2026.
- Effective for tax years beginning after **12/31/24** and before 1/1/2029 (2025-2028).
- Not eligible if married filing separate.
- Secretary of Treasury must publish a list of occupations that customarily and regularly receive tips as of December 31, 2024 to clarify eligibility.
- Specified Service Trade or Businesses SSTB are not eligible.



No Tax on Tips (Cont)

IR-2025-92

List of occupations that receive tips:

- The proposed regulations group the occupations into eight categories:
 - 100s – Beverage and Food Service
 - 200s – Entertainment and Events
 - 300s – Hospitality and Guest Services
 - 400s – Home Services
 - 500s – Personal Services
 - 600s – Personal Appearance and Wellness
 - 700s – Recreation and Instruction
 - 800s – Transportation and Delivery

The proposed regulations list nearly 70 separate occupations of tipped workers, from bartenders to water taxi operators.

IRS is accepting comments on the proposed regulations until Oct. 23, 2025.



No Tax on Tips (Cont)

IR-2025-92

Definition of qualified tips:

- Qualified tips must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash, or another form of electronic settlement or mobile payment application (excluding most digital assets) denominated in cash.
- Qualified tips must be received from customers or, in the case of an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool.
- Qualified tips must be paid voluntarily by the customer and not be subject to negotiation. Qualified tips do not include some service charges. For instance, in the case of a restaurant that imposes an automatic 18% service charge for large parties and distributes that amount to waiters, bussers and kitchen staff; if the charge is added with no option for the customer to disregard or modify it, the amounts distributed to the workers from it are not qualified tips.
- Any amount received for illegal activity, prostitution services, or pornographic activity is not a qualified tip.



No Tax on Tips (Cont)

- Reporting:
 - Only tips that are properly reported are eligible for the exclusion.
 - Form W-2 or 1099
 - 1099-K reporting
 - Self-employed individual are eligible Individuals can use Form 4137 to report tips (this is a form that is used to determine Social Security and Medicare on tips you did not report to your employer).

TREASURY/IRS AND OMB USE ONLY DRAFT

a Employee's social security number		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.				
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld			
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld			
		5 Medicare wages and tips	6 Medicare tax withheld			
		7 Social security tips	8 Allocated tips			
d Control number		9	10 Dependent care benefits			
e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans	
		12a See instructions for box 12 TP 4197.00		12b		
f Employee's address and ZIP code		13 Statutory employee Retirement plan Third-party sick pay		12c		
		14a Other		12d		
14b Treasury tipped occupation code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

W-2 Wage and Tax Statement **2026** Department of the Treasury—Internal Revenue Service

Copy C—For EMPLOYEE'S RECORDS
(See Notice to Employee on the back of Copy B.)

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No Tax on Social Security aka Deduction for Seniors

Law Prior to OBBB

- Seniors receive a higher standard deduction, but no stand-alone senior deduction.
- Social Security benefits taxable if a taxpayer's combined income exceeded certain thresholds (\$25,000 single, \$32,000 for married filing joint).
- Up to 50% or 85% of benefits taxed, depending on income level.
- Income level is not indexed for inflation, so more and more seniors became subject to tax on social security benefits.

OBBB

- Temporary exemption/deduction \$6,000 for seniors aged 65+.
- Phase out if MAGI (AGI adjusted for foreign income) > \$150K married filing joint and \$75k for all others
- Adjusted for inflation starting in 2026
- Effective for taxable years beginning after **12/31/24** and before 1/1/29 (2025-2028).
- Social Security Administration claims that after this change – only 10% of social security beneficiaries will pay tax on their social security benefits.
- Not eligible if married filing separate



Deduction for Auto Loan Interest

Law Prior to OBBB

- Personal interest on car loans not deductible



OBBB

- Temporary deduction up to \$10k on new cars purchased 2025-2028, if certain requirements are met. Final assembly must occur in US.
- Phase out if MAGI > \$200k married filing joint and \$100k for all others. Deductible interest reduced by \$200 for every \$1,000 in excess of threshold.
- Not adjusted for inflation.
- Effective for taxable years beginning after 12/31/24 and before 1/1/2029 (2025-2028).
- Secured by a lien on the vehicle.
- VIN required and payees (lender) must provide information returns to payors (borrowers) and Treasury with respect to certain loans.
- Gross vehicle weight rating of less than 14,000 pounds



New Schedule 1-A Form 1040

TREASURY/IRS AND OMB USE ONLY DRAFT

SCHEDULE 1-A (Form 1040) <small>Department of the Treasury Internal Revenue Service</small>	Additional Deductions Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 <div style="text-align: center; font-size: 24pt; font-weight: bold;">2025</div> Attachment Sequence No. 1A
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Name(s) shown on Form 1040, 1040-SR, or 1040-NR	Your social security number
---	-----------------------------

Part I Modified Adjusted Gross Income (MAGI) Amount			
1	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b		1
2a	Enter any income from Puerto Rico that you excluded	2a	
b	Enter the amount from Form 2555, line 45	2b	
c	Enter the amount from Form 2555, line 50	2c	
d	Enter the amount from Form 4563, line 15	2d	
e	Add lines 2a, 2b, 2c, and 2d	2e	
3	Add lines 1 and 2e	3	

Part II No Tax on Tips			
Caution: Fill out Part II only if you received qualified tips. You and/or your spouse who received qualified tips must have a valid social security number to claim the deduction. If married, you must file jointly to claim this deduction. See instructions.			
4	Qualified tips received as an employee.		
a	If Form W-2, box 5, is \$176,100 or less, enter qualified tips included in Form W-2, box 7. Otherwise, see instructions	4a	
b	Qualified tips included on Form 4137, line 1(c). If Form 4137 is not filed, enter -0-	4b	
c	If you only received qualified tips from one employer, enter the larger of line 4a or line 4b. Otherwise, see instructions	4c	
5	Qualified tips received in the course of a trade or business. Qualified tip amount included in Form 1099-NEC, box 1; Form 1099-MISC, box 3; or Form 1099-K, box 1a. Do not enter more than the net profit from the trade or business. If you received qualified tips in the course of more than one trade or business, see instructions	5	
6	Add lines 4c and 5	6	
7	Enter the smaller of the amount on line 6 or \$25,000	7	
8	Enter the amount from line 3	8	
9	Enter \$150,000 (\$300,000 if married filing jointly)	9	
10	Subtract line 9 from line 8. If zero or less, enter the amount from line 7 on line 13	10	
11	Divide line 10 by \$1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)	11	
12	Multiply line 11 by \$100	12	
13	Qualified tips deduction. Subtract line 12 from line 7. If zero or less, enter -0-	13	

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New Schedule 1-A Form 1040

19 **Qualified tips deduction.** Subtract line 12 from line 7. If zero or less, enter -0- 19

Part III No Tax on Overtime

Caution: Fill out Part III only if you received qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

14a	Qualified overtime compensation included on Form W-2, box 1 (see instructions)	14a		
b	Qualified overtime compensation included on Form 1099-NEC, box 1 or Form 1099-MISC, box 3 (see instructions)	14b		
c	Add lines 14a and 14b		14c	
15	Enter the smaller of the amount on line 14c or \$12,500 (\$25,000 if married filing jointly)		15	
16	Enter the amount from line 3		16	
17	Enter \$150,000 (\$300,000 if married filing jointly)		17	
18	Subtract line 17 from line 16. If zero or less, enter the amount from line 15 on line 21		18	
19	Divide line 18 by \$1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)		19	
20	Multiply line 19 by \$100		20	
21	Qualified overtime compensation deduction. Subtract line 20 from line 15. If zero or less, enter -0-		21	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 95872Q Schedule 1-A (Form 1040) 2025 Created 9/4/25



New Schedule 1-A Form 1040

TREASURY/IRS AND OMB USE ONLY DRAFT

Part IV No Tax on Car Loan Interest

Caution: Fill out Part IV only if you paid or accrued qualified passenger vehicle loan interest. See instructions to learn more about what is an applicable passenger vehicle.

22 Applicable passenger vehicle (see instructions). If more than two VINs, see instructions.

		Interest for this loan:	
		(ii) Deducted on Schedule C, Schedule E, or Schedule F	(iii) Schedule 1-A
	(i) Vehicle identification number (VIN)		
a	<input type="text"/>		
b	<input type="text"/>		
23	Add lines 22a and 22b, column (iii)	23	
24	Enter the smaller of the amount on line 23 or \$10,000	24	
25	Enter the amount from line 3	25	
26	Enter \$100,000 (\$200,000 if married filing jointly)	26	
27	Subtract line 26 from line 25. If zero or less, enter the amount from line 24 on line 30	27	
28	Divide line 27 by \$1,000. If the resulting number isn't a whole number, increase the result to the next higher whole number. (For example, increase 1.5 to 2, and increase 0.05 to 1.)	28	
29	Multiply line 28 by \$200	29	
30	Qualified car loan interest deduction. Subtract line 29 from line 24. If zero or less, enter -0-	30	

U1 FILE



New Schedule 1-A Form 1040

DRAFT – DO NOT

DO NOT WRITE IN THESE SPACES

30 **Claimed your total interest deduction.** Subtract line 29 from line 27. If zero or less, enter -0- 30

Part V Enhanced Deduction for Seniors

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

31	Enter the amount from line 3	31	
32	Enter \$75,000 (\$150,000 if married filing jointly)	32	
33	Subtract line 32 from line 31. If zero or less, enter \$6,000 on line 35	33	
34	Multiply line 33 by 6% (0.06)	34	
35	Subtract line 34 from \$6,000. If zero or less, enter -0-	35	
36a	If you have a valid social security number (see instructions) and were born before January 2, 1961, enter the amount from line 35	36a	
b	If you are married filing jointly, your spouse has a valid social security number (see instructions), and your spouse was born before January 2, 1961, enter the amount from line 35	36b	
37	Enhanced deduction for seniors. Add lines 36a and 36b	37	

Part VI Total Additional Deductions

38	Add lines 13, 21, 30, and 37. Enter here and on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c	38	
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Schedule 1-A (Form 1040) 2025



Trump Accounts

Law Prior to OBBB

- Nothing

OBBB

- Provides for tax-exempt “Trump accounts” for qualifying children. Treated like IRAs.
- Annual contributions limited to \$5,000, indexed for inflation after 2027. Can only be made before the child turns 18.
- Distributions can be made when the child turns 18, subject to rules similar to IRA distributions.
- No tax deductions for contributions.
- Effective for tax years beginning after December 31, 2025. Contributions can start 7/5/26.
- For children born in 2025-2029, a \$1,000 government-funded contribution may be made to a Trump Account upon election by a parent or guardian subject to SSN verification and other requirements.



Trump Accounts (Cont)

Law Prior to OBBB

- Nothing

OBBB

- Contributions provided to Trump accounts from tax exempt entities are not subject to the \$5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group/class.
- Employers may contribute up to \$2,500 per employee (indexed for inflation after 2027) to Trump accounts for employees or their dependents and it is excluded from employees gross income if made under a qualifying plan.
- Account can be created by the Treasury Secretary or by another person on behalf of an eligible child.



Trump Accounts vs. 529 Plans

Feature	Trump Accounts	529 Plans
Primary Goal	Long-term retirement savings with some access for major life events (education, home purchase, starting a business)	Tax-advantaged savings for qualified education expenses (K-12 and higher education).
Tax on Growth/Withdrawals	Earnings grow tax-deferred; withdrawals are taxed as ordinary income.	Earnings grow tax-free, and withdrawals for qualified education expenses are tax-free.
Contribution Limits	Limited to \$5,000 annually (combined from all sources).	Much higher limits, allowing up to \$95,000 per donor in one year (or \$190,000 for married couples) through "gift front-loading".
Government "Seed" Money	Eligible children born between 2025 and 2028 receive a one-time \$1,000 federal deposit.	No government seed money; typically funded by family and relatives.
Withdrawal Age & Rules	No withdrawals allowed before age 18. Funds become a traditional IRA at 18, subject to IRA rules (e.g., 10% penalty for non-qualified withdrawals before 59½, though education expenses are an exception to the penalty).	Funds can be withdrawn at any time for qualified expenses. Non-qualified withdrawals are subject to tax on earnings and a 10% penalty.



Estate Tax Provisions in the OBBB

- Permanently increased the unified estate and lifetime gift tax exemption to \$15M, indexed for inflation beginning in 2026.
- **Takeaway:** While this was the *only* provision in the OBBB pertaining to estate taxes, it will significantly change planning. Planning will shift to an income tax savings focus rather than an estate tax savings focus for most taxpayers. Ultra high-net worth taxpayers will continue planning as is, to save estate taxes.

Estate Exemption (2025)	Estate Exemption Originally Scheduled After TCJA Sunset 1/1/26	Estate Exemption Following Passage of the OBBB
\$13,990,000	Approx. \$7,000,000	\$15,000,000



Income Tax Planning Tools & Techniques – Basis Planning

- Estates valued less than \$15M (\$30M for married couples) won't be subject to estate tax.
- Basis of assets included in the estate is reset to the date of death value (the "step-up in basis").
- Assets in an estate not subject to estate tax will receive a step-up in basis resulting in reduced or no capital gains tax.
- Step up is even more powerful in community property states. Jointly held assets are eligible for a 50% step up in basis upon first spouse's death in non-community property states. 100% step up in community property states.

□ **Planning Opportunities:**

- Consider distributing assets from a trust to pull assets into the beneficiary's estate (if trust agreement allows for this). Consideration must be given to the age of the beneficiary. This may be a viable option for a taxpayer late in life but not for younger taxpayers due to the risk of the law changing again.
- Exercise of substitution powers with existing trusts to pull low basis assets back into the Grantor's estate by substituting with other high basis assets having an equivalent value.
- Upstream planning may be a viable option to transfer assets from a younger relative to an older relative (a child to a parent, for example) in order to have the basis stepped up to the value as of date of death, to be inherited by the original owner of those assets.
 - **Note:** assets must be held by the older relative for more than one year to qualify for the basis step-up.



Estate Planning Tools & Techniques

- Estate planning for ultra high-net worth individuals should continue as-is with the primary goals of asset protection and estate tax avoidance.
- Review existing Wills and Living Trust agreements which may provide for a “credit shelter trust” to be funded up to the remaining estate exemption amount to take advantage of the remaining estate exemption while avoiding estate tax upon the surviving spouse’s death.

Planning Opportunity:

- These documents should be revisited and amended where needed if estate tax won’t be a concern, to pull assets into the estate of the surviving spouse either by having assets go directly to spouse, or to a QTIP trust.
- State estate and inheritance tax must be considered in conjunction with planning to pull assets back into an estate for federal purposes to tax advantage of the free step up in basis.
- Beneficiary designations should be reviewed for assets such as life insurance policies, retirement accounts, etc. as part of the entire estate plan.
- Asset protection is still a valuable component of estate planning even when estate tax isn’t an issue.



Qualified Elementary and Secondary Education Scholarship

Law Prior to OBBS

- This is a new provision.



OBBS

- Allows a credit of up to \$1,700 for cash contributions to organizations that grant scholarships for qualified elementary or secondary education expenses.
- Allows carryforward of credit for up to 5 years.
- Creates income exclusion for recipients of scholarship from scholarship-granting organizations.
- Effective for taxable years after 12/31/26.



Qualified Farmland Gain

Law Prior to OBBB

- This is a new provision.

OBBB

- Provides an election to pay portion of net income tax from the sale or exchange of qualified farmland property (real property) to a qualified farmer in 4 equal annual installments, beginning on the tax return due date for the taxable year in which the sale or exchange occurred, when gain results from the sale or exchange.
- Election available to individuals and other type of taxpayers (1120, 1120S, 1065 and 1041).
- A missed payment results in loss off deferral and a failure to timely pay such installment.
- Effective for sales or exchanges after July 4, 2025. 

Individual Income Tax Rates

Law Prior to OBBB

- Temporary reduction of tax rates through 2025
- Tax rates:
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- Bracket thresholds are adjusted annually for inflation.

OBBB

- Permanent extension of TCJA rates begin in 2026
- Tax rates:
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- Bracket thresholds are adjusted annually for inflation.
- Plus additional year of inflation adjustment for the end of the 10% and 12% brackets.



Individual Income Tax Rates (Cont)

Bracket	2026 Without OBBS	2026 With OBBS	Lower Rates Under OBBS
1	10%	10%	0%
2	15%	12%	3%
3	25%	22%	3%
4	28%	24%	4%
5	33%	32%	1%
6	35%	35%	0%
7	39.6%	37%	2.6%

The tax brackets are made Permanent



Standard Deduction

Law Prior to OBBB

- Temporary increased standard deduction (\$12k single, \$24k married filing jointly, \$18k HOH) through 2025
- Beginning 2026 reverts back to pre-TCJA amounts (\$3k single, \$6k married filing jointly, \$4k HOH)
- Adjusted annually for inflation

OBBB

- Permanent extension of increased TCJA deduction (\$15,750 single, \$31,500 married filing jointly, \$23,625 HOH for 2025.
- Adjusted annually for inflation.
- Effective for tax years beginning 1/1/2025.



Standard Deduction (Cont)

Filing Status	2025 Without OBBB	2025 With OBBB	2026 Without OBBB
Single	\$15,000	\$15,750	\$8,300
Head of Household	\$22,500	\$23,625	\$12,150
Married Filing Jointly	\$30,000	\$31,500	\$16,600
Married Filing Separately	\$15,000	\$15,750	\$8,300

**The Increase in the standard deductions is Permanent
Revise client “bunching” strategies**



Personal Exemptions

Law Prior to OBBA

- Personal exemptions suspended for 2018-2025

OBBA

- Permanent repeal of personal exemptions after 2017



Child Tax Credit

Law Prior to OBBB

- Credit of \$2k per child
- Reverts to \$1k after 2025 – threshold was going to decrease from its current levels of \$400k (married filing joint) and \$200k (all others).

OBBB

- Permanent extension and increase to \$2.2k per child.
- Permanent extension of the increased thresholds.
- Makes permanent the refundable portion of credit of \$1.7k.
- Social security number of taxpayer (or spouse) and qualifying child is required.
- Effective for tax years beginning in 1/1/2025.
- Refundable portion adjusted for inflation.
- Maintains the nonrefundable \$500 non-child dependent credit



Child Tax Credit

	Pre-TCJA Pre 2018	TCJA	OBBB 2025 and later
Max Credit	\$1,000 per child	\$2,000 per child	\$2,200 per child
Non-Refundable Portion	\$1,000 per child	\$600 per child (\$300 for 2025)	\$500 per child
Refundable Portion	NONE	\$1,400 per child (\$1,700 for 2025)	\$1,700 per child
Age 17 or Older (Other dependent Credit)	NONE	\$500 per dependent	\$500 per dependent



Child and Dependent Care/Adoption Credit

Law Prior to OBBB

- Child and Dependent Care Credit
 - Credit available for child and dependent care expenses, equal to 35% of qualified expenses reduced (not below 20%) for taxpayers with AGI in excess of \$15k.
- Adoption Credit
 - Nonrefundable credit for qualified adoption expenses, with a credit phaseout for higher income

OBBB

- Child and Dependent Care Credit
 - Increases credit amount from 35% to 50%, reduced (not below 35%) for taxpayers with AGI in excess of \$15k, and further reduced (not below 20%) for taxpayers with AGI in excess of \$75k (single)/\$150k (married filing joint).
 - Effective for tax years after **12/31/25**.
- Adoption Credit
 - Creates a refundable credit of up to \$5k for adoption expenses.



Child and Dependent Care (Cont)

	Pre OBBB	Post OBBB 2026 and later
Expenses for 1 child	\$3,000	\$3,000
Expenses for 2 or more children	\$6,000	\$6,000
Applicable percentage	35% phase down to 20% 1% for every \$2,000 Phase out at \$45,000 AGI	50% phased down to 35% 1% for every \$2,000 Phase out at \$45,000 AGI Further reduced phase down to 20% Phase out at \$150,000 AGI MFJ \$75,000 AGI (others)
High earner phase out	NONE	NONE
Qualifying Child	Under age 13	Under age 13
Refundable	NONE	NONE



Dependent Care Assistance Program

Law Prior to OBBB

- Limited the dependent care exclusion for dependent care services to \$5k (\$2.5k for married filing separate)

OBBB

- Increases the dependent care service exclusion from \$5k to \$7.5k (\$3.75k for married filing separate) for expenses paid or incurred by employer under qualified dependent care assistance program.
- Effective for taxable years beginning after December 31, 2025.



Mortgage Interest Deduction

Law Prior to OBBB

- Home equity interest deduction suspended (except when used to buy, improve, or expand the home) until after 2025.
- \$750,000 new acquisition indebtedness after 12/15/17 limit expires after 2025.
- TCJA grandfather rule: \$1M (\$500k MFS) of existing acquisition debt in place on or before 12/15/17.

OBBB

- Permanent suspension of home equity interest deduction (except when used to buy, improve or expand the home).
- Permanent extension of \$750,000 limit on acquisition indebtedness.
- Restores deductibility of mortgage insurance premiums returns (treated as interest expense.)
- Effective for taxable years beginning after 12/31/25.



Charitable Contributions Deduction

Law Prior to OBBB

- Charitable deductions allowed for itemizers

OBBB

- Imposes a .5% floor on charitable contributions for itemizers. Contribution disallowed by the .5% floor qualify for carryforward but are subject to the same limitations each year. Carryover for 5 years. Applies to cash and non-cash donations.
- Deduction of up to \$1,000 (single)/\$2,000 (MFJ) for non-itemizers. Cash deductions ONLY. No DAF or PF contributions allowed.
- Permanent extension of increased contribution limitation for cash gifts (60%) made to qualified charities.
- Effective for tax year beginning after 12/31/25.



Charitable Contributions (Cont)

- The OBBB introduces a new hurdle: for tax years beginning in 2026, those who itemize will only be able to deduct charitable contributions that **exceed 0.5% of their AGI**.
- This means your current and carryover contributions will first be subject to the original AGI percentage limits (20%, 30%, 50%, etc.) and then also the new 0.5% AGI floor in the OBBB proposal.

Example:

- In 2026, taxpayer has AGI of \$200,000
- Charitable contribution \$10,000 - Cash
- 60% AGI applies ($\$200,000 * 60\% = \$120,000$)
- 0.5% floor applies ($\$200,000 * .5\% = \$1,000$)

Charitable contribution allowed in 2026 is \$9,000 (\$10,000 less \$1,000)

Carryover to 2027 - \$1,000

DONATE IN 2025 to avoid new .5% Floor. Consider Donor Advised Fund accounts.



Casualty and Theft Loss Deductions/Disaster Relief

Law Prior to OBBB

- Casualty or theft loss suspended until after 2025, except for losses from federally declared disasters.
- Special qualified disaster related personal casualty loss rules; waived the 10% AGI threshold for taxpayer's net disaster loss, raised per casualty floor to \$500, allowed addition of the loss to the standard deduction, and exempted that additional from AMT.

OBBB

- Permanent extension of casualty or theft loss suspension, exception for federally declared or state declared disasters.
- Effective for taxable years beginning after 12/31/2025.
- Extended the special rules for qualified disaster-related personal casualty losses under the Taxpayer Uncertainty and Disaster Relief Act of 2020 (but only for disasters occurring up to 30 days after the OBBB's enactment date).



Miscellaneous Itemized Deductions

Law Prior to OBBB

- Temporarily suspended for 2018-2025 for deductions subject to 2% AGI floor (for both regular and AMT)
 - Unreimbursed employee expenses
 - Expenses paid for production of income
 - Hobby losses
- Reinstated in 2026 subject to 2% floor

OBBB

- Permanently suspends miscellaneous itemized deductions subject to 2% AGI floor.
- Misc itemized deduction NOT subject to the 2% Floor remain deductible.
- **NEW:** Allows deductions for “educator expenses” addition to the educator deduction including expenses of an interscholastic sports administration or coach.
- Effective for tax years beginning after 12/31/25.



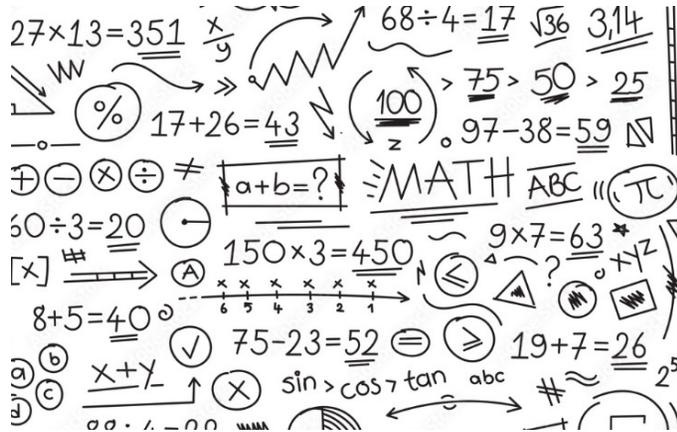
Itemized Deductions – Pease Limitation

Law Prior to OBDD

- Temporarily suspended the Pease limitation for individual taxpayers itemizing deductions through 2025.

OBDD

- Permanent repeal of the Pease limitation but creates a new calculation.
- Reduces itemize deductions by 2/37 of the lesser of:
 - Itemized deduction amount, or
 - Amount of taxable income exceeding the threshold for 37% bracket.
- Effective for tax years beginning after 12/31/25.



AMT

Law Prior to OBBB

- Higher exemption and phase-outs expire after 2025.
- High income taxpayers – 25% phaseout rate

OBBB

- Permanently extends AMT exemption.
- Permanently extends phaseout thresholds for most but reverts Married Filing Joint to \$1M.
- Phaseout against high income taxpayers is made more aggressive at new 50% phaseout rates.
- Modifies the inflation adjustments.
- Applies to tax years beginning after Dec. 31, 2025.



AMT (Cont)

AMT Exemption Amount	2025	2026 (WITHOUT OBBS)	2026 (WITH OBBS)
Single	\$88,100	\$70,900	\$90,400
Married Filing Joint	\$137,000	\$100,400	\$140,700
Married Filing Separate	\$68,500	\$50,200	\$70,350
Estates and Trust	\$30,700	\$22,500	\$31,500

Phaseout of AMT Exemption Amount Begins	2025	2026 (WITHOUT OBBS)	2026 (WITH OBBS)
Single	\$626,350	\$157,700	\$642,950
Married Filing Joint	\$1,252,000	\$210,300	\$1,000,000
Married Filing Separate	\$626,350	\$157,700	\$642,950
Estates and Trust	\$102,500	\$17,200	\$105,200



Moving Expenses

Law Prior to OBBB

- Temporarily suspended the qualified moving expense reimbursement exclusion and the deduction for moving expenses (excluding active-military who moved pursuant to a military order) through 2025.

OBBB

- Permanently extends the moving expense deduction limitation and employer-reimbursed moving expense exclusion.
- Creates an exception for intelligence community members similar to the military exception.
- Effective for taxable years beginning after 12/31/25.



Wagering Losses

Law Prior to OBBB

- Temporarily included actual cost of wagers and deductible expenses incurred with gambling activity in deductible wagering losses through 2025.

OBBB

- Includes otherwise-allowable deductions incurred in carrying on a wagering transaction within “losses from wagering transactions.”
- Limits deduction to 90% of losses and to the extent of gains from wagering transactions.
- Effective for tax years beginning after 12/31/25.
- New rule appears to apply to “professional” gamblers.



529 Plan Changes

Law Prior to OBBB

- Treated certain primary and secondary education expenses as qualified higher education expenses.

OBBB

- Amends the definition of “qualified higher education expenses” to include certain expenses in connection with enrollment in and attendance at an elementary or secondary public, private or religious school.
(Not for home school)
- Also amended definition of “qualified higher education expenses” to include postsecondary credentialing expenses (CPA exam).
 - Effective for distributions made after July 4, 2025
- For tax years beginning after 12/31/25, increases the annual aggregate per-beneficiary distribution limitation from \$10k to \$20k for K-12.



529 Plan Changes (Cont)

Post Secondary Credentialing Expenses Treated as Qualifies Higher Expense:

- Include tuition, fees, books, supplies and equipment required for the enrollment or attendance in a recognized “post secondary Credential program” or any other qualifying expense in connection with enrollment in or attendance at such a program or fees for testing required to obtain or maintain a recognized credential;
- Fees for testing if such testing is required to obtain or maintain a recognized credential;
- Fees for continuing education if such education is required to maintain a recognized postsecondary credential
- A “recognized postsecondary credential” includes any occupational or professional license issued or recognized by a State or the Federal government.



Student Loans

Law Prior to OBBB

- Discharge of Student Loan Debt
 - Temporarily excluded student loan discharge from gross income for amounts discharged in 2021 through 2025.
- Employer Payment of Student Loans
 - Provided a temporary exclusion from gross income for certain employer payments of student loans under education assistance programs through 2025.

OBBB

- Discharge of Student Loan Debt
 - Permanent extends exclusion from gross income for student loans and private education loans discharged on account of taxpayer's death or disability.
 - Effective to discharges after 12/31/25.
- Employer Payment of Student Loans
 - Creates a permanent \$5,250 exclusion for employer-provided student loan payments, indexed annually for inflation for taxable years beginning after 2026.
 - Effective for payments made after 12/31/25.



Tax Benefits with Income Limitations under the OBDD

	Child Tax Credit	State and Local Income tax Deduction	Auto Loan Interest Deduction	Tips Deduction	Overtime Deduction
Description	Increases child tax credit from \$2,000 to \$2,200 (refundable portion \$1,400).	Maximum state and local income tax deduction increased from \$10,000 to \$40,000 for 2025 and \$40,500 for 2026.	Above the line deduction of interest expense paid on a personal loan to purchase cars with final assembly occurring in the United States up to \$10,000.	Above the line deduction up to \$25,000 for qualified tips,	Above the line deduction up to \$25,000 joint filers (\$12,500 for other filers) for qualified overtime compensation.
Income Limitation Phaseout	MAGI exceeds \$400,000 joint filers (\$200,000 single filers).	MAGI exceeds \$500,000 joint filers (\$250,000 separate filers) for 2025, not below \$10,000.	MAGI exceeds \$200,000 joint filers (\$100,000 single filers).	MAGI exceeds \$300,000 joint filers (\$150,000 other filers).	MAGI exceeds \$300,000 joint filers (\$150,000 other filers).
Effective Date	Beginning after December 31, 2024.	Beginning after December 31, 2024.	Beginning after December 31, 2024, and before January 1, 2029.	Beginning after December 31, 2024, and before January 1, 2029.	Beginning after December 31, 2024, and before January 1, 2029.

Takeway: High income taxpayers, generally will not benefit from the above deductions due to the income limitations. For taxpayers with income levels close to the phaseout thresholds and may benefit from the above deductions, consider planning ways to reduce income below the threshold including bunching charitable donations or harvesting losses.





IRA Credits

Change Made	Temporary or Permanent	Effective Date
Eliminates 45Y Clean Energy Production Tax Credit (PTC) and 48E Investment Tax Credit (ITC) for solar and wind projects unless placed in service on or before December 31, 2027; credit for geothermal, hydropower, and nuclear power remain through December 31, 2031	Permanent	After December 31, 2031; after 12/31/2027 for solar and wind projects
Advanced Manufacturing Credit under 45X is phased-out beginning December 31, 2030; terminates credit for any wind energy components produced or sold after December 31, 2027	Permanent	After 12/31/2030 (or 12/31/2027 for wind components)
Existing Nuclear Facilities Credit under 45U expires after December 31, 2032	Permanent	After 12/31/2032
Clean Fuel Production Credit under 45Z extended through December 31, 2029, fuel must be produced in North America	Permanent	After 12/31/2029; fuel requirement after 12/31/2025
Advanced Energy Projects Credit allocation under 48C is frozen at current levels	Permanent	Through 12/31/2031
Carbon Oxide Sequestration Credit under 45Q available for facilities beginning construction before 1/1/2033; credit increased for certain activities to \$36 (from \$17)	Permanent	After 12/31/2032; after date of enactment for increased credit
Hydrogen Production Credit under 45V terminates for facilities that begin construction after December 31, 2027	Permanent	After 12/31/2027
IRC Secs. 25E (Used Clean Vehicle Credit), 30D (Clean Vehicle Credit), and 45W (Qualified Commercial Clean Vehicles Credit) not available after September 30, 2025	Permanent	After 9/30/2025
IRC Secs. 30C (Alternative Vehicle Refueling Credit), 45L (New Energy Efficient Home Credit) and 179D (Energy Efficient Commercial Buildings Deduction) not available after June 30, 2026	Permanent	After 6/30/2026
IRC Sec. 25C (Energy Efficient Home Improvement Credit) and 25D (Residential Clean Energy Credit) not available after December 31, 2025	Permanent	After 12/31/2025





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Other Provisions

Change Made	Temporary or Permanent	Effective Date(s)
International Provisions		
Extends Global Intangible Low-Taxed Income (GILTI) deduction, reduces deduction to 40% (currently, 50%), renames to "Net CFC Tested Income," and modifies calculation	Permanent	After 12/31/2025
Extends Foreign-Derived Intangible Income (FDII) deduction, reduces deduction to 33.34% (currently, 37.5%), renames to Foreign-Derived Deduction Eligible Income, and modifies calculation	Permanent	After 12/31/2025
Extends Base Erosion Anti-Abuse Tax, increases rate to 10.5% (currently 10%)	Permanent	After 12/31/2025
Excludes services income from GILTI & FDII for U.S. Virgin Island-based services	Permanent	Tax years beginning after enactment
Creates 1% excise tax on the transfer of funds abroad (are exempt if using a transfer provider certified by the Treas. Sec.); applies to cash or cash equivalent transfers	Permanent	After 12/31/2025
Non-Profit Provisions		
Creates a tiered excise tax on university endowments for certain private colleges and universities at rates of 1.4%, 4%, and 8%, depending on the value of assets/student enrolled	Permanent	After 12/31/2025
Applies the excess compensation tax to all covered employees of the nonprofit and any related entities	Permanent	After 12/31/2025



Secure Act 2.0

- **Higher Catch Up Contributions** - beginning in 2025, individuals attaining ages 60-63 during the calendar year will be able to make catch up contributions of \$11,250 in place of the normal \$7,500
- **Roth Catch Up Contributions for High Earners** – beginning in 2026, if you earn more than \$145,000 in the prior calendar year, all catch up contributions at age 50 or older will need to be made to a Roth account.
 - If employers do not have a Roth option – high earners will not be able to make catch up contributions
- *Takeway: Both high income earners and employers should act in 2025 to model impacts, adjust plans, and communicate proactively.*



WINNERS AND LOSERS

- LOSERS...

- Clean Energy Investors
- Non-profits and Private Universities
- Lower-Income Non-Business Taxpayers (except tipped employees)



- WINNERS...

- Pass-Through Business Owners
- Manufacturers and Domestic Producers
- High-Tax-State Residents
- Seniors and Retirees
- High Net Worth Individuals



What to do what to do

- Business Owners
 - Maximize 199A Deductions
 - Reevaluate Entity Structure
 - Time Asset Acquisitions for full expensing benefit
- Real Estate Investors
 - Leverage bonus depreciation and cost segregation studies
- Potential Itemizers consider bunching deductions for expanded SALT Cap.
- Consider impacts of new deductions for tipped employees, overtime, and social security
- Review Estate Plans in light of permanent increased exclusion





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Louisiana Update

Act 11 (HB 10) (3rd Special Session) Individual Income Tax

Changes are effective for tax years beginning on or after January 1, 2025.

- The tax rate has been changed to a 3% flat tax.
- Personal exemptions have been raised and now operate like the federal standard deduction.
- Standard deductions are:
 - \$12,500 for single and married filing separately
 - \$25,000 for married filing jointly, qualified surviving spouses and head of household
 - Deductions be adjusted annually beginning on 1/1/26 for the CPI for the previous calendar year.
 - The exempt amount of pension or annuity income is increased to \$12,000 from the current \$6,000
 - If the HB7 constitutional amendment passes, the deduction will be doubled for persons 65 and over.
- The \$5,000 adoption credit is maintained and repeals the requirement that these deductions are in lieu of the dependency deductions otherwise provided for in present law.
- Net capital gains deduction is repealed.



The following individual income tax deductions and credits have been repealed effective January 1, 2025

(1) Deduction for expenses disallowed by I.R.C. s 280C.

(2) Deduction for taxpayers or dependents who are deaf, blind, mentally incapacitated, or who have lost the use of one or more limbs.

(3) Tax credit for the elderly, a credit for contributions to candidates for public office, an investment credit, a credit for foreign tax, a work incentive credit, jobs credit, and residential energy credit.

(4) Tax credit for state gasoline, motor fuel, and special fuels taxes paid for the operation of a commercial fishing boat.

(5) Tax credit for educational expenses incurred before Jan. 1, 2017, for each child attending kindergarten, elementary, or secondary school through the 12th grade if the child qualifies as a dependency exemption on the taxpayer's La. Tax return unless the deduction for the payment of tuition and fees for nonpublic elementary and secondary school tuition is taken for the child.

(6) Tax credit for purchases of environmental equipment purchased between July 1, 1989, and Dec. 31, 1991, designed to recover or recycle chlorofluorocarbons used as refrigerants in commercial, home, and automobile air-conditioning systems, refrigeration units, and industrial cooling applications.

(7) Tax credit for small-town health professionals such as a certified medical primary care physician, a primary care physician assistant, a dentist, an optometrist, or a primary care nurse practitioner.

(8) Tax credit for bone marrow donor expenses.

(9) Tax credit for educational expenses associated with attending college for a degree related to law enforcement.

(10) Tax credit for each taxpayer who provides full-time employment to an individual who has been convicted of a first-time drug offense.

(11) Tax credit for purchases of bulletproof vests.

(12) Tax credit for long-term care insurance

premiums.

(13) Tax credit for expenses incurred for travel or absence from work because of a living organ donation.

(14) Tax credit for employment of certain nonviolent offenders.

(15) Tax credit for the inclusion of accessible and barrier-free design elements in construction of a new one- or two-family dwelling or the renovation of an existing dwelling.

(16) Tax credit for employment related expenses for maintaining household for certain disabled dependents.

(17) Tax credit for the rehabilitation of an owner occupied residential or mixed-use property.

(18) Tax credit for the Citizen's property insurance assessment.

(19) Tax credit for amounts paid by certain military servicemembers for obtaining La. Hunting and fishing licenses.



Act 5 (HB 2) (3rd Special Session)

Corporate Income Tax

- Corporate tax rate is a flat 5.5% effective for tax periods beginning on or after 1/1/25.
 - This was a compromise between the current 3.5% lowest rate and 7.5% highest rate.
 - Note: The Senate revenue committee proposed 6%; Gov. Landry initially requested a flat 3.5%
- Provides a \$20,000 deduction from FTI to any taxpayer subject to corporation income tax under R.S 47:287.11
- No changes were made the Net Operating Losses
- Maintains the inventory tax credit for individuals and pass-throughs indefinitely, while phasing out the inventory tax for C corporations on July 1, 2026.



Act 5 (HB 2) (3rd Special Session)

Corporate Income Tax – Credits Retained

Appears to have maintained the following with no changes:

- Every insurance company shall be entitled to an offset against any tax incurred under this Chapter, in the amount of any taxes, based on premiums, paid by it during the preceding twelve months, by virtue of any law of this state.

Maintains the following credits, but reduces or adds annual cap on credits granted annually:

- Research and Development credit – Provides for a \$12 million annual cap for each fiscal year as of 7/1/26.
- Motion picture Credit – The annual cap for application of credits is reduced from \$150 million to \$125 million. The annual cap for claiming credits is reduced from \$180 million to \$125 million. Also prohibits rollover of any unused cap for credits granted in a final certification letter after 7/1/25.
- Historic Rehabilitation Credit – Reduces the annual cap from \$125 million to \$85 million.



Act 5 (HB 2) (3rd Special Session)

Corporate Income Tax – Credits Adjusted

Sunsets are added or accelerated for the granting or certifying of the following credits:

- Tax exemption contracts with manufacturing establishments, headquarters, or warehousing and distribution establishments. Prohibits the Board of Commerce and Industry from entering into any exemption contract after June 30, 2025, and prohibits the board from renegotiating or approving the renewal of an existing contract after June 30, 2025.
- Inventory Tax Credit – Prohibits the credit from being claimed to offset corporation income and franchise taxes for taxable periods beginning on or after July 1, 2026.
 - However, any taxpayers using the credit to offset corporation income tax may carry forward any remaining credits for an additional five years from the date that the credits would have expired under present law.
 - Also repeals the refundability provisions of the credit as it relates to C-Corp filers beginning Jan. 1, 2025.
- Enterprise Zone Program – Prohibits LED from accepting new advance notifications for the Enterprise Zone Program on or after July 1, 2026.
- Quality Jobs Program – Changes the deadline for LED to accept new advance notifications after June 30, 2025.
- Retention and Modernization Act – Adds a termination date for the credit by prohibiting credits from being issued for applications received after June 30, 2025.
- Credit for businesses that hire participants in the work release programs established pursuant to present law. Prohibits credits from being certificated after June 30, 2025.
- Angel Investor credits – Prohibits credits from being reserved or granted after June 30, 2025.
- Sound Recording Credits – Prohibits credits from being allowed or granted for applications received on or after July 1, 2025.



The following tax rebates, exemptions, deductions, exclusions, and credits are repealed for tax periods beginning on and after Jan. 1, 2025, and for franchise tax periods beginning on or after Jan. 1, 2026:

The following tax rebates, exemptions, deductions, exclusions, and credits are repealed for tax periods beginning on and after Jan. 1, 2025, and for franchise tax periods beginning on or after Jan. 1, 2026:

- (1) Tax rebates, exemptions, and credits for university research and development parks.
- (2) Tax exemptions and credits for the Atchafalaya Trace Heritage and Development Zone.
- (3) Low-income housing tax credit.
- (4) Tax credit for certain full-time and part-time jobs.
- (5) Tax credits for contributions to certain educational institutions.
- (6) Tax deduction for certain disallowed expenses.
- (7) Tax credit for certain re-entrant jobs.
- (8) Tax credit for certain new part-time and full-time jobs.
- (9) Tax credit for employment of first-time nonviolent offenders.
- (10) Tax credit for bone marrow donor expenses.
- (11) Tax credit for employee and dependent health insurance coverage.
- (12) Sales tax exclusion for certain purchases by motion picture production companies.
- (13) Corporate Tax Apportionment Program.
- (14) Tax credit for local inventory taxes paid.
- (15) Tax credit for employers for donations of materials, equipment, advisors, or instructors.
- (16) New markets tax credit
- (17) Tax credit for purchasers from "PIE contractors".
- (18) Brownfields Investor tax credit.
- (19) Tax credit for La. Citizens Property Insurance Corporation assessment.
- (20) Cane River heritage tax credit.
- (21) Solar energy tax credit.
- (22) Tax credit for investments in qualified clean-burning motor vehicle fuel property.
- (23) Ports of La. Tax credit.
- (24) La. Import tax credit.
- (25) Tax credit for "green job industries".
- (26) Tax credit for restaurants and bars affected by the COVID-19 pandemic.
- (27) Urban Revitalization Tax Incentive Program.
- (28) Tax exemptions within the La. Capital Companies Tax Credit Program.
- (29) Technology Commercialization Credit and Jobs Program.
- (30) LA Community Development Financial Institution Act.
- (31) The Corporate Headquarters Relocation Program.
- (32) Competitive Projects Payroll Incentive Program.



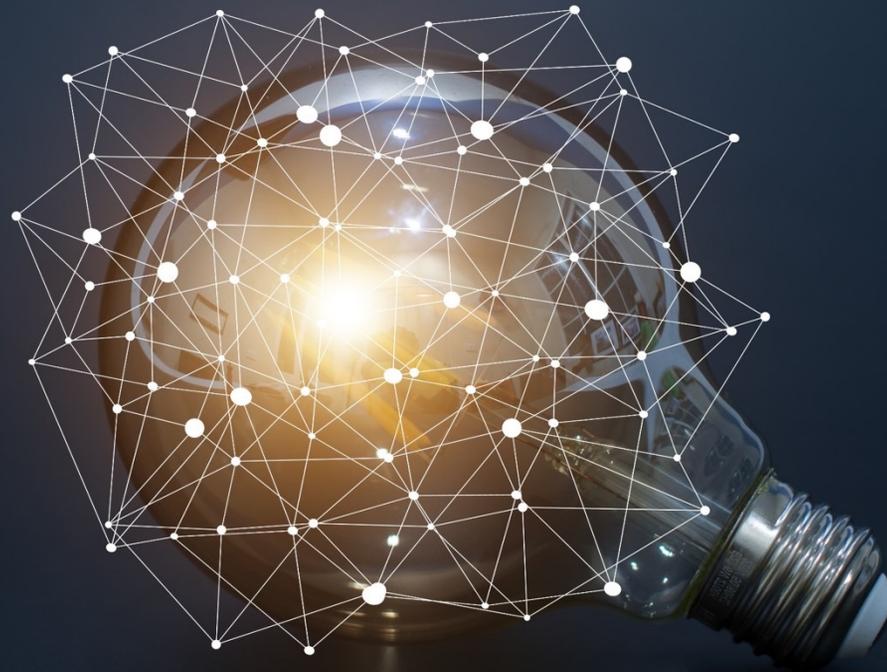
Act 6 (HB 3) (3rd Special Session)

Corporation Franchise Tax

- Repeals the franchise tax law for franchise tax periods beginning on or after January 1, 2026.
 - The House voted 84-16 to repeal it
 - The Senate unanimously approved the repeal



Questions?





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