

2026 Tax Planning Under the One Big Beautiful Bill Act (OBBBA) and Permanent TCJA Extensions



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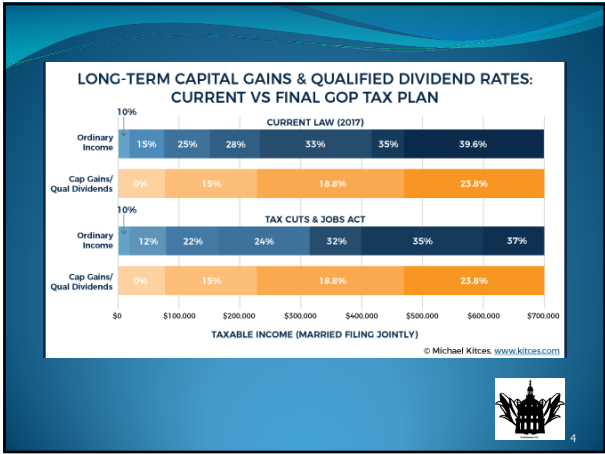


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(Highly) Selected Provisions



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Increased Standard Deduction - \$70102

The standard deduction amounts for 2025 vs. 2024.

Filing Status	2024 Amount	2025 Amount
Married filing jointly (MFJ) and qualifying surviving spouse (QSS)	\$29,200	\$31,500
Single	14,600	15,750
Head of household (HoH)	21,900	23,625
Married filing separately (MFS)	14,600	15,750

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Termination of Personal Exemptions §70103

OBBBA permanently sets the exemption amount to \$0 after December 31, 2017.

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Personal Exemption

- Personal exemption
 - Eliminated (set at zero)
 - \$6,000 for those age 65 and up (for 2025-2028)
 - If both spouses are 65+, it's \$12,000
 - It's in addition to the base standard deduction and the age-based extra standard deduction
 - Applies even if taxpayer itemizes and is taken after AGI
 - Phased out when a taxpayer's MAGI exceeds \$75,000 and is zero when MAGI is \$175,000 (single); \$150,000 to \$250,000 (MFJ)



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New Senior Deduction

- Basically, this is “no tax on Social Security”
 - Even seniors who itemize will benefit from this deduction, unlike the usual extra deduction tied only to the standard deduction.
 - It helps lower taxable income and may drastically reduce or eliminate federal tax on Social Security benefits
 - Treasury Dept. projects **88% of beneficiaries** may owe no tax thanks to the layered deductions.



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New Senior Deduction

- Basically, this is “no tax on Social Security”
 - Combined with the base and extra standard deductions, total deductions in 2025 can reach up to:
 - \$23,750 for a single senior (15,750 + 2,000 + 6,000)
 - \$46,700 for a married couple where both qualify (31,500 + 3,200 + 12,000)




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Child Tax Credit §70104


- Increase the nonrefundable CTC to a maximum of \$2,200 starting in 2025.
- Annually Indexes starting in 2026.



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Requirements

- ◆ Be under the age of 17
- ◆ Be a U.S. citizen, national, or resident alien
- ◆ Have a valid SSN issued before the tax return's due date




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Limitations of Itemized Deductions §70111

Instead of the old Pease limitation, the OBBBA introduces a **new overall limitation on itemized deductions for high-income taxpayers** in the top federal income tax bracket (currently **37%**).

The new provision is designed to cap the tax benefit from itemized deductions for the highest earners to **35 cents per \$1 of deduction**, rather than the full 37 cents

The reduction is 2/37 of the lesser of: (1) total Itemized deductions; or (2) the amount taxable income exceeds the threshold for the 37% bracket



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OBBBA Provision

- Itemized Deductions
 - SALT limitation
 - Set at \$40,000 for 2025 and adjusts for inflation thereafter (MFJ)
 - \$40,400 in 2026
 - \$10,000 in 2030
 - Phaseout
 - Begins at MAGI exceeding \$500,000 (MFJ) (but the deduction does not go below \$10,000) Range is 250-300k (single)
 - Note – this can impact estate planning
 - Business entity choice may be impacted by whether or not the business will qualify for PTET benefits to work around the SALT limitation
 - Also, while it may be simpler to have an entity as wholly owned by a trust, so that the entity can be disregarded for tax purposes, the entity may need to have a second member so that it is, in fact, recognized for income tax purposes to qualify for PTET.



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SALT Phase-Out

- All filers except MFS phase out beings at \$500,000 MAGI.
- For MFS, phase-out begins at \$250,000.



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Estate and Gift Tax Increase \$70106

Beginning in
2026:

- Basic exclusion is set a \$15 million per individual
- A married couple's exclusion is \$30 million
- Indexed for inflation beginning in 2027



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Lifetime Exclusions

The exclusion amounts are applicable to both lifetime gifts and estate transfers.



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Extension of QBI §70105



Expanded phase-in thresholds



The OBBBA increases the phase-in ranges that determine when income-based limitations begin to apply to the QBID.

MFJ increased from \$100K to \$150K
Single filers increased from \$50K to \$75K



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QBI

New minimum deduction for active businesses. A new minimum QBID of \$400 (indexed for inflation beginning in 2027) is added for qualifying taxpayers that meet the following criteria

- Must have at least \$1,000 in business income
- Business must be an active business that the taxpayer participates in, as defined by IRC §469(h)



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Bonus Depreciation §70301

For purchases after **January 19, 2025**, the OBBBA makes the following changes.

100% expensing is now permanent for qualified property.

Transitional election for reduced expenses in the first taxable year ending after January 19, 2025.

- 40% for most properties having a recovery period of 20 years or less
- 60% for long-production-period property or certain transportation assets

Used property eligibility

Special rule for certain fruit- and nut-bearing plants



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Increased §179 Limit §70306

For property placed in service on or after January 1, 2025:

- The maximum §179 deduction is permanently increased to \$2.5 million, with annual cost-of-living adjustments.
- The phase-out threshold begins at \$4 million in 2025.
- The OBBBA does not change the special rules for SUVs under §179. A separate limit applies to passenger vehicles weighing less than 14,000 pounds.



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100% bonus depreciation on qualified production property

Qualified Production Property

Construction starts after 1/19/25 and before 1/1/29

Placed in service by 1/1/2031

Applies to

- Manufacturing
- Production (Ag and Chemicals)
- Refining

Does not apply to office, administrative, parking, etc.



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Research and Development Expenses

- Revert back to the pre-TCJA rule of an immediate deduction...with a transition rule
- And then there are the promoters...




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Research and Development


- Background:
 - Under the TCJA, companies were required to capitalize their domestic R&D expenses over a five-year period.
 - No full deduction in the year the expense was incurred



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Research and Development


- Example:
 - FarmCo spent \$1,000,000 on domestic R&D in 2022. Under the old law, the farm could only deduct a portion of that expense each year:
 - 2022: \$1,000,000 / 5 years = \$200,000 per year
 - 2023: \$200,000
 - 2024: \$200,000
 - After three years, the farm would have deducted a total of \$600,000, leaving a remaining unamortized balance of \$400,000. The delayed deduction resulted in a higher taxable income and a larger tax bill in those years.



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Research and Development – OBBBA Provision


- Example:
 - Effective for taxable years beginning after December 31, 2024, OBBBA allows for the immediate expensing of domestic R&D costs
- For past years (2022, 2023, and 2024), eligible small businesses can retroactively apply this new rule by filing an amended return.
 - An "eligible small business" for this purpose is generally defined as one with average annual gross receipts of \$31 million or less for the three-year period preceding the tax year in question.



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Research and Development – OBBBA Provision


- To get a refund, a qualified small business would file an amended return (Form 1120-X for a corporation, Form 1065-X for a partnership) for each year they had R&D expenses



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Research and Development – OBBBA Provision


- FarmCo would file an amended return for 2022.
 - Instead of the \$200,000 deduction it originally took, it would now claim a deduction for the full \$1,000,000 of R&D expenses.
 - This additional \$800,000 deduction would reduce their taxable income for 2022, leading to a tax refund.
 - Note - This process is repeated for each of the years (2023 and 2024) in which FarmCo was forced to amortize its R&D expenses. The total refund would be the sum of the tax savings from each amended year.



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Research and Development – OBBBA Provision


- This provision is for all taxpayers (not just small businesses) to accelerate the deduction for any remaining unamortized R&D expenses.
- They can choose to deduct the entire remaining balance in the first taxable year beginning after December 31, 2024, or spread it out over two years.



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R&D

- Rev. Proc. 2025-28 indicates that the taxpayer must amend *all affected years consistently across all applicable tax years (2022, 2023, and 2024)*. The taxpayer cannot choose to amend just one year.
 - All three years' (if affected) returns must be amended to fully deduct the R&D costs incurred in those years.
- The election and the required amended returns must be filed by July 4, 2026.
 - Doing this may lead to immediate tax refunds for those years, but consideration must be given to the potential impact on the R&D credit for those years (specifically the interaction with I.R.C. §280C).




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Qualified Tips Deduction §70201

Beginning in 2025 through 2028, qualified tips deduction is:

- ♦ Employees and SE taxpayers receiving tips can receive an income tax deduction of up to \$25K.
- ♦ Cannot exceed total income
- ♦ Must be engaged in a trade or business where tips are earned.
- ♦ Phase-out \$150K for individuals, \$300K for MFJ.



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Tips, Cont.

- The qualified tips provision does not affect a taxpayer's withholdings, including social security and Medicare.
- This provision only potentially reduces the federal tax on Form 1040, *U.S. Individual Income*



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Qualified Overtime Deduction

Beginning in 2025 thru 2028, the qualified overtime deduction:

- ♦ Applies only to the overtime amount exceeding the regular rate of pay.
- ♦ Maximum deduction is \$12,500 for individuals and \$25K for MFJ.
- ♦ Phase-out begins at \$150K for individuals and \$300K for MFJ.



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Qualified Overtime Deduction

- Overtime paid because of a state law or a company's more generous policy (e.g., paying double-time for holiday work) is not deductible unless it also meets the FLSA's requirement.
 - This also means that employees who are classified as "exempt" under the FLSA are not eligible for the deduction, even if their employer voluntarily pays them for working extra hours.



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Qualified Overtime Deduction

- The deduction is not available to high-income earners. It begins to phase out based on modified adjusted gross income (MAGI):
 - Starts at \$150,000 for single filers
 - Starts at \$300,000 for married couples filing jointly.
 - The deduction is reduced by \$100 for every \$1,000 of MAGI above these thresholds



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Summary Comparison

Feature	Qualified tips – §274	Qualified overtime compensation – §225
Applicable	Cash tips in the listed tip occupations	Each overtime premium required under 29 USC 207
Annual cap	25,000 per taxpayer	12,500 per return, 25,000 joint
MAGI threshold	Phase out begins at 150,000 MAGI, 300,000 joint	Same threshold, same concept
Filing status rule	Married individual must file joint return for this deduction	Same
Self requirement	Person must show taxpayer SON under §241(h)(7)	Same
Time window in statute	Tax years beginning after 31 Dec 2024, ending before 1 Jan 2029	Same
Interaction with	N/A	Must exclude amount included in qualified tips



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New IRC §1062

- Allows for income tax resulting from the sale of farmland to a qualified farmer to be paid in four annual installments.




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New IRC §1062

- Net income tax from sale of farmland can be paid over four years
 - Gain must derive from sale or exchange of “qualified farmland property” to a “qualified farmer”
 - Seller can elect to pay the “net tax liability in four equal installments”
 - If election made, first installment to be paid on due date for return (without regard to extensions) for return of tax year in which sale or exchange occurred




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New IRC §1062

- Handling underpayments
- Election timeline
 - What about entities?
- What is “net tax liability”?
- What is qualified property?
 - Subject to a restrictive covenant
- What is a “farm” and “farming purposes”?
- What is a “qualified farmer”?




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New IRC §1062

- Handling underpayments
- Election timeline
 - What about entities?
- What is “net tax liability”?
- What is qualified property?
 - Subject to a restrictive covenant
 - Handle the potential impact by contract
- What is a “farm” and “farming purposes”?
- What is a “qualified farmer”?



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New IRC §139L

- Section 70435 of OBBBA
 - Excludes from income 25% of the interest a “qualified lender” receives on a “qualified real estate loan”



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New IRC §139L

- Qualified Lender
 - FDIC-insured banks or savings associations
 - State- or federally-regulated insurance companies
 - Entities wholly owned by a U.S. bank holding company, or entities wholly owned by a U.S. state insurance holding company
 - Federal Agricultural Mortgage Corporation (Farmer Mac)



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New IRC §139L


- Qualified loan
 - Newly originated after July 4, 2025
 - Secured by real property located in the U.S. (determination made at the time the interest income accrues)
 - Agricultural real estate
 - Substantially used for the production of at least one ag product (crops, livestock, timber, farm residences)
 - Substantially used in the t/b of fishing or seafood processing (includes aquaculture facility)
 - Borrower must not be a “specified foreign entity”



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Safe Harbor


- Notice 2025-71
 - If FMV of ag land is at least 80 percent of loan amount, the entire loan is qualified
 - If below 80 percent:
 - Only portion of loan up to FMV of the land qualifies for the exclusion



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Safe Harbor - Example


- Harvest Bank (a qualified lender) makes a loan to Jones Family Farm on October 1, 2025.
 - Loan Amount (Issue Price): \$1,000,000
 - Interest Rate: 6% (Annual interest = \$60,000)
 - Collateral: A 200-acre apple orchard.



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Safe Harbor - Example


- The exclusion is limited to the portion of the loan supported by the FMV of the land.
 - Scenario A:
 - If the orchard is valued at only \$700,000, only 70% of the loan is "qualified." Harvest Bank would have to do complex pro-rata math on every interest payment.
 - Scenario B:
 - If the orchard is valued at \$850,000, Notice 2025-71 allows Harvest Bank to treat the full \$1,000,000 as a qualified real estate loan.



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Other Clarifications of Notice 2025-71


- Refinancing:
 - If Jones Family Farm had an old loan from 2024 for \$800,000 and "refinanced" it into this \$1M loan, only the new \$200,000 of "fresh" principal qualifies for the tax break. The old \$800,000 remains fully taxable.



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Other Clarifications of Notice 2025-71


- Valuation:
 - A bank doesn't need a certified appraisal every year. The Notice allows "commercially reasonable" methods (like those used in standard underwriting) to establish the \$850,000 value at the start.



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Other Clarifications of Notice 2025-71


- Personal Property:
 - The Notice allows the bank to include the value of farm equipment and livestock in that 80% calculation, so long as the loan is "substantially secured" by the real estate.



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New IRC §139L


- No double tax benefit
 - IRC §139L(f) includes a provision that denies deductions to the extent they're allocable to the excluded interest income
 - Mirrors the principles in IRC §265



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New IRC §139L


- Basis adjustment
 - Originally thought:
 - The lender's basis in the qualified loan must be reduced by the portion of expenses disallowed under the double benefit rule (i.e., the portion allocable to the excluded interest income)
 - Reflects the net tax benefit
 - IRS clarification (Notice 2025-71)
 - The bank's actual adjusted basis in the loan remains the principal amount outstanding (plus or minus adjustments like unamortized premium/discount, loan loss reserves, etc.).
 - This basis is used to calculate the bank's gain or loss upon sale or final disposition of the loan. I.R.C. §139L does not modify this amount.



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New IRC §139L


- Basis adjustment
 - Example (as originally thought)
 - Bank originates a \$1,000,000 qualified loan and receives \$100,000 in annual interest with \$25,000 of that amount excluded from income.
 - Bank incurs \$20,000 in allocable costs with 25% (\$5,000) disallowed
 - The \$5,000 disallowed deduction causes a \$5,000 downward basis adjustment to the loan.
 - The bank's basis in the loan becomes \$995,000 instead of \$1,000,000.
 - As clarified by IRS
 - Basis remains \$1,000,000



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New IRC §139L


- No guidance on how lenders are to track allocated interest expense
 - The process for tracking "tax-exempt asset basis" vs. "total asset basis" already exists in every core banking platform
 - Could be nuanced, however, because the Sec. 139L is slightly distinct from standard municipal bonds
 - See computational approach in the Nov. 30, 2025, *Rural Practice Digest*



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New IRC §139L

- Basis adjustment
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 - Reflects the net tax benefit




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"To Do" Items

- Create a "flag" in system for all new ag/rural loans
- Require a separate line for "land/ag infrastructure value" to meet the 80% safe harbor
- Update tax provision model to account for permanent book-to-tax difference
- Ensure "specified foreign entities" are excluded from qualification




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Example

- 32 basis point drop (or lift to after tax yield)
- Creates shift in NIM without increasing risk
- Consider impact of I.R.C. §265(b)
- Is the new provision enough to cause banks to lower interest rates???



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Thank You!

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 - Access to blog
 - Other resources
 - Substack
 - *Rural Practice Digest*
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