

Annual Tax Update



2025
NATP™

Annual Tax Update

NATPTM

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Commitment

NATP exists to be the most reliable resource for gaining and developing professional tax expertise. The design of this publication is to provide accurate and authoritative information on the subject matter covered, presented with the understanding that the National Association of Tax Professionals is not engaged in rendering legal or accounting services.

This text has been prepared with due diligence but may not address every possible situation. If there is a change or update needed due to legislation or the discovery of an error, NATP will create and post an addendum at natptax.com. Search “addendum” to see a listing of available changes or use the QR code below to access the page.

NATP updated this material to 2025. At the time of updating, the most recent authorized forms are for 2024. Therefore, we used 2024 forms throughout the text for examples and illustrations.



Description

This course outlines key tax provisions and updates you'll need to know when preparing 2025 tax returns for both individuals and businesses during the 2026 tax season. We will cover guidance issued during the year, discussing what you should be aware of when advising clients on H.R.1, known as the *One Big Beautiful Bill Act* (OBBBA) and how to handle payments due to changes from the *Social Security Fairness Act* (SSFA). In addition, we'll also cover major disaster-related changes from two casualty bills, PL-118-148 *Federal Disaster Tax Relief Act of 2023* (FDRA) issued Dec. 12, 2024, and PL119-29 *Filing Relief for Natural Disasters Act* (FRNDA) as of July 24, 2025. On health coverage, we'll clarify what still applies from the *American Rescue Plan Act of 2021* (ARPA) as extended by the *Inflation Reduction Act* (IRA) through 2025, along with any updates under OBBBA. Finally, we'll review SECURE 2.0 provisions that affect retirement plan eligibility and contributions in 2025 and 2026.

Objectives

Upon completion of this course, you will be able to:

- Analyze new tax laws and developments for individuals and businesses
- Determine the tax treatment of different sources of income
- Analyze the change in tax rules for certain credits and deductions
- Identify extended and expired tax provisions

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Individual Updates

This section highlights two major developments affecting individual taxpayers: The *One Big Beautiful Bill Act* (OBBBA), signed into law on July 4, 2025, and the repeal of the Windfall Elimination Provision (WEP) under the *Social Security Fairness Act*, signed in January 2025. These legislative changes carry important implications for tax planning, return preparation and retirement benefit coordination.

OBBBA Impacts

The OBBBA, signed under Public Law No. 119-21 on July 4, 2025, introduces broad tax reforms, including the permanent extension of TCJA rates, expanded deductions and significant changes to estate and SALT rules. While the bill is still commonly called the OBBBA, the short name was removed right before passage. As such, the official name is H.R. 1 of the 119th Congress. While many of its measures extend well beyond 2025, below are key provisions that apply only to 2025 filings:

Extension and enhancement of increased standard deduction – §70102(c)

First, the law permanently preserves the TCJA's enhanced standard deduction amounts. Under prior law, the increased deduction was set to revert to pre-2018 levels beginning in 2026. By eliminating the Jan. 1, 2026, sunset provision under §63(c)(7), the new legislation ensures that the higher TCJA deduction amounts will remain in effect indefinitely beyond 2025.

Second, the law increases the base standard deduction amounts beginning in tax year 2025. For married taxpayers filing jointly (MFJ), the new base deduction is \$31,500, representing an increase over the inflation-adjusted TCJA amount of approximately \$30,000, which was the amount originally slated for 2025 [§63(c)(2)]. The new base amount for single filers is \$15,750, exceeding the prior 2025 inflation-adjusted amount of \$15,000. The head of household base amount was \$22,500, now raised to \$23,625 as amended. These amounts are subject to future inflation adjustments using the chained CPI-U methodology.

Takeaways

- This provision offers broad-based tax relief by reducing taxable income for all filers who don't itemize.
- Low- and middle-income taxpayers benefit most, as a higher deduction lowers their tax liability directly, delivering tax savings to many U.S. households starting in 2025.

Termination of deduction for personal exemptions other than the temporary senior deduction –§70103

The personal exemption, initially suspended for tax years 2018 through 2025, is now permanent, eliminating the availability of personal exemptions for all taxpayers and dependents going forward.

Takeaways

- The personal exemption termination was made permanent.
- Under the *Tax Cuts and Jobs Act* (TCJA) (2018-2025), the personal exemption \$5,200 per person (2025) was temporarily suspended as a deduction lowering taxable income.
- H.R. 1 makes this suspension permanent by removing the expiration date (Jan. 1, 2026) in §151(d)(5).

NATP observation: The personal exemption amounts, including annual inflation adjustments, continue to exist “behind the scenes” to determine income requirements for a qualifying relative, for example.

Temporary deduction for seniors

Beginning in tax year 2025 and continuing through 2028, individuals age 65 or older by year-end may claim a new deduction of \$6,000. On a joint return, each spouse may qualify, allowing for up to \$12,000 in total deductions if both meet the age requirement, income limitations and file a joint return.

The deduction is a stand-alone reduction in income, based solely on age, temporarily established as a way to reduce senior’s taxable income.

Note: The additional standard deduction for seniors age 65 or blind [§63(f)] remains intact at \$1,600 (2025), increased to \$2,000 if the individual is also unmarried and not a surviving spouse (Rev. Proc. 2024-40).

The deduction is subject to a 6% phaseout based on a modified adjusted gross income (MAGI) exceeding \$75,000 for single filers and \$150,000 for joint filers. For this purpose, MAGI includes income typically excluded under specific foreign income provisions, such as those in §§911, 931 and 933.

The senior must possess a valid Social Security number (SSN) to claim the deduction. An omission or invalid SSN is treated as a mathematical or clerical error, authorizing the IRS to adjust the return accordingly. In addition, married individuals must file a joint return to be eligible; married filing separately is not permitted for this deduction.

NATP observation: The new deduction for seniors partly addresses President Trump's campaign promise to make Social Security benefits received nontaxable.

Summary Table – 2025 Senior Deduction (Age 65+)

Filing Status	Full Deduction	Phase-Out Range (MAGI)	Phase-Out Rate	Max Deduction if Both Eligible
Single	\$6,000	\$75,000 - \$175,000	6% per \$1 over	\$6,000
MFJ	\$12,000	\$150,000 - \$250,000	6% per \$1 over	\$12,000

Takeaways

Provision	Effect
Personal exemption	Permanently eliminated
Senior deduction	Temporarily \$6,000 per person, 2025-2028
Income-tested	Phases out starting at \$75,000/\$150,000
Joint return required	Married couples must file jointly
SSN required	Must be included for each senior to qualify

Extension and enhancement of increased child tax credit (CTC) – §70104

Several changes to the CTC will take effect beginning in tax year 2025. The increase from \$1,000 to \$2,000 per child, originally enacted under TCJA and previously scheduled to expire after 2025, is now made permanent for tax purposes. Additionally, the \$500 other dependent credit and the modified adjusted gross income (MAGI) phase-out threshold of \$200,000 (\$400,000 if MFJ) are retained without change.

Effective for tax year 2025, the maximum credit per qualifying child increases from \$2,000 to \$2,200. Beginning in 2026, this amount will be adjusted annually for inflation. The refundable portion of the credit remains capped at \$1,400 per child but will also be adjusted annually for inflation using the CPI. The \$2,200 base amount uses calendar year 2017 as its reference year, while the \$1,400 refundable limit uses 2024 as its base year. Adjustments will be rounded down to the nearest \$100 in both cases.

To qualify for the CTC, the child must have a valid SSN issued to a U.S. citizen or a qualifying legal resident. For joint filers, at least one spouse must also have a valid SSN. All SSNs must be issued before the return due date, generally April 15. If a valid SSN is not provided, the IRS may treat the omission as a mathematical or clerical error and disallow the credit.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Takeaways

Provision	Summary of Effect
Makes \$2,000+ CTC permanent	Prevents reversion to \$1,000 credit after 2025 (TCJA sunset blocked)
Increases CTC to \$2,200	Begins in 2025; indexed for inflation starting in 2026
Refundable portion = \$1,400	Began in 2025 , and inflation starting in 2025 (\$1,700).
SSNs required	Valid SSNs required for qualifying child and at least one parent (for joint returns); must be issued by return due date
IRS enforcement	Missing SSN = clerical error (automatic disallowance)

Limitation on individual deductions for certain state and local taxes, etc. (SALT) – §70120

Under the revised §164(b), the annual cap on SALT deduction temporarily increased to \$40,000 (\$20,000 for MFS) for tax year 2025. The limit rises slightly to \$40,400 for 2026. For years 2027 through 2029, it will be adjusted annually to 101% of the prior year's cap. Beginning in 2030, the deduction limit reverts to its original \$10,000 cap (\$5,000 for married filing separately), as enacted under the TCJA.

Importantly, eligibility to claim the enhanced SALT deduction for tax years 2025-2029 is subject to a MAGI threshold. For tax year 2025, the threshold is \$500,000 (\$250,000 MFS). The SALT deduction dollar limit is reduced by 30 percent of the excess (if any) of the taxpayer's MAGI over the threshold amount [§164(b)(7)(B)]. These thresholds will adjust to \$505,000 (\$252,500 MFS) in 2026 and continue to increase by 1% annually through 2029. **In no case will the deduction fall below the original \$10,000 (\$5,000 MFS) limit.**

Example: phase-out calculation

In 2025, Kevin and Maria are married, filing jointly, and live in a high-tax state. Between property taxes and state income taxes, they paid \$42,000 in SALT expenses for the year.

The SALT deduction cap for 2025 is \$40,000. But Kevin and Maria's MAGI is \$595,000, which triggers the phaseout.

Their deduction is calculated as follows:

- Excess MAGI above the threshold: \$595,000 - \$500,000 = \$95,000
- Phaseout reduction: 30% x \$95,000 = \$28,500
- Adjusted SALT cap: \$40,000 - \$28,500 = \$11,500

Instead of deducting the full \$40,000 allowed, Kevin and Maria are limited to \$11,500. The remaining \$30,500 of their \$42,000 in actual SALT expenses is not deductible.

The law also preserves the existing workaround for the SALT deduction limitation through the pass-through entity tax (PTET) framework. This provision allows certain state-level income taxes paid by partnerships or S corporations to be deducted at the entity level, with a deduction or credit flowing through to individual partners or shareholders, depending on the applicable state's law. As a result, the PTET election continues to provide a viable strategy for mitigating the SALT deduction limitation, particularly for high-income taxpayers in states that allow the election.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

NATP observation: Early versions of the proposed SALT deduction changes excluded owners of specified service trades or businesses (SSTBs) from benefiting under the increased deduction caps. This restriction was removed in the final version of the law, which allows service-based business owners to qualify for the SALT cap enhancements if they meet the applicable income thresholds.

No tax on tips – §70201

This provision (§224) allows individuals to deduct up to \$25,000 per year in qualified cash tips from their taxable income. The deduction is available for tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

To qualify, the taxpayer must work in an occupation that customarily and regularly received tips on or before Dec. 31, 2024, as determined and published by the Secretary of the Treasury within 90 days of enactment. The deduction is available to both employees and self-employed individuals. However, for self-employed individuals, the deduction is limited to the extent that business income (including tips) exceeds business expenses. **Married taxpayers must file jointly to claim the deduction.**

The tips must be reported on IRS-approved wage statements, including Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, or employer-furnished wage statements (e.g., Forms W-2, Wage and Tax Statement, Form 1099-NEC, *Nonemployee Compensation*, Form 1099-K, *Payment Card and Third Party Network Transactions*, or other applicable wage statements). These statements must meet IRS statutory criteria under §§ 6041(d)(3), 6041A(e)(3), 6050W(f)(2) or 6051(a)(18). Additionally, the taxpayer must provide a valid SSN on their Form 1040.

The deduction is capped at \$25,000 per year and phases out if the taxpayer's MAGI exceeds:

- \$150,000 for individuals
- \$300,000 for joint filers

The deduction is reduced by \$100 for every \$1,000 over the threshold. MAGI is the taxpayer's AGI for the taxable year increased by any amount excluded by §§911, 931 or 933.

Definition of qualified tips

The term qualified tips refers to cash tips received by an individual in an occupation that customarily and regularly received tips on or before Dec. 31, 2024, as designated by the Secretary of the Treasury. Cash tips include amounts paid by customers in cash or by card (credit/debit) and, in the case of employees, tips distributed under tip-sharing arrangements. To qualify, tips must be voluntary, not subject to negotiation and determined solely by the customer. Tips received in a specified service trade or business (SSTB) as defined under §199A(d)(2) are excluded unless the recipient is an employee of an employer that is not an SSTB. The Secretary may issue further regulations establishing additional requirements to determine, for instance, which rule dominates in complicated cases.

Discussion: In a Medspa business, a nurse (healthcare – SSTB industry) works in a spa setting (non-SSTB) administering Botox injections. Which will rule? The spa, which is a typical setting for tips, or the fact that the employee is from an SSTB industry? Will the nurse's tips be eligible for exclusion? Beginning in 2026, IRS withholding tables will be updated to reflect the new deduction. Employers who pay tips will face increased reporting requirements, including disclosing the amount of tips and the recipient's occupation. Additionally, the bill expands the FICA tip credit to cover beauty service businesses, such as hair, nail, spa and esthetic services.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Example

Maria works full-time as a restaurant server in Texas, where she earns:

- Base wage: \$2.13/hour x 2,000 hours = \$4,260
- Tips: \$150/day x 5 days/week x 50 weeks = \$37,500
- Total earnings: \$41,760

The table below compares Maria's 2025 federal tax liability across five reporting and legislative scenarios. Each example highlights the interaction between income inclusion, standard deduction levels and the \$25,000 tip deduction with FICA consistently applied to all reported income.

Scenario	Reported Income	Deductions	Taxable Income	Income Tax	FICA Tax (7.65%)	Total Tax	Compliant/ Non-compliant
1. TCJA – Full Tip Reporting	\$41,760	\$15,750	\$26,010	\$2,883	\$3,195	\$6,078	Compliant
2. TCJA – 50% Tips Reported	\$23,010	\$15,750	\$7,260	\$726	\$1,760	\$2,486	Non-compliant
3. TCJA – 75% Tips Reported	\$32,385	\$15,750	\$16,635	\$1,758	\$2,477	\$4,235	Non-compliant
4. Post-TCJA Expiration	\$41,760	\$13,600	\$28,160	\$3,150	\$3,195	\$6,345	Compliant
5. OBBA – \$25,000 Tip Deduction	\$41,760	\$40,750*	\$1,010	\$101	\$3,195	\$3,296	Compliant

Notes:

- Under scenario five (OBBA), Maria deducts ***\$25,000 of reported tips plus the standard deduction**, reducing her taxable income dramatically.
- FICA tax remains due on all reported tips, regardless of the deduction.
- Scenarios two and three reflect common but **noncompliant** tip underreporting, shown here for comparison.
- These amounts are an approximation.

Takeaways

Feature	Summary
Deduction limit	Up to \$25,000 per year in qualified cash tips; available above-the-line to both itemizers and non-itemizers
Eligible occupations	Must be in a trade or business where tips were customarily received on or before Dec. 31, 2024, as designated by the Secretary of the Treasury
Income phaseout	Deduction reduced by \$100 for every \$1,000 (or fraction thereof) over \$150,000 MAGI (single) or \$300,000 (joint)
MAGI definition	AGI increased by amounts excluded under §§ 911, 931 or 933
Excluded trades	Tips received in an SSTB (as defined under §199A) are excluded unless recipient is an employee of a non-SSTB employer
Tip criteria	Tips must be voluntary, non-negotiated and determined solely by the customer
Timeframe	Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029
Reporting and substantiation	Tips must be reported on IRS-acceptable forms (e.g., Form 4137, W-2, 1099-NEC, 1099-K); taxpayer must provide a valid SSN

Note: In August 2025, the U.S. Department of the Treasury and IRS released preliminary guidance identifying occupations eligible for the new “no tax on tips” deduction created under H.R. 1. The detailed list clarifies which jobs are considered tipped occupations for purposes of the provision, such as restaurant servers, bartenders, salon and spa workers, and other service roles where tips are customary. This guidance will give taxpayers, employers, and practitioners a more transparent framework ahead of the 2025 filing season. See the complete list here: [Tipped-Occupations-Detailed-8-27-2025.pdf](#). The IRS notes that the list may be updated as further feedback and regulatory developments occur.

No tax on overtime – §70202

This is a temporary deduction effective for tax years 2025-2028. Overtime compensation received during the taxable year is reported separately on either Form W-2 [§6051(a)(19)] or on an information return [§6041(d)(4)] and is temporarily deductible from taxable income. Only overtime that qualifies under Section 7 of the *Fair Labor Standards Act of 1938* is eligible; that is, pay for hours worked in excess of the standard workweek, calculated at a rate above the individual’s regular hourly rate, commonly called time-and-a-half or premium pay.

Importantly, qualified overtime compensation excludes any amount categorized as qualified tips under §224(d) of the *Fair Labor Standards Act*.

Deduction limitations

The deduction is subject to two primary limitations, a dollar cap and an income-based phaseout.

First, the maximum deduction is \$12,500 for single filers and \$25,000 for MFJ.

Second, the deduction is gradually reduced for higher-income taxpayers. For every \$1,000 that a taxpayer’s MAGI exceeds \$150,000 (\$300,000 MFJ), the deduction is reduced by \$100.

For this purpose, MAGI includes AGI increased by any amounts excluded under §§911, 931 or 933.

Phase-out Ranges for Overtime Deduction				
Filing Status	Maximum Deduction	Phase-Out Begins at MAGI	Fully Phased Out at MAGI	Phase-Out Rate
Single	\$12,500	\$150,000	\$275,000	\$100 reduction per \$1,000 over threshold
MFJ	\$25,000	\$300,000	\$550,000	\$100 reduction per \$1,000 over threshold

Additional requirements

The deduction is permitted only when the taxpayer includes the recipient's SSN on the return [(§225(d)(1)]. Additionally, in the case of married individuals as defined under §7703, the deduction is available solely if the taxpayer and spouse file a joint return.

Example

Maria is a restaurant shift supervisor earning \$20/hour. In 2025, she works 250 hours of overtime at time-and-a-half.

- Regular pay rate: \$20/hour
- Overtime pay rate: \$30/hour $[(\$20 + (.5 \times 20))]$

To calculate the amount of overtime Maria may deduct, consider only the amount above her regular pay rate, or \$10, commonly called premium portion.

Deductible overtime = $\$10 \times 250 \text{ hours} = \$2,500$.

Maria, whose AGI is \$90,000, includes her SSN and all relevant info on her tax return and can deduct \$2,500 from her taxable income under this section.

Example

Jason is a high-income software engineer earning \$20,000 of overtime pay in 2025. Jason and his spouse have a joint AGI of \$325,000, which exceeds the \$300,000 MFJ income cap. His deduction will phase out at a rate of \$100 per \$1,000 over the cap. The excess amount over MAGI is $\$25,000 = \$325,000 - \$300,000$.

The amount Jason can deduct is calculated as follows: $\$25,000 / \$1,000 = 25 \times \$100 = \$2,500$

Jason's reduced deduction = $\$25,000 - \$2,500 = \$22,500$

He also forgot to include his SSN on his return, which causes him to lose the entire deduction due to compliance rules under §225(d).

Effective date: Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

Practitioner tip: Many payroll companies total overtime separately. Employees should bring in their last paystub of the year to see if the total is captured.

Additional notes

- Non-itemizers can also claim this deduction.
- Abuse prevention: IRS is authorized to regulate and prevent abuse, such as recharacterizing wages as "overtime".

Deductible car loan interest – §70203

For tax years 2025 through 2028, interest paid on a loan to purchase a qualifying passenger vehicle for personal use may be deducted under a temporary provision in §163(h)(2). To qualify, the loan must be incurred after Dec. 31, 2024, and secured by a first lien on the vehicle. The interest is only deductible if the taxpayer includes the vehicle's identification number (VIN) on their return. Refinancing of such loans is also eligible for the deduction, but only to the extent the refinanced amount does not exceed the original loan principal.

However, the deduction is subject to several exclusions. Interest on loans for fleet sales, commercial-use vehicles, leased vehicles, salvage-title vehicles or vehicles intended for scrap or parts is not deductible. Additionally, loans from related parties, defined under §267(b) or §707(b)(1), are excluded from eligibility.

Deduction limits

The deduction is capped at \$10,000 of interest per taxable year. It is also phased out for higher-income taxpayers. The phaseout begins when a taxpayer's MAGI exceeds \$100,000 (\$200,000 for joint filers). The allowable deduction is reduced by \$200 for every \$1,000 (or part thereof) of MAGI above the applicable threshold.

Car Loan Interest Deduction Phase-Outs				
Filing Status	Max Deductible Interest (per year)	Phase-Out Begins at MAGI	Fully Phased Out at MAGI	Rate
Single	\$10,000	\$100,000	\$150,000	Reduce by \$200 for every \$1,000 over threshold
MFJ	\$10,000	\$200,000	\$250,000	Same: \$200 reduction per \$1,000 MAGI over threshold

Qualified vehicle definition

To qualify, the vehicle must be intended for the taxpayer's original use and primarily manufactured for use on public roads. Eligible vehicles include cars, minivans, vans, SUVs, pickup trucks and motorcycles, as long as they have at least two wheels and a gross vehicle weight rating (GVWR) under 14,000 pounds. The vehicle must also be classified as a motor vehicle under the *Clean Air Act* and the final assembly must be in the United States. Final assembly means the process by which a manufacturer produces a vehicle at or through the use of a plant, factory or other place from which the vehicle is delivered to a dealer with all the component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

Availability to non-itemizers

Importantly, this deduction is available to both itemizers and non-itemizers. Under §63(b)(7), taxpayers who do not itemize need to monitor the IRS draft or final 2025, Form 1040, for how to deduct this below-the-line interest.

Effective dates: Applies to tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029.

NATP observation: The interest incurred on business-use vehicles remains deductible for the percentage of business use of that vehicle(s) on the business return associated with the use of that vehicle(s).

As this provision allows a deduction for personal-use interest, and the taxpayer also uses the vehicle for business, the following combined treatment is reasonable:

- The business-use portion will go on Form 1040, Schedule C, *Profit or Loss From Business*, if self-employed, or allocated via K-1's for partnerships or S-corporations.
- As the OBBBA permits a personal-use deduction for both itemizers and non-itemizers, additional IRS guidance is needed to clarify how the remaining non-business portion can be properly deducted on Form 1040.

Trump accounts – §70204

A new long-term savings vehicle, referred to as Trump Accounts, has been established to support financial education, retirement readiness and asset accumulation for individuals under age 18 for whom a valid SSN has been issued. These accounts are structured as modified traditional IRAs under §408(a), incorporating distinct eligibility, contribution and distribution rules designed for minors.

A one-time \$1,000 deposit will be made into accounts opened for qualifying children born after Dec. 31, 2024, and before Jan. 1, 2029. Eligibility is restricted to individuals under age 18 (but only those individuals born between the years mentioned above will receive a \$1,000 deposit). Contributions to Trump Accounts are permitted only while the beneficiary is under age 18, and distributions are prohibited until the calendar year in which the beneficiary turns 18. Additionally, contributions must be explicitly designated as Trump Account contributions at account creation. Following the legislation's enactment, a mandatory 12-month waiting period applies before contributions may begin.

Annual contributions are limited to \$5,000 per beneficiary, not including rollovers. This limit is indexed for inflation beginning in 2028 and will be rounded to the nearest \$100. Contributions may be made by parents, employers, charitable organizations and governmental bodies, subject to the annual contribution limit. Employer contributions on behalf of minor employees are excludable from gross income under the newly added §128. Charitable and government entities may also make general funding contributions based on specified eligibility requirements, such as birth year or geographic region.

Earnings on investments within Trump Accounts grow tax-deferred. While the accounts generally follow traditional IRA treatment, additional IRS guidance is expected to clarify tax implications upon distribution. Permissible investments are restricted to mutual funds and indexed ETFs, reinforcing the program's long-term, education-focused savings intent.

To encourage early adoption, §6434 establishes a contribution pilot program that offers a \$1,000 nonrefundable tax credit to initiate a Trump Account for eligible children born between Jan. 1, 2025, and Dec. 31, 2028. A total of \$410 million has been appropriated to fund this program, available through Sept. 30, 2034.

Example

Emma is born in 2026. Her parents elect to open a Trump Account.

- When she is born, the Treasury deposits a \$1,000 pilot program credit into her account.
- Her parents contribute \$2,500 annually.
- At ages 16 and 17, her employer contributes \$2,500 each year while she works a summer job. Employer contributions are authorized under §128 and excluded from her gross income.
- Over 17 years, total contributions equal approximately \$50,000.
- Funds are invested in an appropriate index fund.
- At 18, she begins using the Trump Account for any purpose.

Impact: By age 18, Emma has accumulated more than \$70,000 in tax-deferred savings, funded through family, employer and public contributions, without incurring personal tax liability.

Example:

Noah, born in 2027, has a Trump Account, however:

- His family contributes \$7,000 in a single year, exceeding the \$5,000 annual contribution limit
- At age 16, they attempt to withdraw \$2,000 from the account to purchase a laptop

Outcome:

- The excess contribution results in a 100% tax on earnings attributable to the excess amount
- The early withdrawal is not permitted and may be subject to penalties under §530A(f)

Treatment of contributions for tax purposes

- The investment in the contract under §72 excludes:
 - Government-funded pilot contributions under §6434
 - Charitable/governmental contributions under §139J
 - Employer contributions under §128
- This exclusion affects how taxable amounts are calculated upon distribution.

Features of the Trump Account

- Employer and charitable contributions may be excluded from the beneficiary's gross income if eligibility requirements are met.
- Investment earnings grow tax-deferred, and qualified distributions are not taxable.
- Trustees are subject to strict reporting, compliance and recordkeeping requirements under §530A(i).
- Anti-fraud penalties apply to improper or fraudulent claims of the \$1,000 contribution credit under §6434, including penalties under §6659.

In addition to its core structure as a child-focused, tax-advantaged savings account, the Trump Account established under §530A includes highly specific contribution, custodianship, reporting and distribution rules. The following table distills statutory references and compliance conditions essential for accurate interpretation and administration.

New coverage for postsecondary credentialing expenses – §70414

Expands §529 plan coverage to include expenses related to obtaining industry-recognized postsecondary credentials as qualified higher education expenses under §529(e)(3)(C), adding them to the list formally reserved only for traditional college expenses.

Newly eligible postsecondary credential expenses:

- Tuition, fees and materials for approved training programs
- Testing fees for credential or license exams
- Continuing education is needed to maintain credentials

Qualifying programs must be:

- On a state-approved workforce list under §122(d) of the *Workforce Innovation and Opportunity Act*
- Listed in the Veterans Benefits Administration's WEAMS directory

- Examination is required to obtain or maintain the credential widely recognized as providing reputable credentials in the occupation
- Certified by the Secretary, after consultation with the Secretary of Labor as being a reputable program for obtaining a recognized postsecondary credential

Qualifying credentials include:

- Industry-recognized certificates or licenses
- Apprenticeship completion certificates
- Occupational or professional licenses issued by a state or the federal government
- Credentials recognized under the Workforce Innovation and Opportunity Act, Section 3

Effective date: Applies to §529 distributions made after July 4, 2025.

Takeaway

These provisions significantly expand the flexibility and utility of 529 accounts, allowing families to use funds not only for college, but also for K-12 education, vocational training, credentialing and licensing programs.

Note: The new law does not allow §529 plan funds to be used for homeschooling expenses. Even though it expands the scope of qualified education costs for other types of schooling, it omits homeschool costs such as curriculum or materials. Families who homeschool won't be able to use §529 funds for those expenses under these amendments.

Adoption credit

Enhancement of the adoption credit – §70402

Refundability added

Under prior law, the adoption credit under §23 was nonrefundable, meaning it could only reduce tax liability to zero. Any unused amount could be carried forward for up to five years.

Beginning with tax years after Dec. 31, 2024, up to \$5,000 of the adoption credit is refundable annually, even if a taxpayer has no tax liability. If a taxpayer adopted two children in the same year, the total amount of refundable adoption credit is \$5,000 total, rather than \$5,000 per child. Any credit above \$5,000 remains nonrefundable and subject to carry forward under existing rules which limit the nonrefundable portion of the carryforward to five years. The maximum adoption expenses for 2025 are \$17,280 (inflation-adjusted) per child. For 2025 the income phaseout begins at \$259,190 and the credit is eliminated once a taxpayers MAGI is at \$299,190 and will be adjusted for inflation thereafter.

Effective date: Applicable for tax years beginning after Dec. 31, 2024.

Inflation adjustments modified

Previously, the adoption credit and related income phaseout thresholds were indexed for inflation using 2001 as the base year. The amendment maintains these adjustments but adds a special inflation adjustment for the new \$5,000 refundable portion, using 2024 as the base year with indexing beginning in 2025.

If the inflation-adjusted amounts are not multiples of \$10, they will be rounded to the nearest \$10.

Carryforward rules clarified

The refundable portion of the credit may not be carried forward; only the nonrefundable portion may be applied to future tax years.

The first \$5,000 of the adoption credit (as made refundable by the OBBBA starting in 2025) is refundable only in the year it is claimed. If the taxpayer doesn't use it that year, (for instance, if they don't file or miss the tax deadline) it cannot be carried forward. In this case, the refundable portion of the adoption credit is lost.

Effective date: Applicable for tax years beginning after Dec. 31, 2024.

Expansion of special needs adoption

Section 70403 authorizes Indian tribal governments to determine whether a child qualifies as having special needs for purposes of the adoption credit. This determination is not based on a uniform federal definition. Instead, the definition of a child with special needs is established at the state level, and it varies by state. Taxpayers must refer to the specific criteria set by the relevant state or tribal authority to determine whether a child meets the special needs requirements for the credit.

Effective date: Applicable to tax years beginning after Dec. 31, 2024.

Sunsetting of individual green energy tax credits – §§70501-70506

Several high-profile energy-related tax credits, many of which were recently expanded or reinstated, are scheduled for repeal under OBBBA. These changes may impact tax planning for electric vehicle purchases, residential solar systems and energy-efficient home improvements. The expiration of these incentives reduces the availability of energy-related tax savings after 2025.

Tax professionals should take note of the key termination dates and advise clients accordingly as these provisions wind down.

The table below summarizes the repeal of select energy-related tax credits and deductions under H.R. 1. Each provision has a distinct effective date for its phaseout or repeal, affecting eligibility for both individuals involved in clean energy investments and installations.

Note: [Fact Sheet 2025-05](#) released on Aug. 21, 2025, contains additional information regarding the expiration of energy credits.

Credit	Termination Rule	Practical Cut-Off
Clean vehicle credit	Ends for vehicles acquired after Sept. 30, 2025	Binding contract before deadline may still qualify if delivery in 2026
Previously owned clean vehicle credit	Ends for vehicles acquired after Sept. 30, 2025	Same acquisition rule as new clean vehicle credit
Residential clean energy credit	Ends for expenditures made after Dec. 31, 2025	Payment and work must be made by deadline
Energy efficient home improvement credit	Ends for property installed after Dec. 31, 2025	Must be fully installed/usable by deadline
Alternative fuel vehicle refueling property credit	Ends for property installed & operational after June 30, 2026	Must be installed and functional by deadline

Determining factors:

Clean vehicle credit

- Credit terminated for vehicles acquired after Sept. 30, 2025
- Under the new rule, the credit ends for vehicles **acquired (purchased)** after Sept. 30, 2025. “Placed in service” typically refers to the date the taxpayer accepts delivery of the vehicle. Therefore, for this credit, if a taxpayer enters into a binding contract to acquire a vehicle before Sept. 30, 2025, and a payment on or before Sept. 30, but takes delivery in 2026, the credit could still apply.

Previously owned clean vehicle credit

- Credit terminated for vehicles acquired after Sept. 30, 2025

Residential clean energy credit (solar-related)

- This credit is based on when the work is finished, not when it is paid for.
- If the installation of clean energy property is completed after December 31, 2025, the credit is not available, even if you paid in full before that date.
- For projects involving the construction or reconstruction of a home, the credit applies only if your first use of the home begins on or before December 31, 2025.
- To qualify for the credit, the work (installation or original use of the home) must be finished by the end of 2025. Prepaying for property or construction before that date will not lock in the credit.

Energy efficient home improvement credit

- Credit terminated if installed after Dec 31, 2025 (not merely purchased or contracted). Installation must be completed and available to use by Dec 31, 2025. Work completed after this date would not be eligible, even if contracted earlier.

Alternative fuel vehicle refueling property credit

- Credit terminated if fully installed and available to use, after June 30, 2026. To qualify, equipment must be fully installed and functional by June 30, 2026.

Ending unemployment payments to jobless millionaires – \$73001

This provision bars the use of federal funds to pay unemployment compensation to individuals whose earnings during their base period equal or exceed \$1 million. The base period is the timeframe used to determine an individual's eligibility and benefit amounts for unemployment purposes.

The prohibition applies broadly across all federal unemployment programs, not just traditional state-based insurance. It includes federal programs for civilian employees, ex-service members, extended benefits, temporary federal extensions and other federally designated unemployment initiatives. In addition to disallowing benefit payments, the restriction also prohibits using federal funds to cover administrative costs related to processing such claims.

To enforce this rule, all unemployment applicants must self-certify on their application that their wages during the base period were below \$1 million. State agencies must also cross-check income information through available verification systems to the extent practicable.

If benefits are paid in error to individuals who exceed the income threshold, states must initiate recovery procedures to reclaim those funds. This prohibition's effective date begins with weeks of unemployment occurring on or after the act's enforcement; the restriction is not retroactive.

Effective date: Applies to weeks of unemployment beginning on or after the date of the enactment of the OBBBA (July 4, 2025).

American Rescue Plan Act (ARPA) and Affordable Care Act (ACA) Changes for 2026 Premium Tax Credit

8.5% of household income provision ends Dec. 31, 2025 (Not a provision of the OBBBA)

The *American Rescue Plan Act* (ARPA) and the *Inflation Reduction Act* (IRA) temporarily removed the 400% of the federal poverty line (FPL) cutoff, making subsidies available even above that line. It allowed premium subsidies if the premiums paid by the taxpayer were greater than 8.5% of income, even if the taxpayer was above 400% FPL.

These enhanced premium tax credit (PTCs) rules expire at the end of 2025.

Beginning in tax year 2026, only individuals and families with income between 100% and 400% of the FPL are eligible for the credit.

If MAGI exceeds 400% of FPL, the taxpayer will lose the credit altogether, even if the taxpayer's plan premiums paid are over 8.5% of the taxpayer's income. For those under 400% FPL, the maximum household contribution remains at 8.5% of MAGI for benchmark silver plans.

Example: calculation before expiration of 8.5%

Total income: \$150,000

Total premiums paid: \$14,500

Family size: 2

Lives in Michigan

As they live in Michigan, the taxpayer will use Table 1.1 from Form 8962, *Premium Tax Credit*, instructions. With a family size of 2, per Table 1.1, this amount is \$19,720. This amount is multiplied by 4, which equals \$78,800. As this amount is less than the \$150,000 of income, the taxpayers are above 400% of FPL.

The taxpayers paid \$14,500 in premiums. 8.5% of income is \$12,750. As the total premiums paid are greater than 8.5% of income, the taxpayer can still receive the premium subsidies even if their FPL is above 400%.

Example: calculation after 2025

- The income, premiums paid, family size, and where they live are the same as the above
- The FPL is above 400%
- The insurance premiums paid are above 8.5% of income

As the FPL is above 400%, premium subsidies are not allowed even if the premiums paid are above 8.5% of income.

Beginning with the 2026 tax year, the Act makes substantial changes to the Affordable Care Act's premium tax credit (PTC) rules by tightening eligibility and repayment requirements. Lawfully present aliens below the poverty line will lose access to subsidies, certain special enrollment period (SEP) coverage will no longer qualify for PTCs, and repayment caps on excess advance credits will be eliminated, requiring full repayment regardless of income. Then, starting in 2027, eligibility for PTCs will narrow further, with credits available only to a defined group of "eligible aliens," excluding groups such as DACA recipients, TPS holders, and many nonimmigrant visa holders.

Disallowing premium tax credit in case of certain coverage enrolled in during special enrollment period – §71304

Healthcare.gov and many state marketplaces currently provide a year-round special enrollment period (SEP) for taxpayers whose household income doesn't exceed 150% of the FPL. This low SEP is available even if the taxpayer hasn't experienced a life event or change of circumstances, such as marriage, divorce, birth, etc.

With the changes in the OBBBA, individuals who gain access to a special enrollment period (SEP) solely due to income projections, without experiencing a qualifying life event, are no longer eligible for the PTC. This applies to SEPs triggered by income-based criteria rather than a concrete life change.

For example, if a taxpayer enrolls in a health plan through an SEP merely because their income is projected to fall below 150% of the federal poverty line but has not experienced a life event such as job loss, divorce or relocation, they are disqualified from claiming the PTC.

This provision intends to curb potential abuse of SEPs to obtain subsidized health coverage without a legitimate change in circumstances. By narrowing eligibility, the rule reinforces that PTCs are intended to assist individuals facing specific, verifiable life changes, not those enrolling based solely on income level.

Effective date: Applicable to tax years after Dec. 31, 2025.

Implication: It reduces the risk of SEP abuse to obtain subsidized coverage without real eligibility. It also limits PTCs to those enrolling due to specific, documentable life changes.

Eliminating limitation on recapture of advance premium tax credit (APTC) – §71305

Beginning after Dec. 31, 2025, taxpayers will no longer benefit from repayment caps on excess advance premium tax credits (APTCs). Under current law, individuals who receive more APTC than they are ultimately eligible for, often due to underestimating income, are subject to repayment limits based on their income level. These limits, designed to protect lower-income taxpayers, are codified under §36B(f)(2)(B).

The repeal of this provision eliminates the income-based caps. As a result, all taxpayers, regardless of income, must repay the full amount of any excess advance premium tax credit received. The OBBBA does not eliminate the APTC. However, for tax year 2025, the existing caps still apply based on income levels (e.g., capped repayment for individuals below 400% FPL and no cap above 400% FPL). Starting with the tax year 2026, those caps are fully repealed, meaning that taxpayers must repay the entire excess APTC received, regardless of income level.

Effective date: For tax years beginning after Dec. 31, 2025.

Implication: It strengthens taxpayers' incentive to estimate income accurately when applying for coverage. It shifts the financial burden of overpayment from the government to the individual.

Takeaways

- Stricter verification and Exchange compliance rules are intended to prevent improper PTC payments.
- Credits during SEPs are restricted to ensure only qualified life events trigger eligibility.
- All excess APTCs must be repaid in full, increasing accountability for income reporting.

PTC disallowed to aliens below poverty line who are ineligible for Medicaid – §71302

- To be eligible for the premium tax credit (PTC), a taxpayer must generally have household income of at least 100% of the federal poverty line for a family of the size involved (the “applicable poverty line”).

- However, under current law, this income threshold doesn't apply to an alien who is lawfully present in the U.S. if the taxpayer isn't eligible for Medicaid under Title XIX of the Social Security Act because of the taxpayer's status as an alien.
- The Act eliminates this special income threshold rule for lawfully present aliens. (Act Sec. 71302(a), amending Code Sec. 36B(c)(1))
- This change is effective for tax years beginning after Dec. 31, 2025.
- **§71301** – Beginning with tax years after Dec. 31, 2026, the Act narrows who qualifies as an “eligible alien” for purposes of the premium tax credit (PTC). Only certain categories, such as lawful permanent residents, Cuban-Haitian entrants, and Compact of Free Association residents will qualify.

Requiring verification of eligibility for the premium tax credit – §71303

Recent changes to §36B impose new verification requirements that directly affect when an individual may be treated as having a coverage month for purposes of the premium tax credit (PTC). Under the updated rules, an individual is not considered to have a coverage month unless the Health Insurance Exchange confirms several key eligibility factors. These include verification of household income, family size, lawful presence, residency and eligibility for minimum essential coverage. The Secretary of Health and Human Services may also prescribe additional verification factors.

Importantly, if eligibility is verified after the initial enrollment, the law permits retroactive treatment of earlier months as valid coverage months. Once verification is complete, the individual can claim the PTC for those months. However, until these eligibility requirements are confirmed, no credit is available, even though individuals are not barred from enrolling in a qualified health plan. Enrollment is still permitted; it is only the advance payment or claim of the credit that is suspended pending verification.

The system is flexible enough for special enrollment scenarios. Specifically, the IRS may waive certain verification requirements in cases involving changes to family size, such as marriage or the birth of a child.

A separate provision in §36B(c)(6) disallows the credit for any month when the exchange fails to meet federal data reporting standards. Thus, even if an individual meets all personal eligibility criteria, the failure of the exchange to properly report data may disqualify a month from PTC eligibility.

Looking ahead, a new requirement will strengthen the pre-enrollment verification process in 2028. Beginning that year, exchanges must implement a mechanism for applicants to verify eligibility prior to enrollment, with the verification window opening no later than Aug. 1 of the preceding calendar year.

Effective date: Taxable years beginning after Dec. 31, 2027.

Implication: This imposes stricter up-front controls to prevent improper PTC payments by ensuring eligibility is proven before credits are granted. It mirrors income verification rules for other federal benefits.

Health savings accounts (HSAs)

The OBBBA brings several meaningful updates to Health Savings Accounts (HSAs). Beginning January 1, 2026, individuals who enroll in ACA Bronze and Catastrophic plans will be newly eligible to contribute to HSAs, as these plans are now considered High-Deductible Health Plans. The legislation also permanently preserves the longstanding exception allowing telehealth services to be covered before meeting the deductible without affecting HSA eligibility, effective retroactively to the 2025 plan year. Additionally, HSA funds can now be used tax-free to cover Direct Primary Care (DPC) membership fees, capped at \$150 per month for individuals or \$300 per month for families. Notably, several previously proposed changes, such as allowing HSA contributions for Medicare Part A enrollees or including fitness expenses, were omitted from the final version of the law.

HSAs allowed with bronze and catastrophic health plans – §71307(a)

Section 223(c)(2) was amended to expand the definition of a high-deductible health plan to include certain individual coverage plans offered through the *Affordable Care Act* (ACA) exchanges. Specifically, individuals enrolled in Bronze or Catastrophic plans will be eligible to contribute to health savings accounts (HSAs), provided the other HSA eligibility requirements are met.

This addition functions as an exception to the general rule in §223(c)(2)(A), allowing specified Bronze and Catastrophic Exchange plans to qualify as high-deductible health plans (HDHPs) regardless of whether they meet the deductible and out-of-pocket thresholds normally required.

This change stems from the addition of subparagraph (H) to §223(c)(2), which explicitly includes two ACA plan types within the scope of HDHPs for HSA purposes:

- Bronze plans, as defined in ACA §1302(d)(1)(A), are structured to cover approximately 60% of the total average cost of healthcare. These plans typically feature high deductibles and lower monthly premiums.
- Catastrophic plans, defined under ACA §1302(e), are generally available to individuals under age 30 or those who qualify for a hardship exemption. These plans offer low premiums and high deductibles, covering essential health benefits only after reaching a significant out-of-pocket threshold.

Effective date: Applicable to months beginning after Dec. 31, 2025.

Social Security Fairness Act

The *Social Security Fairness Act* (SSFA), signed into law on Jan. 5, 2025, eliminates the windfall elimination provision (WEP) and the government pension offset (GPO), which previously reduced Social Security benefits for individuals receiving pensions from non-Social-Security-covered employment.

The enactment of the SSFA marked a major shift in Social Security policy, as individuals who were previously penalized due to their non-covered pensions could now receive their full benefits without any reduction. This change positively affects over 3.2 million retirees, including teachers, firefighters, police officers and certain federal employees.

On Feb. 25, 2025, the Social Security Administration (SSA) paid retroactive benefits and increased monthly benefits to people whose benefits were affected by the WEP and GPO.

If a beneficiary or taxpayer was due retroactive benefits as a result of the act, they would receive a one-time retroactive payment deposited into the bank account the SSA had on file at the end of March 2025. This retroactive payment would cover the increase in their benefit amount back to January 2024, when WEP and GPO stopped being applied.

As Social Security benefits are paid one month behind, most affected beneficiaries began receiving their new monthly benefit in April 2025 (for their March 2025 benefit). Anyone whose monthly benefit was adjusted or received a retroactive payment was mailed notice from SSA explaining the benefit change or retroactive payment.

Note: A taxpayer may have received two mailed notices: the first when WEP or GPO was removed from their record and the second when their monthly benefit amount was adjusted for their new monthly payment amount. They may have received the retroactive payment before receiving the mailed notice.

SSA has been able to expedite the retroactive payments due to automation. However, for the many complex cases that could not be processed automatically, additional time was required to manually update the records and pay both retroactive benefits and the new benefit amount. Beneficiaries were urged to wait until April to inquire about the status of their retroactive payment since these payments would be processed incrementally throughout March.

What was the WEP?

The WEP was a rule within the Social Security system that reduced a person's Social Security retirement or disability benefit if they also received a pension from employment not covered by Social Security. This typically applies to jobs where FICA taxes were not paid, such as public sector roles including teachers, police officers and firefighters.

Enacted in 1983, WEP was implemented to address what the SSA considered a “windfall” in cases where individuals worked in both covered and non-covered employment. Under the standard benefit formula, these individuals could appear to be low lifetime earners and therefore be entitled to a disproportionately high replacement rate (explained below), despite having significant income from their non-covered pension. WEP corrected this by modifying the benefit formula.

When taxpayers apply for Social Security, SSA uses a formula to calculate how much they will receive each month. This formula is based on how much they earned during their working years. First, they figure out AIME, average indexed monthly earnings, which is used to determine their monthly retirement benefit. Once SSA knows taxpayers’ AIME, it splits it into chunks (called bend points) and applies different percentages to each chunk to calculate the benefit. See the table below. The 90% rate on the first portion of AIME is meant to help taxpayers with lower average earnings. It gives them a larger share of their income back in retirement, like a bonus for lower-income workers. This is how the government builds the taxpayers’ benefit amount, by adding up the three parts. For example, if a taxpayer’s AIME was \$1,100, they would get $\$1,100 \times 90\% = \$990$, which becomes the most significant part of their monthly Social Security check.

Under WEP, affected public sector workers receive a reduced percentage (less than the standard 90%) of the first portion of their AIME. For 2025, that percentage could have dropped to as low as 40%, depending on the number of years the individual had “substantial earnings” in Social Security-covered employment.

Portion of AIME	Percentage Used	What It Means
First \$1,174	90%	Taxpayers get 90% of this amount
\$1,175 to \$7,078	32%	Taxpayers get 32% of this portion
Over \$7,078	15%	Taxpayers get 15% of anything above this

What was the GPO?

The GPO was a federal provision that reduced Social Security spousal or survivor benefits for individuals who also receive a pension from government employment not covered by Social Security. Unlike the WEP, which affected a person’s own benefit, the GPO applied to benefits derived from another person’s work record, such as a current, former or deceased spouse. Enacted in 1977, the GPO was intended to create parity with the dual entitlement rule, which limited spousal benefits for Social Security recipients. Under the GPO, Social Security spousal or survivor benefits were reduced by two-thirds of the recipient’s government pension from non-covered work. For example, if someone received a \$1,500 monthly pension from a non-Social Security-covered government job and was eligible for a \$1,200 spousal benefit, their Social Security benefit would be reduced by \$1,000 (two-thirds of \$1,500), resulting in a remaining benefit of only \$200. In many cases, unlike WEP, the GPO could reduce the Social Security benefit to zero. This provision disproportionately affected public sector employees, particularly women who may have spent their careers in non-covered positions but would otherwise qualify for benefits through a spouse’s earnings under Social Security.

How much can a person's monthly benefit increase?

The monthly benefits a taxpayer receives under the SSFA can vary. This depends on factors like the type of Social Security benefit they receive and the size of their pension. As a result, some people may see just a small increase in their benefits, while others might get an extra \$1,000 or more each month.

The repeal of WEP and GPO could also create new tax considerations for some retirees. Many recipients received large retroactive lump-sum payments in 2025, which could increase their provisional income and lead to higher taxation of Social Security benefits or other income-based thresholds, such as Medicare income-related monthly adjustment amount (IRMAA) brackets. Provisional income is a special calculation the IRS uses to determine how much of a taxpayer's Social Security benefits are taxable. It is not a line item shown on the tax return, but it is crucial in assessing tax liability on these benefits. $\text{Provisional income} = \text{AGI} + \text{tax-exempt interest} + \frac{1}{2} (\text{Social Security benefits})$

As a result, you as the tax professional should consider helping clients apply the lump sum election (LSE) strategy, which allows them to spread the taxation of retroactive Social Security benefits across the years to which the benefits were originally attributable. This strategy may potentially reduce their total tax liability and is explained further below.

The following chart shows the tax impact of Social Security benefits before and after the SSFA.

Feature	Before SSFA	After SSFA
WEP applied?	Yes, it reduced individual's own Social Security benefit	No, benefit calculated using full standard formula
GPO applied?	Yes, it reduced or eliminated spousal/survivor benefits	No, spousal and survivor benefits paid in full
Retroactive benefits?	Not applicable	Yes, retroactive payments issued for benefits from 2024 onward
Taxable impact	Lower benefits generally meant lower Social Security taxation	Larger lump sums may increase taxable income without planning
Need for LSE?	No, minimal retroactive adjustments were made	Yes, it might help mitigate tax spikes from lump-sum payments
Planning implications	Complex benefit projections with reduced expectations	Increased income, need for proactive tax and retirement planning

What should people do now that the SSFA is law?

What taxpayers who were subject to the WEP or GPO need to do depends on their situation and the types of benefits for which they qualify.

- If the SSA has the taxpayer's mailing address and/or direct deposit details on record, they do not need to take any further action.
- Taxpayers should log in to their Social Security account to check if their mailing address and/or direct deposit information is correct and verify or update the information on record.
- If they cannot create an account, they should contact SSA to confirm or update existing records.
- If taxpayers are unsure whether they have applied for retirement, spousal or surviving spouse benefits, they might need to apply. The date they apply can affect when their benefits start.
- If they have never applied for retirement benefits because of WEP, or for spousal or surviving spouse benefits due to GPO, they will also need to apply. The most convenient way to apply is online at www.ssa.gov/apply. The survivor benefit application is not available online. Taxpayers need to call.

Note: For details and updates, check <https://www.ssa.gov/benefits/retirement/social-security-fairness-act.html>

Lump Sum Election (LSE)

History and legislative context

The LSE provision, found in §86(e), provides tax relief for retroactive Social Security benefits recipients. Prior to the LSE, taxpayers who received large and one-time lump sum payments often faced unexpectedly high tax bills. This was particularly difficult for individuals in lower income brackets who, under normal circumstances, would have owed little to no tax on their benefits.

The legislative intent behind §86(e) was rooted in fairness. Congress recognized that lump sum benefits were often attributable to prior years in which the taxpayer might have had significantly lower income. Taxing all of that income in the current year distorted the taxpayer's actual financial situation and created inequitable tax burdens. The LSE addresses this by allowing the taxpayer to allocate portions of the lump sum to the year in which the benefits were originally due, effectively simulating their tax liability if they received the benefits on time.

This approach aligns with the IRS's broader commitment to equitable treatment in taxation, particularly for retirees and others dependent on fixed incomes. It also reflects the evolving nature of Social Security payments, especially in light of legislation like the SSFA, which led to a spike in retroactive payments.

Note: This strategy does not require amending prior-year tax returns; instead, it adjusts the current-year tax liability to more accurately reflect the taxpayer's financial timeline.

Mechanics of the lump sum election

The LSE allows taxpayers to reduce their current-year taxable income by allocating a portion of their lump-sum Social Security payment to previous tax years. This can help avoid the higher tax brackets and the increased taxation of Social Security benefits that might otherwise occur.

To utilize the LSE, a taxpayer must first determine whether they are eligible. The lump-sum payment must include benefits that apply to one or more previous tax years. This is shown on Form SSA-1099, *Social Security Benefit Statement*, in the "Description of Amount in Box 3," which provides a breakdown by year. Next, the taxpayer should review IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, which includes Worksheets 1 through 4. These worksheets guide users through calculating how much of the lump sum is taxable under the LSE. Worksheet 1 helps determine provisional income for each applicable year. It is a special IRS formula that determines how much of the Social Security payment is taxable, including the prior years' portion.

Provisional income = AGI + tax-exempt interest + foreign earned income exclusion and adjustments + ($\frac{1}{2}$ Social Security benefit).

Worksheet 2 calculates the taxable portion of Social Security for those years. Worksheet 3 calculates how much of the lump sum amount would have been taxable if it had been received in the original year(s) it covers. Worksheet 4 compares the standard and LSE methods to identify potential tax savings. Once the worksheets are completed and the savings are confirmed, the taxpayer should report the results on Form 1040 or Form 1040-SR, checking the box on Line 6c. While the worksheets are not filed with the return, keeping them or attaching a summary statement is essential for IRS recordkeeping and audit purposes.

Note: Given the changes under the new law taking effect in 2025, which include significantly larger standard deductions and additional deductions for seniors, it may be more advantageous for some taxpayers to avoid electing a lump-sum payment of Social Security benefits under the *Social Security Act*. Electing a lump sum can result in retroactive income being taxed in a prior year when deductions were smaller, potentially pushing the taxpayer into a higher tax bracket or reducing eligibility for credits. By forgoing the lump-sum option and instead recognizing benefits only in the year received, taxpayers, especially seniors, can better leverage the enhanced deductions available in 2025 and beyond, potentially reducing overall tax liability.

LSE is not always beneficial: the importance of pre-election analysis

The LSE is a useful tax strategy; however, it does not guarantee a reduction in tax liability for every taxpayer. Its effectiveness relies on several factors, including the taxpayer's income levels during the years when the retroactive benefits apply.

If the taxpayer's income in those prior years was already high enough that 85% of their Social Security benefits would have been taxable anyway, the LSE usually offers little to no tax savings. Additionally, in cases where the lump sum amount is relatively small or the current year's income remains under the provisional income thresholds, the impact of the election may be insignificant. Before they choose the LSE, review the IRS Publication 915 worksheets or use tax software for a clear analysis. This will help ensure taxpayers' decisions are based on actual tax results, not assumptions. It allows both taxpayers and advisors to make the best choice.

Common mistakes that can be avoided

When applying for Social Security benefits through LSE, taxpayers can utilize the method to lower taxes if they follow the rules. However, many people make common mistakes that can lead to paying more taxes, delays in getting benefits, or having issues with the IRS. By knowing these mistakes and avoiding them, taxpayers can take full advantage of the LSE and make sure tax returns are accurate.

- **Reporting the entire lump sum without analysis**

Many taxpayers report the entire lump sum in the current year without considering the LSE. This can lead to paying more taxes than necessary.

- **Amending past returns are not necessary**

It's important to remember that the LSE only applies to the current tax year. Changing previous years' returns is incorrect and can cause delays in processing.

- **Failing to retain worksheets**

Even though taxpayers don't send in the worksheets, it's wise to keep them. The IRS might ask for these calculations if they are audited.

- **Incorrect use of provisional income**

Failing to understand how provisional income affects taxpayers' tax brackets can lead to mistakes when applying for the election. Make sure taxpayers are clear on how it works.

Situations when a taxpayer should take an LSE

Without the LSE, the taxpayer's entire lump sum counts in the year the income is received (2025). That could cause 85% of taxpayers' Social Security benefits to become taxable, push them into a higher tax bracket and increase their overall tax bill substantially. Suggest that they consider taking the LSE approach if all the following are true:

- Taxpayers' lump sum amount includes benefits for prior years
- Their SSA letter shows that part of their lump sum payment covers multiple years (2022-2024)
- They receive all of it in one tax year (likely 2025 or 2026)
- Taxpayers will see this clearly on their Form SSA-1099, which lists prior-year amounts
- Taxpayers had lower incomes in the earlier years
- In earlier years (2022-2024), their total income was low enough that none or only part of their Social Security benefits would have been taxable
- They were under the IRS "provisional income" thresholds: \$25,000 (single) or \$32,000 (married)

To see how to use LSE to calculate taxpayers' Social Security benefits, including worksheets, review [2024 Publication 915](#).

Example

Sarah, a retired teacher (non-covered pension), age 63, affected by WEP. SSFA passed in 2025, and SSA issues her \$18,000 lump sum covering 2022 (\$5,000), 2023 (\$6,000) and 2024 (\$7,000). She received the lump sum in 2025. Sarah's 2022-2024 yearly income was a pension of \$18,000/year and interest of \$2,000/year. Her 2025 total income increased from \$20,000 to \$30,000 from additional interest and does not include any taxable social security amount.

Without LSE (2025) pre-OBBA:

- The \$18,000 SS benefits are treated as 2025 income
- Provisional income = \$39,000 [$\$30,000 + \frac{1}{2} (\$18,000)$]
- Up to 85% of SS is taxable (exceeds threshold \$34,000 for single status)
- \$8,750 taxable (tax on SS)

(Calculation from the Social Security Benefit Worksheet, Form 1040)

- Taxable income: $\$30,000 + \$8,750 - \$15,000$ standard deduction = \$23,750
- 12% tax bracket, approximately \$2,621 in income tax

With LSE (spread out \$18,000 into the prior three years):

Year	SS Received	Other Income	Provisional Income	Tax on SS	Taxable SS
2022	\$5,000	\$20,000 = \$18,000 + \$2,000)	\$22,500 = \$20,000 + 0.5 (\$5,000)	\$0 (under threshold \$25,000)	\$0
2023	\$6,000	\$20,000	\$23,000 = \$20,000 + 0.5 (\$6,000)	\$0	\$0
2024	\$7,000	\$20,000	\$23,500 = \$20,000 + 0.5 (\$7,000)	\$0	\$0

Total tax on SS: \$0 (\$0 + \$0 + \$0) because all provisional income is under the base amount of \$25,000 for single status)

Compare non-taxable SS with LSE \$0 to amount taxable without LSE \$8,750.

Taxable income and income tax for:

2022: \$20,000 - \$12,950 = \$7,050 (\$703)

2023: \$20,000 - \$13,850 = \$6,150 (\$613)

2024: \$20,000 - \$14,600 = \$5,400 (\$543)

The income tax for the prior three years remains the same as Social Security benefit was not taxable in each year.

Note: Elect LSE if the retroactive lump sum spans multiple years and taxpayers' income in those years was lower. It lowers their income tax and can save them hundreds or even thousands in taxes.

Comparison with other tax mitigation tools

While the LSE is powerful, it should be considered alongside other tax strategies:

- Roth IRA conversions: Converting traditional IRA funds to Roth in low-income years can balance taxable income.
- Qualified charitable distributions (QCDs): For taxpayers over 70½, these reduce AGI and taxable SS by avoiding the addition of an RMD to income.

- Standard vs. itemized deductions: Timing medical expenses or charitable gifts to increase itemization in a high-income year.
- Tax bracket management: Coordinating timing of IRA withdrawals, capital gains, and SS income.

For example, a retiree expecting a large lump sum might hold off on capital gains realizations or Roth conversions in that year to stay within a lower bracket.

Medicare IRMAA exposure and planning considerations

Higher Social Security benefits due to the SSFA may push retirees into higher Medicare IRMAA brackets. For 2025, IRMAA surcharges apply if modified AGI exceeds \$103,000 for single filers or \$206,000 for married couples filing jointly. Even modest increases in AGI due to lump sum Social Security payments can cause retirees to face steep premium hikes for Medicare Parts B and D, potentially hundreds of dollars more per month.

LSE becomes vital in these cases. By spreading income across multiple years, retirees can remain under IRMAA thresholds or in lower tiers, thereby minimizing both tax and health care costs. This dual tax and medical planning benefit is a major reason LSE should be considered in any post-SSFA Social Security strategy.

Other implications of increased benefits

The repeal of WEP and GPO doesn't just increase retirees' annual income. It may also increase the size of their estate. This change should prompt a review of wills, trusts and beneficiary designations. Retirees may now accumulate more savings or have greater charitable capacity. Those aged 70½ or older may consider qualified charitable distributions (QCDs) from IRAs to offset new income and reduce taxable estates.

Higher lifetime income may also affect strategies for Roth conversions, required minimum distributions or the timing of asset sales. Financial advisors and estate planners should coordinate to reassess clients' estate documents in light of increased Social Security cash flows.

Conclusion

The SSFA represents a major change for millions of public sector retirees. With the repeal of the WEP and the GPO, retirees can expect better monthly benefits. However, this new legislation brings some tax planning challenges that need attention. One helpful strategy is the LSE. This option allows retirees to receive retroactive Social Security payments spread out over the years they were due. This can help reduce tax liabilities, lower provisional income and decrease the risk of higher Medicare premiums.

Tax professionals and financial advisors need to be ready to guide clients through these changes. It's important they help clients use the LSE correctly and create solid plans for managing income, considering Roth conversions, and addressing issues like the IRMAA and estate planning.

In the end, the real benefit of the SSFA isn't just restoring benefits but also increasing their long-term value through smart tax planning. With careful analysis and prompt action, retirees can make the most of this legislation and protect their financial future.

Casualty losses

The Tax Cuts and Jobs Act (TCJA) of 2017 changed the rules for casualty losses for tax years 2018 through 2025. The OBBBA made these provisions permanent. Personal casualty losses (losses not pertaining to investments, business or rentals) are nondeductible unless they are in a federally declared disaster. A federally declared disaster area is a specific geographic region within the United States that the President has formally designated as eligible for federal assistance due to a major disaster or emergency under the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*. The *Robert T. Stafford Disaster Relief and Emergency Assistance Act* is the primary federal law in the United States that governs how the federal government provides aid to state, tribal and local governments during major disasters and emergencies.

Additionally, the OBBBA added state-declared disasters as a qualifying loss for tax years starting after Dec. 31, 2025. A state-declared disaster refers to any natural catastrophe, including a hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm or drought. Regardless of the cause, it also includes any fire, flood or explosion within a state. A disaster qualifies when the governor of that state (or the mayor, in the case of the District of Columbia) and the Secretary determine that the damage is severe and widespread enough to warrant applying the provisions of this section.

For this purpose, the term state includes the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa and the Commonwealth of the Northern Mariana Islands.

Example: state declared disaster – wildfire in 2026

Amy is a California resident. In July 2026, Amy's home was damaged in a wildfire that was declared an emergency by the governor of California, but not a federally declared disaster. She incurred personal property losses of \$50,000 and did not have insurance to reimburse for the damages. Her AGI for the year is \$100,000 and she has enough deductions to itemize.

Because the disaster is state-declared and meets the severity criteria, Amy may deduct the loss as a personal casualty deduction.

A simple calculation of her loss is as follows:

- First reduce the loss by \$100 per event: $\$50,000 - \$100 = \$49,900$
- Then reduce by 10% of AGI: $\$49,900 - \$10,000 = \$39,900$ deductible loss

Amy can claim a \$39,900 itemized deduction on Schedule A for 2026.

Federal Disaster Tax Relief Act of 2023

The FDTRA, signed into law on Dec.12, 2024, provides enhanced tax relief for victims of major disasters declared between Dec.28, 2019, and Dec.12, 2024, with disaster periods ending no later than Jan.11, 2025. Current legislation allows for special provisions for qualified disaster-related personal casualty losses, including eliminating the requirement that casualty losses must exceed 10% of an individual's AGI before becoming deductible.

Normally, only the portion of casualty losses exceeding 10% of AGI can qualify for the deduction; with the new legislation, the AGI threshold is eliminated, and each separate casualty loss is deductible once it exceeds a \$500 threshold. Individual taxpayers are allowed to claim this type of casualty loss "above the line," meaning that if they don't itemize their deductions on Schedule A (Form 1040), they can still take the casualty loss in addition to their standard deduction.

This favorable treatment is available for major disasters that the President declares during Jan.1, 2020, and Feb.10, 2025. The disaster must have an incident period that began on or after Dec.20, 2019, and on or before Dec.12, 2024, and must have ended no later than Jan. 11, 2025. This includes recent disasters such as Hurricane Helene, Hurricane Milton, Hurricane Ian and the wildfires in Hawaii and California that occurred between Jan 1, 2020, and Dec. 12, 2024. You can find which disasters qualify on the FEMA website at <https://www.fema.gov/disaster/declarations>. Use the filters on the page to narrow your search by:

- Year
- State or territory
- Disaster type (hurricane, wildfire, winter storm)
- Declaration type (major disaster declaration)

Once filtered, the disaster number will be listed in the left column of the results table (Disaster Number 4586 for Texas Winter Storm 2021).

This number should be included on Form 4684, Form 1040-X, *Amended U.S. Individual Income Tax Return*, and any written explanation provided when claiming a disaster loss.

Qualified wildfire relief payments

Taxpayers can exclude from gross income all compensation for losses or damages resulting from qualified wildfire relief payments. Qualified wildfire relief payments include amounts received for losses, expenses or damages related to a qualified wildfire disaster, including compensation for additional housing expenses, lost wages (other than wages paid by an employer), personal injury, death or emotional distress, provided the losses were not compensated by insurance or otherwise.

A qualified wildfire is any federally declared disaster from any forest or range fire. This provision applies to qualified wildfire relief payments received by the individual during tax years beginning after Dec. 31, 2019, and before Jan. 1, 2026. Taxpayers should note that this legislation prohibits double benefit; no deduction or credit shall be allowed for any expenditure to the extent that the amount was excluded from income. If taxpayers use these qualified payments to acquire or improve the property, they cannot increase their basis in this property.

Lastly, in the case of a claim for refund related to these qualified wildfire relief payments, the statute of limitations for filing such a claim will not expire earlier than one year after the enactment of this law. Other limitations would normally apply to the claim as described in §6511(b)(2) (limits where a claim must be filed within three years of the loss).

Palestine, Ohio Payments

On Feb. 3, 2023, a freight train carrying hazardous chemicals derailed in East Palestine, Ohio.

In Sept. 2024, a federal judge approved a \$600 million class-action settlement against Norfolk Southern, the freight company responsible for the Feb. 3, 2023, train derailment. This train derailment released toxic chemicals into the air and local environment. The payment would compensate individuals and businesses affected by the derailment.

In April 2024, Norfolk Southern reached an agreement with OxyVinyls, the OxyChem affiliate that manufactured the vinyl chloride carried on the Norfolk Southern train, under which OxyVinyls will contribute to the settlement. This agreement came before the April 23, 2024, jury verdict in a federal court in Ohio that held Norfolk Southern fully responsible for paying the \$600 million. Norfolk Southern had brought the case to court to try and get OxyVinyls and GATX (which owned some of the trains and railcars) to contribute to the settlement.

Vinyl chloride, a highly flammable carcinogen used for making polyvinyl chloride, was in five of the derailed cars. In a controversial move, authorities released and burned the liquefied vinyl chloride, fearing polymerization and a potential explosion that would send toxic gases and shrapnel into the local environment. An investigation by the U.S. National Transportation Safety Board later deemed the vent and burn “unnecessary.”

OxyVinyls also questioned the basis for making the vent and burn decision because, without an external initiator, a polymerization reaction couldn’t have occurred – information the company provided to Norfolk Southern before officials

Also, the temperature of the railcars didn’t continue to rise, as would be expected if a polymerization reaction were occurring. Norfolk Southern argued that it received conflicting information from OxyVinyls representatives on the ground, and hence, the chemical company should also be held accountable.

Settlement overview

Total settlement structure

Norfolk Southern reached a comprehensive settlement agreement totaling \$600 million, of which approximately \$120 million has been earmarked specifically for personal injury claims. The remaining funds are allocated for property damage, displacement and other compensatory relief.

Eligibility criteria for settlement benefits

Individuals may qualify for settlement payments under the following geographic conditions:

- General compensation eligibility: Residents located within a 20-mile radius of the East Palestine derailment site are eligible to file claims.
- Personal injury eligibility: Claims specifically for personal injury are limited to individuals residing within a 10-mile radius of the incident location.

Determination of compensation amounts

Settlement payments are calculated based on multiple individualized factors, including:

- Proximity to the derailment site
- Household size
- Duration and nature of replacement
- Severity of property damage
- Documented physical and mental health impacts arising from the incident

Claim processing and payment timeline

- The deadline for submitting claims was Aug. 22, 2024. No new claims are being accepted beyond this date.

- Determination letters are issued to eligible claimants, outlining the specific compensation amount awarded.
- Although personal injury claims are being processed, appeals have introduced delays and procedural complexities in the overall timeline for payment distribution.

Settlement administration

The claims process is administered by Kroll Settlement Administration, LLC.

- Phone: 1-833-425-3400
- Website: eastpalestinetrainsettlement.com

IRS guidance on tax treatment of settlement payments

The IRS has issued guidance on the taxability of payments received under this settlement.

Non-taxable settlement components

Most payments received by individuals are not subject to federal income tax, provided they meet specific requirements. Non-taxable categories include:

- Compensation for personal injuries and sickness
- Emotional distress attributable to a physical injury
- Property damage reimbursements
- Costs of temporary displacement and evacuation
- Health-related impacts stemming from chemical exposure or stress

These amounts are considered compensatory and are generally excludable from gross income under §104(a)(2).

Potentially taxable settlement components

Although most settlement components are non-taxable, some payments may be considered taxable income in the following limited circumstances:

- Reimbursement for lost wages or business income (ordinary income treatment)
- Punitive damages, if awarded (note: as of this writing, no punitive damages have been included in this class settlement)

Practitioner guidance: evaluating taxpayer-specific issues

Tax professionals should advise clients to evaluate the nature of their settlement payment carefully. In particular:

- If the payment compensates for lost income, it is includible in gross income and should be reported accordingly.

- Payments to businesses or trusts must be reviewed independently, as these may carry different tax implications.
- Taxpayers unsure how to treat the settlement should seek formal guidance or obtain a private letter ruling, if necessary.

Reporting requirements

The requirement to report settlement payments depends on their classification:

- Non-taxable payments typically are not required to be reported on the individual's return, and recipients will not receive a Form 1099
- Taxable payments (such as income replacement) may trigger a Form 1099-MISC, Miscellaneous Information, which must be included on the appropriate line of Schedule 1 (Form 1040)

Recipients must retain all documentation, including determination letters, reimbursement statements and any correspondence from Kroll Settlement Administration, for potential IRS examination or state tax review.

Amended return requirements

A taxpayer may be required to amend their federal income tax return in cases involving prior deductions. For example, if a taxpayer claimed a casualty loss deduction (via Form 4684) in a prior year (2023 or 2024) due to the derailment and subsequently received a settlement payment that compensates for the same loss, the taxpayer is obligated to amend their original return to reduce or eliminate the previously claimed deduction. This prevents a double tax benefit, in accordance with the tax benefit rule and §111.

Example:

In 2023, the taxpayer deducted \$8,000 in casualty losses due to the derailment.

In 2024, the taxpayer receives a \$6,000 settlement payment reimbursing part of the loss.

The taxpayer should file Form 1040-X to adjust the 2023 return and report the reimbursement, potentially increasing taxable income or reducing the deduction.

If no deduction is claimed, no amendment is needed if the taxpayer did not claim any deduction or report any loss on a prior return related to the derailment, and the payment is non-taxable (which is true for most personal injury, property damage, or displacement-related East Palestine payments).

Exceptions and considerations:

- If any part of the payment is taxable (reimbursement for lost wages or business income), and it applies to a prior year already filed, the taxpayer may need to amend that year's tax return to report the income.
- No 1099 issued? If the taxpayer is unsure whether a payment was considered taxable, review the determination letter or contact the settlement administrator.

Filing Relief for Natural Disasters Act (FRNDA)

The FRNDA was passed on July 24, 2025. This bill gives the Treasury Secretary authority to postpone tax filing deadlines for taxpayers impacted by state-declared emergencies, even though a federal disaster declaration has not been made. Additionally, the bill expands the mandatory extension from 60 days to 120, thus allowing more time for taxpayers impacted to complete actions with the IRS.

SECURE 2.0 Updates

The SECURE 2.0 Act of 2022 (SECURE 2.0), enacted as part of the *Consolidated Appropriations Act, 2023* (CCA), builds on retirement reforms to expand coverage and increase retirement savings. Some of the changes are already in effect, and others are coming.

Several key provisions will take effect in 2025 and 2026, influencing retirement plan design, participant contributions and administrative practices.

Changes for 2025 include:

- Higher catch-up contributions for ages 60-63
- Automatic enrollment requirements
- Expanded coverage for part-time workers
- Retirement savings lost and found

Changes for 2026 include:

- Mandatory Roth catch-up for high earners
- Paper statement requirements
- Retirement funds for long-term care insurance

Provisions taking effect in 2025

Higher catch-up contribution limit for ages 60-63

Beginning in 2025, employees aged 60, 61, 62 or 63 (60-63) during the calendar year will be able to put away even more in catch-up contributions, if allowed by the plan.

- SIMPLE 401(k) and SIMPLE IRA plans: The cap becomes the greater of \$5,000 or 150% of the 2025 age 50 catch-up limit, which is \$5,250 (150% x \$3,500) for 2025.
 - The total possible employee contribution is \$21,750 (\$16,500 + \$ 5,250)
 - The limit is indexed for inflation starting in 2026
- All other qualified plans: The cap rises to the greater of \$10,000 or 150 % of the 2024 age 50 catch-up limit, which is \$11,250 (150% x \$7,500) for 2025.
 - The total possible employee contribution is \$34,750 (\$23,500 + \$ 11,250) for 2025
 - The limit is indexed for inflation starting in 2026

Note: The year the participant turns 64, the “age 50” limits will apply. If a workplace plan does not offer the age 50 catchups or the new catchups for those 60-63, the employee cannot make those extra contributions.

Example: 401(k) and maximum elective deferral contribution by age

A hypothetical employer has a 401(k) plan. The following example illustrates how the limitations work by participant age.

Item	Marcus (age 45)	Harper (age 50)	Joey (age 60)
Compensation (matchable pay)	\$100,000	\$100,000	\$100,000
Total deferred (Roth + traditional)	\$23,500 (2025 max under age 50)	\$31,000 (\$23,500 + \$7,500 age 50 catch-up)	\$34,750 (\$23,500 + \$11,250 age 60-63 catch-up)
Employer match (4% of compensation)	\$4,000	\$4,000	\$4,000
Total 2025 additions	\$27,500 (\$23,500 + \$4,000)	\$35,000 (\$31,000 + \$4,000)	\$38,750 (\$34,750 + \$4,000)

Effective date: Taxable years beginning after Dec. 31, 2024.

Expanded automatic enrollment in retirement plans

SECURE 2.0 adds an automatic enrollment provision to most newly established 401(k) and 403(b) plans (i.e., plans established on or after Dec. 29, 2022). Section 414A governs the provision, and in early 2025, the IRS issued proposed regulations that guide how this provision works (<https://www.federalregister.gov/documents/2025/01/14/2025-00501/automatic-enrollment-requirements-under-section-414a>). The proposed regulations provide preliminary guidance on how to implement the mandate and what plans are impacted. The proposed regulations are to apply to plan years that begin more than six months after the date the final regulations are issued. Before the final regulations apply, plan administrators must use a reasonable, good-faith interpretation of the law.

For plan years beginning after Dec. 31, 2024 (2025 plan year), most 401(k) and 403(b) plans allow for automatic enrollment of participants once they are eligible, unless the participant elects out. Before this change, employers were allowed to automatically enroll employees in 401(k) and 403(b) plans, and this has led to an increase in plan participation and retirement savings. However, once this provision takes effect, automatic enrollment is required. Plan participants will need to opt out of the plan, which is different because previously, plan participants needed to opt into a plan.

Under §414A, a newly established 401(k) or 403(b) plan will generally not be considered compliant unless it includes an eligible automatic contribution arrangement (EACA) that meets the specific requirements outlined in §414(w)(3).

However, automatic enrollment is not required for any of the following [§414A(c)]:

- SIMPLE 401(k) plans
- Plans established before Dec. 29, 2022 (grandfathered plans)
- Government or church plans
- Plans maintained by an employer that have been in existence for less than three years
- Plans maintained by an employer with fewer than 11 employees

Note: Proposed regulations would clarify that the automatic enrollment plans apply to all employees who are eligible to participate in the plan (e.g., long-term part-time employees). An employer may not exclude any category of employee if the plan is subject to §414A [Proposed Reg. §1.414A-1(c)(1)(ii)].

Requirements

To satisfy the automatic enrollment provision, the applicable employer plan must meet all the following requirements:

- The plan is an EACA under §414(w)(3), meaning it:
Uniformly applies the plan's default deferral percentage to all eligible employees after giving them the required notice, unless the employee opts out or elects to contribute a different amount
- The plan allows permissible withdrawals within 90 days of the first automatic contribution
- The plan provides automatic contributions of at least 3% but not more than 10% during the employee's first year of participation, unless the employee elects otherwise
Each subsequent year, the contribution percentage automatically increases (unless the employee elects otherwise) by 1% to at least 10% but not more than 15%
- The plan contributions are invested according to the rules for qualified default investment alternatives (QDIAs) under the Department of Labor, unless the employee elects a different investment
The following website provides more information: <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-qdia-in-participant-directed-account-plans.pdf>.

Example: automatic enrollment

Julia, a new employee, joined The Best Company Ever in 2025. The company's 401(k) plan, in accordance with SECURE 2.0, automatically enrolls her at a 3% contribution rate.

In 2026, the plan automatically increases her contribution rate to 4%, and so on, until it reaches the plan's maximum of 12%.

Effective date: Plan years beginning after Dec. 31, 2024 (2025 plan year).

Expanded coverage for part-time workers

Section 403(b) and 401(k) plans that are subject to the *Employee Retirement Income Security Act* (ERISA), and include a salary reduction agreement, must allow long-term, part-time employees (LTPTE) to make elective deferral contributions to the plan.

For plan years beginning after 2024, part-time employees must now be allowed to participate in their employer's 401(k) or 403(b) plan if they meet either of the following criteria, whichever occurs first:

- They complete at least 1,000 hours of service during the plan's relevant 12-month period and have reached age 21, or

- They completed at least 500 hours of service per year for two consecutive 12-month periods and have attained age 21 by the end of the two-year period (the definition of LTPTE)
SECURE 2.0 shortened the eligibility requirement; previously, it was three consecutive 12-month periods

Once an LTPTE meets the age and service requirements, they must be eligible to participate in the 401(k) or 403(b) plan by the earlier of:

- The first day of the first plan year starting after the employee meets the requirements, or
- Six months after the employee satisfies the age and service requirements

Note: In some cases, allowing all part-time employees to participate in the retirement plan may be easier since tracking eligibility may be cumbersome. LTPT employees are not required to receive employer matching contributions; however, employers may choose to include them.

An employee is classified as an LTPTE if they complete at least 500 hours of service in each of two consecutive 12-month periods and reach age 21 by the end of the two-year period. If an employee becomes eligible to make elective deferrals through any other service requirements (e.g., completing 1,000 hours of service hours in a single plan year), they are not considered LTPTE. In this case, they transition to a regular participant and may become eligible for employer contributions.

Note: Notice 2024-73 includes a question-and-answer section on the application of the nondiscrimination rules for 403(b) plans with respect to LPTTEs, including application of the rules to permitted exclusions from participation for part-time employees and student employees. A proposed regulation related to the rules LTPTE in 401(k) plans was issued on Nov. 27, 2023 (https://www.irs.gov/irb/2023-51_IRB#REG-104194-23).

Example: LTPTE

Daisy was hired on Jan. 1, 2022, and turned 21 in 2021. She is a part-time employee and works 600 hours per year. Her employer's 401(k) plan is a calendar-year plan (Jan. 1 through Dec. 31) and has eligibility conditions of being age 21 plus either working 1,000 hours in a year or 500 hours per year for two consecutive years (LTPTE rule).

Because Daisy turned 21 in 2021, she has satisfied the age requirement. She worked 600 hours in both 2023 and 2024 (the two-year look-back period), satisfying the 500-hour service requirement. She has not yet worked 1,000 hours in a single year, so her eligibility to make elective deferrals is based only on her LTPTE status.

Daisy is an LTPTE and must be allowed to make elective deferrals into the 401(k) plan no later than July 1, 2025. Daisy is considered to satisfy the age and service requirement on Jan. 1, 2025, not Dec. 31, 2024, because that is when the rule becomes effective. Under the entry timing rules for LTPTEs, eligibility must begin no later than the earlier of:

- The first day of the first plan year beginning after the date she met the age and service requirements (Jan. 1, 2026)
- Six months after the date she met the age and service requirements (July 1, 2025)

Note: A plan can exclude temporary or seasonal workers in a formally defined employee class.

Effective date: Plan years beginning after Dec. 31, 2024.

Retirement savings lost and found

SECURE 2.0 directs the creation of a retirement savings lost-and-found database not later than two years after the date of SECURE 2.0's enactment. Based on this language, the U.S. Department of Labor (DOL) should have established the database by Dec. 29, 2024. The online searchable database will allow individuals to search for plans and the administrator's contact information for which they are a participant or beneficiary. Employers are required to share information with the DOL to keep the database current.

There is no information on the database's expected completion date. The latest information can be found at <https://www.federalregister.gov/documents/2024/11/20/2024-27098/retirement-savings-lost-and-found>.

Effective date: A database is to be created no later than two years after the act's enactment date.

Provisions taking effect in 2026

Roth-only catch-up for high-income earners

For tax years beginning after Dec. 31, 2025, catch-up contributions to §401(k) plans, §403(b) plans or §457(b) governmental plans by participants whose *Federal Insurance Contributions Act* (FICA) wages for the preceding calendar year exceed \$145,000 (as indexed for inflation) will be subject to mandatory after-tax (Roth) treatment. Stated another way, employees making more than \$145,000 in the prior calendar year, adjusted for inflation, will need to make catch-up contributions after tax to a designated Roth account (e.g., Roth 401(k)).

Effective date: Taxable years beginning after Dec. 31, 2025.

Requirement to provide paper statements in certain cases

Unless a participant elects otherwise, a defined contribution plan is required to provide a paper benefit statement at least once annually. Defined benefit plans must do so once every three years [ERISA §105(a)(2)(E)].

For defined contribution plans, each pension benefit statement must contain:

- **Investment values** – List the current value (as of the plan's most recent valuation date) of every investment allocated to the participant's or beneficiary's account, including any employer securities, regardless of how those securities were obtained (ERISA §105(a)(2)(B)(i)).
- **Lifetime income illustrations** – illustrations of how the account balance could translate into lifetime monthly income. These illustrations must appear on the statement at least once every 12 months (ERISA §105(a)(2)(D)).

Effective date: Plan years beginning after Dec. 31, 2025.

Long-term care contracts purchased with retirement plan distributions

A defined contribution plan may allow qualified long-term care (LTC) distributions [§401(a)(39)].

These are distributions that must:

- Be used to pay premiums for certified LTC insurance
- Not exceed the lesser of:
 - \$2,600 annually (2025) (indexed for inflation)
 - The amount actually paid for qualified LTC insurance
 - 10% of the employee's vested accrued benefit in the plan

Certified LTC insurance includes any of the following three types of coverage:

- Qualified LTC insurance contract [§7702B(b)]
 - A standalone policy that covers qualified LTC services (e.g., nursing home care, home health care, etc.)
 - Must meet requirements under §7702B(b)
- Life insurance rider [§101(g)(3)]
 - A rider or provision added to a life insurance policy
 - Provides coverage if the insured becomes a chronically ill individual
 - Must meet the conditions under §101(g)(3), except the limits of periodic benefits

- Insurance/annuity rider [§7702B(e)]
 - Coverage of qualified LTC services under a rider to an insurance or annuity contract
 - Treated as a separate contract
 - Must satisfy consumer protection requirements [7702B)(g)]

The distributions are generally taxable as income at ordinary income tax rates. If the requirements are met, they are exempt from the 10% early withdrawal penalty [§72(t)(2)(N)].

Note: While qualified LTC distributions may include distributions used to pay LTC insurance premiums for the employee's spouse, the exemption from the 10% early withdrawal tax for distributions for the LTC insurance premiums doesn't apply unless the employee and the spouse file a joint return [§72(t)(N)(ii)].

Participants must submit an LTC premium statement with the plan, and the issuer of the LTC premium statement must file a return with the IRS no later than Feb. 1 of the succeeding calendar year [§6050Z].

Effective date: This exception applies to distributions made after Dec. 29, 2025.

Business Updates

OBBBA Impacts

The OBBBA introduces broad tax reforms, including the permanent extension of TCJA provisions, extension of 100% bonus depreciation, new limits for §179 deductions, and allowing research and development costs to be deducted. Some of these provisions are retroactive, while others impact tax year 2025. While many provisions extend well beyond 2025, the highlights below focus on those that apply directly to 2025 filings, along with some other significant changes taking effect in 2026:

Bonus depreciation

Full expensing for certain business property – §70301

Full expensing is a permanent feature of the tax code. Specifically, §168(k)(1)(A) has been amended to replace the previously phased-down applicable percentage with a flat 100%, thereby cementing the ability to fully expense qualified property permanently. In support of this change, references to the former phase-down rules §168(k)(6) and §168(k)(8) have been repealed. In addition, the provision for specified plants under §168(k)(5)(A)(i) has been revised to reflect this permanent 100% expensing rate.

The amendments also simplify and consolidate definitions under §168(k)(2), eliminating outdated or redundant references and subclauses, and reorganizing them for clarity.

Eligibility for expensing certain plants (i.e., any tree or vine that bears fruit or nuts and any other plant with a pre-productive period of more than two years) has been expanded. The previous limitation in §168(k)(5)(A), which allowed expensing only if the specified plant was planted or grafted before Jan. 1, 2027, has been removed. As a result, regardless of the date, any specified plant that is planted or grafted now qualifies for expensing.

In line with these updates, a conforming amendment has been made to §460(c)(6)(B). This change clarifies that only property with a recovery period of seven years or less qualifies under the applicable long-term contract rules.

Finally, a transitional election is available for taxpayers for the first tax year ending after Jan. 19, 2025. Under this election, taxpayers may opt for reduced bonus depreciation rates:

- 40% expensing for general qualified property
- 60% for a longer production period or certain aircraft property
- 40% for specified plants

Effective date:

- Applicable to property acquired after Jan. 19, 2025
- For specified plants, the new rules apply to those planted or grafted after Jan. 19, 2025
- The transitional election for reduced expensing also applies for taxable years ending after Jan. 19, 2025

Takeaway:

- Nothing in the legislation permits taxpayers to amend returns from 2023 or 2024 to revise the bonus depreciation previously allowed (80% and 60%, respectively).
- Additionally, 100% expensing (bonus) under the new provision does not apply to property placed in service or acquired before Jan. 19, 2025.
- Property acquired before that date remains subject to the TCJA phase-down rules, which generally provide for 40% bonus depreciation in 2025, unless a binding contract exception or other provision applies.

Special depreciation allowance for qualified production property – §70307

A new provision under §168(n) allows 100% bonus depreciation for certain qualified nonresidential real property used in qualified specified production-related activities. While traditional §168(k) bonus depreciation applies mainly to personal property, this elective rule expands full expensing to specific real estate investments that support manufacturing and refining.

This provision creates a specific and temporary opportunity for businesses constructing qualifying production facilities to accelerate cost recovery.

Key requirements

To qualify, the real property must:

- Be nonresidential real property
- Be used as an integral part of a qualified production activity
- Be placed in service in the U.S. or a U.S. possession
- Have original use beginning with the taxpayer (with exceptions for recent idle-use properties)
- Be constructed between Jan. 20, 2025, and Dec. 31, 2028
- Be placed in service by Dec. 31, 2030
- Be designated as qualified production property through an election on the tax return

Qualified production activity

Activities must involve manufacturing, producing or refining tangible personal property. Only agricultural and chemical production count toward this rule; software development, engineering, research, lodging, office use and retail sales do not qualify.

A qualified production activity, under §70307 is a substantive, physical transformation of tangible goods within the agricultural or chemical sectors, eligible for special depreciation incentives. In other words, if the work changes the product enough, it can qualify for special tax breaks on property used in that activity.

To meet the threshold, the activity must result in a substantial transformation of the property.

Example: qualified production property

In March 2026, XYZ Manufacturing, a U.S.-based company, begins constructing a new production facility. The facility is designed to house specialized equipment integral to XYZ's manufacturing operations in the agricultural industry. Construction is completed in Oct. 2028, and XYZ places the facility in service on Nov. 1, 2028.

The facility meets the definition of qualified production property under §168(n) because:

- It is new MACRS nonresidential real property
- It is integral to a production activity
- It is placed in service in the United States
- Construction occurred between Jan. 20, 2025, and Dec. 31, 2028
- It was placed in service before Jan. 1, 2031

XYZ Manufacturing elects to apply 100% bonus depreciation under an H.R. 1 provision on its 2028 federal income tax return. As permitted by §168(n)(6), XYZ identifies the portion of the facility subject to the election on its return.

XYZ Manufacturing immediately deducts 100% of the cost of the new production facility in 2028 as bonus depreciation. The deduction is not spread over 39 years as would typically apply to nonresidential real property under MACRS. Instead, the company claims the full cost in the year the facility is placed in service.

Example: effective date

On Jan. 18, 2025, ABC Corp. enters a written binding contract with XYZ Manufacturing to purchase a manufacturing factory, and it takes possession of the factory on Jan. 25, 2025. Because ABC Corp. entered into the first written binding contract before Jan. 20, 2025, it may not elect to take a special 100% depreciation allowance on the factory.

Important limitations

- No mixed-use: Only the portion of property directly tied to qualified production qualifies.
- 10-year recapture: If the property is converted to non-qualifying use within 10 years, the deduction is recaptured under §1245.
- Alternative depreciation system (ADS) property is excluded.
- The election is binding and can only be revoked with IRS consent in extraordinary cases.

Effective date: Applies to property placed in service after July 4, 2025. Construction must begin within the prescribed window and meet all listed requirements.

Takeaways

- Encourages immediate capital investment by allowing upfront deductions.
- Firms with long-term equipment replacement plans may want to accelerate purchases post-Jan. 19, 2025.
- The transition election may help small businesses manage large swings in taxable income.

Section 179 expensing limits increased – §70306

Section 179(b)(1) is amended to increase the maximum deduction limit from \$1 million to \$2.5 million. Simultaneously, §179(b)(2) increases the phaseout threshold from \$2.5 million to \$4 million. These adjustments dramatically raise the ceiling at which small and mid-sized businesses can fully expense the cost of qualifying property.

The deduction is reduced dollar-for-dollar by the amount of qualifying property placed in service that exceeds the \$4 million threshold. Once the total cost of eligible property placed in service exceeds \$6.5 million, the entire §179 deduction is phased out.

The statute also modifies how the §179 limits are indexed for inflation. Beginning in 2025, the base year for inflation adjustments for the expensing limit and phaseout threshold will be updated to calendar year 2024. This replaces the previous reference to 2016. Notably, the base year for the sport utility vehicle (SUV) limitation under §179(b)(5)(A) remains at calendar year 2017.

Effective date: Property placed in service in taxable years beginning after Dec. 31, 2024.

Takeaways

- The increased limits provide greater flexibility and potentially larger first-year deductions for businesses investing in capital assets.
- More mid-sized businesses will now qualify for full expensing under §179.
- Advisors should also monitor the inflation-adjusted limits annually, as the updated base year will likely result in faster growth of the §179 caps.

Example

In 2025, Jones Manufacturing, a mid-sized corporation, places \$5.8 million of qualifying §179 property in service. Jones intends to fully expense as much of this investment as the law permits under the newly revised §179 rules. Jones Manufacturing is allowed a §179 deduction of \$700,000 (\$2,500,000 - (\$5,800,000 - \$4,000,000)) for 2025. The remaining cost basis of the property \$5.1 million (\$5.8 million - \$700,000), would generally be recovered through regular depreciation methods (MACRS or ADS, as applicable).

We see the application of the new law above; the phase-out threshold has been increased to \$4 million. Under §179(b)(2), the deduction is reduced dollar-for-dollar by the amount of qualifying property placed in service in excess of \$4 million.

Jones has a total qualifying property placed in service \$5.8 million; the excess over the \$4 million threshold is \$1.8 million. The maximum deduction before phase-out is \$2.5 million; phase-out reduction is \$1.8 million. The remaining §179 deduction is \$700,000 (\$2.5 million - \$1.8 million).

Jones Manufacturing's allowable §179 deduction for 2025 is \$700,000. The remaining cost basis of the property (\$5.8 million - \$700,000 = \$5.1 million) would generally be recovered through regular depreciation methods (MACRS or ADS as applicable).

This example illustrates how the expanded threshold materially benefits Jones Manufacturing by preserving significant immediate expensing opportunities that would have been eliminated under prior limits.

Repeal of revision to de minimis rules for third-party network transactions – §70432

Recent legislation rolls back the expanded Form 1099-K, *Payment Card and Third-Party Network Transactions*, reporting requirements introduced under the *American Rescue Plan Act* (ARPA). It restores the original de minimis threshold for reporting third-party network transactions by third-party settlement organizations (TPSOs). Under amended §6050W(e), a TPSO is only required to issue a Form 1099-K if both conditions are met: the total payments to a payee exceed \$20,000 **and** the number of transactions surpasses 200 within a calendar year.

In conjunction with the reporting threshold change, §3406(b)(8) has also been amended to align backup withholding requirements with the reinstated Form 1099-K reporting standard. Backup withholding will only apply when exceeding the 200 transaction and \$20,000 payment thresholds. However, there is an important caveat: If the payee was subject to reporting in the prior year, backup withholding will still apply in the current year, even if the thresholds are not met.

Note: Beginning with the 2026 tax year, a new box will be added on Form 1099-K to report tips. This change enhances transparency around tip income, particularly for gig economy and service workers, by requiring third-party settlement organizations and payment platforms to report tip amounts collected and disbursed through their systems separately. This box is intended to improve tax compliance related to tips that are paid electronically.

Effective dates:

- The restoration of the original reporting threshold under §6050W(e) is retroactive, as though it were part of ARPA's original §9674.
- The changes to backup withholding rules under §3406(b)(8) will apply beginning with calendar years after Dec. 31, 2024.

Extension and enhancement of deduction for qualified business income (QBI) – §70105

Enhancements to the §199A qualified business income (QBI) deduction will take effect in tax year 2026.

Expanded phase-in thresholds for income-based limitations

The amendment increases the phase-in ranges for the W-2 wage and qualified property requirement limitations. For single filers, the phase-in window expands from \$50,000 to \$75,000; for joint filers, from \$100,000 to \$150,000 §199A(b)(3). This adjustment means more taxpayers can take full advantage of the 20% QBI deduction before encountering any income-based restrictions.

The threshold amounts for 2025 are as follows:

Filing Status	Phase-in ranges
MFJ	\$394,600 - \$494,600
Single, MFS and HOH	\$197,300 - \$247,300

Note: Qualified business losses (QBLs) from prior years must be used. This applies even if the QBL is from a different business.

Guaranteed minimum deduction for active businesses

A new provision, §199A(i), introduces a minimum QBI deduction of \$400 for qualifying taxpayers. To be eligible, taxpayers must have at least \$1,000 in qualified business income from an active business they materially participate in, as defined by §469(h). This minimum deduction ensures that small, actively managed businesses receive meaningful QBI relief even when the calculated 20% deduction would otherwise be negligible.

Beginning in 2027, the \$400 minimum deduction and the \$1,000 QBI floor will be adjusted annually for inflation, rounded to the nearest \$5.

Preservation of current deduction protections

Limitations on itemized deductions do not affect the QBI deduction. This protection continues to apply to individual filers and patrons of agricultural and horticultural cooperatives.

The table below summarizes the changes to QBI as a result of OBBBA.

Provision	Pre-2026 Law	OBBBA (2026 and after)
Phase-in range (single/joint)	\$50,000/\$100,000	\$75,000/\$150,000
Minimum QBI deduction	None	\$400 (if QBI ≥ \$1,000, active)
Inflation adjustment (min. deduction/QBI)	N/A	Yes, for years after 2026
Itemized deduction limitation (§68)	Not applicable	Remains not applicable
Effective date	Through 2025	Tax years after Dec. 31, 2025

Effective date: Applicable tax years beginning after Dec. 31, 2025.

Takeaways

Provision	Impact
Raised Phase-in amounts	Delays income-based QBI limits, helping higher earners
\$400 minimum deduction	Helps with very small, active businesses
Inflation adjustments	Keeps dollar threshold relevant over time
Material participation rule	Ensures minimum benefit applies only to active businesses

Example: application of enhanced §199A provision (2026)

Becky is a single filer in tax year 2026. She is a sole proprietor and has QBI from her business of \$20,000. W-2 wages paid by business are \$0. Her taxable income (before QBI deduction) is \$200,000. The business is not a specified service trade or business (SSTB), and Becky materially participates in the business.

Step 1: Determine threshold and phase-in range.

For 2026, the phase-in range for single filers is \$75,000 above the §199A threshold. (The threshold is inflation-adjusted, but for illustration, assume the threshold is \$200,000; phase-in ends at \$275,000.)

Step 2: Calculate the tentative QBI deduction.

20% of QBI will be: $20\% \times \$20,000 = \$4,000$

Step 3: Apply W-2 wage/qualified property limitation.

Since the business has no W-2 wages or qualified property, the limitation would normally reduce the deduction to \$0 if the taxpayer's income is above the phase-in range. However, the taxpayer's taxable income (\$200,000) is at the threshold, so the limitation does not apply. The full \$4,000 deduction is allowed under §199A(b)(3).

Step 4: Apply the minimum deduction rule.

The taxpayer's QBI is \$20,000 (well above the \$1,000 floor), and the calculated deduction (\$4,000) is above the \$400 minimum. The minimum deduction rule does not apply in this case.

Step 5: Calculate the final QBI deduction.

The taxpayer claims a \$4,000 QBI deduction on their 2026 return.

Example: minimum deduction applies

Jill is a single filer who materially participates in a small business. Her QBI is \$1,200. Therefore, 20% of her QBI would be \$240. Since \$240 is less than \$400, and her QBI is at least \$1,000, the taxpayer is entitled to the \$400 minimum deduction under §199A(i).

Full expensing of domestic research and experimental expenditures – §70302

Under §174A, taxpayers can deduct domestic research or experimental (R&E) expenditures paid or incurred during the taxable year. This treatment overrides §263A, which generally requires capitalization of such expenses.

Eligibility for deduction

Eligible taxpayers include those engaged in a trade or business who incur **domestic R&E** expenditures. Foreign research expenditures (as defined in §41(d)(4)(F)), such as wages and supplies, are excluded from this deduction. Foreign R&E expenditures remain subject to 15-year amortization under the amended §174.

Additionally, the costs for software development are now included as R&E expenses.

Optional amortization election (§174A(c))

Taxpayers may elect to capitalize expenditures (otherwise deductible under §174A) and amortize them over a period of not less than 60 months, beginning in the month benefits are first realized.

Election requirements:

- The election must be made by the due date of the return (including extensions).
- Once made, the taxpayer must use the same method and period in subsequent years unless the IRS approves a change.

Additional IRS guidance is necessary regarding how the election is made. Presumably, a statement will be attached to the return.

Excluded expenditures (§174A(d))

The deduction does not apply to:

- Costs for acquiring or improving land or depreciable property used in R&E
- Costs for exploration of natural resources (oil, gas, minerals)
- Expenditures for foreign research

Accounting method changes (§§174A(c) and (f))

The switch to deducting domestic R&E is treated as a change in accounting method under §481; however, Form 3115, *Application for Change in Accounting Method*, is not necessary. This change applies prospectively to tax years beginning after Dec. 31, 2024. A modified cut-off rule applies for fiscal years beginning after Dec. 31, 2024, but ending before enactment.

Transition rules (§174A(f))

A retroactive provision allows eligible small businesses (those that meet the §448(c) gross receipts test) to elect application of the new rules to tax years beginning after Dec. 31, 2021. The election must be made within one year of enactment, and amended returns are required. This is treated as a change in accounting method with automatic IRS consent.

Taxpayers with domestic R&E costs capitalized in years 2022-2024 may deduct any remaining unamortized amounts in 2025, or ratably over two years starting in 2025. This is also treated as an accounting method change with no §481(a) adjustment.

Coordination with the research credit

The definition of qualified research expenses for the research credit has also been updated. Section 41(d)(1)(A) refers back to §174A; thus, only domestic R&E expenses qualify for the credit. This also means software costs are now included for research credit purposes. Additionally, if a taxpayer claims the research credit, any R&E expenses eligible for the deduction must be reduced by the amount of the credit. This prevents the use of expenses for both the credit and the deduction.

Effective dates:

- General rule: Applies to expenditures paid or incurred in tax years beginning after Dec. 31, 2024.
- Property disposition rule applies to events after May 12, 2025.
- Coordination with the research credit also applies beginning in 2025.

Planning implications: This change encourages domestic innovation investment by restoring favorable treatment for U.S.-based R&D. Businesses with foreign research will still see delayed tax benefits if the expense is incurred after Dec. 1, 2024. Software development now qualifies for immediate deduction, reversing the ambiguity under previous law.

Exception to percentage of completion method of accounting for certain residential construction contracts – §70430

The legislation broadens the exception to the percentage of completion method (PCM) beyond traditional home construction contracts. The new provision replaces the term home construction contract with residential construction contract, thereby extending the exception to include multi-family dwellings and similar residential structures.

In addition to redefining the scope, the new law modifies the time-based eligibility test in §460(e). The project completion threshold increases from two years to three for residential construction contracts that do not involve single-family homes. This change allows longer-term residential projects to qualify for the PCM exception.

The bill also includes technical and conforming amendments to align the tax code under the expanded definition. These updates redesignate paragraph (5) as (4) in §460(e), revise associated cross-references and update the terminology used in §56 to reflect the new term residential construction contract.

Effective date: Applies to contracts entered into in taxable years beginning after July 4, 2025.

Implications:

- More construction businesses working on residential projects may avoid using PCM, which requires income recognition as work progresses.
- These businesses can instead use more favorable accounting methods (e.g., completed-contract method), deferring income until project completion.

Tax planning impact:

- This change reduces complexity and broadens tax deferral options for builders.
- It is especially beneficial for developers of multi-unit housing and other non-single-family residential properties.

Qualified small business stock gain exclusion – §70431

Recent legislative changes to §1202 introduce expanded benefits for noncorporate investors holding qualified small business stock (QSBS) to improve accessibility and increase capital gain exclusions.

The stock must be acquired directly from a domestic C corporation (S corporation stock and partnership interest does not qualify) at the original issuance to qualify. Acceptable acquisition methods include:

- Cash purchase
- Property exchange (not stock)
- Services provided to the company

Stock acquired in secondary market transactions does not qualify.

The issuing corporation must be a qualified small business (QSB) at the time of issuance. This means the aggregate gross assets must not exceed \$50 million before and immediately after the stock issuance.

This includes the value of all assets, including cash and property contributed.

Additionally, at least 80% of the corporation's assets must be used in the active conduct of one or more qualified trades or businesses. Excluded businesses include:

- Professional services (law, health, consulting, accounting, etc.)
- Financial services
- Farming
- Mining and natural resource extraction
- Hotels, motels and restaurants

The new provisions revise holding periods, update gain exclusion thresholds and enhance inflation indexing.

Tiered capital gain exclusion based on holding period

For stock acquired after July 4, 2025, §1202 now provides a graduated exclusion system:

- 50% of gain is excluded after a 3-year holding period
- 75% of gain is excluded after 4 years
- 100% of gain is excluded after 5 years

The holding period will be determined based on the existing rules under §1223.

Stock acquired on or before July 4, 2025, continues to qualify under the previous framework, which generally required a five-year holding period for exclusion eligibility. The amount of the exclusion available depends on when the stock was acquired. See below for a summary.

Stock Acquisition Date	Exclusion Percentage	Holding Period Requirement
On or before Feb. 17, 2009	50%	More than 5 years
After Feb. 17, 2009, and on or before Sept. 27, 2010	75%	More than 5 years
After Sept. 27, 2010, and on or before July 4, 2025	100%	More than 5 years

Preservation of AMT exemption for legacy stock

QSBS acquired on or before the enactment of the 2010 *Creating Small Business Jobs Act* remains exempt from the alternative minimum tax (AMT), thereby preserving its preferential tax treatment. This provision applies retroactively, as if originally enacted in 2010.

Adjusted per-issuer exclusion caps

The lifetime gain exclusion per issuer is modified. For QSBS acquired after July 4, 2025, the cap increases from \$10 million to \$15 million. The original \$10 million cap remains for stock acquired on or before July 4, 2025. Beginning in 2027, the \$15 million cap will be indexed for inflation using 2025 as the base year, with adjustments rounded to the nearest \$10,000.

Once a taxpayer exceeds the \$15 million exclusion cap in any year, no additional exclusion is permitted for that issuer in future years, regardless of inflation adjustments. The caps are halved for married taxpayers filing separately: \$5 million (before July 4, 2025) and \$7.5 million (after July 4, 2025).

Increased asset threshold for QSBS eligibility

The gross assets threshold for a corporation to qualify as a small business is raised from \$50 million to \$75 million, applicable at the time of and immediately after stock issuance. This threshold will also be adjusted for inflation beginning in 2027, using 2025 as the reference year.

Example

Emma, a noncorporate taxpayer, invests in startup stock that qualifies as QSBS under §1202. She acquires 100,000 shares of QSBS in TechNova Inc., a qualified small business, on Aug. 1, 2025, for \$1 per share (\$100,000 total basis).

Emma sells:

- 30,000 shares on Aug. 2, 2028 (held for 3 years),
- 30,000 shares on Aug. 2, 2029 (held for 4 years), and
- 40,000 shares on Aug. 2, 2030 (held for 5 years)

Each time, the stock is sold at \$10 per share.

The amount of gain she is eligible to exclude differs each year due to the new tiered exclusion and holding period amounts.

The first sale occurs in 2028, after the stock has been held for three years. Because the minimum five-year holding period required for full exclusion under §1202 has not yet been met, only a partial exclusion applies. Specifically, the taxpayer qualifies for a 50% exclusion of the gain.

With 30,000 shares sold, the gain realized is calculated as follows: 30,000 shares x \$9 = \$270,000 total gain.

Of this gain, 50%, or \$135,000, is excludable from income. The remaining \$135,000 is taxable.

Another batch of 30,000 shares was sold in 2029, the following year. At this point, the holding period was extended to four years. This qualifies the taxpayer for a greater exclusion: 75% of the gain may now be excluded.

Again, the gain is the same: \$270,000.

The excludable portion is 75% of \$270,000, or \$202,500, leaving a taxable amount of \$67,500.

By 2030, the final sale occurs after the stock has been held for the full five years required to take advantage of the 100% exclusion. This time, 40,000 shares are sold.

The total gain is as follows: 40,000 shares x \$9 = \$360,000.

Because the five-year holding requirement has been satisfied, the entire \$360,000 gain is excludable, resulting in zero taxable gain for this sale.

Effective dates:

- Applicable to taxable years beginning after July 4, 2025.
- The retroactive AMT exemption for pre-2010 stock takes effect as if it were part of the original 2010 legislation.

Takeaways

This law enhances and modernizes the tax incentives for investing in small businesses by:

- Lowering the required holding period for a partial capital gains exclusion from five years to three years (post-enactment stock)
- Introducing tiered exclusion percentages (50%, 75%, 100%) based on how long the stock is held
- Raising per-issuer gain caps and ensuring they keep pace with inflation
- Increasing the eligibility threshold for small businesses (from \$50 million to \$75 million in gross assets)
- Preserving important AMT exclusions for older QSBS investments

Business interest limitation

Coordination of business interest limitation with interest capitalization provisions – §70341

Section 163(j) limits the amount of interest a business can deduct each year, though unused amounts can be carried forward indefinitely. Under current rules, this limit is applied after other tax provisions that may defer, disallow or capitalize interest.

The new law changes that order:

- The §163(j) limit is applied first, before any capitalization rules.
- Any allowed interest must be used first for amounts that need to be capitalized (e.g., under §263A), with the rest available for deduction.

- Carryforward interest from prior years is not subject to capitalization rules.

Effective date: Applicable to tax years beginning after Dec. 31, 2025.

Definition of adjusted taxable income for business interest limitation – §70342

Adjusted taxable income (ATI) is based on a taxpayer's taxable income, but it excludes non-business items such as investment gains or losses, business interest income, net operating losses, the §199A deduction, and depreciation, amortization, depletion or other adjustments required by the Treasury Secretary.

Under OBBBA, a new adjustment is added. When calculating ATI for the business interest deduction limit under §163(j), taxpayers must add back certain types of foreign income and related deductions. These include:

- Income under §951(a) (Subpart F)
- Income under §951A(a) (GILTI)
- Gross-up amounts under §78
- Portions of deductions under §245A(a) and §250(a)(1)(B) tied to that income

This change ensures that foreign income doesn't reduce the ATI base and limit interest deductions.

Effective date: This change applies to tax years beginning after Dec. 31, 2025.

Takeaways

This provision ensures that foreign income inclusions and related deductions don't improperly reduce ATI, which could unfairly limit business interest expense deductions under §163(j). Excluding foreign-driven tax adjustments from ATI reflects a more accurate picture of U.S. operating income.

Modification of limitation on business interest – §70303

The earnings before interest, taxes, depletion, depreciation and amortization (EBITDA) treatment under §163(j)(8)(A)(v) was restored and made permanent. Businesses will again compute ATI with depreciation, amortization and depletion added back, increasing their potential for interest deductibility.

It also amends §163(j)(9)(C) and expands the definition of floor plan financing indebtedness to include trailers and campers used as temporary living quarters. These items are treated similarly to motor vehicles to deduct interest under the floor plan financing exception.

Practical impacts include:

- For capital-intensive businesses (e.g., manufacturers, utilities), the permanent inclusion of depreciation increases ATI and allows for higher interest deductibility.
- Small dealerships of trailers or campers benefit by avoiding lost deductions from inventory financing arrangements.
- Businesses could be encouraged to invest in long-lived assets, knowing depreciation won't reduce their interest deduction capacity.

C corporation charitable contributions – §70426

The bill introduces a change to the rules governing corporate charitable deductions by establishing a 1% floor for deducting charitable contributions. Under the amended §170(b)(2)(A), a corporation's deduction for charitable contributions in a taxable year will only be allowed to the extent that the total contributions exceed 1% of the corporation's taxable income. Additionally, the deduction remains capped at 10% of taxable income, as under current law.

This means corporations will not receive a tax benefit for the first 1% of their taxable income donated to charity; only amounts contributed above this 1% threshold will qualify for the deduction, subject to the existing 10% ceiling.

Carryforward rules

The treatment of disallowed contributions is adjusted to reflect the new floor:

- General rule: Contributions exceeding the 10% cap can still be carried forward for five years.
- New caveat: Only contributions disallowed due to exceeding the 10% cap will be eligible for the full carryforward. If a contribution is disallowed solely due to not exceeding the 1% floor, it can only be carried forward if the 10% limit was also exceeded in that year.
- FIFO rule: Contributions will be treated as used in the order they were made (first-in, first-out).
- Interaction with NOLs: Charitable carryforwards cannot inflate net operating losses (NOLs). They must be reduced if they would otherwise increase an NOL under §172.

Effective date: Applicable tax years after Dec. 31, 2025.

Planning implications: Corporations making consistent charitable contributions near or below the 1% income threshold will lose deductibility for those amounts, potentially reducing the incentive for charitable giving.

Farmland sales installment tax payment election – §70437

Applicable to sales or exchanges occurring in taxable years beginning after July 4, 2025, a provision under the newly enacted §1062(a) allows taxpayers to elect to pay federal income tax in four equal annual installments, on capital gains arising from the sale or exchange of qualified farmland property to a qualified farmer. It applies only to the portion of the taxpayer's net income tax attributable to the gain on the sale (net income tax for the tax year - net income tax without gain recognized on the sale). The first installment is due on the return's original due date for the year of the sale, with the remaining three installments due on the return due dates of the subsequent three tax years. This election affects only the timing of tax payment, not income recognition; the gain must still be reported in the year of the sale (§1001).

Note: This special installment election under §1062 is distinct from general installment agreements under §6159 (IRS installment agreements).

Acceleration triggers

Installment payments may be accelerated under certain conditions. For example

- If the taxpayer fails to make a timely payment, the entire outstanding balance becomes immediately due.
- For individuals, any remaining liability is accelerated upon the taxpayer's death and must be paid with the final return.
- In the case of C corporations, estates or trusts, a liquidation, cessation of business or sale of substantially all assets will also trigger acceleration, unless the buyer assumes liability under a written agreement with the IRS.

Additionally, if a deficiency arises related to the gain, it is allocated across the installments, with the prorated amount due immediately.

Eligibility requirements

To qualify for the election, both the property sold and its purchaser must each meet specific criteria:

- Qualified farmland property must be U.S. real property used or leased for farming during substantially all of the 10 years prior to the sale. In addition, the property must be subject to a legally enforceable restriction against non-farm use for at least 10 years following the sale. The deed restriction covenant must be submitted with the tax return for the year when the election is made.
- Qualified farmer refers to an individual actively engaged in farming, based on the definition provided in the *Food Security Act of 1986* (7 U.S.C. §1308–1(b), (c)). The focus is on actual farming activity, not mere ownership or investment.

Election mechanics and pass-through ownership

The election must be made by the original due date of the tax return (excluding extensions) for the year of the sale. For partnerships and S corporations, the election is made at the individual partner or shareholder level. The IRS is expected to issue regulations providing further guidance on elections involving pass-through entities.

Effective date: Applicable to sales or exchanges occurring in taxable years beginning after July 4, 2025.

Related party reminder:

- “Can this election be made if the farmland sale is between related parties?”

Answer: As of now, yes. It appears the election can be made even when the transaction is between related parties as long as the buyer qualifies as a qualified farmer and the property meets the definition of qualified farmland.

The statute and guidance do not currently exclude related-party transactions. However:

- Watch for future guidance, as related-party rules often evolve.
- Due diligence is still essential to ensure the buyer’s farming qualifications are met.

Takeaways

- The election allows timing flexibility, but not tax forgiveness. The total tax must still be paid over time.
- The required deed restriction promotes ongoing agricultural use and may appeal to clients interested in land conservation or generational transfer.
- The installment option provides a cash flow management tool for retiring farmers or families exiting farming.
- Both the 10-year lookback and 10-year forward-use restriction must be documented to qualify. Improper planning or documentation could disqualify the transaction.

Clarification on payments from partnerships to partners for property or services – §70602

The amendment to §707(a)(2) replaces the phrase “under regulations prescribed except as provided.” By removing the dependency on Treasury regulations, the provision now applies directly based on the statutory language alone. This shift enables both the IRS and the courts to apply §707(a)(2) without awaiting formal regulatory guidance.

This change has immediate implications for partner payments. Specifically, when a partnership compensates a partner for services rendered or property contributed, that payment may now be evaluated under §707(a)(2) on its face. Suppose the facts suggest the transaction is more akin to a payment made to a non-partner. In that case, the IRS may treat it as such, potentially triggering recognition of income and altering the treatment for both the partner and the partnership.

Effective date: Applicable to services performed or property transferred after the enactment date of the legislation, July 4, 2025.

Observation: Tax professionals should closely analyze any partner payment arrangements formed after the enactment to determine if they resemble disguised non-partner transactions. They should proactively address documentation and structure in order to mitigate recharacterization risk.

New expensing for sound recordings – §70434

The recent amendment to §181(a)(1) expands expensing provisions to include qualified sound recording productions. Taxpayers may now deduct production costs in the year they are incurred, aligning sound recordings with the treatment previously granted to film, television and live theatrical works. This change offers a more favorable upfront deduction opportunity, provided specific requirements are met.

Deduction limitations

New §181(a)(2)(C) limits the deduction to \$150,000 per production, with a cumulative cap of \$150,000 per taxable year across all qualified sound recordings. These constraints support small to mid-sized recording projects rather than large commercial releases.

Definition of a qualified sound recording

A qualified sound recording production, as defined in §181(f), refers to a sound recording within the meaning of Title 17, U.S. Code §101, provided it is produced and recorded within the United States.

Coordination with other cost recovery rules

As with other §181 elections, taxpayers cannot claim additional depreciation or amortization on expensed costs. This prevents any double benefit for the same production expense.

Eligibility for bonus depreciation

Qualified sound recording productions also qualify for bonus depreciation under §168(k), even if their costs exceed the §181 deduction limitation. For depreciation purposes, these productions are treated as placed in service at the time of initial release or broadcast, mirroring the rule for other entertainment properties.

Effective date: Applicable to productions that begin during a taxable year that ends after July 4, 2025.

Takeaways

- The inclusion of sound recording productions under §181 introduces new planning opportunities for clients in the music and audio production industries.
- Projects with qualifying U.S.-based production activity may benefit from accelerated cost recovery, enhancing after-tax cash flow.
- The \$150,000 cap suggests this provision is tailored to independent artists, studios and content creators, rather than large-scale productions.
- For higher-cost recordings, the bonus depreciation pathway may supplement expensing strategies.
- The law applies to productions commencing in taxable years ending after July 4, 2025, so the timing of project launch is critical to eligibility.

Tax practitioners should assess this provision's applicability for clients engaged in music or podcast recording endeavors and consider integrating it into year-end production planning and capital budgeting discussions.

Sunset of business green energy tax incentives – §§70512 and 70513

Under recent legislative changes, numerous clean energy tax incentives available to business taxpayers are scheduled for repeal. These provisions roll back a broad range of deductions, credits and accelerated cost recovery options that have supported renewable energy, commercial efficiency upgrades, fleet electrification and domestic clean energy manufacturing.

Most changes take effect between 2025 and 2027, though some immediate restrictions are already in place. The table below summarizes the effective termination dates for these credits.

Credit	Termination Rule	Practical Cut-Off
Accelerated depreciation for energy property (MACRS)	After Dec. 31, 2024	Date placed in service
Clean vehicle credit*	Ends for vehicles acquired after Sept. 30, 2025	Date vehicle acquired and placed into service
Previously-owned clean vehicle credit*	Ends for vehicles acquired after Sept. 30, 2025	Date vehicle acquired and placed into service
Qualified commercial clean vehicle credit*	Ends for vehicles acquired after Sept. 30, 2025	Date vehicle acquired and placed into service
Clean electricity production credit**	After Dec. 31, 2025	Construction begins after Dec. 31, 2025, with foreign entity involvement
Clean electricity investment credit**	After Dec. 31, 2025	Construction begins after Dec. 31, 2025, with foreign entity involvement
Clean electricity investment credit (Note: exceptions may apply for energy storage technologies)**	Property placed in service after Dec. 31, 2025, (wind and solar only)	Date placed in service
Energy-efficient commercial buildings deduction	After June 30, 2026	Construction begins after June 30, 2026
New energy-efficient home credit	After June 30, 2026	Date acquired
Advanced manufacturing production credit (wind components only)	After Dec. 31, 2027	Date component sold
Clean hydrogen production credit (with restrictions)	After Dec. 31, 2027	Construction begins / Prohibited foreign entity involvement
Disallowance of clean energy credits for foreign-controlled/ influenced entities	Taxable years beginning after July 4, 2025	Taxpayer entity status as foreign-influenced or controlled
Prohibition on credit transfers to foreign entities	Taxable years beginning after July 4, 2025	Transferee status as a foreign entity
No further increase in advanced energy project credit allocations	Taxable years beginning after July 4, 2025	Statutory limit reached

*Note: If a taxpayer acquires a vehicle by having a written binding contract in place and a payment made on or before September 30, 2025, then the taxpayer will be entitled to claim the credit when they place the vehicle in service (namely, when they take possession of the vehicle), even if the vehicle is placed in service after September 30, 2025.

****Note:** The termination dates for the clean electricity production credit (§45Y) and clean electricity investment credit (§48E) generally apply to facilities placed in service after Dec. 31, 2027. However, for both credits, additional restrictions apply for facilities where construction begins after Dec. 31, 2025, if the construction includes material assistance from a prohibited foreign entity, as defined in new §7701(a)(52).

Example 1

A developer begins construction of an energy-efficient commercial building on July 15, 2026. Since construction begins after June 30, 2026, the building does not qualify for the §179D deduction under the new repeal rules.

Example 2

HomeBuild LLC sells a new single-family home on Aug. 1, 2026, that meets all energy-efficient construction standards. The sale occurs after the §45L credit termination date (June 30, 2026), so HomeBuild LLC cannot claim the credit even though construction began earlier.

Example 3

Autolease acquires a fleet of electric vehicles on Oct. 15, 2025. Because the vehicles are acquired after Sept. 30, 2025, Autolease is ineligible for the §30D clean vehicle credit.

Example 4

BrightFuture Enterprises plans to begin construction of wind turbines on Jan. 10, 2025, and expects to place them in service in late 2026.

Takeaways

- Most clean energy business incentives are being repealed on a rolling basis between 2025 and 2027.
- Projects must begin construction or place qualifying property in service before specified cutoff dates to preserve credit eligibility.
- Restrictions on foreign ownership, influence or material assistance may disqualify certain entities, even if other requirements are met.
- Tax professionals should carefully document project timelines and acquisition details to substantiate credit claims during transition years.

Tax reform for small firearms – §70436

The \$200 transfer tax under §5811 remains in place for machine guns and destructive devices; it has been eliminated for short-barreled rifles (SBRs), short-barreled shotguns (SBSs), silencers or suppressors, and “any other weapons” (AOWs). For example, a taxpayer transferring a suppressor after the effective date would no longer be subject to the \$200 federal transfer tax that previously applied.

Similarly, the revised tax provisions under §5821(a) follow this distinction. The \$200 tax still applies to manufacturing machine guns and destructive devices, but individuals or entities filing ATF Form 1 to legally manufacture SBRs, SBSs, suppressors or AOWs will now owe no manufacturing tax.

To ensure consistent treatment across related tax rules, §4182(a) has also been amended.

Observation: These changes clarify that firearms now subject to a \$0 tax rate under §5811(a)(2) are treated as if the tax had been paid, preserving their status for purposes of excise tax provisions applicable to manufacturers and importers.

Effective date: Applicable to calendar quarters beginning after Oct. 2, 2025

Repeal of election for one-month deferral in determination of taxable year of specified foreign corporations – §70352

Section §898(c)(2) was repealed. This section allowed specified foreign corporations, such as CFCs or foreign entities with U.S. shareholders, to elect a one-month deferral in aligning their tax year with the required U.S. tax year.

SFCs must now use the required year, generally that of the majority U.S. shareholder. The option to elect a tax year ending one month later is eliminated.

For SFCs with a deferral in place as of that date, the tax year must be changed to align with the required year for the first year beginning after Nov. 30, 2025. This change is treated as initiated by the corporation and automatically approved; no Form 1128 is required. Treasury regulations will address the allocation of foreign taxes between the short year and the new alignment year.

Effective date: Tax years beginning after Nov. 30, 2025.

Review questions

1. _____ What is one key requirement to claim the temporary \$6,000 senior deduction created by H.R. 1?
 - A. The taxpayer must file jointly if married.
 - B. The taxpayer must be unmarried.
 - C. The taxpayer must be 70½ or older.
 - D. The deduction is permanent and not subject to phaseout.

2. _____ Which change to the standard deduction takes effect in 2025 under OBBBA?
 - A. It reverts to pre-TCJA levels.
 - B. The standard deduction is reduced to \$12,000 for all filers.
 - C. Only single filers receive an increase in the standard deduction.
 - D. The standard deduction is permanently increased and indexed for inflation.

3. _____ What is the maximum annual deduction allowed under the “no tax on tips” provision starting in 2025?
 - A. \$12,500
 - B. \$6,000 per qualifying job
 - C. \$25,000
 - D. Unlimited, as long as tips are reported

4. _____ What change was made to the child tax credit (CTC) beginning in 2025?
 - A. The credit increases to \$2,200 and is indexed starting in 2026.
 - B. The credit reverts to \$1,000 per child.
 - C. The refundable portion is eliminated.
 - D. Children without SSNs may now qualify.

5. _____ Which of the following best describes a major impact of the *Social Security Fairness Act (SSFA)*?
 - A. Reduced all Social Security benefits by a uniform percentage
 - B. Repealed the windfall elimination provision (WEP) and government pension offset (GPO)
 - C. Increased the retirement age for government employees
 - D. Eliminated Medicare surcharges for retirees

6. _____ What is one potential tax consequence for retirees receiving a large retroactive Social Security payment due to the SSFA?
- A. Entire pension becomes non-taxable
 - B. Must amend all past tax returns
 - C. Provisional income may spike, making more of their Social Security benefits taxable
 - D. Can only report the income on Form SSA-2453
7. _____ Ivan acquires and places in service qualified property on March 15, 2026. Under §168(k), how is bonus depreciation applied?
- A. He must use the transitional 40% bonus depreciation rate.
 - B. Ivan must capitalize the cost and recover it through MACRS over time.
 - C. He is eligible for 100% bonus depreciation on qualified property.
 - D. Ivan may only expense 60% in the first year and amortize the remainder.
8. _____ In 2025, a business places \$5.2 million of qualifying §179 property into service. What is the allowable §179 deduction for 2025?
- A. \$2.5 million
 - B. \$1.3 million
 - C. \$1.1 million
 - D. \$0
9. _____ For 2026, which of the following taxpayers qualifies for the new \$400 minimum QBI deduction under §199A(i)?
- A. A taxpayer with \$900 of QBI and material participation
 - B. A taxpayer with \$2,000 of QBI and no material participation
 - C. A taxpayer with \$400 of QBI and a passive ownership interest
 - D. A taxpayer with \$1,200 of QBI who materially participates

Review answers

1.

- A. **Correct.** Married taxpayers must file a joint return to claim the senior deduction.
- B. Incorrect. Unmarried status is not a requirement.
- C. Incorrect. The deduction applies to individuals age 65 or older, not 70½.
- D. Incorrect. The deduction is temporary, and phases out based on MAGI.

[Termination of deduction for personal exemptions]

2.

- A. Incorrect. The OBBBA prevents the reversion to pre-TCJA levels.
- B. Incorrect. The standard deduction remains higher than \$12,000.
- C. Incorrect. The increased deduction applies to all filing statuses.
- D. **Correct.** The enhanced TCJA standard deduction is made permanent and further increased.

[Extension and enhancement of increased standard deduction]

3.

- A. Incorrect. \$12,500 is the cap for overtime pay deductions, not tips.
- B. Incorrect. The tip deduction limit is annual, not per job.
- C. **Correct.** The OBBBA allows up to \$25,000 in qualified tips to be deducted per year.
- D. Incorrect. The deduction is subject to income limits and a phaseout, and is not unlimited.

[No tax on tips]

4.

- A. **Correct.** The maximum CTC increases to \$2,200 in 2025 and is indexed beginning in 2026.
- B. Incorrect. The \$1,000 baseline no longer applies under the new law.
- C. Incorrect. The refundable portion of the credit is still available and indexed.
- D. Incorrect. A valid SSN is still required for qualifying children and at least one spouse on joint returns.

[Extension and enhancement of increased child tax credit]

5.

- A. Incorrect. The SSFA does not reduce benefits. In fact, it restores full benefits to those affected by WEP and GPO.
- B. **Correct.** The SSFA repealed both the WEP and GPO provisions. These rules previously reduced benefits for individuals who worked in government jobs not covered by Social Security but were also eligible for SS benefits.
- C. Incorrect. The SSFA does not change the retirement age. That is governed by broader Social Security law, not this legislation.
- D. Incorrect. Medicare surcharges (IRMAA) are based on income, not Social Security legislation like SSFA.

[SSFA]

6.

- A. Incorrect. Pensions are still taxed based on their own rules. The SSFA does not change pension taxation.
- B. Incorrect. The LSE avoids amending prior returns. It allocates income to past years for calculation purposes only.
- C. **Correct.** When a lump sum Social Security payment is received in one year (e.g., due to WEP/GPO repeal), it may raise provisional income high enough to make up to 85% of the benefit taxable. This is a key reason to consider the lump sum election (LSE).
- D. Incorrect. There is no Form SSA-2453 for reporting Social Security income. Taxpayers use Form SSA-1099 and Form 1040.

[SSFA]

7.

- A. Incorrect. The 40% rate applies only if the taxpayer elects transitional treatment.
- B. Incorrect. MACRS applies only if bonus depreciation is not elected or allowed.
- C. **Correct.** For property acquired and placed in service after Jan. 19, 2025, 100% expensing is allowed under the amended §168(k).
- D. Incorrect. This hybrid approach is not allowed.

[Full expensing for certain business property]

8.

- A. Incorrect. This is the maximum allowable deduction before applying the phaseout. Because the total investment exceeds the \$4 million threshold, the deduction must be reduced.
- B. **Correct.** Under OBBBA, the \$2.5 million deduction is reduced dollar-for-dollar for amounts exceeding the \$4 million threshold. The \$1.2 million overage reduces the deduction to \$1.3 million.
- C. Incorrect. This does not reflect the proper application of the phaseout rules under the 2025 law.
- D. Incorrect. While this would have applied under pre-OBBBA thresholds, the 2025 expansion allows for a reduced, not eliminated, deduction.

[Section 179 expensing limits increased]

9.

- A. Incorrect. QBI must be at least \$1,000 to claim the minimum deduction.
- B. Incorrect. The taxpayer must materially participate to qualify.
- C. Incorrect. The QBI amount is too low, and participation is required.
- D. **Correct.** If QBI is at least \$1,000 and the taxpayer materially participates, they qualify for the \$400 minimum deduction.

[Guaranteed minimum deduction for active businesses]

Appendix

Appendix A: Individual Tax Provisions by Effective Date

Provision	Section	Effective Date
Enhancement of the Adoption credit	70402	Tax years beginning after Dec. 31, 2024
Limitation on individual deductions for certain state and local taxes (SALT)	70120	Beginning with tax year 2025
Temporary deduction for seniors	70103	Tax years beginning after Dec. 31, 2024, and before Jan. 1, 2029
No tax on tips	70201	Tax years 2025–2028
No tax on overtime	70202	Tax years 2025–2028
Deductible car loan interest	70203	Tax years 2025–2028
Trump Accounts – Pilot program	70204	Tax years 2025–2028
Extension of disaster-related personal casualty losses	70438	Effective July 4, 2025
Ending unemployment payments to jobless millionaires	73001	Effective July 4, 2025
New clean vehicle credit termination (30D)	—	Vehicles acquired after Sept. 30, 2025 not eligible
Used clean vehicle credit termination (25E)	—	Vehicles acquired after Sept. 30, 2025 not eligible
Commercial clean vehicle credit termination (45W)	—	Vehicles acquired after Sept. 30, 2025 not eligible
Extension of reduced income tax rates	70101	Through Dec. 31, 2025
Extension and enhancement of increased standard deduction	70102(c)	Through Dec. 31, 2025
Termination of personal exemptions (except temporary senior deduction)	70103	Through Dec. 31, 2025
Extension and enhancement of increased child tax credit	70104	Through Dec. 31, 2025
Mortgage interest deduction modification	70108	Applicable to tax years after Dec. 31, 2025
Exclusion for employer payments of student loans	70412(b)	Through Dec. 31, 2025
0.5% floor on charitable contributions	70425(a)	Applicable to tax years after Dec. 31, 2025
Cash contributions limitation clarification	70425(b)	Applicable to tax years after Dec. 31, 2025

Charitable deduction for non-itemizers	70424(a)	Applicable to tax years after Dec. 31, 2025
Termination of miscellaneous itemized deductions (except educator expenses)	70110	Applicable to tax years after Dec. 31, 2025
Limitation on tax benefit of itemized deductions	70111	Applicable to tax years after Dec. 31, 2025
§529 K–12 expansion	70413	Applicable to tax years after Dec. 31, 2025
AMT exemption amounts permanently increased and phaseout thresholds modified	70107	Applicable to tax years after Dec. 31, 2025
Estate and gift tax exemption	70106	Applicable to tax years after Dec. 31, 2025
Casualty loss deduction modifications	70109	Applicable to tax years after Dec. 31, 2025
Residential clean energy credit ends (§25D)	—	Expenditures after Dec. 31, 2025 not eligible
Energy efficient home improvement credit ends (§25C)	—	Property placed in service after Dec. 31, 2025 not eligible
Qualified transportation fringe benefits eliminated	70112	Eliminated for months after Dec. 31, 2025
Moving expenses deduction limitations	70113	Applicable to tax years after Dec. 31, 2025
Wagering loss limitation	70114	Applicable to tax years after Dec. 31, 2025
ABLE account contribution limitation extension	70115	Applicable to tax years after Dec. 31, 2025
Sinai Peninsula combat zone extension	70118	Applicable to tax years after Dec. 31, 2025
Student loan discharge exclusion	70119	Applicable to tax years after Dec. 31, 2025
Child and dependent care tax credit (CDCTC) enhancement	70405	Applicable to tax years after Dec. 31, 2025
Dependent care assistance program enhancement	70404	Applicable to tax years after Dec. 31, 2025
SSN requirement for education credits	70606(a)(1)(A)	Applicable to tax years after Dec. 31, 2025
Premium tax credit disallowance (special enrollment coverage)	71304	Applicable to tax years after Dec. 31, 2025
Limitation on recapture of advance premium tax credit eliminated	71305	Applicable to tax years after Dec. 31, 2025
HSAs allowed with bronze/catastrophic plans	71307(a)	Applicable to months after Dec. 31, 2025
Direct primary care services	71308	Applicable to tax years after Dec. 31, 2025

New energy-efficient home credit (§45L) ends	—	Homes acquired after June 30, 2026 not eligible
Alternative fuel vehicle refueling property credit (§30C) ends	—	Property placed in service after June 30, 2026 not eligible
Energy-efficient commercial buildings deduction (§179D) ends	—	Projects beginning construction after June 30, 2026 not eligible
Scholarships for K–12 education expenses	70411(b)	Applicable to tax years ending after Dec. 31, 2026
Tax credit for contributions to scholarship-granting organizations	70411(a)	Applicable to tax years ending after Dec. 31, 2026
Premium tax credit eligibility verification required	71303	Applicable to tax years after Dec. 31, 2027

Appendix B: Business Provisions by Effective Date

Provision	Section	Effective Date
Full expensing of domestic research and experimental expenditures - small business only [§448(c)]	70302	Tax years beginning after Dec. 31, 2021 for small businesses
Section 179 expensing limits increased	70306	Applicable to tax years after Dec. 31, 2024
Repeal of revision to de minimis rules for third-party network transactions (retroactive)	70432	Applicable to tax years after Dec. 31, 2024
Accelerated depreciation for energy property (MACRS)	70509	Applicable to tax years after Dec. 31, 2024
Full expensing of domestic research and experimental expenditures	70302	Applicable to tax years after Dec. 31, 2024
R & D Expensing: accounting change	70302	Applicable to tax years after Dec. 31, 2024
Permanent extension and adjustment of excess business loss (EBL) limitation	70601	Permanent
Modification of limitation on business interest	70303	Permanent
Special depreciation allowance for qualified production property	70307	Constructed Jan. 20, 2025 – Dec. 31, 2028; placed in service by Dec. 31, 2030
Full expensing for certain business property (§168(k))	70301	Effective after Jan. 19, 2025
R&D expensing: treatment of foreign research or experimental expenditures upon disposition	70302	Applies to events after May 12, 2025
Disallowance of clean energy credits for foreign controlled/influenced entities	70512	Effective after July 4, 2025
Prohibition on credit transfers to foreign entities	70512(h)	Effective after July 4, 2025
No further increase in advanced energy project credit allocations	70515	Effective after July 4, 2025
Farmland sales installment tax payment election	70437	Effective after July 4, 2025
Qualified small business stock gain exclusion	70431	Effective after July 4, 2025
Enhanced enforcement of the Employee Retention Credit (unless filed by Jan. 31, 2024)	70605	Effective after July 4, 2025
Clarification on payments from partnerships to partners for property or services	70602	Effective after July 4, 2025

Exception to percentage of completion method of accounting for certain residential construction contracts	70430	Effective after July 4, 2025
Spaceports cleared for tax-exempt financing	70309	Effective after July 4, 2025
New expensing for sound recordings	70434	Effective after July 4, 2025
Tax reform for small firearms	70436	Quarters beginning after Oct. 2, 2025
Qualified commercial vehicles credit (§45W)	70503	Expires after Sept. 30, 2025
Deferral for specified foreign corporations taxable year	70352	Effective after Nov.30, 2025
1% floor for corporate charitable contributions	70426	Effective after Dec. 31, 2025
Increase in reporting threshold for Forms 1099-MISC and 1099-NEC	70433	Effective after Dec. 31, 2025
Extension and enhancement of deduction for qualified business income (QBI)	70105	Effective after Dec. 31, 2025
Coordination of business interest limitation with interest capitalization provisions	70341	Effective after Dec. 31, 2025
Definition of adjusted taxable income for business interest limitation	70342	Effective after Dec. 31, 2025
Paid family and medical leave (PFML) credit expansion	70304	Effective after Dec. 31, 2025
Permanent enhancement of low-income housing credit	70422	Effective after Dec. 31, 2025
Permanent extension of new markets tax credit	70423	Effective after Dec. 31, 2025
Enhancement of employer-provided child care credit	70401	Effective after Dec. 31, 2025
Enhancement of advanced manufacturing investment credit	70514	Effective after Dec. 31, 2025
Business meal deduction	70305	Effective after Dec. 31, 2025
Clean electricity production credit (§45Y)	70512	Expires after Dec. 31, 2025
Clean electricity investment credit (§48E)	70513	Expires after Dec. 31, 2025
Energy-efficient commercial buildings deduction (§179D)	70507	Expires after June 30, 2026
New energy-efficient home credit (§45L)	70508	Expires after June 30, 2026
Permanent renewal and enhancement of opportunity zones	70421	Expires after Dec. 31, 2026

Advanced manufacturing production credit (wind components only) (§45X)	70514	Expires after Dec. 31, 2027
Clean hydrogen production credit (with restrictions) (§45V)	70515	Expires after Dec. 31, 2027

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